Issue No. 102

ASIAN BANKING & FINANCE

DISPLAY TO 30 JUNE 2021

BREAKING GROUND

HOW JAPAN'S LEADING INTERNET-ONLY BANK PLANS TO BREAK THROUGH IN TAIWAN

Asian Banking & Finance

LONG JOURNEY AHEAD FOR PHILIPPINES' NEOBANKING AMBITIONS

NEW REGULATIONS IMPERIL CHINA'S ONLINE MICROLENDERS

INDONESIA UNVEILS MORE FOREIGN-FRIENDLY RULES FOR PAYMENTS SYSTEM

STRONG IPO TURNOUT BUOYS THAILAND'S INVESTMENT BANKS THROUGH 2020

Charlton Media Group

microfinance

Ubank

Powered by upaisa

We are proud to stand at the forefront of fighting poverty through economic enablement of the unbanked population of Pakistan.

Nationwide 200+ Branches

U Microfinance Bank Ltd. (U Bank) is a wholly owned subsidiary of Pakistan Telecommunication Company Limited (PTCL) – Etisalat Company. The bank has a network of more than 200 branches, across 183 cities and rural areas in Pakistan and offers a wide range of microfinance loans, deposit products and branchless banking solutions.

Download **U Bank Digital & Upaisa App**

GET IT ON Google Play | Download on the App Store

+92-51-111-282-265 www.ubank.com.pk /UMicrofinanceBankLimited

ASIAN BANKING & FINANCE

PUBLISHER & EDITOR-IN-CHIEF Tim Charlton

MANAGING EDITOR Paul Howell
PRODUCTION EDITOR Janine Ballesteros
PRODUCTION TEAM Frances Jade Gagua
Alyssa Divina

GRAPHIC ARTIST Simon Engracial II

ADVERTISING CONTACTS Karisse Coderes
karisse@charltonmediamail.com

ADMINISTRATION Accounts Department
accounts@charltonmediamail.com

ADVERTISING advertising@charltonmedia.com

EDITORIAL abf@charltonmedia.com

SINGAPORE
Charlton Media Group
101 Cecil St.
#17-09 Tong Eng Building
Singapore 069533
+65 3158 1386

HONG KONG
Charlton Media Group Hong Kong Ltd.
19/F, Yat Chau Building,
262 Des Voeux Road Central
Hong Kong. +852 3972 7166
www.charltonmedia.com

PRINTING
Times Printers Private Limited
16 Tuas Ave 5 Singapore 639340

Can we help?

Editorial Enquiries If you have a story idea or just a press release please Email: abf@charltonmedia.com and our news editor will read it.

Media Partnerships please Email: abf@charltonmedia.com and put "partnership" on the subject line and it will forward to the right person.

Subscriptions Email: subscriptions@charltonmedia.com

*If you're reading the small print you may be missing the big picture

MICA (P) 249/07/2011 No. 67

FROM THE EDITOR

This issue we chatted with the CEO of Taiwan's very first digital-only bank, Kazuhiko Saiki, to learn more about Rakuten Commercial International Bank. In particular, we got to know how Mr. Saiki and Rakuten plan to leverage their two decades-long experience and success as a digital bank in Japan in order to break through Taiwan's banking market. Turn to page 12 to know more.

We also checked in on the status of the Philippines' digital banking ambitions. Bottomline: It's gonna be a long journey. Read more about what's in store for them on page 6.

Regulatory changes are also abound in financial sectors across Asia; notably, China's fintech industry is facing a massive shake-up, and Indonesia's enacting a new payments system starting July. Head over page 22 and 24 to read about these.

Enjoy the issue!

Tim Charlton

Asian Banking & Finance is a proud media partner and host of the following events and expos:

ASIAN BANKING & FINANCE RETAIL BANKING AWARDS 2021

ASIAN BANKING & FINANCE CORPORATE & INVESTMENT BANKING AWARDS 2021

ASIAN BANKING & FINANCE WHOLESALE BANKING AWARDS '21

CONTENTS

12 INTERVIEW
JAPAN'S TOP INTERNET-ONLY BANK SEEKS TO SCALE TAIWAN'S BANK INDUSTRY

14 ANALYSIS
MCKINSEY & CO: JOINING THE NEXT GENERATION OF DIGITAL BANKS IN THE ASIAN MARKET

24 COUNTRY REPORT
INDONESIA UPTURNS PAYMENTS SYSTEMS WITH NEW FOREIGNER-FRIENDLY REGULATIONS

FIRST

INTERVIEW

ANALYSIS

FINTECH WATCH

SECTOR REPORT

OPINION

Published quarterly on the second week of the month by
Charlton Media Group Pte Ltd
101 Cecil St. #17-09 Tong Eng Building
Singapore 069533

For the latest banking news from Asia visit the website

www.asianbankingandfinance.net

Harnessing the power of observational learning in data quality processing and management

SmartStream's artificial intelligence uses this innovative technique to ensure data quality in business

Andreas Burner, chief innovation officer, SmartStream

Banks and financial institutions in Asia rely heavily on data quality to streamline key areas of their operations. However, the complexity of today's marketplace has resulted in huge volumes of data generated in various inputs and formats, which makes it challenging to validate and verify for accuracy and comprehensiveness. Moreover, delivering data as well as comparing huge data sets across contrasting internal databases are often delivered unstructured and, in many cases, with varying formats.

Managing these data issues as well as verifying data sets to ensure quality and accuracy poses a challenge to many financial companies. Consequently, many institutions continue to rely on spreadsheets to deal with data verification processes, which often come with many risks. It's not uncommon to find human mistakes, incomplete processes, key-man dependencies, and audit trail problems when dealing with manual validation techniques.

Bombarded by disparate data coming from all directions, the resulting data quality issues can impinge on straight-through processing (STP) workflow efficiency. The results are financial losses due to added costs and penalties, and in some cases, reputational damage.

