



# Fintech in ASEAN

Unlock the opportunity

# Foreword for Westpac

As Australia's first bank, we want to help Australian businesses to succeed, as well as advance the important Australia-Asia economic corridor. We're seeing an exciting dynamic where more Australian fintechs are looking for opportunities to expand their customer base with Australia's nearest neighbours in the ASEAN region and as such we are delighted to be partnering with Austrade and The Economist Intelligence Unit to bring deeper insights to fintechs on how to unlock the opportunity.

Westpac's vision is to be one of the world's great service companies. This requires that we continually innovate for our customers and provide broad services rather than narrow product offerings. But we recognise we cannot innovate alone—we need to leverage a wide spectrum of talents outside the organisation. This is why strategic partnering forms the heart of Westpac's innovation strategy. While acknowledging our differences in language, approach and risk appetite, we are united in the common desire to improve the outcome for customers.

Westpac has taken an 'invest to partner' approach to fintech, aligning incentives with the fintech by investing in their business, either via our venture capital partner, Reinventure, or where it makes strategic sense, investing directly. Our fintech partners are helping improve the outcomes for our customers by delivering new services—faster, cheaper and better than we could alone.

We want to be the preferred bank to partner for innovative tech startups and it is our hope that this report provides you with insights to show that we equally share your vision for success.



**Macgregor Duncan**  
General Manager  
Corporate and Business  
Development



**Michael Correa**  
General Manager  
Asia Pacific

# Foreword for Austrade

The ASEAN region is an enticing prospect for Australian fintechs looking to broaden their client base or establish a geographic beachhead to the north.

Many ASEAN countries boast strong GDP growth, deep smartphone penetration and broad online access to financial products and services. But the region is hugely diverse, and any fintech looking to tap these markets risk wasting a good idea and capital if their choice of country is poorly researched.

Austrade is delighted to partner with Westpac on this report into seven of the ten ASEAN nations. It gives insights into the region, its opportunities and challenges, and outlines experiences and perceptions of fintechs that have already made the move or are preparing to do so.

As this report demonstrates, a country-specific strategy that aligns motivation with the right market is key. Target countries must be assessed in terms of economic projections, technological sophistication, consumer tastes, financial inclusion rates, and regulatory and cultural dynamics.

Singapore and Myanmar offer very different challenges and opportunities.

A proven strategy is to find a local partner to fast track understanding the regulatory environment, learn how business gets done, and access networks and potential customers.

One of Austrade's most important roles is to help Australian businesses establish useful connections in new markets. We put you in the room with key decision makers, industry representatives and country experts to help you identify opportunities and gain nuanced business advice.

In commissioning this report, Austrade commends its insights as an important first step to assessing the risks and rewards of an ASEAN foray.



**Dr Stephanie Fahey**  
CEO

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# About the report

*Fintech in ASEAN: Unlock the opportunity* is a report from The Economist Intelligence Unit, commissioned by Westpac and Austrade, which examines fintech opportunities and challenges in seven countries in the Association of South-East Asian Nations (ASEAN), Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

Kim Andreasson was the author of the main report; Scott Aloysius provided the country snapshots; and Charles Ross was the editor. To better understand the opportunities and challenges in developing a fintech business in seven ASEAN markets, The Economist Intelligence Unit conducted wide-ranging desk research supplemented by seven in-depth interviews with executives in Australia and ASEAN. Our thanks are due to the following interviewees for their time and insights:

- Simon Lee, CEO, Assembly Payments, Australia
- Mohd Khairil Abdullah, CEO, Axiata Digital Services, Malaysia
- Julian Fenwick, managing director, Governance Risk & Compliance Solutions, Australia
- Jamie Camidge, founder, PT Empat Kali, Indonesia
- Pranav Seth, head of E-business and Banking Transformation and Fintech and Innovation group at OCBC, Singapore

- M Ajisatria Suleiman, director, Fintech Indonesia, Indonesia
- Matt van Leeuwen, director, Sunway Innovation Labs (iLabs), Malaysia

The Economist Intelligence Unit also conducted two video interviews as part of this research programme, both of which were drawn upon for the report and can be viewed online at [bit.ly/FintechAsean](http://bit.ly/FintechAsean)

We would like to thank both video interviewees for their time and insights:

- Simon Cant, managing partner, Reinventure, Australia
- Sopnendu Mohanty, chief fintech officer at the Monetary Authority of Singapore (MAS), Singapore

In addition, in September and October 2018 The Economist Intelligence Unit conducted a survey of 25 executives to assess corporate attitudes towards fintech in ASEAN, all of whom had an interest in operating in the region. Nearly half (44%) of survey respondents are already doing business in ASEAN, while another half (52%) are looking to enter the region in the next three years. The most common markets where executives already have a presence are Singapore, Indonesia and Malaysia. Company founders were the largest group of executives represented in the survey

(40%), followed by CEOs (24%). Corporate headquarters among respondents were primarily located in Australia (32%), followed by Hong Kong (12%). The size of fintechs represented in the survey sample was split roughly equally between those with fewer than 20 employees (52%) and those with more than 20 employees (48%). The primary fintech focus varied greatly and represented a broad cross-section of sub-industries (multiple selection was allowed).

The Economist Intelligence Unit bears sole responsibility for the editorial content of this report. The findings do not necessarily reflect the views of the sponsors.



# Executive summary

A booming global industry, fintech brings new innovations to traditional financial services and in the process can help reach new population segments and enable the provision of new products and services to existing customers. The basic premise is that fintech promises to improve the efficiency and effectiveness of business operations and financial transactions among large established institutions and start-ups alike, a process often relying on an increase in online access and smartphone penetration.

There are myriad opportunities but at the same time fintech companies often face regulatory challenges, as well as cultural barriers and a lack of talent and knowledge of local markets, leaving them in limbo as they try to expand into new countries.

This report looks at the opportunities and challenges facing fintechs that are based in—or aim to expand to—seven ASEAN countries. Research shows that leading countries, such as Singapore, provide a mature market for fintechs while other countries offer major potential in terms of scale, but there are obstacles to overcome.

To provide insight into the development of fintechs in ASEAN, The Economist Intelligence Unit conducted desk research, nine in-depth interviews, and a survey of 25 executives, all of whom had an interest in operating in the region. The key findings of the research are as follows:

- **A fintech opportunity.** Given population and GDP growth rates, combined with an increase in online access and smartphone penetration, ASEAN countries offer a fertile ground for fintech investment.
- **Regulatory hurdles.** The regulatory environment for fintechs is the greatest barrier to doing business in ASEAN. In Singapore, the legal system is considered a net positive whereas in other markets it is a major challenge.
- **Cultural barriers.** The second-greatest challenge among fintechs operating in—or looking to invest in—ASEAN are said to be cultural, which has ramifications ranging from setting up a business to managing operations, including finding the right local talent.
- **Collaboration is key to success.** To overcome local challenges, companies typically enter into strategic partnerships or collaborations, including between fintechs and traditional financial institutions, but also with other actors, depending on the business model.

# Introduction

With more than 600m people, ASEAN is viewed as an expansion opportunity for companies, given the large potential customer base. This is particularly relevant for Australian companies generally, and technologically enabled ones specifically, as the country possesses a comparative advantage in terms of digital skills vis-à-vis most countries in the region.

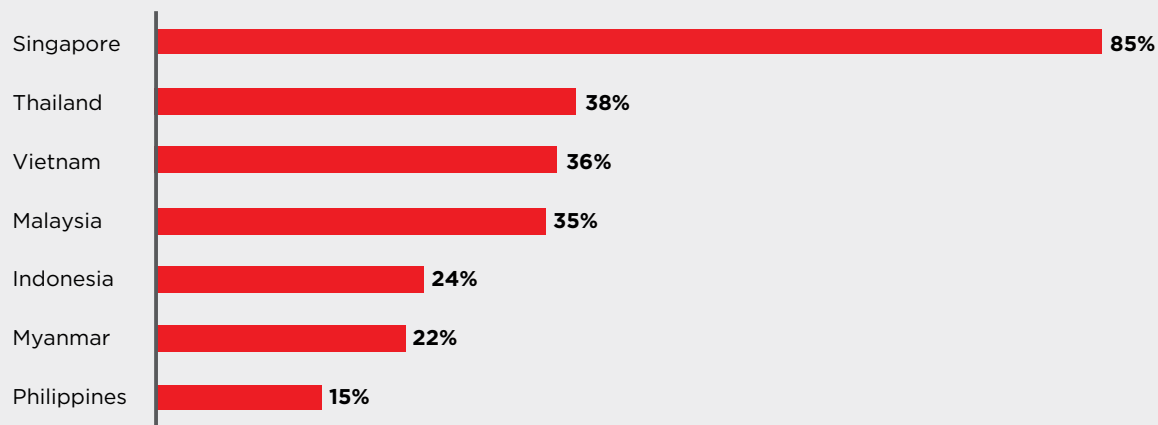
Regardless of their home of operations, fintech companies across the world are interested in tapping into the growing ASEAN market. Average incomes are increasing and people are increasingly getting online, including via smartphones, which enable the delivery of new products and services to a growing population across the region.

This report shows significant differences between the seven key markets within ASEAN, across areas such as technological readiness, business culture and regulation. Successful fintech entrepreneurs approach the various markets within ASEAN with an appreciation of their individual characteristics, opportunities and challenges.

Among the seven ASEAN countries in this report, Singapore dominates across most areas of measurement. Its smartphone penetration is more than double that of the next country (Thailand) (see figure I), and the average income is also much greater than its ASEAN neighbours. It is therefore not surprising that the city state is also home to four in ten of the region's fintechs, more than any other country (see figure II).

