The Oradian guide to financial technology in South East Asia.

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A brave new world.

Over the last few years – and particularly since the COVID-19 pandemic – South East Asia has become a key market for neobanks, digital lenders, and online payments providers as digital finance grows in popularity. Legacy banks are embracing the opportunities of digital finance, but it is the disruptive, innovative financial technology firms that are leading the way, buoyed by a young, dynamic population and a market open to innovation.

ASEAN, the political and economic organisation for South East Asian states, is driving economic integration in the region. Fintech is a major item on ASEAN's economic agenda.

In 2021, fintech funding grew substantially after a COVID-19 driven dip, posting a recording USD 3.5 billion of funding. It probably comes as no surprise that Singapore, by some measure the region's most advanced economy, is leading fintech funding numbers. It won 44% of the total amount in 2021, with almost half of the funding deals across ASEAN going to Singapore-based firms. Indonesia won the silver medal, with Malaysia and Vietnam coming in joint-third.

Payments were the most funded fintech category in ASEAN in 2021, with USD 1.9 billion of funding. It was followed at some distance by investment tech and cryptocurrency, although both these segments grew substantially.

In this paper, we'll look at three major emerging South East Asian markets in particular: the Philippines, Vietnam, and Indonesia. These are very different countries with very different challenges and opportunities – but one major thing in common: potential.

Each of these economies suffers from poor financial inclusion in rural and remote areas, either due to challenging geography – Indonesia and the Philippines have thousands of islands, while Vietnam has mountainous and densely forested terrain – or due to a lack of financial literacy, which is fortunately improving apace in each. We will also examine what the future may hold for these economies and they develop, via the example of Malaysia and Singapore, the two most advanced economies in the region.

The Philippines.

Profile.

The Philippines is a hotspot for fintech innovation. Its diverse and disparate island communities often demand unique tailor-made solutions, from neobanks to digital lenders. This is a great driver of innovation. The country is also witnessing a boom in digitalisation and financial literacy, driving demand for more innovative financial solutions. The government and local regulators certainly seem to have recognised this, creating a favourable regulatory environment, and introducing policies aimed at boosting financial inclusion.

Population (2020)
109M

Unbanked population
66%

Median age (years)
24.5

Start-ups
2,400+

Smartphone coverage
60.7%

Unicorns
2

On trend.

Fintech growth in the Philippines has been startling. Financial analysts at the Robocash Group predict the country's fintech market will have grown to around USD 44 billion by 2024 as the industry matures and attracts more investment.

Already the number of fintech companies in the Philippines has grown from 126 to 222 since 2016, with around 15 to 20 new start-ups appearing each year. Although this is accompanied by 10 to 15 closing their doors, this simply represents the pace of the market and the scale of the competition. It points to a healthy environment.

There has been particular growth in mobile wallets and wire transfer firms, but the market's largest segment is expected to be digital payments, with a total transaction value of USD 28.54 billion in 2022. This will amount to as many as 60.53 million users by 2027.

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Enthusiastic adopters.

The number of active clients of Filipino fintech firms has grown from 1.7 million in 2016 to 54.1 million people in 2021, with an increase in the volume of transactions by more than USD 50 million in that period. This represented market penetration of fintech services of 48.7% in 2021, meaning almost half of Filipinos are today using some kind of fintech service.

This rapid adoption has driven a, sea change in the way finance is conducted. By 2023, the Bangkok Sentral ng Pilipinas (BSP) –the country's Central Bank – forecasts around 50% of total retail transaction volume will be digital, and 70% of Filipino adults will be financially included. Digital banking is being rapidly adopted by Filipino consumers. Around 50% of those surveyed by Robocash are using the services of a mobile bank, with only 5% of the population with no desire to adopt a fintech solution in the future. These numbers speak to the enormous growth in financial and technical literacy among Filipinos, driven by governmental and social efforts to increase financial inclusion among traditionally under banked communities.

There is growth, too, in demand for online loans. Robocash's survey revealed 75% are now interested in digital loan products, with 49% seeking mobile wallets. The demand for alternative financial services, particularly those operating digitally without physical branches, is high.

Indeed, Filipino consumers have been eager to adopt all sorts of new trends – crypto currencies and digital assets have also experienced something of a boom, but these are only lightly regulated and pose risks for consumers.