Observational learning solution

Financial institutions are exploring more innovative ways to solve this challenge through the use of observational learning. SmartStream launched 'Affinity' in collaboration with global Tier 1 banks – an artificial intelligence observational learning solution to meet the technical demands and business agility for operational data management and data quality processes.

"It's an umbrella technology for us," said Andreas Burner, chief innovation officer for SmartStream. "The interesting thing about observational learning is that it's very hard to master, but it's the key for future banks because we have so many workloads and so much data that what you want to do is to understand better how users work with that data and optimise that work."

Observational learning borrows techniques that children use to do when learning something by mimicking actions of adults instead of being told what to do.

"It started maybe two years ago in the banking industry. Everybody was complaining that it was very complex, and with so many rules. We all know from psychology that it's much easier to show something than to explain it," Burner said.

"For us, humans, it's much easier—that's why everyone uses YouTube to learn how to cook. It's more difficult to read about cooking than to watch it."

"That's what we're trying to use in machine learning—it's called supervised learning. What we did was take that to the next level and apply that to banks and financial institutions," Burner explained.

Despite its congruence to financial industries, observational learning can also be applied to various industries where data quality is important to complete a function. This benefits those who are shifting from manual Excel-based processes, especially those that utilise macros to compare data for regulatory reports or check the latest data against past reports to see potential changes.

"I believe that technology can be used anywhere. Whenever you have very standardised workflows based on data, it will find out how a user does its workflow and provide suggestions so that the way SmartStream has implemented that component is very generic and can be used across our solutions suite," Burner said.

Observational learning is available in SmartStream Air Version 2, which changes traditional operating models as it behaves like a consumer app. The solution is the latest AI technology to transform data quality and reconciliation processes that would be measured in weeks and months, to just seconds. It's cloud-based, it doesn't need training, configuration or even IT projects to work. It will be embedded into SmartStream's flagship reconciliation solutions as part of its Affinity AI offering.

This AI solution approach by SmartStream has earned substantial cost savings in as much as $2M per year—all by increasing match rates and helping business users handle the huge number of data it gets.

Observational learning in action

Affinity AI uses observational learning to assess users' actions and then creates its understanding of how records are related to each other. It lessens the time it takes for the user to match complex data sets and once the neuronal network is trained, Affinity acts as a virtual user to support businesses dealing with large amounts of data. The more it observes, the more efficient it becomes in delivering the end-user with high-quality results and more accurate matching rates.

"The machine learning process becomes more and more confident when it observes someone more often. The more it sees things the more confident it gets, and with that confidence, we can do a lot in the workflow," Burner said.

"For example, if the process is more than 99% confident, then we can automate that. And we can say that if the process is 70% confident, then we can just suggest it but not automate it. All the while, the user is getting more efficient because it gets a suggestion and doesn't have to do an entire workflow on its own," he added.

Over time, the system's success rate in providing useful recommendations increases as Affinity observes more instances of mismatches and analysts' responses data sets. For instance, in the event of a mismatch in transaction data within the reconciliation process, business analysts will search information from different systems and sources in an attempt to fix the problem.

SmartStream Affinity's algorithms observe the steps the analysts will take to resolve these exceptions and will pay particular attention to how they address these data quality issues. This process effectively "trains" Affinity, so that it can suggest useful information to users based on prior successful interventions by analysts.

"It reduces manual tasks and provides suggestions. It's a bit like when you're on Amazon and you want to buy trousers, then the system tells you some shoes could also work with that, or there's a belt with the same colour. It's a bit like that—a recommendation. And it makes it efficient for users because the shoes are already next to the trousers, so it's just one click away and doesn't have to search through the entire database. It's really making these applications very efficient," Burner said.

Observational learning in the future

The potential to meet the technical demands and business agility for operational data management and data quality processes may be exceptional for Affinity's observational learning solution, but Burner believes that we are just scratching the surface of what AI can do.

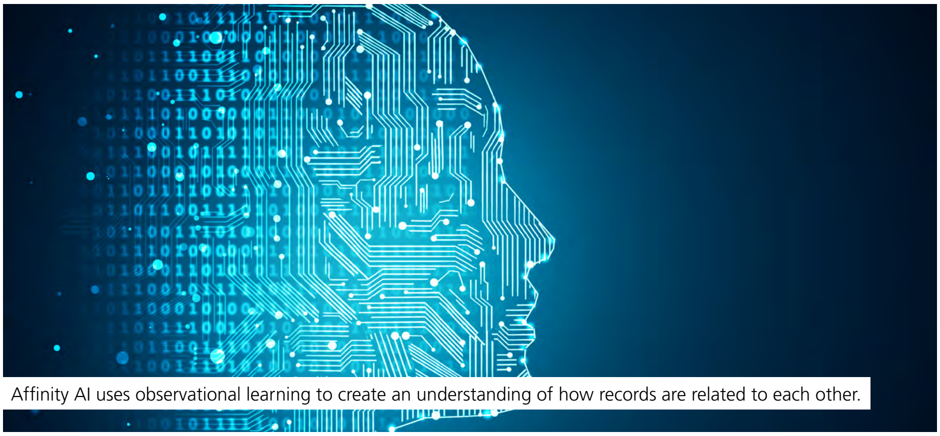
"We still see when we talk to our customers that they are just starting to adapt to that so we are at the very beginning of that. The banks have a lot of ideas at the moment, we have been in the business for more than 40 years, and they are approaching us with these ideas and we are starting to release one machine learning after the next. We have eight or nine components and it's getting better. But for sure, in the progression in the next few years, those technologies are getting better. Like Tesla, the self-driving car. At the moment it works on highways, then later it works on cities, and then it will work everywhere and it's the same for us. It's a journey," he added.

Still, there will always be humans to ride along the AI journey.