**Figure I. Getting online in ASEAN**

ASEAN citizens who have a smartphone (% of population)

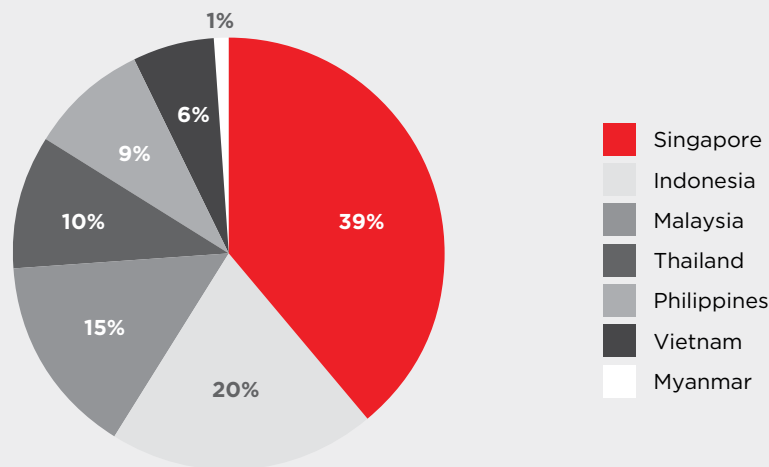


Source: BBVA Research, Newzoo



**Figure II: Fintechs operating in ASEAN**

Distribution of fintechs in the ASEAN region (% of companies)



Source: UOB, Fintech Singapore

Singapore stands out in terms of being a mature market, and this is indicated by the number of fintech companies already established. However, this also means that there is an emerging opportunity in less-developed markets that are growing rapidly in terms of income per head, population growth, online access and smartphone usage.

At the same time, fintech firms in ASEAN need to navigate complex regulatory systems, understand vastly different consumer tastes and build a network of trusted local suppliers—all challenges that can make or break any expansion efforts.

This report, conducted by The Economist Intelligence Unit on behalf of Austrade and Westpac, explores how fintech entrepreneurs and business leaders approach the challenge of entering ASEAN markets. It is based on a quantitative survey of 25 fintech leaders—including 64% CEOs and founders—and nine in-depth interviews with fintech leaders. The report contains an overview of fintech opportunities and challenges in seven ASEAN markets, and is supplemented by three case studies on the largest fintech markets in the region: Singapore, Malaysia and Indonesia.

# Opportunities in ASEAN

About three-quarters (76%) of fintech executives say their top motivation for doing business in ASEAN is increasing their customer base. This is followed by expanding the same product opportunity in new markets (56%) and new product opportunities in new markets (52%) (see figure III).

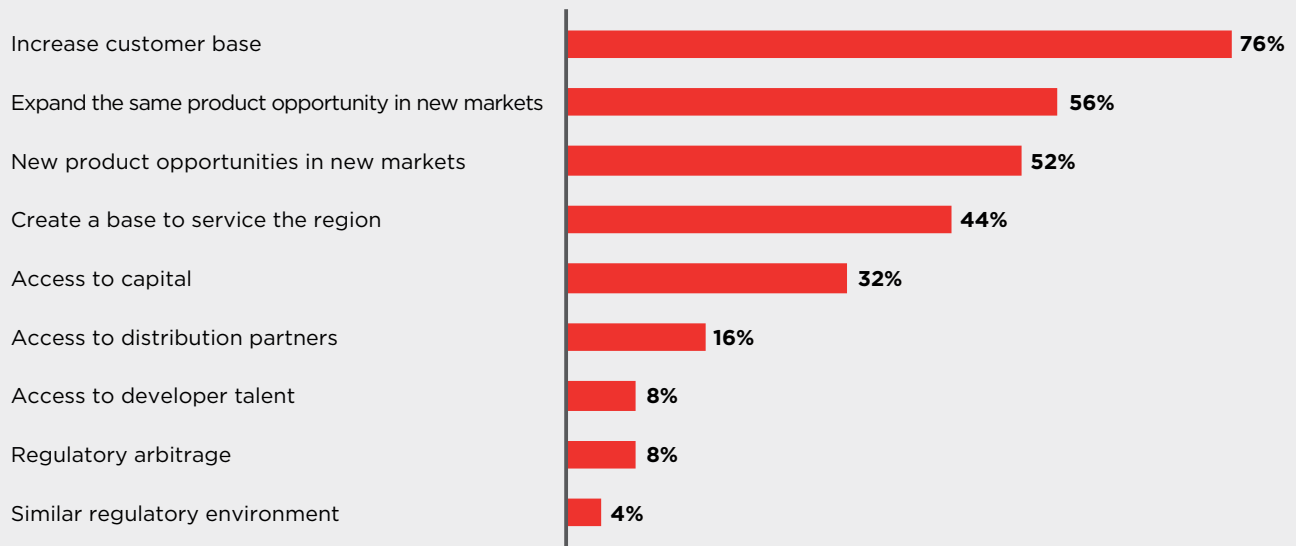
“Our strategy is to find global banks that share the same vision as us and partner with them to provide next generation unified commerce solutions to their customers,” says Simon Lee, CEO of Assembly Payments, an Australian-based fintech payments provider that employs 150 people globally, 40 of whom are in the Philippine

capital, Manila, and is set to expand to Singapore by the end of the year. The company is built on the premise that payments are global, and hence it provides global solutions for strategic partners to tap into.

“We believe in the next five years [that] payments will be free,” says Mr Lee, who explains that traditional financial institutions don’t make much money off such transactions but on additional services, such as credit cards and foreign exchange, and hence are happy to partner with a fintech company such as Assembly Payments to offload the actual transaction. Remaining competitive in a global market, however, requires

**Figure III. Seeking more customers in ASEAN**

Top motivations for doing business in ASEAN (% respondents)



Source: The Economist Intelligence Unit

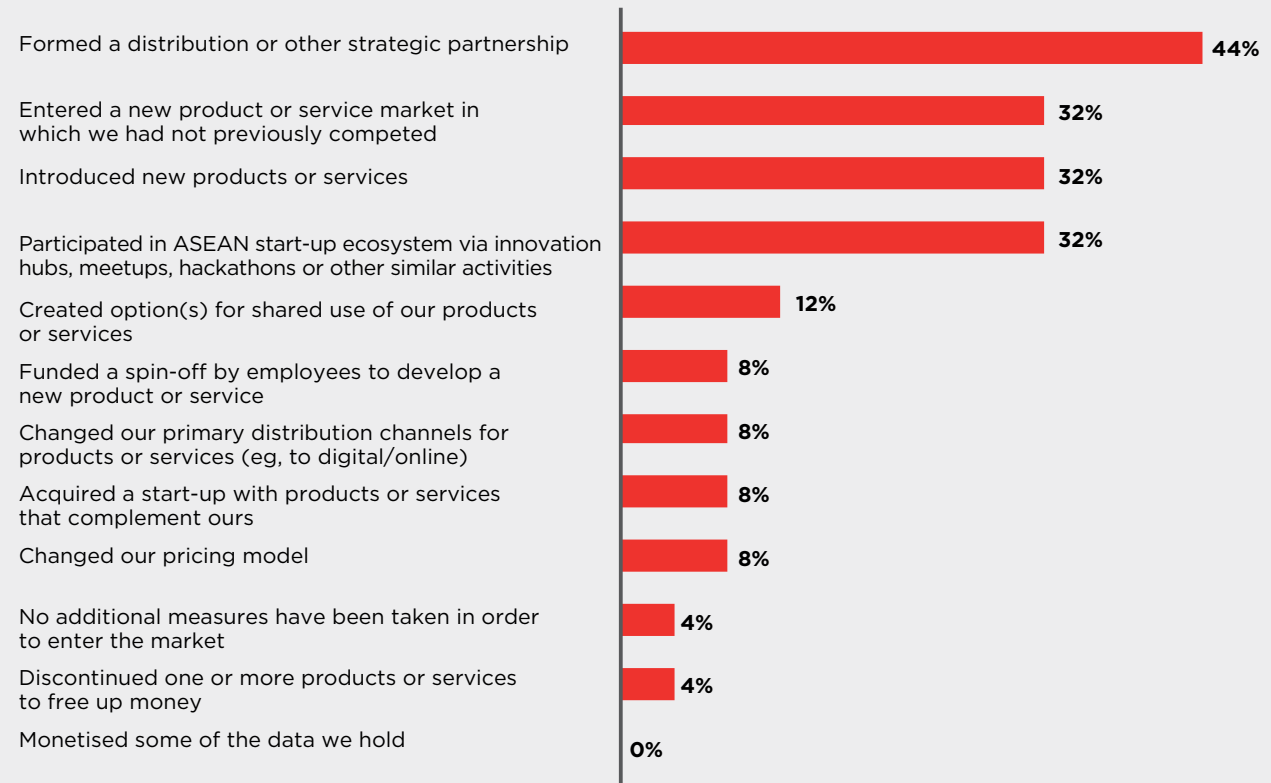
a global customer base. “The only way to survive is to build a global business,” says Mr Lee. “We need to raise hundreds of millions of dollars and that is difficult being an Australia-based company.”

As a result, Mr Lee is travelling the globe to find like-minded banks to work with. “Get strategic partners, move quickly and go global,” he says about his intentions.

In order to enter ASEAN markets, the most common measure among companies has been to form a distribution or other strategic partnership (cited by 44% of survey takers) (see figure IV). Assembly Payments is a perfect example as it looks to grow into South-east Asia through strategic relationships. Mr Lee says that the primary benefits of such an arrangement are “local knowledge, understanding how to do business and familiarity