It is nonetheless, something of a vindication of government and private efforts to modernise and digitalise the Filipino financial service sector.

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I, Regulator.

Filipino fintechs benefit from lighter regulations that have allowed them to grow and innovate comfortably. But this relatively loose regulatory environment also means consumers are at risk of encountering unregulated, unlicensed lending firms. Indeed, the Philippine Securities and Exchange Commission has issued advisories against five separate online digital lending firms in 2022 so far.

The commission noted that these unregulated digital lenders have been known to access debtors' phone books, post their personal information online, use offensive language and even threaten debtors to secure loan repayments. Although there are already penalties for this kind of behaviour, unscrupulous lenders are still rife in the Philippines and require more effort from regulators before they can be eliminated entirely.

With this in mind, it is no surprise that the Bangkok Sentral ng Pilipinas is seeking more powers to regulate the financial services industry. It is particularly looking to control the digital assets industry, which has seen an up tick in consumer interest over the last few years but is still dangerously under-regulated.

Currently the BSP only has the power to issue circulars and advisories, but no rules currently exist to regulate non-fungible tokens and decentralised finance. In 2022 it has encouraged Filipino law makers to pass laws giving it more powers to regulate digital assets.

As regulation becomes clearer and fintechs develop, the Filipino market may find itself in competition with the rest of South East Asia. Certainly, the industry has already made efforts to position itself as a major regional player – in October 2022 the country hosted the Digital Pilipinas Festival – the first of its kind – to strengthen its presence in the technology space and encourage greater digital adoption among neighbouring countries.

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The case study.

Post-disaster recovery for CAPS-R in the Philippines.

CAPS-R is a church-based micro-finance institution providing financial support to communities on the island of Cebu, Philippines. We spoke to Chief Operating Officer, Aster Gaboy about how Oradian's cloud-based core banking platform has helped CAPS-R lead the local recovery after the devastating Typhoon Odette in December 2021.

CAPS-R and the communities it serves experienced a major blackout after the typhoon hit, depriving affected areas of an internet connection for weeks or even months. CAPS-R coordinated its operations with those branches with internet capability to print collection sheets for those without internet, to ensure the collections could go ahead. Oradian's real-time data was crucial in validating the analogue emergency data; the dashboard data allowed it to monitor its members' situations, such as who was not able to pay, or who had savings that they could withdraw to settle their accounts. To find out more, visit the Oradian website.

Vietnam.

Profile.

When it comes to financial inclusion, Vietnam isn't leading the pack. More than two-thirds of the population lack reliable access to financial services, and many remote communities in the country's densely forested, mountainous terrain find it difficult to secure access to credit. Although things are moving fast, the fintech landscape is relatively undeveloped in Vietnam compared to the other major ASEAN economies such as Singapore, Indonesia, Malaysia, Thailand, and the Philippines. Among those economies, Vietnam has the wfewest fintechs, with fewer emerging year-on-year compared to its neighbours.

Population	Unbanked population	Median age (years)
104M	**69%**	**32**

Start-ups	Smartphone coverage	Unicorns
3,800+	**67.8%**	**4**

Change is in the air.

But things are looking up, and in many ways it's hard to keep up with the pace of change in the Vietnamese fintech sector. From just 39 firms in 2015, Vietnam's fintech scene has expanded to almost 200. It's a sector dominated by digital payments and peer-to-peer lending, but block chain and crypto currency has also found a market in the country.

Most Vietnamese banks are implementing digital transformation strategies in the face of serious competition from agile start-ups, innovative neobanks and fintech lenders. Digitalisation is attracting interest because it is a proven strategy for reducing operational costs and making previously manual processes significantly more efficient.

Low barriers to entry and relatively favourable market conditions mean tech companies from across South East Asia are flocking to the perceived rich pickings of Vietnam. For instance, some ride-hailing companies have entered the finance space by offering e-wallets as part of their services.

But Vietnamese fintechs are also benefiting, taking advantage of those low barriers to entry and easy access to capital. Indeed, the number of new firms in Vietnam's fintech industry grew by 170% between 2017 and 2020. But, with the COVID-19 pandemic encouraging rapid adoption of digital financial products, and generating greater demand for remotely operated services, 2021 saw even more investment pour into new digital-native organisations in Vietnam.

