

## Southeast Asia's FinTech Market : An opportunity for Europe

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Johnathan Medina<sup>1</sup>

*Southeast Asia is going through a transformative period that is seeing its economies grow and a surge of people move into the formal banking sector. FinTech, Mobile Payments in particular, has enabled this transition and given people new economic possibilities. This has made Mobile Payments a growing market for investment and one European firms should aggressively pursue. Europe's recent consolidation in its own FinTech market has created large industry players who are poised expand abroad. This paper argues Europe's expertise on Remittances, Security, and Privacy will serve as competitive advantages that enable European firms to become influential players in Southeast Asia's Mobile Payments market.*

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*This paper expresses the view of the authors and not the European Institute for Asian Studies*

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<sup>1</sup> Johnathan Medina is a Junior Researcher at the European Institute for Asian Studies

## Introduction

FinTech and Mobile Payments, a digital bank account where payment is conducted through an electronic device, are transforming the traditional financial sector by offering new services and reaching previously untouched consumers. Mobile Payments have already been impactful by bringing people into the formal banking sector, and its importance is expected to grow as internet and mobile penetration increases in developing countries. The most appealing region for Mobile Payments is Southeast Asia. An increasingly affluent and unbanked populous along with rising mobile usage make it an attractive location for companies to offer their services. European companies should seize this unique business opportunity as a chance to strengthen the continent's technology sector.

Success for European companies in the region would enable them to grow more quickly, hire staff, and offer increased pay. The domestic benefits of increased employment, innovation, and economic output would significantly benefit Europe, which has not enjoyed the same economic benefits from the digital revolution. This is a chance for Europe to become a leader in a defining emerging technology and region, helping establish globally innovative European technology companies. The goal of this analysis is to display Southeast Asia's market potential and identify the key ways European firms can develop a comparative advantage to outperform earlier market entrants.

## Growth of ASEAN

The high percentage of unbanked and underbanked – people with limited services from their banks – people in Southeast Asia has several causes but lack of official identification documents is the most consequential<sup>2</sup>. Banks require official government identification in order to set up an account, which is something many poor and rural residents of Southeast Asia do not have. Instead of having access to official financial services, they have had to rely on a predatory and informal network to meet their needs. No financial history means no credit<sup>3</sup> score and access to loans for your business, a mortgage, or savings account for the family. This severely limits the economic wellbeing of families and potential of the country. FinTech is trying to step in and fill this need, giving people access to these essential services they have lacked.

Southeast Asia is going through a period of tremendous economic growth that has transformed it into one of the most dynamic regions in the world. Its increasingly large middle-class, many of whom never had access to banks, are now adopting Mobile Payment technology in droves. An Ernst & Young report concluded only half of ASEAN adults had a bank account in 2014, compared with a world average of 60% and OECD close to 100%. Several of the region's largest countries – Indonesia, Philippines, and Vietnam, are barely over 40%<sup>4</sup>. European start-ups should aggressively attempt to fill this need before the market consolidates and an opportunity is lost.

The most recent year of growth in Southeast Asia's Mobile Payment market is representative of the immense opportunity in the region. A report by PwC identified

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<sup>2</sup> Medium. (2018). *How Lack of Financial Identity is blocking Financial Inclusion around the World*. Retrieved from <https://medium.com/tech-for-social-impact/how-lack-of-identity-is-blocking-financial-inclusion-around-the-world-77a8f10d5a83>

<sup>3</sup> Jagtiani, Julapa. Lemieux, Catherine. (2017). *Fintech Lending: Financial Inclusion, Risk Pricing, and Alternative Information*, Federal Reserve Bank of Philadelphia

<sup>4</sup> *State of FinTech in ASEAN (Rep.)*. (2018).

Vietnam as the world's fastest growing Mobile Payments market, with a 24 per cent increase. Multiple Asian countries experienced double digit growth including the Philippines and Malaysia. These consumers are also much more likely to make purchases using Mobile Payments through social media compared to other regional consumers<sup>5</sup>. With Internet penetration also rising 21 per cent<sup>6</sup> in the region between 2015-2017, even more robust growth in this sector is to be expected. The quickly rising usage of Mobile Payments, especially in a variety of digital settings, shows how Mobile Payments is reshaping the region.