**Figure IV. The power of partnerships**

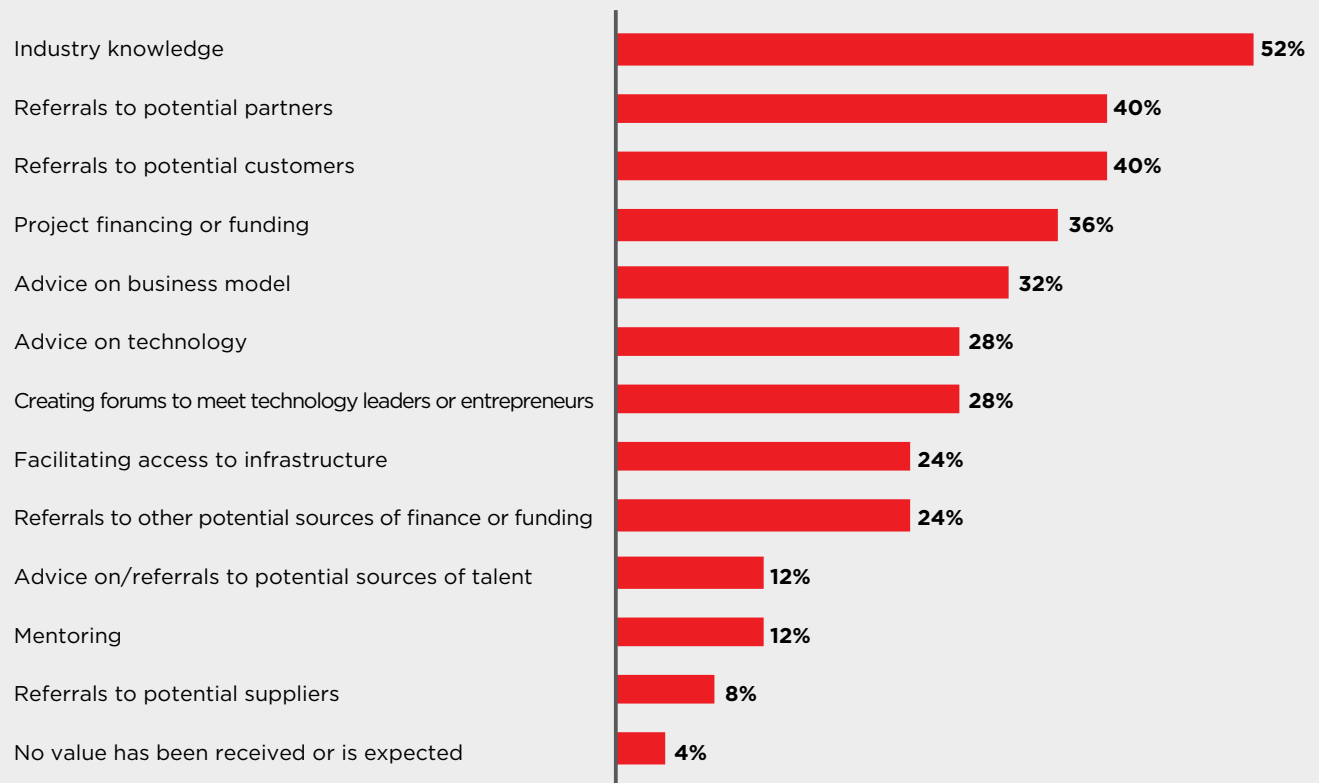
Measures that fintechs have prioritised to enter ASEAN countries (% respondents)



Source: The Economist Intelligence Unit

**Figure V. Learning from partners**

Value of ASEAN partnerships (% respondents)



Source: The Economist Intelligence Unit

with regulations.” The primary value of existing or potential ASEAN partnerships are said to be greater industry knowledge (cited by 52%), followed by referrals to other partners (40%) and customers (40%) (see figure V).

Besides partnerships, fintechs in ASEAN look to participate in start-up ecosystems via

innovation hubs, meetups, hackathons or other similar activities (32%), introduction of new products or services (32%) and entering a new product or service market in which they had not previously competed (32%). Only one survey taker says the company that they represent did not take any additional measures when entering a new market.

## Accelerating scale: strategic partnering

“Fintechs need to ensure they have a local partner,” says Simon Cant, co-founder and managing partner at Australia-based Reinventure, an investment company with \$150m to invest in fintech and adjacent areas. “There are cultural differences, and numerous geographical and other challenges, which means that local knowledge and local language is critical,” he adds to the necessity of having partnerships.

A survey on digital transformation among 128 financial services executives (including insurance) in more than a dozen countries across the world also found that partnerships are highly valued in the industry.<sup>1</sup> According to these executives, digital partnerships have enabled their organisations to “greatly” achieve more innovative ideas/IP for new products/services (cited by 43%), followed by faster speed to market, ie reduced time it takes to develop and launch a new product or service (30%), and expanded reach into new markets (30%), amongst other benefits. To reap such benefits, about one-half (48%) of those surveyed said their organisation had six partnerships or more, illustrating the potential for collaboration.

To date, Reinventure has primarily invested in Australian fintech firms, some of whom are expanding into Asia. One of their portfolio companies is Assembly Payments (see main

text), which is aggressively expanding in both ASEAN but also looking for partnerships across the globe.<sup>2</sup>

“Australian fintechs are built in a fairly mature environment,” explains Mr Cant. “Some of the regulatory infrastructure is more nascent in certain ASEAN markets, and in particular credit data is weaker,” he adds, something which also explains why local partnerships are necessary. This is top of mind as Reinventure itself is also looking to make investments into the ASEAN region directly. According to Mr Cant, many western companies will face particular challenges because of a weaker regulatory environment in the region, especially when it comes to available data, and they therefore have to be creative in how to obtain such information from other industries.

In the survey of financial services executives, eight in 10 (81%) also agree that their organisation needs to become better at leveraging digital partnerships, a call to action for any fintech company looking to expand into ASEAN. Mr Cant says there are two big industry partnership opportunities for fintechs moving into South-east Asia: first, to partner with retail and other industries that provide consumer transaction data, and second, with those that can provide useful credit data on individuals out of which telecommunications companies are one of the real opportunities.

<sup>1</sup> <http://connectedfuture.economist.com/connecting-capabilities/>

<sup>2</sup> <https://reinventure.com.au/portfolio/assemblypayments/>

## Insights from Westpac: strategic partnering

Strategic partnering is at the heart of Westpac's innovation strategy. While acknowledging our differences in language, approach and risk appetite, we are united in the common desire to improve the outcome for customers. Fintech's startups, once considered a disruptive threat, have rapidly become our collaborators. We both have something the other needs to grow—the bank has a large customer footprint, and a well-known brand, while the fintechs offer innovative capability, delivered differently.

Westpac has taken an 'invest to partner' approach to fintech, aligning incentives with the fintech by investing in their business, either via our venture capital partner, Reinventure, or where it makes strategic sense, investing directly.

Our fintech partners are helping improve the outcomes for our business and our customers by delivering new products and services in banking and adjacencies—faster, cheaper and better—than we could do it ourselves.

As an early investor forming strategic partnerships with fintech, we help commercialise their business, and improve their attractiveness to the next bank strategic partner. Nowhere is this opportunity more evident than across South-east Asia, where the need to transform banking and create attractive propositions to large populations is self-evident.



# Challenges of a diverse region

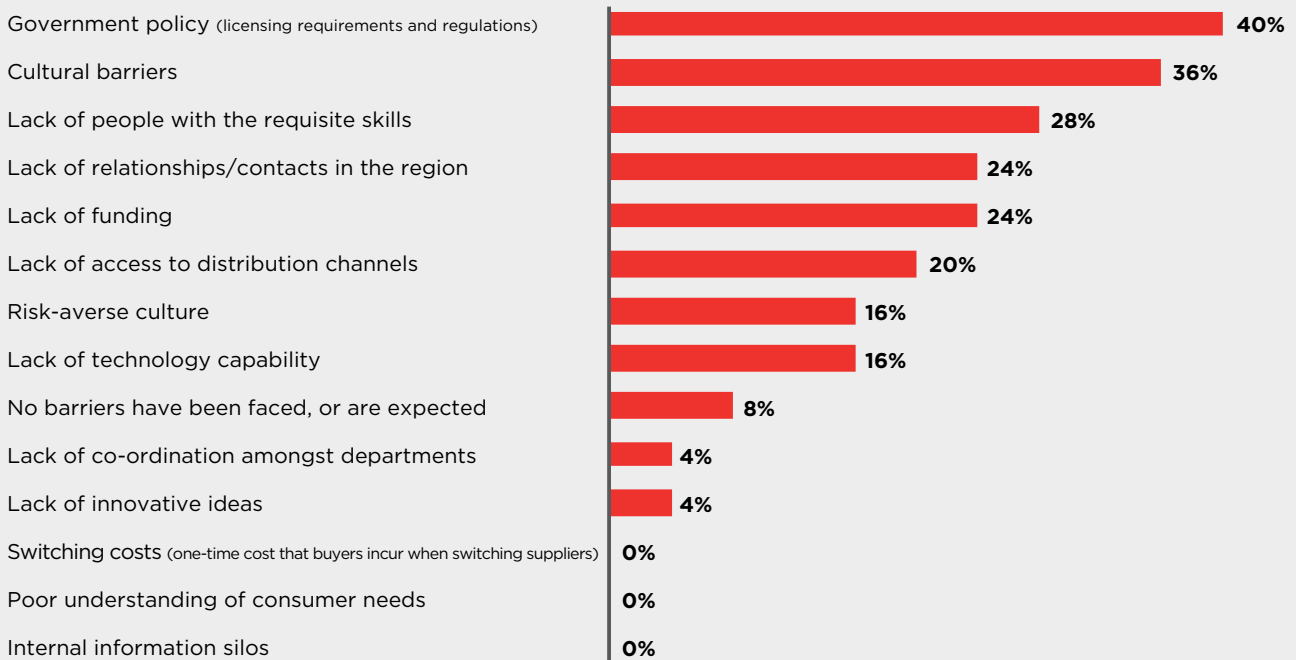
Government policy (licensing requirements and regulations) are said to be the biggest barrier to introducing new products or services in ASEAN, according to four in ten survey takers (40%) (see figure VI). “Many people assume it can be done relatively easily but the culture is different and you have to make sure you have local staff,” adds Julian Fenwick, managing director at Governance Risk & Compliance Solutions, a “regtech” company that helps fintechs and traditional financial services institutions comply with local regulations. Established in 2012 the company uses technology

solutions to meet local compliance rules and has 250 clients across the world. “Old compliance techniques don’t work for new business models, such as fintech,” says Mr Fenwick.

The regulatory challenge is followed by cultural barriers (36%) and a lack of people with the requisite skills (28%). Given the perceived lack of requisite talent, both advice on/ referrals to potential sources of talent (12%) and mentoring (12%) rated surprisingly low when respondents were asked about the value of existing or potential ASEAN partnerships.