According to forecasts, digital payments are set to be the leading fintech category, with a total transaction value of USD 20.54 billion in 2022.

Bright young industry.

One of the major barriers to entry for fintechs is that Vietnam is still yet to establish clearly defined digital banking regulations. This lack of clarity means start-ups looking to launch innovative products through a digital bank must often partner with an existing financial institution, making the process slow and cumbersome, although providing a more secure basis for growth.

However, the Vietnamese government and regulatory authorities are keen to harness the potential of these exciting and disruptive new fintechs. The State Bank of Vietnam has been developing its first regulatory sandbox for fintech, while the Ministry of Finance has been working to better manage the notoriously hard-to-regulate cryptocurrency and digital asset landscape.

But unlike the Philippines, financial literacy in Vietnam is still relatively low, and demand for digital services is not as high as in some of its neighbours. Indeed, as of 2020, 90% of Vietnamese consumers still chose to pay for online purchases with cash on delivery, according to the State Bank of Vietnam.

Furthermore, Vietnamese consumers still are not demanding sophisticated financial products, instead being content with little more than an online savings account. This has made it difficult for fintechs to market some of the innovative products they seek to offer.

In addition, there is still hesitancy around issues such as cyber security, which has led authorities to aim robust data privacy laws at financial institutions to encourage consumer confidence.

Nevertheless, Vietnam has clearly recognised the opportunities of digital banking. It seems unlikely that a proper regulatory framework won't be developed soon, as both the government and business communities work to make the market more open and flexible for what could be a significant driver for economic growth and financial inclusion.

Indonesia.

Profile.

Indonesia is the seventeenth-largest economy (nominal, IMF) in the world, and is projected by PwC to be the fourth biggest by 2050. With an enormous population of 275 million, 84% of which is under the age of 54, Indonesia is primed to embrace digitalisation, online banking, and digital lending. There are obvious opportunities for innovative, agile lenders and payments providers. For a start, Indonesia has a large unbanked population – around 92 million according to a 2019 report by Google, Temasek, and Bain & Company – but possibly as many as 200 million smartphone users. This means that, among the 58 million small and medium enterprises in Indonesia – contributing about 60% of national GDP – only 12% have access to credit simply because such a large portion of the population lack credit history, statements, or collateral. But high smartphone penetration opens a clear route for financial inclusion, one that the Indonesian government clearly understands.

Population (2022)
275M

Unbanked population
51%

Median age (years)
29.4

Start-ups
64.8%

Smartphone coverage
64.8%

Unicorns
9

The waking giant.

Indonesia's economic potential is borne out in the sheer number of startups in the country, both fintech and otherwise. It boasts even more than the advanced economies in Malaysia and Singapore, with an October 2021 report by Fintech News Singapore counting as many as 322 fintech startups, in addition to 125 registered but unlicensed lenders, across the country. According to the report, online lenders account for around half of all fintech startups, closely followed by payments providers, blockchain and crypto-currency services. The likes of Jurnal, Cashlez, TunaiKita, Payfazz, and KoinWorks are regarded as among the most promising fintechs.

Over the last few years, the Financial Services Authority (OJK) of Indonesia has been holding fintech festivals to increase consumer awareness and promote the burgeoning fintech sector. As a vehicle for encouraging investment, these festivals evidently produce results. For instance, at a 2017 conference, Mandiri Capital Indonesia (MCI) invested around IDR 300 billion (USD 22.4 million) in seven fintech startups.

The rules are closing in.

Indonesia is working hard – albeit relatively slowly – to lift some of the barriers to entry. For instance, one of the major roadblocks for digital banks and lenders looking to adopt internationally-based technology platforms was the legislation, passed in 2012, demanding that customer data websites and applications be stored only in data centres physically based in Indonesia – the so-called "digital sovereignty" rule.

However, in 2019, Indonesia relaxed these rules to allow private companies to keep and process data abroad, opening more opportunities for foreign investors and improving the ease of doing business in the country.

A challenge for consumers and businesses, however, may be the relative lack of data privacy laws in Indonesia. But as cloud computing takes off – a 2021 PwC survey suggested over 80% of businesses in Indonesia use the cloud in some form – the regulators may have to step in and improve protections for consumers.

Regulation, regulation, regulation.