"A human can do a lot, and an AI can do a lot. When you combine human intuition with machine learning, then it's unbeatable. I think that the bank of the future will be very much like that. Similar to observational learning where we give the user much more power, much more data, intelligence, and more insight, then a user can then do the clever things and confirm what the AI suggested. Users will also only see what they need to see and will be assisted by AI. Its learning algorithm will tell you to stop and warn you when what you're doing seems to be incorrect," Burner said.

SmartStream focuses on researching ways in which advanced technologies, such as AI and machine learning, can be deployed in its solutions. The company, which is one of the earliest to utilise that technology in its solutions, still thinks AI still has a lot of untapped potential waiting to be discovered.

"We had a lot of moments where technology surprised us because it's so brand new and we, as humans, are just starting to understand these possibilities. It's really amazing," Burner said.



Affinity AI uses observational learning to create an understanding of how records are related to each other.

"SmartStream launched 'Affinity' to meet the technical demands and business agility for operational data management and data quality processes"

Why it is still a long journey ahead for the Philippines' digital banking advocates

The framework might have been laid out, but more still needs to be done.

Digital banks eyeing licences in the Philippines may find themselves awash with an untapped market of young and tech-savvy Filipinos eager to ride on the waves of digital disruption. But the country will need a strong network infrastructure if it wants digital players to succeed, as well as ensure learning opportunities for those in the peripheries of financial inclusion.

In a circular published December 2020, the Bangko Sentral ng Pilipinas (BSP) approved the recognition of digital banks as a new and separate category from existing classifications. They are required to have a minimum capital of $20.6m (PHP1b), maintain a physical office in the Philippines, and are subject to the same stringent requirements as traditional banks in terms of risk compliance and cybersecurity. The number of digital banks that will be allowed to establish their presence may be limited depending on the number of applicants and the overall banking environment.

"Essentially, the BSP is looking to attract players with strong value proposition, sufficient financial strength, technical expertise of management and effective risk management," central bank governor Benjamin Diokno emphasised.

The central bank highlighted the importance of financial inclusion in expanding the Philippine banking system to digital lenders. Whilst BSP noted in a separate report that the number of Filipinos with bank accounts have risen to 29% in 2019 and that the pandemic has pushed more people to go digital, a "perceived lack of utility" was cited as amongst the top reasons why Filipinos choose not to have a working bank account.

"We see these banks as additional partners in further promoting market efficiencies and expanding access of Filipinos to a broad range of financial services, bringing us closer to the realization of our target that at least 50%t of total retail payment transactions have shifted to digital, and 70% of adult Filipinos have transaction accounts by year 2023," Diokno said.

We see these banks as additional partners in further promoting market efficiencies and expanding access of Filipinos to a broad range of financial services

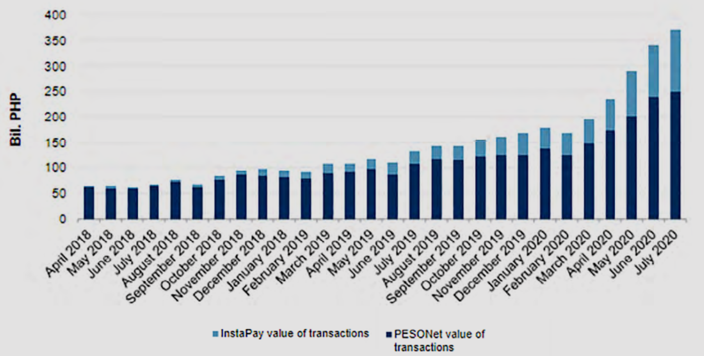
Moreover, a separate banking classification will help challenger banks bring innovations that will help customers choose which bank they prefer, thereby driving competition in the other categories, Bank of the Philippine Islands (BPI) chief digital officer Noel Santiago told *Asian Banking & Finance* in an exclusive interview.

"Digital revolution"

The Philippines is "on the cusp of a digital revolution", a S&P Global Ratings report proclaimed, as a youthful market, low costs, and

The pandemic has pushed more Filipinos to go digital, says BSP.

COVID sends Philippine e-transactions soaring



Source: Standard & Poor's Financial Services LLC, 2020

regulatory latitude may help early digital bank entrants. Like in other countries, early targets would be retail clients and MSMEs, segments that have been "largely ignored" by big banks due to the risks of catering to low-income clients and the expenses of branching out to the rural areas, analysts Nikita Anand, Ivan Tan and Geeta Chung said.

And just like in other countries, the pandemic ushered in a rapid ascent of digital adoption in the country. S&P noted that electronic funds transfer services PESONet posted a 100% surge in transaction value and 125% growth in volume, whilst InstaPay saw its transaction value skyrocket 200% and its volume jump by more than 275%.

Rachelleen Rodriguez, an analyst with Maybank Kim Eng, said in an email interview that the digital adoption in the country will be "sticky": people that have become used to digital transactions are unlikely to go back to doing things over-the-counter.

It helps that digital entrants have lower operational costs than their brick-and-mortar counterparts, S&P added. CIMB and ING, which established retail banking platforms in the country in 2018 and 2019 respectively, are offering higher interest rates than their traditional peers without the added burden of minimum balance requirements.

Despite these developments, there is still a lot of work needed in order for the Philippines to finally catch up with its regional peers. It doesn't help that top domestic banks have already captured much of the public's loyalty and have a tight grip over urban areas, making it hard for new players to compete with them.

"Digital banks will only meaningfully compete for the mass-affluent market if they provide significantly improved, and cheaper, products and services. Otherwise, while they may make inroads into specialized financing, their market share will remain small. Entrants also need to earn consumers' trust, which traditional banks have locked in," S&P's Anand, Tan and Chung said.

There will always be competition, Santiago maintained, but it is more important for BPI to make its products and services stand out from the competition in the market.

In addition, Maybank's Rodriguez believes that there is a low risk of digital banks stealing the market share of their traditional peers given how much the banking industry in general has been investing in their technological capabilities. And whilst many banks have launched their own digital offerings and have reduced their presence in urban areas, rural customers still find it hard to trust technology and hence, still prefer visiting physical branches, the S&P analysts wrote.

