



CASE STUDY ANALYSIS REPORT (CSAR)

WEEK 3 SYLLABUS: DIGITAL TRANSFORMATION

(The Process of Digital Transformation)

UNIONBANK CASE STUDY: THE DIGITAL JOURNEY BEGINS

At the Asia Corporate Excellence & Sustainability (ACES) Awards held in Singapore in November 2016, Union Bank of the Philippines (UnionBank) was named the **“Best Company to Work For”**. The award was widely regarded as being fully deserved by a bank that, in recent years, has emerged as a market leader in financial services, a pioneer in banking technology and a corporate institution that repeatedly and convincingly demonstrates genuine care for the wider community. Among numerous contributory factors, the bank has placed teamwork, leadership, community and, most of all, innovation at the top of its priority list. As a result, the bank is reaping rich rewards and record-breaking success.

“Make Da Diff” is UnionBank’s motto. This means that it aims to make a positive difference for its customers, its shareholders, its employees (or UnionBankers) and the wider community by creating meaningful experiences and innovative, often-customized services and solutions. Indeed, the stellar accomplishments achieved by the bank in recent years underline the fact that by no means is this motto simply an empty slogan.

The Best Financial Year Ever

Its 2016 financial results strongly suggest that UnionBank has just had its best year ever. It achieved a staggering 67% growth in net income to all-time highs of PhP10.1 billion, thanks mainly to strong expansion in overall lending that saw the total value of loans surge by 31%. In addition, the bank’s earnings yielded a return on equity of 16.9%, again a laudable performance in today’s high-regulation climate; while a capital adequacy ratio of 15.7% - well above the 10% regulatory minimum - only further highlights the bank’s rude health at present. Perhaps even more satisfying for the bank was that according to its president and COO, Edwin Bautista, *“All of our major business segments contributed significantly to the bottom line as we transitioned to a new business model anchored on recurring income (from proprietary trading)”*.



However, if one was to conclude that UnionBank's aspirations are sufficiently represented by this recent set of results alone - results for which any bank in the world would be proud - then the giant strides now being taken by the Philippine lender are almost certain to confound expectations. Simply put, it is striving to be a Top 3 bank over the next few years across a range of financial metrics, including return on assets, costs and profitability; and in order to get there, it is making two sweeping "big picture" enhancements to its business model.

A Paradigm Shift In Digital Banking

Many banks around the world are undergoing technology-based enhancements to their business models. Very few, however, are as revolutionary or as comprehensive as the one currently being executed by UnionBank. The goal of this metamorphosis is to reshape the bank into a *"technology company with banking utilities"*, in the words of Chairman and CEO Justo Ortiz. As such, a root-and-branch overhaul of the bank's current technology capabilities is now firmly underway, as it seeks to almost completely revolutionise its digital-banking infrastructure.

The bank has consistently been the *de facto* leader for digital innovation in the Philippine banking sector; indeed, its track record in this area includes being the first lender in the country to open a banking website, as well as being the first to introduce online banking and electronic savings accounts. The development the bank is currently undergoing, however, may end up dwarfing those accomplishments, in terms of scope, ambition and sheer audacity. Arguably, this current development phase had its genesis at the beginning of 2016, when Mr Bautista - a dedicated UnionBanker with nearly 20 years of experience at the bank that included heading up the Transaction Banking, Commercial Banking, Operations and Consumer Finance divisions - was named as the new president and COO. His mandate at the commencement of his role could not have been any clearer:

1. Digitise the bank
2. Launch the digital bank
3. Partner with fintechs



Building The Leadership Team

This key appointment was then followed later that same year by the hiring of an important technology-based figure. A new position of Chief Technology and Operations Officer, and Chief Transformation Officer, was created for **Henry Aguda**, a seasoned Telco and IT (information technology) leader and the gentleman who quickly came up with a new digital architecture that now crucially guides the bank's digital transformation in its current form. As such, under the experienced guidance of both Mr Bautista and Mr Aguda, UnionBank's aim to become a digital bank evolved into a full-blown digital transformation—a root-and-branch reform of the bank's existing technological capacity.

Open API Innovation Strategy

The undeniable centerpiece of this transformation is the imminent opening of the bank's **Application Program Interface (API)**, which more than any other event will enable practically all Philippine businesses to more easily gain access to the ongoing financial-technology (fintech) revolution. Using **IBM's Bluemix** - one of the most sophisticated cloud platforms in the world - the opening of the bank's API will allow fintech companies to connect their own applications or platforms to UnionBank. In turn, this will allow UnionBank to effectively function as the operational "backroom" for these companies.

Should a fintech company that is developing a specific application, for instance, suddenly find that its application explodes in popularity in a short space of time, it could be overwhelmed by managing the scale of this growth from operational and cost perspectives. By attaching itself to UnionBank's API portal, however, it is provided with the necessary backroom support to allow it to simply concentrate on the customer-facing, frontend of its business. The support provided by UnionBank, meanwhile, is likely to include such features as a payment gateway, which would allow it to collect and manage all the fintech company's payments, and other transaction-related duties such as the delivery of analytical reports.