The region benefits from its young urbanising population that is increasingly using technology for their daily needs. A report by Google and Temasek found Southeast Asia had the highest daily usage of mobile internet globally at 3.6 hours<sup>7</sup>. Even more fundamental, is that many of these people do not have to overcome the cultural familiarity of using credit cards. Their dependency and comfort using mobile applications means they are more adaptable than consumers in developed markets.

A study by PwC identified the top 10 countries globally using Mobile Payment technology with eight of the top 10 being in Asia and six of those being Southeast Asian countries<sup>8</sup>. Southeast Asia far outpaces its global peers in the growth of Mobile Payment technology. Other regions have either been slow to adopt the technology (Latin America), will have locally dominant competitors (USA), or lack the critical mass of a growing middle-class (MENA). Examples in China and Kenya have shown this to be a winner-take all sector, with the top two companies capturing around 80% of market share<sup>9</sup>, so European firms should enter before the market matures.

## **Current Players**

As the Mobile Payment sector in the region matures, companies are competing to grab a minimum market share. Chinese and local firms have primarily offered their services in the region, including Tenpay and Alipay, two of China's largest Mobile Payments platform. These companies have significant budgets and first-mover advantage. Japan's Line messaging app has also moved into the region, it is also trying to use its messaging service as an opportunity to expand into Mobile Payments<sup>10</sup>.

Local players are increasingly moving into the Mobile Payments space with multi-platforms attempting to be the sole provider of services for its customers. Singapore based Grab and Jakarta based Gojek originally started off as ride-sharing companies and have quickly developed to offer a multitude of services. Mobile Payments is increasingly important for the inter-operability of their various services, so both companies have invested heavily in it. For example, Grab's cashless customers make twice as many transactions than cash-dependent ones.<sup>11</sup> The importance Mobile Payments will have on expanding consumer

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<sup>5</sup> ZDNet. (2019). *Asia Driving Global Mobile Payments, with 8 in top 10 Markets*. Retrieved from <https://www.zdnet.com/article/asia-driving-global-mobile-payments-with-eight-in-top-10-markets/>

<sup>6</sup> F, (2018, December 6). *Southeast Asia Mobile Internet Usage Increasing Dramatically*. Retrieved from <https://medium.com/>

<sup>7</sup> F, Southeast Asia Mobile Internet Usage Increasing Dramatically

<sup>8</sup> ZDNet, *Asia Driving Global Mobile Payments, with 8 in top 10 Markets*.

<sup>9</sup> Brink. (2018). *The Battle for E-Wallet Supremacy in Southeast Asia*. Retrieved from <https://www.brinknews.com/the-battle-for-e-wallet-supremacy-in-southeast-asia-2/>

<sup>10</sup> Kishimoto, M., Tani, M., & Matsuda, N. (2018, May 19). *Alibaba out to dominate mobile pay in Southeast Asia*. Retrieved from <https://asia.nikkei.com/Asia300/Alibaba-out-to-dominate-mobile-pay-in-Southeast-Asia>

<sup>11</sup> In Southeast Asia, *Grab and Gojek bring banking to the masses*. (2019, May 2). Retrieved from <http://economist.com>

spending and access to additional services is significant, benefitting national economies, consumers and the leaders of the Mobile Payments market.

## **Opportunity for Europe**

In 2018, Europe saw a number of different mergers in Mobile Payments as the market matured and leading businesses acquired their smaller competitors. These companies have been able to consolidate their domestic markets, develop their services, and are now poised to expand internationally. Most of this expansion has been limited to within the EU, looking beyond the continent to the thriving market of Southeast Asia is the next step to be taken. Dutch firm Ayden and British firm Revolut have expanded outside of Europe but have not moved into the Southeast Asia market<sup>12</sup>.

Considering the competitive environment in the region, EU companies have to identify ways to differentiate themselves from their competitors, while providing genuine added value. This can be in the form of enabling easier cross-border remittances from their EU based relatives or improving security and privacy of sensitive financial data. Addressing these critical challenges<sup>13</sup> and utilising the strategic insight given by local partners would give European businesses a competitive advantage and see a surge of European Mobile Payment apps across Southeast Asia.