"It's challenging for first-time and non-tech savvy users to learn how to use online banking channels, especially mobile banking apps, which is why some clients still prefer face-to-face transactions," Rodriguez stated, stressing that there has to be a "learning curve" for those who do not yet have enough grasp of the latest technology.

People that have become used to digital transactions are unlikely to go back

"Disadvantaged individuals and communities become even more pressured as issues of connectivity, ability to own digital devices, and tech-literacy arise," Santiago shared.

Moreover, there has to be major improvements in the country's network infrastructure for digital banking to flourish, Rodriguez said. A lack of a fast and reliable internet connectivity hinders digital transformation, she added, citing a May 2020 study by OpenSignal which ranked the Philippines at 83 out of 100 countries in terms of average mobile data speed at 8.5 Mbit/second. Heightened cybersecurity risks may also pose threats to opening the country to digital entrants, but Rodriguez believes that the BSP has robust IT risk frameworks in place.

BPI hopes that the National Broadband Plan, which aims to speed up the deployment of fibre optic cables and boost internet access and affordability in the country, will finally be implemented, Santiago said. "This will go a long way in improving our ability to use technology for our financial inclusion programs which are targeted at the underserved sectors of the Philippines."

On the bright side, regulation does not appear to be overly restrictive. The required minimum capital is lower compared to other ASEAN countries, said Rodriguez, and there is no limit to a foreign bank's stock ownership in digital banks, making it possible for them to enter the market without seeking a local partner.

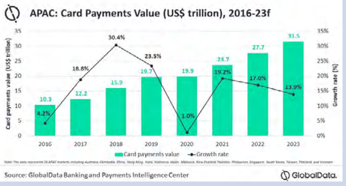
S&P believes that the central bank could allow digital banks more time before bringing its regulations up to par with universal and commercial lenders. The BSP would also likely give them several years to meet minimum capital standards and liquidity requirements.

But analysts warned that a longer gap may debilitate system resilience, and that digital lenders' underwriting and risk management capabilities may be tested in the next three to five years due to their speedy growth.

"There is no revolution without risk," they wrote.

APAC CARD PAYMENTS SET TO GROW 19.2%

PAYMENTS



Card payments in Asia-Pacific region are set to strongly rebound in 2021 and grow by double digits following muted growth in the previous year.

According to estimates by data and analytics firm GlobalData, APAC's overall card payments will grow by 19.2% in 2021, from only a 1% growth in 2020.

In a report on payment cards, GlobalData noted that card payments are expected to grow at a compound annual growth rate of 15.4% between 2021 and 2023 to reach as high as US$31.5t in 2023.

Government initiatives will play a key role in pushing card usage in the region by abolishing merchant fees and increasing limits. For instance, India abolished merchant service fee on state-owned RuPay cards. Several countries have also increased the limit on contactless payments to encourage shift away from cash and towards cards for small value purchases.

But whilst card penetration is on the rise in Asia, point-of-sales penetration remains very low as small businesses are reluctant to install POS due to their associated costs. As an example, India only has POS penetration of 4.1 per 1,000 individuals in 2020, compared to 46.6 in the United Kingdom.

However, payment companies have stepped up their game and are now offering low-cast POS devices to make card acceptance more affordable especially to small and medium enterprises, which comprise a large number of local businesses and organisations in Asian countries.

For instance, in June 2020 Malaysia-based Hong Leong Bank launched the Cashless Lagi Senang campaign, which offered merchants very low-cost Point-of-Sale terminals without monthly rental, setup fees, and security deposit, noted GlobalData.

The usage of payment cards is also now being extended for transit and toll payments, which is further supporting its growth. For example, in January 2021 the Bangkok Expressway and Metro in Thailand installed contactless readers at toll plazas.


The pandemic has helped to push demand for Islamic finance

Recovery spurs Islamic banking demand

ISLAMIC BANKING

Islamic banking in South and Southeast Asia is set to take flight following the pandemic, supported by surging demand from young, growing population as well as governments' efforts.

Whilst the profitability of Islamic banks faltered in 2020, they have sufficient capital and liquidity to meet demand for financing, which will rise as economies recover from the COVID-19 fallout, Moody's analyst Tengfu Li notes in a report.

"Although Islamic banks' profitability in these regions weakened in 2020, their capital buffers remain mostly robust, supported by government measures to soften the impact of the coronavirus outbreak," said Li. "Strong capitalization will in turn enable Islamic banks to meet increased demand for financing as economies recover."

Islamic financing in particular is expected to continue expanding faster than conventional loans across the region. Its long-term expansion will be driven primarily by the prime-age populations—people aged 25-54 years—especially in the large, untapped Islamic markets in the region, such as Malaysia and Bangladesh.

Profitability of Islamic banks faltered in 2020, but they have sufficient capital to meet demand for financing

In Malaysia, for example, the need of retail clients for financing is expected to prop up Islamic banks' asset quality despite the extremely challenging economic conditions.

The seven largest Islamic banks in Malaysia—five of which are subsidiaries of domestic banking groups with conventional operations—reportedly have a heavy concentration on retail financing, which is less vulnerable to an economic downturn than business financing, according to Li.

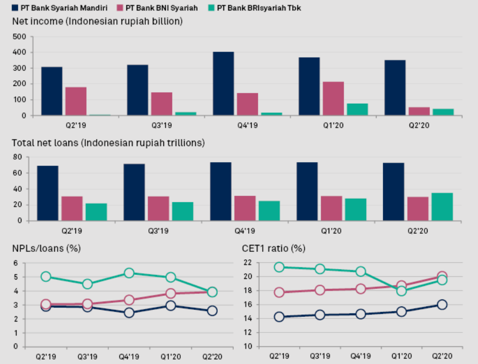
"Declining economic growth and increasing unemployment will raise the risk of delinquencies in retail financing, but the impact on losses will be limited as most of it is secured by residential properties, automotive assets or low-risk unit trusts," Li added.