Like much of the planet, the COVID-19 pandemic drove the adoption of digital platforms in Indonesia, including digital payments.However, according to Fitch Ratings, the pandemic also highlighted "the presence of elevated credit risk across the sector as fintech lenders target under-banked segments of the population". It noted in particular the sharp rise in delinquent loans in 2020. As a consequence, the OJK hasmade efforts to better regulate the fintech sector.

Peer-to-peer lending, which is fairly common in Indonesia, has historically been under-regulated, but in January 2022 the financial authorities completed the mammoth task of licensing all P2P lending platforms to ensure all of them are covered by the OJK's rules.

This is at the very least a statement of intent, designed to increase confidence in a lending market that has traditionally lacked a proper licensing regime.

Malaysia and Singapore.

Profile.

Malaysia and Singapore are, without doubt, the most advanced economies in South East Asia. Unlike their neighbours, these countries do not have large underbanked populations, so their trajectory when it comes to financial technology is somewhat different. However, they are instructive case studies for those seeking a view of the future of the sector in South East Asia.

Malaysia.

Population (2022)	Unbanked population	Median age (years)
33M	8%	30.3

Start-ups	Smartphone coverage	Unicorns
3,000+	87.61%	10

Singapore

Population (2022)	Unbanked population	Median age (years)
5M	2%	42.2

Start-ups	Smartphone coverage	Unicorns
3,800+	88.4%	12

Environment to thrive.

Boasting almost 4,000 tech-enabled fintech startups (and at least 12 unicorns), Singapore owes much of this success to an open market and a proactive regulator. Indeed, in 2019 the Monetary Authority of Singapore was named Central Bank of the Year by Central Banking, with its fintech initiatives receiving particular praise.

The country's digital payments segment alone is expected to post a total transaction value of US 17.17 billion in 2022.

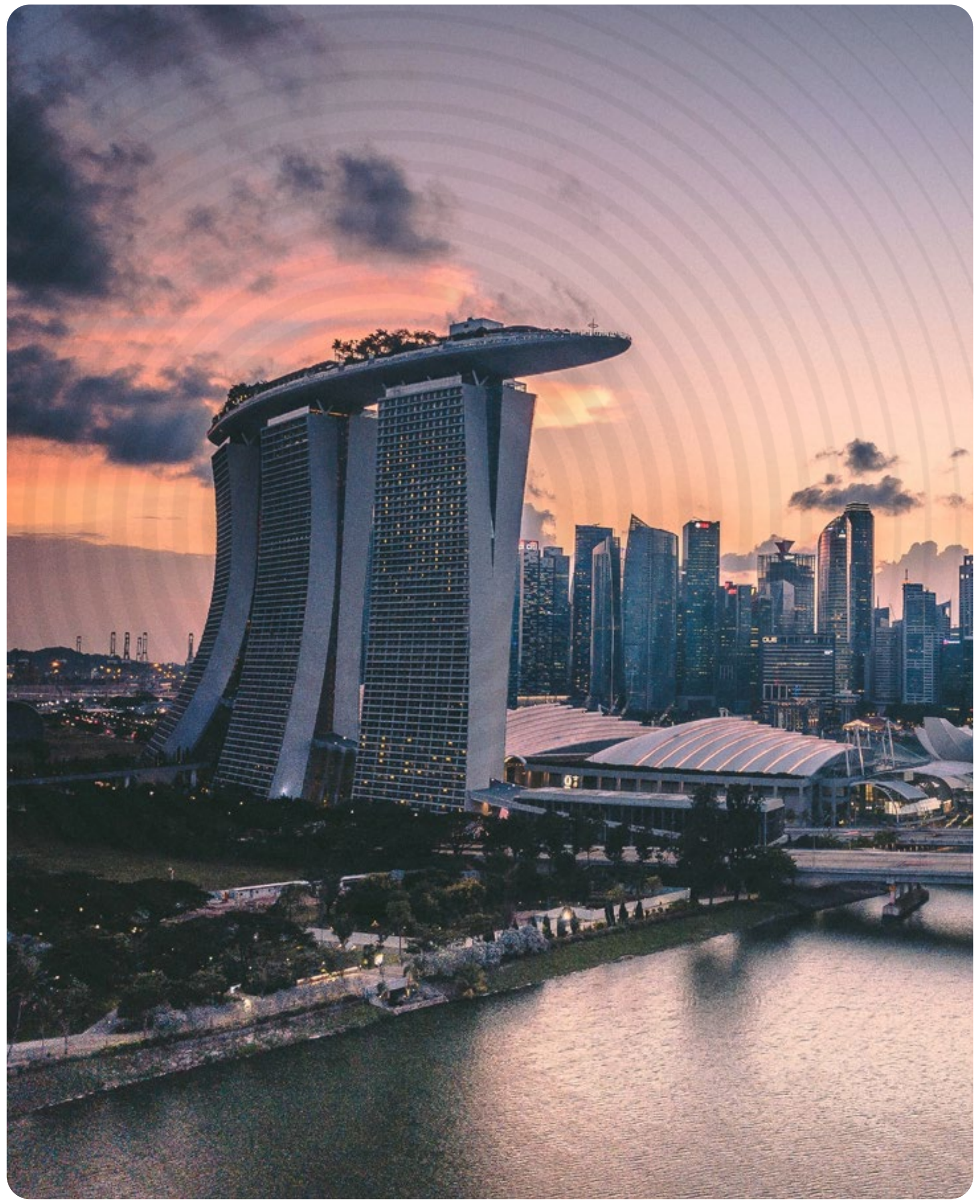
During the COVID-19 pandemic, the Singaporean government allocated USD 250 million to assist companies in their digital transformation efforts, with an additional USD 88 million specifically going to fintech startups and financial institutions. The Singaporean economy is engineered for startups to thrive. It's extremely favourable investment environment helps it compete with neighbouring economies and makes it attractive to international investors and businesses from across the globe.