Process Enhancement Initiatives



Mr Aguda, who was the only banking executive from the Philippines to be a speaker at the recent IBM InterConnect 2017 cloud conference in Las Vegas, believes the collaboration between UnionBank and the US technology giant *“will change the way people approach financial services in the country”*. He also recently revealed that the bank intends to build a **business-process-management (BPM)** automation layer underneath its API platform, which will facilitate **straight-through-processing (STP)** *“beyond our bank and to our corporate and retail customers”*. Both the API and BPM developments are effectively being perceived by Mr Aguda, Mr Bautista, et al., as a re-creation of the bank as a true platform, whereby fintech companies can securely plug into the API platform when necessary. It has come about from the bank’s contention that digital transformation is best achieved when it enables its end-customers to consume new services that will emerge from the many partnerships that are likely to be struck between the bank and the rapidly expanding fintech community.

Culture Transformation

In order to make the transformation a success, however, Mr Aguda considers his biggest initial priority to be the cultural transformation that needs to take place, rather than the strategic one. This involves effecting a company-wide change in employee mindsets and abilities in order to ensure they can comfortably adapt to the changing environment and be as “agile” as the “digital UnionBank” will become. In practice, this has so far involved the introduction of employee-engagement projects that have included coding courses for both top executives and branch employees, internal employee “hackathons” and digital-marketing certification for top executives. The bank’s leaders can also benefit from the **Leaders Learning Circles (LLC)**, in which speakers from some of the world’s most successful companies, including Google, Amazon and Facebook, are hosted by the bank to share their thoughts on the possibilities of the digital world.

Innovation From The Outside-In

Attempts to raise awareness of the digital transformation outside of UnionBank have also been numerous and received encouraging results.



None have perhaps been quite as effective as the hackathons that were arranged by the bank both in Manila as well as the country's outer provinces. The events gathered hundreds of students and professionals together in teams, before challenges were given to which they were required to develop digital solutions that would invariably require a full day and night of coding. Four hugely successful hackathons were completed last year, involving almost 1,000 developers and 60 actively competing developer teams. Between them, a total of 60 exciting new applications were formulated. The hackathons also presented UnionBank with a rather unconventional opportunity to acquire talented individuals with a passion for technology for potential roles within the bank.

Employee Upskilling and Capability Building

Indeed, Human Resources is one of the main areas inside UnionBank that is now being radically altered, underlining the far-reaching extent of this ongoing digital transformation. In particular, the bank has put in place a new, powerful **Human Capital Management (HCM)** system, a cloud-based platform that aligns virtually all matters pertaining to human resources, including candidate research, relationship management, performance appraisal and the monitoring of employee-career development. One of the HCM system's flagship features is that it provides the opportunity for UnionBank employees to design their own individual training curricula, in accordance with their current roles, or alternatively their future career aspirations. As such, should an operations employee seek a move to the risk department, the HCM system will advise her on the appropriate courses to take in order to help turn her ambitions into reality.

These efforts are integral to the bank's goal to "**future proof**" all its employees as much as possible. With the majority of course content online, moreover, the system makes such transitions for UnionBankers as straightforward as possible. By having an integrated platform that is easily accessible and full of useful information for employees of all levels of seniority, therefore, the HCM system's digital capabilities are now supporting career development at UnionBank in a wholly new, thoughtful and complete manner.



Digital Payment Solution

At the end of the first quarter, the bank launched the new **digital-banking platform EON**, which is an improved version of its original platform that was first launched around the turn of the millennium. Through this platform, a new pre-paid debit card has been introduced that can be obtained at local 7-Eleven convenience stores. As this is more accessible to the unbanked and underbanked populations of the country, the bank also hopes this new offering expands its customer base in important geographical areas.

Data Privacy and Cybersecurity

The bank is also keenly aware of the heightened risk to banking security that is likely to accompany the transformation, particularly at a time when cybercrime poses an increasing threat to the global banking system. As well as substantially raising its budget during the last year in support of such cybersecurity issues, it has embarked on an aggressive **Privacy Impact Assessment** in full compliance with existing data-privacy laws and regulations. It is also a regular contributor to the banking industry's cybersecurity working groups, and continues to invest heavily in the upgrade of its information security and the data-privacy protection of its customers and partners on an ongoing basis.

Digital Customer Experience

Given UnionBank's unwavering commitment to digitisation, one might reasonably assume that such a transformation could be accompanied by a streamlining of other services. On the contrary, it is now extending the range of financial services it can offer, and in doing so, is well on its way to becoming one of the **very best full-service retail banks** in the Philippines. In practice, this is largely being done by expanding its scope of services, and by doing so, it is increasing its proportion of recurring income. Of course, as one has now come to expect from UnionBank, the imaginative utilisation of the latest technology is further enabling its retail services to flourish.

Financial Planning and Insurance



Although UnionBank's range of retail products could always be considered as extensive, the absence of insurance products was a noticeable gap up until the beginning of this year. Indeed, this absence had long been felt by Mr Bautista, who recently admitted his hesitance at affirming that UnionBank served their customers *"in a way that helped them elevate their lives and fulfil their dreams"*, specifically because he always believed the bank "missed an important and basic component—insurance".