Also key to the growth of Islamic banking are efforts by governments of major Islamic banking markets in South and Southeast Asia to develop the sector, notes Li, given their role in increasing financial inclusion and inherent alignment with environmental, social and governance principles, which are growing in relevance.

For example, in October 2020, Indonesia pushed ahead with its plan to merge the Islamic units of its state-owned lenders.

Bank Mandiri, Bank Negara Indonesia, and Bank Rakyat Indonesia reportedly signed a conditional deal on 12 October 2020 to combine their Shariah-compliant units. The merged entity's assets formed an entity with $15b under assets by February 2021, and could reach as much as $29b (390 trillion rupiah by 2025).

Financial metrics of three Indonesian Islamic banks



Source: S&P, 2020

OCBC is one of the banks offering Buy Now Pay Later schemes.

'Buy now, pay later' flourishes across Asia Pacific markets

CONSUMER CREDIT

Buy now pay later (BNPL) transactions are now thriving as a credit option for e-commerce purchases in Asia Pacific, further accelerated by the COVID-19 pandemic.

The pandemic's adverse effects on businesses and consumers' disposable income drove the rise in demand for consumer financing, notes Ravi Sharma, GlobalData's banking and payments analyst.

Coupled with growing e-commerce sales, BNPL services have emerged as a major short-term borrowing tool for consumers.

"BNPL provides consumers with the flexibility to pay for their purchases at later dates. In addition, unlike traditional credit cards or consumer loans, there is no fee if payments are able to be made on time," Sharma said.

Several BNPL solutions notedly flourished in 2020. Australia-based BNPL solution provider Afterpay has reported that its global sales more than doubled to $10.1b in the first half of fiscal year that ended on 31 December 2020, or a 112% growth. It also reportedly added nearly 23,000 new customers daily to its platform in the same period.

There are now more than 5.8 million Buy Now Pay Later accounts in Australia

There are now more than 5.8 million BNPL accounts in Australia, thanks to local players like Afterpay and further driven by the recent entry of global players such as the Swedish-born Klarna.

"With consumer spending on the rise, BNPL concept presents a huge potential in the Asia Pacific region and has the potential to challenge the existing credit models," Sharma said.

Other Asia Pacific markets, including China and India, have also registered a similar trend, reports GlobalData. In India, for example, where there is low credit card penetration and limited access to formal credit, BNPL presents huge potential to tap into a significant part of the local population.

Local BNPL player LazyPay now offers services throughout India, including via a total of 250 different merchant websites and apps. At the same time, global online retailer Amazon has also introduced its own deferred payment solution to the Indian market - its Amazon Pay Later product was launched with great anticipation in April last year.

SINGAPOREANS MORE SATISFIED WITH E-WALLETS THAN BANKS IN 2020

Banks recorded lower levels of customer satisfaction, loyalty and price tolerance in 2020, according to a study by the Singapore Management University (SMU) Institute of Service Excellence (ISU).

According to the latest Customer Satisfaction Index of Singapore (CSISG) 2020 national study, the banking sector scored 74 points (in a scale of 0 to 100) in customer satisfaction for 2020, a 1.7% decline from 2019.

The e-payments subsector—a new inclusion in the study—beat out banks by 5 points, totalling 79 points; whilst the credit cards sub-sector remained at 72.7 points in 2020.

Temporary branch closures resulting from the circuit breaker measures contributed to the fall amongst banks and the rise of e-payments, noted Neeta Lachmandas, SMU's Institute of Service Excellence (ISE) Executive Director. "Customers have become more price sensitive given the current economic environment. Coupled with reduced service levels, such as temporary branch closures due to the Covid-19 pandemic, the industry as a whole had a tough time in 2020."

Despite this, SMU noted that adoption of banks' digital channels marginally rose from 72.1% in 2019 to 76.9% in 2020. In particular, customers aged 60 and above using digital banking platforms skyrocketed from 20.3% in 2019 to 65.5% in 2020.

"Banks adapted to the closure of branches by ramping up their digital channels, prompting older customers who tended to not use these channels to adopt them in a big way in the past year," said Chen Yongchan, ISE Head of Research and Consulting. "Interestingly, these customers were observed to be relatively satisfied with the use of internet banking."

photo for SG ewallet/ payment satisfaction story
Caption: GrabPay Singapore (Source: Grab SG)

VOX POP

Boosting bilingual services in Taiwan

FINANCIAL TECHNOLOGY

Martin Chang
Associate Executive Vice President of Business Planning Division
Bank SinoPac

"Since English is the most spoken language worldwide, creating a friendly bilingual financial services environment is not only to improve the competitive edge of Taiwanese enterprises but boost economic development as well as achieving the goal of Taiwan to become an APAC Regional Financial Center. In support of the government policy of Bilingual Nation 2030, Bank SinoPac started to set up bilingual branches in northern, central and southern Taiwan (Chunglun Branch in Taipei, Hsitun Branch in Taichung and NCKU Branch in Tainan) from 2020. To provide friendly financial services for foreign customers, Bank SinoPac offers Chinese-English services both online and offline, including the transaction forms."

Joseph N.C. Huang
Chairman
E.SUN Commercial Bank

"E.SUN bank has a long term view for its two strategic goals: building a financial platform in Asia and providing customer-centric service. With the focuses being set, it is very important for E.SUN to enhance bilingual capabilities. E.SUN targets to have all 139 branches to become bilingual by 2026. Zuoying Branch, the first bilingual branch of E.SUN, has the most foreign currency deposit accounts opened and the highest forex transactions among all branches. Customer experience and satisfaction both improved after introduction of Chinese-English bilingual services. E.SUN quickly duplicated the experience and has 17 bilingual branches now. E.SUN plans to add 13 more branches into the bilingual service in 2021. E.SUN will continuously deploy more bilingual services, such as ATMs."