**Figure VI. Cultural and regulatory road blocks**

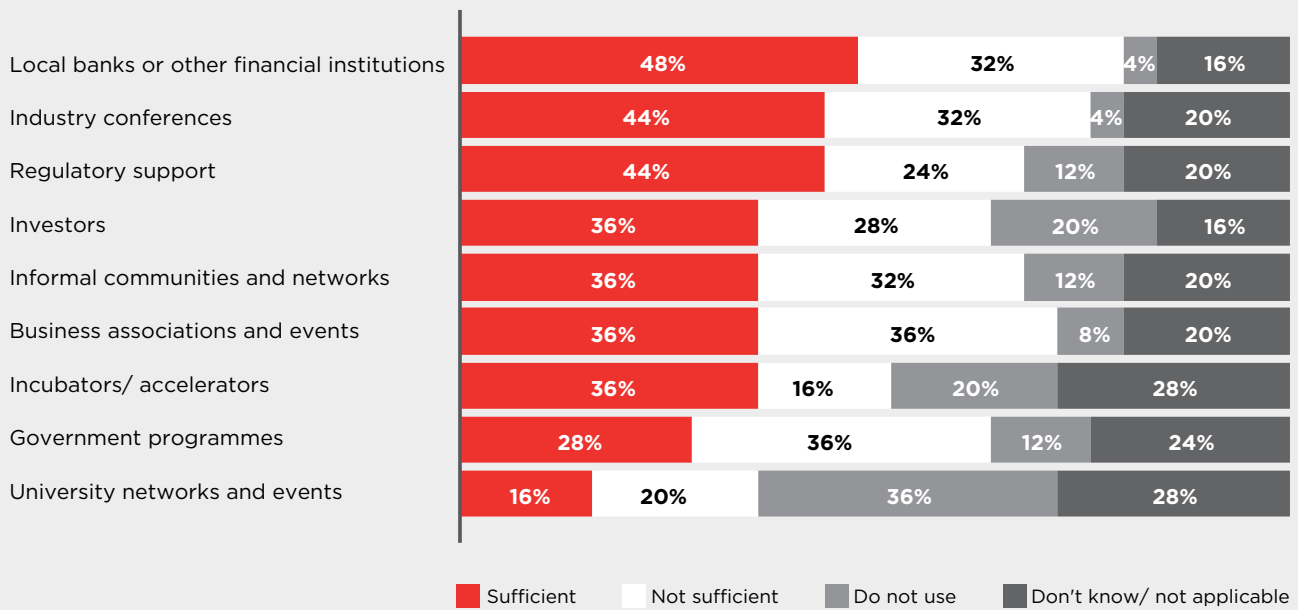
Biggest barriers to introducing new products or services in ASEAN (% respondents)



Source: The Economist Intelligence Unit

**Figure VII. Types of local support**

Effectiveness of local support (% respondents)



Source: The Economist Intelligence Unit

Based in Australia, Mr Fenwick notes that local salaries are high and sees an opportunity in ASEAN talent. At the same time, he says client tell us it is difficult to attract top notch compliance talent in places such as Malaysia’s capital, Kuala Lumpur. “What is needed is better technology in order to be less reliant on people,” he says about complying with local regulations. “It takes longer but the opportunities are larger.”

Another commercial organisation (eg, a company) is also by far the most common type of partnership that organisations seek when entering

into—or considering entering into—a partnership in ASEAN countries (cited by 72%). This is followed by a multi-national organisation (52%).

iLabs in Malaysia is one of the platforms to participate in the start-up ecosystem. Labelled as a “smart partnership” between Sunway University, the Sunway group—one of the largest conglomerates in the region—and Sunway ventures, an investment vehicle, the operation aims to benefit all three stakeholders. “It is always hard as a growing technology company to get access to talent and we provide



them with a direct link [to students],” says Matt van Leeuwen, director of Sunway Innovation Labs (iLabs). At the same time, the conglomerate investment arm can identify potential opportunities. In the 18 months that iLabs have been around, Mr van Leeuwen says they have identified 25 promising start-ups, invested in four, with two having moved on to the next round of funding.

“We’re open to work with innovative start-ups but one of the challenges we face as a big conglomerate is a lack of understanding between corporate people and new entrepreneurs,” says Mr van Leeuwen. “The problem is often about

access to capital and gaining credibility, and we can do both,” he surmises about the benefit of partnerships.

The types of local support used to develop fintech business in ASEAN varies greatly. Local banks or other financial institutions, for example, are viewed favourably (48% of fintech executives say they provide sufficient support) whereas about only a quarter (28%) say the same about government programmes. Forms of regulatory support, however, are generally deemed favourable in the region (44% say they are sufficient; 24% not sufficient) (see figure VII).

## About the fintech personas

**Drawing on insights from the survey of fintech leaders in ASEAN conducted for this report, The Economist Intelligence Unit developed a series of country personas to highlight the experience fintechs face when entering the ASEAN market.**



Singapore



Malaysia



Indonesia



Thailand



The Philippines



Vietnam



Myanmar

# A fintech in Singapore

A small data and analytics fintech with fewer than 20 employees that is looking to set up operations in Singapore within the next year.

## Why Singapore?



To expand our current product range in a new market, access developer talent and create a base to service the region.

## Major challenges in ASEAN



Lack of co-ordination among departments, shortage of talent and gaps in technology capabilities.

## Major challenges in Singapore



In Singapore it has been difficult to register a business and gain an understanding of the local market.

## Use of partnerships



Planning to enter into partnerships with commercial and non-commercial organisations and competitor organisations to get advice on technology, referrals to potential customers and funding for projects.

## People and skills



People with business development, digital security and social media skills are needed, but are in short supply.

## Regulatory environment



Regulatory support is not effective, and more needs to be done to improve the publication of guidelines to promote secure cloud computing, enable digital financial advice and strengthen co-operation with foreign authorities.

## Country profile

- Housing 39% of all fintechs in the seven ASEAN markets, Singapore has the most buoyant fintech ecosystem in the region.<sup>1</sup>
- With above the ASEAN average smartphone penetration rate (85%), Singapore offers a large potential customer base for fintech businesses.<sup>2</sup>
- Extremely supportive environment for technological development, Singapore tops our Technological Readiness Ranking,<sup>3</sup> which measures the preparedness of countries for technological change.
- With 98% of the population aged 15 and above holding a bank account, Singapore's well-above average financial inclusion rate presents a huge opportunity for fintech businesses.<sup>4</sup>

## Market opportunity for fintech

	2017	2018	2019	2020	2021	2022
GDP (US\$ bn at market exchange rates)	323.9	348.9	361.2	366.2	391.4	405.7
GDP per head (US\$ at market exchange rates)	57,713	60,242	61,564	61,695	65,310	67,174
Personal disposable income (US\$ bn)	172.2	190.6	202.8	206.5	220.1	232.3
Household consumption (US\$ bn)	115.4	124	132	134.4	143.3	151.1
Household consumption per head (US\$)	20,570	21,410	22,490	22,640	23,910	25,020

Source: The Economist Intelligence Unit

- In the coming years, Singapore is expected to consolidate its position as a wealth-management centre and retain its place as one of Asia's most affluent countries, signalling continued strength to both prospective and existing fintech players.
- GDP per head reached US\$57,713 in 2017, higher than that of Hong Kong (US\$46,395) and Japan (US\$38,228). The number is expected to increase by 16%, to US\$67,174, in 2022, expanding the pool of consumption and investment available for fintechs.
- Rising personal disposable income will continue to expand market opportunities by boosting demand for fintech services.
- In the World Bank's annual doing business 2019 study, Singapore ranked 2nd of 190 economies for overall ease of doing business. Its position is unchanged from the previous year and second only to New Zealand. The city state ranked 3rd out of 190 economies for ease of starting a business, suggesting that fintech firms looking to set up in Singapore can expect favourable procedures, time commitments and capital requirements.

1 <https://www.uobgroup.com/techecosystem/pdf/UOB-State-of-FinTech-in-ASEAN.pdf>

2 <https://www.bbva.com/wp-content/uploads/2017/07/June-2017-ASEAN-Fintech-Trends1.pdf>

3 [http://pages.eiu.com/rs/753-RIQ-438/images/Technological\\_readiness\\_report.pdf](http://pages.eiu.com/rs/753-RIQ-438/images/Technological_readiness_report.pdf)

4 <http://databank.worldbank.org/data/reports.aspx?source=1228>

## Navigating the regulatory environment

- The government has been amending patent regulation to increase flexibility in the patent application process. In April 2018 they launched a fast-track initiative for fintech innovations, reducing the patent application process from a maximum of two years to as little as six months.
- In November 2017 an innovation fund created by the Intellectual Property Office of Singapore and private equity firm Makara Capital invested S\$70m (US\$51m) in MyRepublic, a regional telecoms company with a strong portfolio of intellectual property. This marked the first investment made by the S\$1bn (US\$700m) fund, which had launched earlier that year to support enterprise growth through investments in fintech and beyond.



<sup>5</sup> <https://mydftz.com/dftz-goes-live/>

## Case study: Singapore

Singapore is home to 39% of all fintech companies in ASEAN for a reason. Combined with the highest smartphone and financial inclusion rates, the city state also ranks second globally in the World Bank's annual ease of doing business study, which is reflective of an effective regulatory environment.<sup>6</sup> "Singapore is absolutely ahead in the game," says Pranav Seth, head of E-business and Banking transformation and Fintech and Innovation Group at OCBC Bank, the longest established Singaporean bank. "There is a fine balance between preserving financial stability and innovation," he adds about Singaporean efforts in fintech, an area in which regulators appear to have succeeded.

"The regulatory support—in principle—is always positive and regulators want these companies [fintechs] to succeed and are willing to help," says Sopnendu Mohanty, chief fintech officer at the Monetary Authority of Singapore (MAS). "Regulators are very progressive in the ASEAN region," he adds.

"Other people are envious of the Singapore proposition," says Mr Seth. "From a bank point of view, there are lot of [global] fintech start-ups looking to set up shop here." For OCBC, which is based in Singapore, this is an advantage in terms of its opportunity to collaborate with fintech companies to gain new ideas. "Singapore is the most advanced country in allowing fintechs to experiment," says Mr Seth. "There is a significant industry and regulatory driven push to keep Singapore at the cutting edge of financial services, which is translating into the [high] number of fintechs."

To leverage fintech innovation, OCBC set up its "The Open Vault at OCBC" to provide a platform for

collaboration.<sup>7</sup> "What we realised was that we were moving at our own pace as a regulated entity but the amount of talent and capital in [fintech] start-ups could accelerate our internal digital transformation," says Mr Seth. Starting more than three years ago, The Open Vault platform has led to meetings with more than 1,600 companies and valuable partnerships across departments and functions.

"Open Vault has created a massive appetite for change and ambition," says Mr Seth. At the same time, other fintechs benefit too. "They have great ideas but don't always understand the market," says Mr Seth, who adds that they bring non-legacy thinking to an established institution. Conversely, OCBC has access to customers, data and is a trusted brand, a successful premise for co-creation and partnerships. "Often [fintechs] don't have a market-ready product and lack regulatory knowledge; we close that gap and offer access to our anonymised data, which enables them to quickly validate and refine their propositions."