Malaysia also saw rapid growth in its digital financial services industry during the COVID-19 pandemic, as consumers demanded more mobile banking and cashless payments options. Consequently, mobile banking transactions grew from USD 42 billion in 2019 to USD 97 billion in 2020.

The trick to fintech success in Malaysia, as in Singapore, seems to be a favourable regulatory landscape and enthusiastic support from the government. The Central Bank of Malaysia and the Securities Commission Malaysia have taken a flexible, business-friendly approach to regulation – although they ensure adequate safeguards are in place.Meanwhile, the national government has utilised trade fairs, events, and a public investment fund to bolster the industry.

For Malaysia and Singapore's neighbours, the secret to success is to strike the correct balance between regulation, smart investment, and economic freedom. Allowing neobanks and lenders the breathing room to reach consumers without being burdened by over-regulation is vital, and so too is promoting investment and partnerships with international technology providers and financial institutions.

Singapore and Malaysia's fintech sector has already reaped the benefits of an open market. In the next few years, it is hoped that the Philippines, Vietnam, and Indonesia will do the same.



What does the future hold?

COVID-19 has accelerated the adoption of digital financial services in South East Asia, driven not just by necessity, but also by a greater awareness and a desire for connectivity. This demand is driven in no small part by relatively young populations.

It is perhaps no surprise that internet usage – particularly mobile internet – has grown enormously over the last few years. In fact, South East Asia today boasts one of the world's most engaged mobile audiences. A Bain & Company report revealed people from the region spend nearly twice as much time using mobile internet than their US counterparts. It is the responsibility of firms like Oradian to harness that potential. As younger, digitally-minded consumers demand more and more online financial services, native solution providers will seek to link up with the providers of best-in-class core banking and loan management systems.

Oradian has been working with firms in South East Asia, providing them with the cloud-native core banking system they need to reach consumers in remote and rural areas – the so-called 'last mile' consumers. In areas with unreliable internet connectivity and poor physical infrastructure – where people nevertheless rely on the mobile internet to provide them with vital connectivity – the cloud is a gamechanger. But it is the job of governments and regulators, as the fintech markets they serve become more sophisticated, to build the legislative environment that allows firms to thrive. By building infrastructure, increasing financial literacy, and introducing regulations that allow national and international neobanks and technology providers to do business, they can set about the important work of providing people with access to credit, payments, and banking.

About Oradian.

Oradian provides a flexible cloud-based core banking system that services over 10m people globally. Flexible and extendable, Oradian supports institutional customers across 13 countries to scale their business, to think bigger and go further. If you would like to know more about our services or want to compare Oradian's core banking system with your current provider, our expert team is on hand for a no-obligation consultation.

Contact us at **hello@oradian.com** or via the website: **www.oradian.com**