Chih-Chi Lin
Deputy Director General, Banking Bureau
Financial Supervisory Commission

"In support of the government's Bilingual Nation 2030 policy, the Financial Supervisory Commission (FSC) is encouraging banks to set up pilot bilingual branches, help employees improve their English proficiency, and create service environments that are conducive to the provision of bilingual financial services.

"From December 2019 through December 2020, the FSC has visited and inspected eight pilot bilingual branches, including four branches in northern Taiwan, two branches in central Taiwan, and two branches in southern Taiwan. Since the FSC began promoting pilot bilingual branches in 2019, 18 banks have equipped existing 172 such branches, and consumers with a need for bilingual banking services are encouraged to make use of them. The FSC urges banks to get more pilot bilingual branches ready."

PRODUCT WATCH

How Citibank Hong Kong's new digital platform reinvents mobile banking

Citibank Hong Kong has launched an all-around platform that promises a groundbreaking experience for clients preferring a mobile banking experience.

Launched in February 2021, Citi Plus enables users to access banking services outside of branch operating hours whilst offering deposit, investment, and shopping rewards. The platform also gives customized wealth management information and for just a minimum of HK$100, Citi Plus will give a tailor-made fund portfolio based on customers' financial situations, goals, and risk profiles. Users can also start investing with the platform for as low as HK$1.

"The launch of Citi Plus now is testament to our core principle of client obsession. It is a fully digital experience incorporating novel concepts in wealth management and financial technology, targeting the lifestyle, preferences and needs of the new generation," says **Lawrence Lam**, consumer business manager of Citibank Hong Kong.

The app also has Citi Interest Booster, which offers higher deposit interest rates to clients who complete easy "missions" relating to daily wealth management like savings, deposit, debit/credit card spending, investment or foreign currency exchange.

Clients can choose which mission to fulfill according to their personal needs, and the deposit interest rate will be upgraded upon completion of each mission. The service offers an annual interest rate of up to 1.8% once four missions are completed.

Clients also have access to a 24/7 messaging function to contact a customer service officer.

"Citi Plus demonstrates the digital mindset and capabilities of our team, and we expect through launching this new service, our new clients are expected to be doubled in the next two years," says Lam.

Standard Chartered HK unveils K11 Atelier

The new privileged banking center caters to sophisticated clients with at least HK$8m in assets under management.

Standard Chartered has launched its first dedicated centre at K11 ATELIER Victoria Dockside for its Priority Private clients.

The centre is designed to cater to the sophisticated wealth management and financial needs of the bank's affluent customers--provided that they have HK$8m in assets under management (AUM).

"Whilst Private Banking caters for clients with US$5m AUM or more and Priority Banking targets those with HK$1m, there is a large group of affluent clients that sits between the two segments and they are relatively underserved," says **Lay Choo Ong**, Head of Consumer, Private and Business Banking, Hong Kong.

Ong noted how the bank's affluent clients have revealed more sophisticated wealth management needs than most mass affluent clients and investors.

Priority clients are more experienced investors, and are looking for exclusive access to a wider range of products

"They are more experienced investors, and they are looking for exclusive access to a wider range of products to diversify their investment portfolios and achieve their financial goals. They also value the quality of advisory and the personalised services provided by Investment Advisors and Relationship Managers," Ong said.

Priority Private clients who sign up as Professional Investors can unlock the full benefits of Priority Private and enjoy an expanded product suite that covers wealth lending, debt securities, and a more diversified choice of investment funds apart from insurance savings and protection solutions.

Clients will also have access to a team of the Standard Chartered's most experienced relationship managers.

INTERVIEW

Japan's top internet-only bank seeks to scale Taiwan's bank industry

Rakuten International Commercial Bank has ambitious plans in Taiwan, according to local CEO Kazuhiko Saiki.

Unlike many of the region's new neobanks, Taiwan's first digital-only bank to launch, Rakuten International Commercial Bank has a strong ace up their sleeve: their parent company has been running a successful digital-only bank in Japan for over 20 years.

"Our strong point is that we know what we should do thanks to our 20 years of banking experience, and at the same time we also know what we should not do," Kazuhiko Saiki, CEO of Rakuten International Commercial Bank in Taiwan, told *Asian Banking & Finance* in an interview. "In Japan, Rakuten Bank is one of the biggest internet-only banks. We have more than 10 million customers, and we are already making a lot of profit."

Saiki was there during the beginnings of Rakuten Bank. He left a successful career in business, advertising and marketing that took him all the way to Singapore at the behest of a friend, who wanted to start an internet-only bank at a time when such a thing was still a novelty in Asia.

As a result, it could even be said that he has one the longest internet-only banking careers in the world, Saiki remarked..

But whilst they plan to use their past experience to guide them in this new venture, Saiki noted that they will still ensure that services are localized based on the needs of Taiwan customers.

Another ace up their sleeve is Rakuten's extensive network of companies within the group as well as partners. Customers can expect to enjoy an ecosystem where they can enjoy rewards and other services from their ecommerce platform in the future.

In Japan, Rakuten Bank is one of the biggest internet-only banks, with more than 10 million customers

What are Rakuten's reasons for launching a digital-only bank in the Taiwan market?

The government decided to offer two licenses to new digital or internet-only back. This is the first time in about 28 years that new banks will launch in Taiwan, because the last time that the government decided to offer new banking licenses was 20 or so years ago. So this is a very historical moment, and that is why we had this exciting chance to get into the Taiwan market.

Whilst Rakuten is doing business all over the world, Taiwan offers one of the biggest potentialities to enhance our business. In the year of 2008, Rakuten e-commerce started here in Taiwan, followed by the launch of Rakuten Car in 2014, followed by another business unit, our e-book business, amongst others.