Mr Seth advises aspiring fintechs in the region to look for collaboration with traditional banks such as OCBC. "It is a natural partnership," he says, "we are looking to solve our problems and can help others succeed in the process." As an indication, Open Vault has been so successful the bank is now expanding it into Malaysia in its hunt for new innovations and potential partnerships.

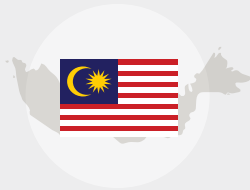
<sup>6</sup> Doing Business, The World Bank, [www.doingbusiness.org](http://www.doingbusiness.org)

<sup>7</sup> Open Vault website, OCBC, <http://theopenvaultatocbc.com/>

# A fintech in Malaysia

A large payments fintech firm with over 500 employees that has been operating in Malaysia for over three years.

## Why Malaysia?



To expand current and new product opportunities in a new market, and create a base to service the region.

## Major challenges in ASEAN



Navigating cultural barriers and unsupportive government policies, such as licensing requirements and regulations.

## Major challenges in Malaysia



In Malaysia, a lack of openness among local businesses to collaborate is a particular challenge.

## Use of partnerships



Entered into partnerships with commercial organisations to gain industry knowledge and referrals to potential partners.

## People and skills



People with digital security skills are the most needed but are very difficult to find.

## Regulatory environment



Regulatory support is generally effective but more could be done to strengthen cyber-security regulations and enhance dialogue between government agencies and local and foreign businesses.

## Country profile

- Vibrant fintech ecosystem, currently housing 15% (184) of fintechs among the seven ASEAN markets.<sup>1</sup>
- Slightly below (35%) the average ASEAN smartphone penetration rate of 39%, which suggests the opportunity for future customer growth.<sup>2</sup>
- The country is well prepared to support technological change, ranking 27th out of 82 economies in The Economist Intelligence Unit's Technological Readiness Ranking,<sup>3</sup> which should help the growth of fintechs.
- Large potential customer base for fintechs, with an above average level of financial inclusion, as the vast majority (85%) of the population aged 15 and above holds a bank account.<sup>4</sup>
- Market opportunities will be limited by the small size of its population (32m in 2017). Its neighbour Thailand is three times larger.
- An expanding economy, rising disposable incomes and greater consumer spending power will boost the appeal of the Malaysian market for fintech businesses—GDP per head is expected to increase by 38% in the next five years.
- From 2018 to 2022 spending on communications is expected to account for a growing proportion of total government expenditure, potentially leading to improved communications and connectivity—which will benefit fintech businesses looking to set up operations in the country.
- Malaysia's overall business environment ranking of 15th out of 82 is expected to support fintech growth in the country. The new government elected in 2018 has already implemented measures to improve living standards, which should help increase private consumption and create new market opportunities for the fintech ecosystem.

## Market opportunity for fintech

	2017	2018	2019	2020	2021	2022
GDP (US\$ bn at market exchange rates)	314.7	357.4	362	393.7	426.7	462.4
GDP per head (US\$ at market exchange rates)	9,952	11,154	11,154	11,977	12,817	13,715
Personal disposable income (US\$ bn)	169.9	198	202.3	222.9	245.1	268.3
Household consumption (US\$ bn)	174.1	201.8	207.2	228.1	250.7	274.6
Household consumption per head (US\$)	5,510	6,300	6,380	6,940	7,530	8,150

Source: The Economist Intelligence Unit

1 <https://www.uobgroup.com/techecosystem/pdf/UOB-State-of-FinTech-in-ASEAN.pdf>

2 <https://www.bbvaresearch.com/wp-content/uploads/2017/07/June-2017-ASEAN-Fintech-Trends1.pdf>

3 [http://pages.eiu.com/rs/753-RIQ-438/images/Technological\\_readiness\\_report.pdf](http://pages.eiu.com/rs/753-RIQ-438/images/Technological_readiness_report.pdf)

4 <http://databank.worldbank.org/data/reports.aspx?source=1228>

## Navigating the regulatory environment

- Fintech firms should keep in mind that all local and foreign businesses will continue to face strict equity rules that limit foreign ownership to 70%. The remaining 30% must be held by *bumiputera* (ethnic Malays and other indigenous peoples).
- Malaysia launched its Digital Free Trade Zone (DFTZ) in November 2017 to encourage SMEs to engage in cross-border trading. The DFTZ will support online and digital services that promote e-commerce and innovation globally, creating opportunities for fintech businesses.<sup>5</sup>
- The current budget exempts non-residents from withholding tax on income for services rendered outside of Malaysia. This reverses a provision in the 2017 budget that imposed a 10% withholding tax on non-resident incomes, irrespective of where services were performed. The change has made Malaysia more attractive to foreign fintech firms looking to set up operations, and strengthened its position as a hub servicing other ASEAN markets.
- In March 2018 Malaysia signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership with ten other countries. The agreement replaced the Trans-Pacific Partnership, which fell apart following the withdrawal of the US in 2017, and is expected to usher new market and partnership opportunities for fintech firms in the country.

<sup>5</sup> <https://mydftz.com/dftz-goes-live/>



## Case study: Malaysia

Malaysia ranks third in ASEAN with 15% of all fintechs in the region. One company that stands out is Axiata Digital, a subsidiary of Axiata, the largest Malaysian telecommunications provider, which also conducts business across ASEAN markets. Axiata Digital aims to create sources of revenue through new products and partnerships beyond the carrier's traditional mobile services with approximately 350m subscribers in 11 countries. As a subsidiary of a telecommunications company, Axiata Digital relies to a great extent on smartphone services.

"It is critical...without smartphones there is no business for us," says Mohd Khairil Abdullah, CEO of Axiata Digital Services. The company has pivoted from feature phones to smartphone offerings in order to better facilitate transactions and assess a credit score for customers, both of which are helped by the growing adoption of such phones in ASEAN. The average smartphone penetration in the region is 35% and provides an opportunity for future growth.

Axiata Digital is organised around three pillars: financial services/ fintech, digital advertising and platforms. The main financial services component is an e-wallet (Boost) for transactions in four markets (Malaysia, Indonesia, Sri Lanka and Cambodia) but also nascent microlending, microinsurance and a trial for micro remittances.

The biggest challenge facing Axiata Digital is the behavioural change of merchants and consumers from using cash, a medium used for transactions for few hundred years, to e-money. Based on a static QR code, the company enables mobile transactions, but users prefer cash. As a result, Axiata Digital conducted a huge educational effort in both Malaysia

and Indonesia to change mindsets and continues to educate users on the benefits of digital payments. Other challenges include resistance from regulators and industry players, especially incumbent ones.

Still, collaborations and partnerships are key to the success of Axiata Digital. "We identify verticals that create high velocity usage and adoption," says Mr Mohd. In some cases this might be a transit operator, or any other organisation that generates high velocity business. The company also collaborates with merchants, to whom it can offer last-mile visibility over sold goods, and traditional financial institutions on lending.

Malaysia has relatively good financial inclusion, with almost nine in ten (85%) of the population holding a bank account. However, incumbent banks have failed to seize on the opportunity to provide additional services. "For us, the greatest opportunity is to address the bottom of the pyramid, the unbanked and underserved," says Mr Mohd. He says the population with access to the financial system may seem large but in reality far fewer have access to advanced banking services. "The traditional model is not catering to the bottom of the pyramid," which he believes is a crucial role that fintechs can fill, assuming regulators accept such a proposition.

"I think regulators are still trying to catch up to face the needs that the fintech explosion is bringing," says Mr Mohd. "They have to recognise that fintechs are here to serve a segment of the population that traditional incumbents couldn't."

# A fintech in Indonesia

A payments fintech with fewer than 20 employees that has been operating in the Indonesian market for more than three years.

## Why Indonesia?



To create a regional base to market our existing portfolio of products and gain access to capital.

## Major challenges in ASEAN



Struggled to access local distribution channels and find people with the skills we need. Navigating government policies is also challenging.

## Major challenges in Indonesia



In Indonesia, there is a lack of openness among local businesses to collaborate, restrictive government policies and limited access to capital.

## Use of partnerships



Entered into or are planning to enter into partnerships with commercial and industry organisations in order to seek advice on business models, attain referrals to potential sources of talent and draw on industry knowledge.

## People and skills



Employees possessing skills in the areas of sales and marketing, software development, and data science are in short supply. The former has been generally easy to hire, but the latter two have been very difficult to source.

## Regulatory environment



Regulatory support has been partly effective, but can be improved through activity-based regulations for payments, guidelines to promote secure cloud computing and strengthened co-operation with foreign authorities.

## Country profile

- Vibrant fintech ecosystem, currently housing 20% (246) of fintechs in the seven ASEAN markets.<sup>1</sup>
- With below the regional average smartphone penetration of 24%, there is potential for future consumer growth.<sup>2</sup>
- Ranking 67th of 82 economies in our Technological Readiness Ranking, Indonesia can better prepare for technological change by improving its ICT capabilities and enhancing support for fintechs.<sup>3</sup>
- Large potential for customer growth, as the financial inclusion level is below the regional average, with only half (49%) of the population aged 15 and above holding a bank account.<sup>4</sup>
- Indonesia is one of the largest consumer markets in South-east Asia, with a favourable demographic profile for consumer-oriented sectors. In the medium to long term, this is likely to create a sizeable pool of customers and talent for fintech firms.
- GDP per head measured at market exchange rates is expected to increase by 54% from US\$3,897 in 2017 to US\$5,991 in 2022, increasing individuals' purchasing power and boosting demand for financial services.
- A growing population of city dwellers, many of which are high net-worth individuals, will enable fintechs to tap into the potential of rapid urbanisation.
- Indonesia's global business environment ranking is expected to improve from 62nd in 2014-18 to 55th (out of 82 countries) in 2019-23, enabling foreign fintechs to set up operations with increasing ease. The macroeconomic policy mix will continue to make progress, with government efforts to reduce red tape benefiting the business environment.