## **Remittances**

Remittances, money sent to a home country by a foreign worker, has been growing in importance for developing countries. In 2013, Remittances became a larger source of developing country financing than Foreign Direct Investment (FDI)<sup>14</sup>. The inflow of remittances is crucial to supporting families, sending kids to school, and provides extra funding to help grow developing economies. Asia received nearly USD 300 billion dollars in remittances in 2018, which was USD 25 Billion higher than 2017 and 125 billion higher than a decade ago<sup>15</sup>.

The Philippines is one of the world's largest recipient countries, placing first globally and leading the Southeast Asia with over USD 34 billion flowing into the country, constituting 10 per cent of its GDP<sup>16</sup>. Vietnam and Indonesia also placed in the top 10 globally in 2017<sup>17</sup>. While these numbers are considerable and growing, they are also hampered by outsized commission cost, as well as informal remittances, money sent through friends or relatives rather than financial institutions because of prohibitively high cost.

The average global cost of a USD 200 transfer is 7 per cent, reducing the amount by USD 14<sup>18</sup>. This high cost reduces the amount of money returning to home countries and overall

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<sup>12</sup> Dunkley, E. (2018, November 29). *Europe's fintechs head east to challenge Asia's traditional banks.*

<sup>13</sup> DPO. (2017). *Top 5 Challenges in Online Payments and how to overcome Them.* Retrieved from <https://blog.directpay.online/top-5-challenges-in-online-payments-and-how-to-overcome-them/>

<sup>14</sup> Asia Times. (2019). *Asia's Record Remittances show Globalization alive and well.* Retrieved from <https://www.asiatimes.com/2019/05/article/asias-record-remittances-show-globalization-alive-and-well/>

<sup>15</sup> Asia Times, *Asia's Record Remittances show Globalization alive and well*

<sup>16</sup> World Bank. (2019). *Record Remittances sent globally in 2018.* Retrieved from <https://www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018>

<sup>17</sup> Star Online. (2018). *Grab to Start Remittance Service in Asia in 2019.* Retrieved from <https://www.thestar.com.my/business/business-news/2018/11/15/grab-to-start-remittance-service-in-southeast-asia-in-2019/>

<sup>18</sup> World Bank, *Record Remittances sent globally in 2018.*

cost migrant workers USD 30<sup>19</sup> billion in lost financial resources. Asia is particularly affected as it has the second highest regional cost for remittances<sup>20</sup>. European companies are well positioned to address this problem. Europe's more open financial laws, standardised regulations, and its location as for migrant workers will help it develop the necessary technology to meet this market need.

### **Remittance: Opportunity and Competition**

Europe has long offered opportunities for migrant workers to make a living and send money back home. Most of these migrants originate from regions closer to Europe including Africa, the Middle East, and Central Asia. In 2014, the continent was home to an estimated 20 per cent of all migrant workers who sent home 25 per cent of global remittances<sup>21</sup>. Asia accounted for 25 per cent<sup>22</sup> of Europe's remittances going home, and while most of this is going to central Asia, Europe still has a substantial migrant population from Southeast Asia. European companies should focus on reducing cost and using consumer feedback from local migrant workers to design a more customer friendly app that appeals to users.

Utilising this unique market insight, European companies can produce a more consumer friendly remittance system within their Mobile Payment apps. Customers can be given additional features such as maintaining funds in different currencies, savings accounts, and automatic purchasing of necessary supplies once money is received. European companies can partner with local firms to integrate E-Commerce or other critical features into the app. Remittances can also be factored in to proprietary software that uses a customer's information in creating a credit score. This is a crucial step in giving previously unbanked consumers access to capital. Offering a better customer experience will help entice customers to use one of the European apps, but the main need is still to drive down the cost of remittances.

Grab<sup>23</sup> has started to use its payment service to expand into remittances, and the same has been done by Ant Financial and Tencent<sup>24</sup>. Additional market competition will lower the price since the industry is currently "closed loop" and operates like an oligopoly with Western Union and MoneyGram being industry leaders. Mobile Payments will also naturally lower fees because of reduced infrastructure<sup>25</sup>, but European companies can still address regulatory and security issues that have kept cost high and its competitors have been unable to address.