After Japan, Taiwan offers one the biggest opportunities as it already has one of the biggest complete Rakuten ecosystems in operation, compared with other countries.

So we have two reasons for launching the bank: first, the Taiwanese government wanted to offer our new banking licenses. At the same time, we thought Taiwan has one of the biggest Rakuten Broxton ecosystems existing amongst countries all over the world. Using the ecosystem, we believe that it is easier to enhance our business in the market, that is why we focused on the Taiwan market and also why we applied for a [banking] license from the government.

Kazuhiko Saiki, CEO, Rakuten International Commercial Bank Taiwan

What is Rakuten Commercial Bank's edge over other banks in Taiwan?

Rakuten International Commercial Bank is a purely internet-only bank. Here in Taiwan, the banking market is very mature. At the same time, their IT industries are also very mature and developed. Many people think that it should be easy to combine these two things.

But from our 20 years experience in Japan, we know that it is not that easy. If you take a look at all over the world there are only a few profitable internet-only banks. Because if you just combine banking business and IT business, that doesn't automatically make a successful bank.

In Japan, Rakuten Bank is one of the biggest [internet-only banks]. We have more than 10 million customers, and we are making a lot of profit. So what we will do here in Taiwan is similar to what we did in Japan. This means that we should know the nature of an internet-only bank, how to operate it,

Rakuten International Commercial Bank chairman Chien Ming-ren and CEO Saiki at their bank's app event in Taipei.

how to manage it.

What we want to do here is to follow the proper way: focusing on the core business of the bank, which are deposits, loans, and the remittance service or the payment service.

So what we do is combine our deposit function with a payment service and a loan service. That is what we have been doing in Japan, and we have been successful there. That's one point that we want to enhance here in Taiwan.

What does Rakuten International Commercial Bank and other internet-only banks have to offer to Taiwan's banking industry?

Many financial industry people have asked me, "what is the difference between an internet-only bank and the internet banking service of a traditional bank?" As an example, to explain, let's compare the banking industry to the pizza industry. A pizza is originally served in the Italian restaurant. But during the 1960s, there is another industry that became popular, which is delivery-only pizza.

Comparing a pizza from a delivery-only franchise and a delivery pizza by a traditional Italian restaurant, let's not talk about which is delicious or what is inside, because those are different. Rather, let's consider their ordering system.

If you order a pizza to be delivered from the Italian restaurant, it will take hours for you to be able to eat. But for the delivery-only pizza store, it will have a central office or system that will receive every order, which will then divide these orders amongst their branches that are nearest to the customer. For the pizza you ordered from the delivery-only franchise, you'll be able to eat at a more immediate time.

Maybe even the menu itself is different; for the delivery pizza, they offer the half and half or maybe the quarters, or maybe they have an offer with salad or coke or something like that. So, even the product itself is different.

How does the pizza scenario connect to internet-only banks and traditional banks? Similar to the pizza industry, there are many ways to offer financial services and products to banking customers. If you, a customer, want to use internet banking services, you can still enjoy the internet services offered by a traditional bank and at the same time, you can enjoy services offered by internet-only banks.

But while many people think that these two are the same actually, behind-the-scenes, the system or structure of the company is different. For example, the cost structure of the employees and staff are completely different. The management's point of views are also completely different. So that is what we are offering here in the Taiwanese market: a completely different banking point of view and experience.

[The Taiwan government] said that we have to become the stimuli for traditional banks to enhance or to develop their digital or internet banking capabilities

What will be the role played by internet-only banks in transforming the banking industry?

And as Taiwanese government has said, they wanted to give the licenses for the internet-only banks so that we could become the catfish. That is what they are saying: catfish effect. They are saying that we have to become the stimuli for traditional banks to enhance or to develop their digital or internet banking capabilities; and not just banks, but also financial industry as a whole.

For our part, we just have to do what we should do, we just follow what customers want, we just offer them the conveniences of internet banking: remote banking services that are safe, that are very secure, and are overall convenient to the customers.

Tell us more about your products. What are some unique services that you offer?

We are offering an ATM card, which is connected to international branded ATM services, and with which you can use to withdraw or deposit money through every ATM machine here in Taiwan. If you go abroad, you can also withdraw money in the local currency of that country.

Remittance wise, you can send the money using your mobile phone, via the internet, or ATM machines. And also, this is not clearly disclosed yet, but we are starting QR payment services. We recently partnered with a very big remittance rating company here in Taiwan.

Can you give us an estimate of when you believe you will start making a profit?