## Market opportunity for fintech

	2017	2018	2019	2020	2021	2022
<b>GDP (US\$ bn at market exchange rates)</b>	1,015.5	1,087.1	1,175.1	1,299.6	1,445.1	1,629.6
<b>GDP per head (US\$ at market exchange rates)</b>	3,897	4,135	4,430	4,858	5,357	5,991
<b>Personal disposable income (US\$ bn)</b>	675.1	721.2	762.4	844.5	945.3	1,066.6
<b>Household consumption (US\$ bn)</b>	582	621.7	657.3	728	814.9	919.5
<b>Household consumption per head (US\$)</b>	2,230	2,360	2,480	2,720	3,020	3,380

Source: The Economist Intelligence Unit

1 <https://www.uobgroup.com/techecosystem/pdf/UOB-State-of-FinTech-in-ASEAN.pdf>

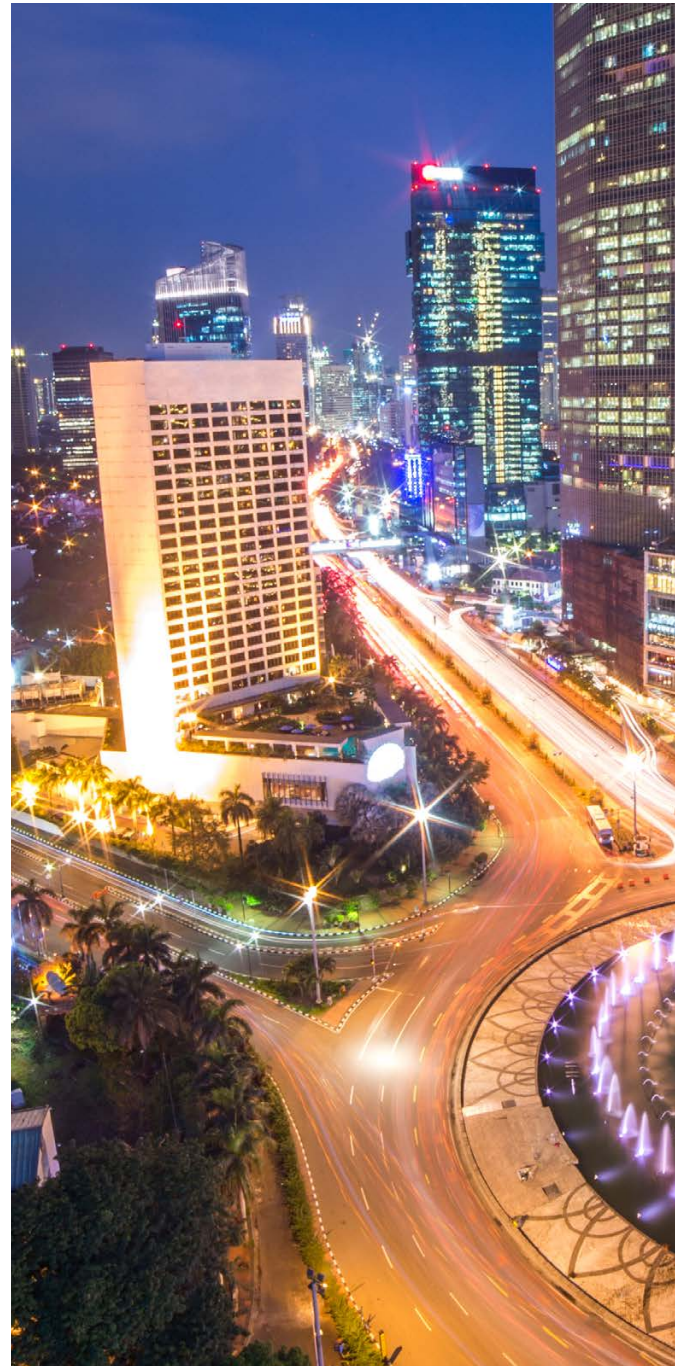
2 <https://www.bbvaresearch.com/wp-content/uploads/2017/07/June-2017-ASEAN-Fintech-Trends1.pdf>

3 [http://pages.eiu.com/rs/753-RIQ-438/images/Technological\\_readiness\\_report.pdf](http://pages.eiu.com/rs/753-RIQ-438/images/Technological_readiness_report.pdf)

4 <http://databank.worldbank.org/data/reports.aspx?source=1228>

## Navigating the regulatory environment

- In June 2018 the government established a unified business licensing system that allows businesses to obtain necessary business licences in a single administrative step, making it easier for fintechs to register their operations.
- In the World Bank's doing business 2019 study, Indonesia ranked 73rd out of 190 economies for overall ease of doing business, down one spot from 2018. Indonesia's above-average ranking reflects the impact of 16 reform packages that have been introduced by the government since late 2015. Aimed at reducing the burden of regulations in various sectors, these reforms have benefited fintech players by improving the business climate and generating investment.
- Fintech firms should take note that, per a March 2017 reform, the Financial Services Authority must receive notification of any ownership changes in publicly traded companies that raise individual holdings to 5%. Subsequent increases of at least 0.5% must also be reported.



<sup>5</sup> <https://mydftz.com/dftz-goes-live/>

## Case study: Indonesia

Indonesia is the second-biggest fintech market in ASEAN, hosting 246 companies (20% of the total in the region). One reason is sheer size. With an estimated 260m people and its GDP per head forecast to grow by 54% over the next five years, the country is a promising destination. “Everyone has always been positive about the Indonesia potential, but it has consistently underdelivered,” says Jamie Camidge, founder of PT Empat Kali, an Indonesian fintech company.

Despite its challenges, Mr Camidge chose to set up operations in the country for a reason. “Indonesia is at a tipping point,” he says. “It has the same rate of urbanisation, incomes and other variables as China was five years ago. We think the inflection point is just around the corner.”

His company, PT Empat Kali, is modeled after an Australia business that allow consumers to “buy now and pay later” at no interest. The premise the fintech business model is that it creates deals with merchants—in practice charging a small sales commission—while enabling consumers to buy more products, valued up to USD 200 at no interest. In theory this may work particularly well in Indonesia—a predominantly Muslim country—where consumers are averse to paying interest for cultural reasons. “We can do a credit and fraud check and approve customers in two minutes,” says Mr Camidge.

Conversely, the speed of starting the business has been slow. It took five months to obtain a business registration and the company—currently with 12 employees—is in the process of submitting its financial application to the financial regulator (OJK), which may take a further 12 months. This should not come as a surprise: in the World Bank’s latest ease of doing business study, Indonesia ranked 73rd out of 190 economies.<sup>7</sup>

Fintech Indonesia, an Indonesian non-profit fintech association established in 2016, aims to serve as a bridge between companies and regulators. “It’s a chicken and egg problem,” says M Ajsatria Suleiman, director at Fintech Indonesia. He explains that regulators prefer companies to be on the ground and provide local solutions by local people before providing a licence, whereas foreign companies often prefer to have a licence before setting up an operation in the country. “Foreign companies need to be willing to take the risk,” he adds. “You also have to have local knowledge and a local network,” he advises.

Indeed, the other challenge facing PT Empat Kali is cultural. “There is a history of lack of openness to foreigners,” says Mr Camidge, who compares the influx of money and talent to Singapore and Hong Kong of regional examples of openness that can benefit a place. “In Singapore it doesn’t matter who you are,” he says, “but across ASEAN there is generally a preference for local money, local people and local companies.” The local fintech association Fintech.id, for example, only allows Indonesian-registered companies as members and although he applied to join nearly four months ago, his application has not been approved.

Mr Camidge believes that the next five years will define Indonesia. “There needs to be an increase in the velocity of money in the economy and you need to put technology in the hands of consumers to make better choices,” he says. “That’s why I’m bullish [on Indonesia] and that’s why I’m here.” In addition, Australia and Indonesia are about to sign a free trade agreement. “I am hopeful that the new agreement will increase the market access for Australian companies to compete in Indonesia market,” he adds.

<sup>6</sup> Afterpay Touch website, [afterpay.com.au](http://afterpay.com.au)

<sup>7</sup> Doing Business, The World Bank, [www.doingbusiness.org](http://www.doingbusiness.org)

# A fintech in Thailand

A small insurance fintech with fewer than 20 employees that has been operating in Thailand for over three years.

## Why Thailand?



To expand the customer base for their existing products and identify opportunities for new products.

## Use of partnerships



Entered into partnerships with commercial and multinational organisations in order to obtain industry knowledge and referrals to potential customers.

## Major challenges in ASEAN



Dealing with unsupportive government policies, such as licensing requirements and regulations.

## Local support



Valued the presence of local support from financial institutions, government programmes, incubators/accelerators, regulators and conferences.

## Major challenges in Thailand



Difficult to identify funding sources to aid expansion.

## Market entrance



Formed a distribution or other strategic partnership in order to facilitate entry into the market.

## Country profile

- Vibrant fintech ecosystem, currently housing 10% (123) of fintechs in ASEAN.<sup>1</sup>
- Opportunity for future customer growth, with current smartphone penetration of 38%, which is slightly below the ASEAN average of 39%.<sup>2</sup>
- Fairly well prepared to support the growth of fintechs, ranking 49th out of 82 economies in The Economist Intelligence Unit's Technological Readiness Ranking, which measures the preparedness of countries for technological change.<sup>3</sup>
- Large potential customer base for fintechs, with an above average level of financial inclusion: 82% of the population aged 15 and above hold a bank account.<sup>4</sup>
- Thailand provides an exciting market opportunity for fintechs, with a population of 69m and rising per head incomes. Its GDP per head is expected to increase by a third in the next five years, from US\$6,597 in 2017 to US\$8,365 in 2022.
- While the government will move away from a reliance on fiscal handouts, they are expected to maintain supportive policies for key interest groups, ensuring fintechs can operate in a stable macroeconomic and political environment.
- Household debt will continue to dampen consumer sentiment in the forecast period, but a tax regime increasingly focused on wealth, rather than income and consumption, will shield fintechs from further declines in private consumption growth.