In January, however, Mr Bautista was able to put this concern to rest after UnionBank signed a bancassurance distribution agreement with the first and largest Filipino-owned life insurance company, **Insular Life Assurance**. Along with its subsidiary thrift unit **City Savings Bank**, the bank will now be able to sell Insular Life's insurance products; while in turn the insurance company, which already owns a 16.2-percent stake in UnionBank, will obtain access to the bank's extensive network, including close to a total of 300 group-wide branches and more than 6 million customers. With all necessary regulations approved, the new offerings are expected to be launched in the very near future; and with 200 UnionBank relationship managers who have passed insurance-commission exams - plus an additional 200 sales agents being hired exclusively for bancassurance – UnionBank expects a rapid growth trajectory for this new business in the coming years.

Financial Inclusion For The Underbanked

The lender has also stepped up its efforts to help alleviate a persistent financial problem in the Philippines - that of the relatively large proportion of the population that has no access to financial services. According to recent data from the Philippines' central bank, a mere two in 10 families save their money in banks, with the problem being especially pronounced in rural areas; and to compound matters, only 70 percent of those with bank accounts have any interest earnings. At the end of 2016, UnionBank announced its purchase of **First Agro-Industrial Rural Bank** with its 11 branches, marking its first foray into the microfinance banking space. The acquisition provides an effective way for UnionBank to serve the relatively large unbanked and underbanked populations of Filipinos, and to thus help bolster financial inclusion in the country.



Digital Loan Program

One of the most unique and interesting ways in which UnionBank is achieving its lofty retail-banking aspirations is through a lending facility known informally as the **“Loan Ranger”**. The service is being executed through City Savings Bank and caters specifically to public-school teachers in the Philippines. Indeed, Mr Bautista said in September that he expects teachers’ loans to drive a significant proportion of the overall retail-bank expansion. Instead of merely opening new branches in areas with higher-than-average residencies of teachers, however, the bank is taking a significantly more nuanced digital approach through The Loan Ranger. It has developed software that enables its relationship managers to physically visit the areas containing high concentrations of school teachers, discuss the teachers’ loan needs and financial backgrounds on a face-to-face basis, and then potentially approve a loan less than 15 minutes later. Not only is the loan processed onsite, therefore, it is also *approved* there and then, without the customer needing to visit a branch.

The Loan Ranger proves that yet again, UnionBank is providing the rest of the Philippine banking industry with a shining example of how to continue delivering ever-higher standards of customer service through the clever adoption of technology. Furthermore, the above examples provide ample evidence of UnionBank’s commitment towards expanding its range of financial services in line with its license as a universal bank. What is likely to be of particular satisfaction to the bank, moreover, is the fact that such new lines of business will only add to its recurring-income base, which is important in ensuring that the growth the bank.

Career Development Planning

Achieving the aforementioned goals over the coming months will undoubtedly be an impressive feat, but one that appears to be easily within UnionBank’s grasp. What is equally as impressive is the culture within the bank that has been nurtured over the last few years. Complementing the HCM system outlined earlier, the bank’s Human Resources division also offers highly tailored career programmes for a wide range of people seeking to gain the skills that will equip them for long and productive careers at UnionBank.



The **Leader-Executive Accelerated Development (LEAD) Management Trainee Program**, for example, aims to develop either those just out of school, those from the bank's internal talent pool or those who are starting professionals by providing the necessary tools to hold important UnionBank positions in the future. Classroom seminars, online courses and practical, real-world, on-the-job training all combine to build responsible, successful UnionBankers of tomorrow. They are also given crucial support throughout from a first-class network of coaching, mentoring and counselling from within the bank. In addition to LEAD, other successful training programmes include the **Student Mentoring Program (SMP)**, which is designed to enable third- and fourth-year college students to gain experience with UnionBank through apprenticeships, and the Junior Relationship Management Program, which is similar to the SMP in terms of the student demographic but focuses exclusively on developing sales-management skills.

Innovation Breakthroughs In The Works

Ground-breaking advancements look set to continue for some time at UnionBank; indeed, innovations seem to be a part of the bank's DNA. It has indicated that in addition to the API and BPM platforms that are due to launch shortly, further systems will be created that will be highly scalable and responsive, and will very likely involve the use of cutting-edge technologies such as blockchain, artificial intelligence and robotic-process automation. Digital customer experiences that, according to Henry Aguda, are "straight through, real-time and secure" will be the result. Mr Aguda also believes that by extending the hand of collaboration to the fintech community, UnionBank is also "quickly being recognized by the fintech community in the Philippines as the easiest bank to collaborate with when it comes to exposing banking services to the e-commerce highway. We set out to be friendly to the fintechs; now the fintechs are friendly to UBP".

As such, it seems that UnionBank is defining the banking-technology ecosystem in the Philippines for years to come - and that Top 3 position in the industry seems well within reach.