An obstacle European companies have to address is the inclusion of banks in the transfer payment, which has historically kept fees high because of money-laundering and regulatory concerns<sup>26</sup>. European companies should seek ways to address these concerns, either by working to bring the process internally, utilising Blockchain, or streamlining the

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<sup>19</sup> Vox, (2018). *The stubbornly high cost of Remittances*. Retrieved from <https://voxeu.org/article/stubbornly-high-cost-remittances>

<sup>20</sup> Star Online, *Grab to start Remittance Service in 2019*

<sup>21</sup> De Vasconcelos, P. (2015). *Sending Money Home: European Flows and Markets (Rep.)*.

<sup>22</sup> De Vasconcelos, P. *Sending Money Home: European Flows and Markets*, p. 8

<sup>23</sup> Star Online. (2018). *Grab to Start Remittance Service in Asia in 2019*. Retrieved from <https://www.thestar.com.my/business/business-news/2018/11/15/grab-to-start-remittance-service-in-southeast-asia-in-2019/>

<sup>24</sup> Reuters. (2018). *Tencent & Alibaba chase remittances battle in Southeast Asia*. Retrieved from <https://www.reuters.com/article/us-alibaba-tencent-remittances-focus/tencent-alibaba-chase-remittances-in-battle-for-southeast-asia-idUSKCN1M703R>

<sup>25</sup> NextBillion. (2017). *It's Not Just About Price: Innovative Solutions to Africa's Remittance Problems*. Retrieved from <https://nextbillion.net/its-not-just-about-price-innovative-solutions-to-africas-remittances-problem/>

<sup>26</sup> Vox, *The stubbornly high cost of Remittances*

regulatory process. Blockchain will produce an unalterable, auditable, and trackable ledger of all transactions that can be reviewed at any time cheaply and efficiently<sup>27</sup>. The data companies will have from customers within the app, as well as the transaction history will help simplify the transfer approval process over time. European companies should also work with regulators to move to a Risk-Based approach, where high-value transactions are scrutinized but low-value ones are given approval. This will minimize red tape and reduce regulatory cost that have kept remittances high<sup>28</sup>. Addressing this bottleneck in the process is critical to securing a competitive cost advantage and maximizing the value of the improved services.

## **Privacy & Security**

Personal Data and Cyber Security are growing concerns as more of the economy digitises. Mobile Payments is especially of concern since financial data is stored on the app and usually uses public WiFi when making a purchase. This makes the data more susceptible to being hacked and stolen, putting the financial resources and information of the customer at risk. A 2015 survey of Security Experts found just 23 per cent believed devices were secure enough to hold personal information<sup>29</sup>.

The threat of hackers in the Mobile Payments space is expected to increase, with 87 per cent of experts predicting a higher number of cyber-attacks<sup>30</sup>. The growing volume of cyberattacks is also worsened by the increasing efficiency and sophistication that has made them more successful. Consumers are going to use the application that best protects their vital personal information, so European companies need to outperform other market players in this area. EU firms already operate in countries where privacy and security are vital for any company to compete and should use this to their advantage as they enter the Southeast Asia market.

European companies have been making innovative advancements in Blockchain technology<sup>31</sup> and should implement these into Mobile Payments. Blockchain privatives personal information by assigning customers a unique code that cannot be hacked and prevents any manipulation of data because of its distributed ledger. The decentralised system means there is no one location for hackers to attack, which has been a problem for traditional Financial Institutions. Blockchain also offers higher protection between devices sending data to one another, which is what happens when a Mobile Payment QR code is scanned<sup>32</sup>. The attention on blockchain is usually given to cryptocurrency but the security aspects of the technology are directly applicable for Mobile Payments. Encrypting purchases made by its customers would help protect against hackers, track data more effectively, and serve as a competitive advantage.