## Market opportunity for fintech

	2017	2018	2019	2020	2021	2022
GDP (US\$ bn at market exchange rates)	455.5	496	512.5	518.6	552.3	582
GDP per head (US\$ at market exchange rates)	6,597	7,169	7,394	7,471	7,948	8,365
Personal disposable income (US\$ bn)	235.7	256.9	261.8	264.3	281.8	294.7
Household consumption (US\$ bn)	222.1	242.1	246.7	249	265.4	277.6
Household consumption per head (US\$)	3,220	3,500	3,560	3,590	3,820	3,990

Source: The Economist Intelligence Unit

- Thailand 4.0, an ambitious 20-year plan, is expected to support fintechs by transforming the country into a value-based economy that is focused on services and technological applications.<sup>5</sup>

1 <https://www.uobgroup.com/techecosystem/pdf/UOB-State-of-FinTech-in-ASEAN.pdf>

2 <https://www.bbvaresearch.com/wp-content/uploads/2017/07/June-2017-ASEAN-Fintech-Trends1.pdf>

3 [http://pages.eiu.com/rs/753-RIQ-438/images/Technological\\_readiness\\_report.pdf](http://pages.eiu.com/rs/753-RIQ-438/images/Technological_readiness_report.pdf)

4 <http://databank.worldbank.org/data/reports.aspx?source=1228>

5 <http://financialinstitutions.bakermckenzie.com/2017/08/03/thailand-the-fintech-wave-and-regulatory-response/>

## **Navigating the regulatory environment**

- In the World Bank's doing business 2019 study, Thailand ranked 27th out of 190 economies for overall ease of doing business. This above-average ranking reflects the implementation of recent reforms aimed at strengthening the local business environment, and should make it easier for foreign fintech firms to establish a local presence.
- SMEs, several of them fintechs, have benefited from a preferential 10–20% corporate income tax rate beginning January 1st 2017, provided they registered under the tax amnesty programme before March 15th 2016. New fintechs entering Thailand will be subject to the standard corporate tax rate of 20%.
- A revised Computer-Related Crimes Act entered into force in May 2017, which tightened the online control of content. Service providers, such as social media platforms and access providers, must be prepared to delete content that is false and/or damaging to the public following government notification, or face punishment.<sup>6</sup>
- Key regulators such as the Bank of Thailand (the central bank) and the Office of the Securities and Exchange Commission have launched regulatory sandboxes that allow fintechs to test new products and services for a limited period without being fully subject to normal regulations.

<sup>6</sup> <https://www.hrw.org/news/2016/12/21/thailand-cyber-crime-act-tightens-internet-control>



# A fintech in the Philippines

A small banking technology fintech with fewer than 20 employees that is looking to enter the Philippine market within the next year.

## Why the Philippines?



Looking to increase customer base, gain access to capital and take advantage of regulatory arbitrage.

## Major challenges in ASEAN



Dealing with cultural differences is our biggest challenge when setting up operations.

## Major challenges in the Philippines



Poor banking penetration has restricted market opportunities.

## Use of partnerships



Planning to partner with non-commercial organisations such as government entities and non-government organisations to host forums that engage with technology leaders and entrepreneurs.

## People and skills



People with data science skills are the most needed and encouragingly are very easy to find.

## Regulatory environment



Regulatory support is not effective and improvements need to be made in the publication of guidelines such as those promoting secure cloud computing.

## Country profile

- Small fintech ecosystem; home to only 9% (111) of fintechs among the seven ASEAN markets.<sup>1</sup>
- Consumer market is likely to expand, given that the current smartphone penetration rate of 15% is below the regional average.<sup>2</sup>
- The Philippines fares poorly in The Economist Intelligence Unit's Technological Readiness Ranking, ranking 55th out of 82 economies, showing that the country is poorly prepared for technological change.<sup>3</sup>
- Large potential for customer growth, as the financial inclusion rate is below average in the region with only 35% of the population aged 15 and above holding a bank account.<sup>4</sup>

## Market opportunity for fintech

	2017	2018	2019	2020	2021	2022
GDP (US\$ bn at market exchange rates)	313.3	328.5	352.3	394.2	446.8	494.1
GDP per head (US\$ at market exchange rates)	2,986	3,084	3,259	3,593	4,014	4,376
Personal disposable income (US\$ bn)	244.9	256.1	271.7	300.9	333.3	366.8
Household consumption (US\$ bn)	119	134.9	154.5	171.4	190.4	211.9
Household consumption per head (US\$)	1,210	1,350	1,520	1,650	1,800	1,970

Source: The Economist Intelligence Unit

- While GDP per head and personal disposable income remain relatively low, living standards are expected to gradually improve over the forecast period, creating new opportunities for foreign fintech investments.
- Severe income inequality is expected to persist as a challenge for the government, with disparity between the richest and poorest households being particularly acute in urban areas. Fintech firms will need to streamline product and service portfolios to match different consumer needs. While richer households may demand discretionary consumer goods and mature fintech services, the vast majority will require solutions that help fulfil primary needs.
- With a strong macroeconomic position and relatively open market, the business environment in the Philippines improved by two places in the past year. It now ranks 50th out of 82 countries globally, and is increasingly attractive to foreign investors in fintech and other sectors.

1 <https://www.uobgroup.com/techecosystem/pdf/UOB-State-of-FinTech-in-ASEAN.pdf>

2 <https://www.bbvaresearch.com/wp-content/uploads/2017/07/June-2017-ASEAN-Fintech-Trends1.pdf>

3 [http://pages.eiu.com/rs/753-RIQ-438/images/Technological\\_readiness\\_report.pdf](http://pages.eiu.com/rs/753-RIQ-438/images/Technological_readiness_report.pdf)

4 <http://databank.worldbank.org/data/reports.aspx?source=1228>

## Navigating the regulatory environment

- Foreign fintechs can benefit from using existing digital payments platforms. In November 2017 the central bank launched PESO Net, a clearing system that enables electronic transfers of funds from individual accounts across various banks. Another automated clearing system, called InstaPay, is scheduled to launch in 2018.
- Since 2014 Bangko Sentral ng Pilipinas (BSP, the central bank) has developed regulatory sandboxes to allow fintechs to safely trial new products, which in turn allows BSP to draft regulation in response to real market applications.<sup>5</sup>



<sup>5</sup> <https://www.bworldonline.com/taxation-of-fintech-companies-in-the-philippines/>

# A fintech in Vietnam

A small blockchain fintech with fewer than 20 employees that has been operating in Vietnam for less than a year.

## Why Vietnam?



To expand our current product and service portfolio and establish a base to service the region.

## Major challenges in ASEAN



Scarcity of people with the requisite skills, difficulty in navigating government regulations and gaps in technological capabilities.

## Major challenges in Vietnam



Encouragingly no significant challenges have been encountered while setting up operations in Vietnam.

## Use of partnerships



Have yet to enter into any partnerships, but future collaborations may be considered to seek advice on business models and technology, and sources of finance.

## People and skills



Employees equipped with software development and coding/programming skills are in demand, but have been difficult to hire.

## Regulatory environment



The company is in the early stages of dealing with the regulatory environment, and there have been no significant challenges so far.

## Country profile

- Small fintech ecosystem relative to neighbouring countries, currently housing just 6% (74) of fintechs among the seven ASEAN markets.<sup>1</sup>
- Access to potential customers is likely to grow in the future as more citizens get connected and smartphone penetration increases from just 26%, below the regional average of 39%.<sup>2</sup>
- There is room in the technology development environment for fintechs to improve, with the country ranking 65th out of 82 economies according to the The Economist Intelligence Unit's Technological Readiness Ranking, which measures the preparedness of countries for technological change.<sup>3</sup>
- Large potential for customer growth, as the financial inclusion rate is below the regional average, with only 31% of the population aged 15 and above holding a bank account.<sup>4</sup>
- GDP per head at market exchange rates is expected to increase by 43% in the next five years. As rapidly rising incomes boost demand, Vietnam's growing consumer market is expected to attract investment and market entry from foreign fintech firms.
- However, the country's low GDP per head (by regional standards) will limit the market for luxury discretionary goods and services, a consideration for fintechs targeting higher spending consumers.
- Foreign fintechs will benefit from new market opportunities as a culture of consumerism spreads—particularly among the under-35s that make up the majority of the population—in line with greater access to modern retail outlets in urban areas, online shopping and banking services.
- In 2019-23 the business environment is expected to become more attractive to foreign fintech firms, largely driven by better access to financing, more favourable policies for foreign investors and lower barriers to trade.

## Market opportunity for fintech

	2017	2018	2019	2020	2021	2022
GDP (US\$ bn at market exchange rates)	220.6	236.8	261.9	281.6	304.4	329.1
GDP per head (US\$ at market exchange rates)	2,309	2,454	2,688	2,863	3,066	3,284
Personal disposable income (US\$ bn)	168.3	186.2	214.1	223.5	237.9	253.6
Household consumption (US\$ bn)	147.5	159.8	174.3	186.3	199.1	212.7
Household consumption per head (US\$)	1,540	1,660	1,790	1,890	2,010	2,120

Source: The Economist Intelligence Unit

1 <https://www.uobgroup.com/techecosystem/pdf/UOB-State-of-FinTech-in-ASEAN.pdf>

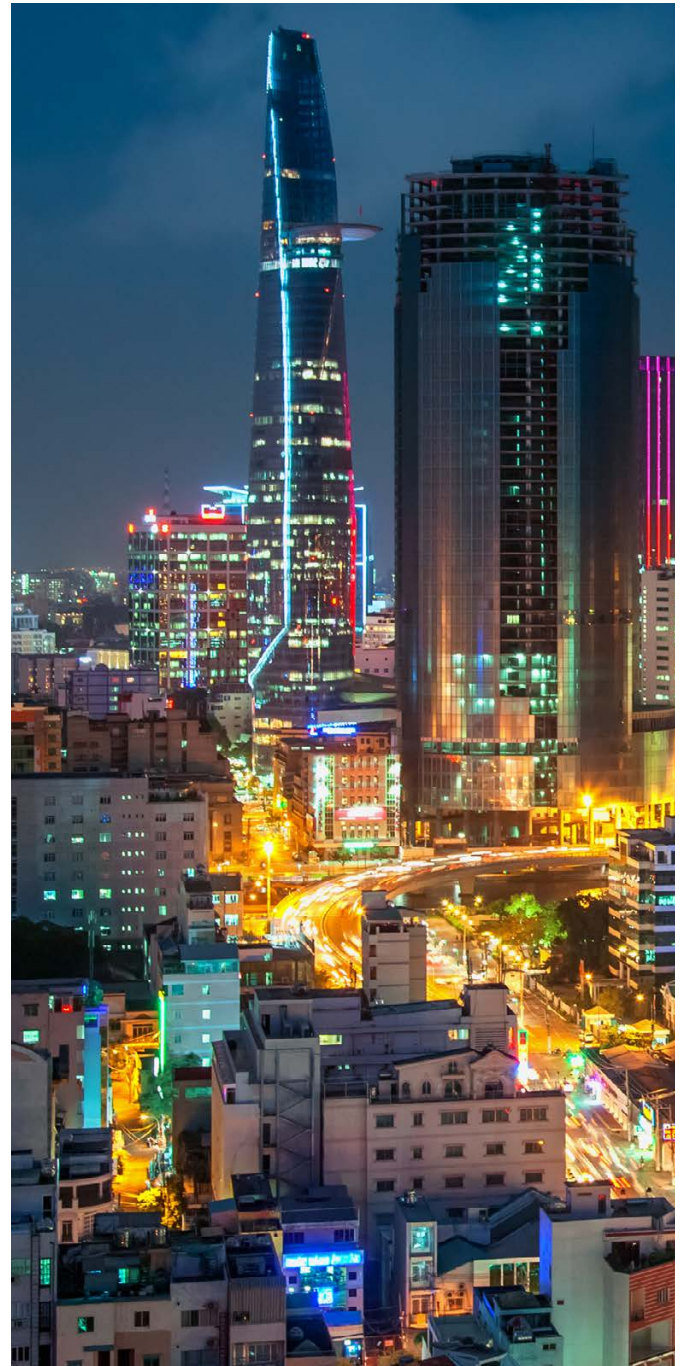
2 <https://www.bbvaresearch.com/wp-content/uploads/2017/07/June-2017-ASEAN-Fintech-Trends1.pdf>

3 [http://pages.eiu.com/rs/753-RIQ-438/images/Technological\\_readiness\\_report.pdf](http://pages.eiu.com/rs/753-RIQ-438/images/Technological_readiness_report.pdf)

4 <http://databank.worldbank.org/data/reports.aspx?source=1228>

## **Navigating the regulatory environment**

- Since April 2017 foreign fintechs have faced fewer regulatory restrictions when setting up operations. This has resulted from reforms like the introduction of a single permitting procedure, which allows companies with majority foreign ownership to easily acquire the two basic licences needed to operate a business in Vietnam.
- Effective from January 2018, a new decree eliminated 675 out of 1,216 business and investment conditions issued by the Ministry of Industry and Trade. The reform reduces red tape in eight sectors, such as franchising and e-commerce, contributing to a conducive business climate for fintech firms.
- Business partnerships between fintechs and local firms are also likely to improve from January 2018, when foreign franchisers will no longer be required to register with the Ministry of Industry and Trade before signing a franchising deal with a local partner.



# A fintech in Myanmar

A large payments fintech, with a headcount of more than 500 employees, that has been operating in Myanmar for over three years.

## Why Myanmar?



To leverage new market opportunities for existing and new products and services, and to expand the customer base.

## Major challenges in ASEAN



Difficulty in finding people with the requisite skills and navigating government policies. There are a limited number of networks within the region.

## Major challenges in Myanmar



In Myanmar, there is a shortage of talent and navigating complex government regulations is challenging.

## Use of partnerships



Planning to co-operate with competing and non-competing organisations, and domestic organisations for referrals to potential partners and mentorships.

## People and skills



Employees with general management, digital security and programming skills are highly sought-after but difficult to find.

## Regulatory environment



Regulatory support has been generally effective, but cyber-security regulations need to be further strengthened.

## Country profile

- Small fintech ecosystem relative to neighbouring countries, currently housing only 1% (15) of fintechs among the seven ASEAN markets.<sup>1</sup>
- The smartphone penetration rate of 40%—slightly above the regional average—offers opportunities for growth from new and existing connected consumers.<sup>2</sup>
- The financial inclusion rate is below the regional average with 74% of the population aged 15 and above not holding a bank account—creating an exciting opportunity for fintechs to grow their customer base and facilitate financial inclusion.

## Market opportunity for fintech

	2017	2018	2019	2020	2021	2022
Nominal GDP (US\$ bn at market exchange rates)	334	364	398	428	466	334
GDP per head (US\$ at market exchange rates)	6,260	6,750	7,320	7,820	8,430	6,260

Source: The Economist Intelligence Unit

- Numerous conflicts with ethnic-minority armed groups are likely to remain unresolved, weakening the country's political stability and creating uncertainty for businesses. However, the main business centres (Yangon, Mandalay and the capital, Naypyidaw) will remain secure, continuing to attract large inflows of foreign direct investment and draw support for foreign fintech investments.
- Foreign funding for power generation and infrastructure projects will continue to underpin strong GDP growth in the next five years (averaging 7.1% a year in real terms), supporting the growth of the local fintech ecosystem.
- The World Bank Doing Business Report (2019) ranked Myanmar as one of the most challenging places in the world for doing business. With an overall rank of 171 out of 185, and its performance in nine out of ten indicators ranking below 100, the country has a poor business environment that may pose challenges to foreign fintechs looking to enter the market.
- Foreign fintechs must be prepared to navigate regulatory barriers, as it continues to be extremely difficult to start a business and enforce contracts in Myanmar. This is in line with the findings of the Bertelsmann Stiftung report on Myanmar, which suggests that the country faces a lack of competition (2013).

<sup>1</sup> <http://fintechnews.sg/8637/myanmar/fintech-myanmar-overview/>

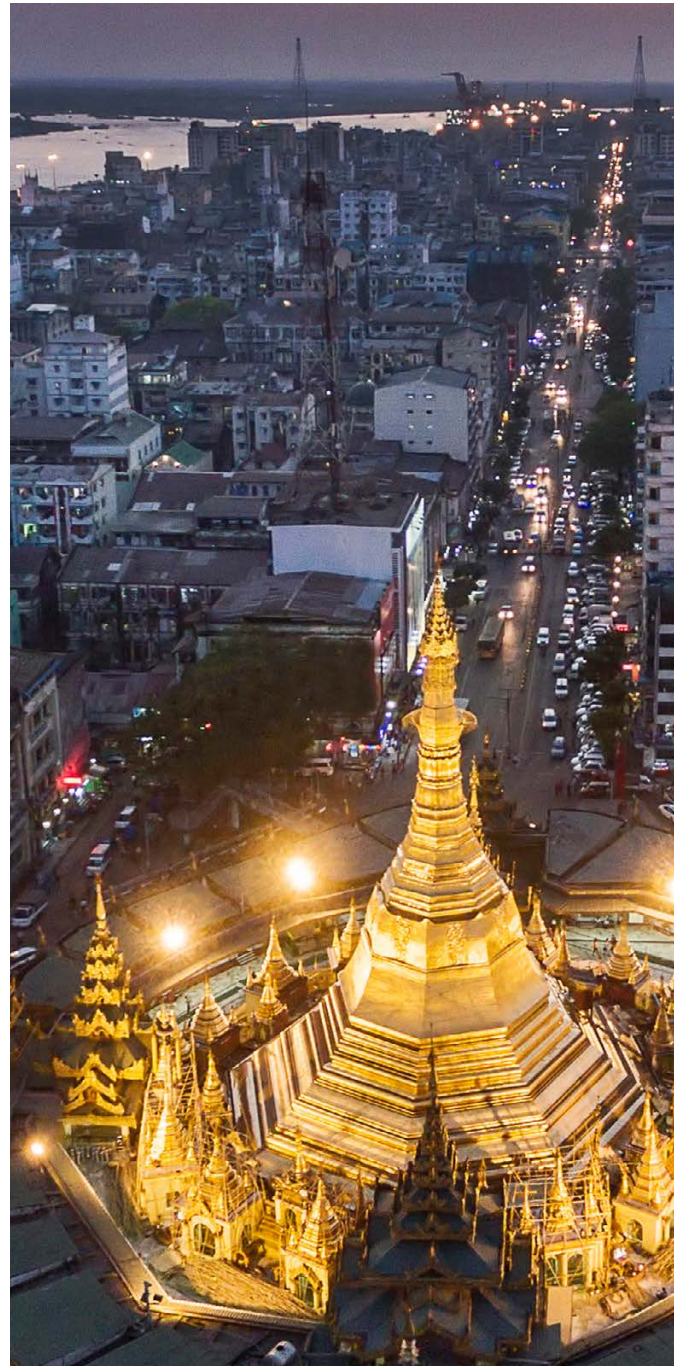
<sup>2</sup> <https://consult-myanmar.com/2018/02/14/mobile-penetration-rate-and-smartphone-usage-levels-lowest-in-the-region-telenor/>



- The development of the country is further impeded by low, albeit increasing, levels of foreign investment, limited integration with global markets resulting from long-term isolation, monopolistic domination of state-owned enterprises, and frequent episodes of macroeconomic instability.
- Other obstacles for all businesses, as well as fintechs, include a dearth of consistent, sound fiscal and debt policies, inadequate protection of property rights, and constraints set on foreign investment.

### Navigating the regulatory environment

- In an attempt to improve the country's business environment and attractiveness to foreign investment, the government has taken several measures aimed at addressing the concerns of many companies, including fintechs. These include steps to open up the economy, streamline registration processes, extend the validity period of foreign investors, enforce property rights and ease monetary policies.<sup>3</sup>
- An anti-corruption law was also enacted in 2013 to increase the fairness and transparency of the regulatory environment. However, implementation of the law has been sluggish, with little progress reflected in the World Bank Doing Business report. This should caution fintechs to be measured in their optimism for the market.<sup>4</sup>



<sup>3</sup> <http://databank.worldbank.org/data/reports.aspx?source=1228>

<sup>4</sup> <http://www.intracen.org/country/Myanmar/Business-and-Regulatory-Environment/>

# Conclusion

A booming global industry, fintech brings new innovations to traditional financial services and in the process can help reach new population segments and enable the provision of new products and services to existing customers. Regulations, however, have largely lagged behind in this fast-developing movement, and cultural barriers are limiting expansion opportunities.

In ASEAN, the opportunities and challenges may be greater than any other region, given the diverse socio-economic and demographic composition of its members, ranging from the small, advanced city state of Singapore to the Indonesian consumer market of more than 260m people, the world's fourth-largest population.

In order to seize the opportunities and overcome the barriers to doing business in ASEAN, fintech companies should consider a number of recommendations:

1. **Tap into the potential.** Every ASEAN market is growing in terms of size, online access and smartphone penetration—identify which country is the best match for the business.
2. **Develop an understanding of local regulations.** Each ASEAN market is unique and requires in-depth knowledge of how to do business; regtech partners can help.
3. **Consider local partnerships.** Local actors understand the local environment and can ease the transition of doing business in another country.
4. **Collaborate with big banks and others.** Traditional financial institutions are looking for innovative ideas whereas fintech companies can gain customer access and knowledge. There are also opportunities to collaborate with organisations in other sectors.
5. **Stay the course.** Many markets require time, patience and investment in order to succeed, and local business culture can reward those who stay the course without leaving too soon.