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<sup>27</sup> The ASEAN Post, (2019). *Blockchain in Indonesia*. Retrieved from <https://theaseanpost.com/article/blockchain-indonesia>

<sup>28</sup> American Banker. (2016). *Why Remittances Cost So Much- and How to Make them A lot Cheaper*. Retried from <https://www.americanbanker.com/news/why-remittances-cost-so-much-and-how-to-make-them-a-lot-cheaper>

<sup>29</sup> Entrepreneur. (2016). *Your Security Concerns about using Mobile Payment are Valid*. Retrieved from <https://www.entrepreneur.com/article/282722>

<sup>30</sup> Entrepreneur, *Your Security Concerns about using Mobile Payments are Valid*

<sup>31</sup> Medium. (2019). *More countries join European Blockchain Partnership making Europe a leading force in blockchain research*. Retrieved from <https://medium.com/@cassiopeiaservicesltd/more-countries-join-european-blockchain-partnership-making-europe-a-leading-force-in-blockchain-468ba4b69c9f>

<sup>32</sup> Arnold, A. (2019, January 30). 4 Promising Use Cases of Blockchain in Cybersecurity Retrieved from Forbes.com

European companies benefit from the recent adoption of the General Data Protection Regulation (GDPR). Protection of private information is not just from hackers, but also illegal government searches or improper corporate usage. Consumers in the region live in countries where the government<sup>33</sup> has a history of improperly accessing private information, so consumers will see the security of their information as increasingly important. European firms can implement these same standards into their Southeast Asia business practices. European start-ups should also use their deep partnership and familiarity with western financial institutions who have already developed creative solutions for cybersecurity within the financial space<sup>34</sup>. European companies have a strong track record of meeting these expectations, which will only help them attract consumers.

There is a growing concern in the region if Chinese companies such as Ant Financial and Tencent are sending the personal information of their consumers to the Chinese government. There has already been an instance in Japan where banks were not willing to work with Alipay when it was attempting to expand into the country<sup>35</sup>. Similar concerns can increase in Southeast Asia, hurting the business potential for the Chinese giants. This would offer another opening for European firms to tout their history of privacy and data protection. With no regional standard for security and privacy<sup>36</sup>, European companies will also have the advantage of being able to work with government to implement GDPR standards. Uniformity would help businesses operate throughout the region more easily, raising profits and benefitting consumers.

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<sup>33</sup> Nikkei Staff Writers. (2018, May 7) *Asia's governments keep a close eye as consumers spill data*. *Nikkei Asian Review*. Retrieved from [asia.nikkei.com](http://asia.nikkei.com)

<sup>34</sup> Fintech News, (2018). *Banks should cash in on CyberSecurity*. Retrieved from <https://www.fintechnews.org/banks-should-cash-in-on-cybersecurity/>

<sup>35</sup> Nikkei Staff Writers, (2018, March 17) *Privacy Concerns stall Alibaba's plan for Japanese Alipay*. *Nikkei Asian Review*. Retrieved from [asia.nikkei.com](http://asia.nikkei.com)

<sup>36</sup> Refinitiv. (2018). *Navigating GDPR and Data Regulation in Asia*. Retrieved from <https://www.refinitiv.com/perspectives/big-data/navigating-gdpr-data-regulation-asia/>

## **Conclusion**

Southeast Asia is experiencing tremendous growth in its Mobile Payments market and it is projected to continue over the next several years. The region is also enjoying significant economic growth that has helped bring a new middle-class into the global market. People now have the same ability to purchase products as any consumer in the developed world. Many of these products are increasingly being bought using mobile devices. Mobile Payments is the most effective way in bringing hundreds of millions of previously unbanked people into the formal banking sector. This is a unique opportunity for European companies to lead in one of the most innovative industries in the fastest growing market in the world.

The outlook for European companies seems bright moving forward. As has been mentioned previously, several companies have already expanded into Asian markets and consolidations in Europe have enabled even more to do so. There are likely to be additional investments made by European firms, especially before the Southeast Asia market matures. European companies will have to differentiate themselves to capture market share, with Remittances and Security being the two most viable paths. The benefits would not just be felt by consumers in Southeast Asia but also back home in Europe as more job opportunities are created. The winner take all market in Mobile Payments means only a few companies will remain. Asian firms will choose to either innovate in these spaces to deter new European entrants, or form partnerships incorporating their Remittance and Security technology. The next several years will see the consolidation of Southeast Asia's Mobile Payments market, and the impact of European companies on it.