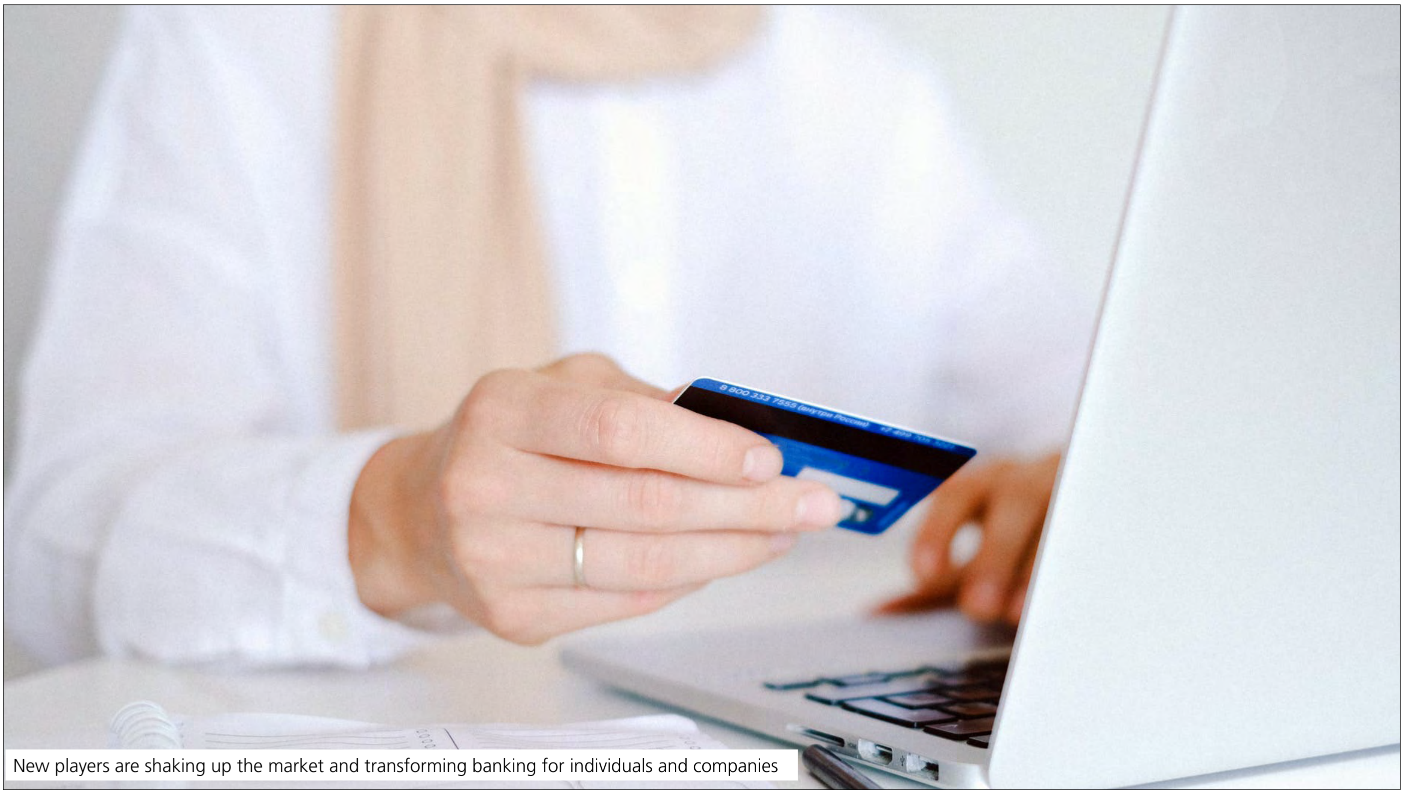
We always say that we will likely start making a profit by the third year.

How has Rakuten Commercial Bank Taiwan been received by the public so far?

During the first day, we had to ensure that the system is stable [for the launch]. As you may know, there is a big banking system instability in Japan for the Mizuho Bank, which has become a very big problem, as system stability is one of the most important things for a business. So we were focused on ensuring a stable system for the launch.

Many customers applied for an account, so our operation side had a lot to handle. We currently cannot disclose the number of accounts. Please wait for it to be made public by the financial regulator in Taiwan at the end of every three months. But I can tell you, however, that the acceptance in the very first stage was very good.

Product-wise, the deposit amount per account at first stage is higher than I expected. Of course, we have to grow more, but we expected that it would take time, but actually the result is very good.



New players are shaking up the market and transforming banking for individuals and companies

McKinsey & Co: Joining the next generation of digital banks in the Asian market

As the region's regulators increase license allocations and set standards for the next wave of digital banks, there are opportunities for both incumbents and new entrants to enter the arena, says McKinsey & Co.

Asia Banking & Finance has secured permission from McKinsey & Company to reprint their most recent report on Digital Banking in Asia. Amid soaring demand for online and mobile alternatives, new digital players are shaking up the market and transforming banking for individuals and companies. As regulators increase license allocations and set standards for a new generation of banking, there is a unique opportunity for both incumbents and new entrants to get involved.

Not every Asian digital bank is a success story, of course, but those that have developed a productive business model and scaled effectively have thrived. Once established, digital banks can generate higher revenues at a lower cost to serve than incumbents, putting them in a position to expand market share. In addition, their digital architecture enables them to access ecosystems of businesses and customers, bringing exponential benefits in terms of knowledge and data.

While digital banks in other geographies are often startups, Asian digital banking is being driven largely by established companies and consortia. Despite structural challenges with regard to governance, consortia bring significant advantages in terms of achieving scale. Just five years after launch, Tencent-backed WeBank serves some 200 million people, and Alibaba-supported MYbank has more than 20 million SME customers. Over a short period, China's digital banks now have a roughly 5 percent share of the country's RMB 5 trillion (~$700 billion) unsecured consumer loan market and more than 7 percent of online SME loans. South Korea's KakaoBank, launched in 2017, attracted more than 10 million customers in its first year and now has a roughly 5 percent share of the country's unsecured consumer loan market.[1]

Asian digital banking is being driven largely by established companies and consortia

Asia's digital licensing process began with Chinese regulators in 2015, and has since expanded around the region, with central banks in South Korea, Taiwan China, and Hong Kong SAR China granting limited numbers of licenses. In 2019, Singapore set up a digital banking license application process and Malaysia issued a draft licensing framework; meanwhile regulators in countries including Thailand and Pakistan have announced or indicated plans to follow suit.

A word on the impact of COVID-19

[1] *All consumer unsecured loans issued by banks, excluding credit card balances.*

on the digital banking landscape. As we've noted in other articles, COVID-19 and related lockdowns have led to an increase in the use of digital banking, even among segments previously less likely to adopt it. On the investment side, investors, particularly venture capital firms, have become more cautious, lending more momentum to consolidation and consortia as funding approaches for digital bank launches.

On the regulatory front, caution related to economic uncertainty has led some regulators to delay licensing timelines; for example, Singapore licensing was delayed roughly five months, while Malaysia's was delayed about six months. On the whole, however, the pandemic has not shifted the path for digital banking in Asia. In 2020, all virtual banks in Hong Kong SAR China managed to launch, along with Rakuten Bank in Taiwan China in early 2021; Singapore's regulator shortlisted four candidates for new digital banking licenses;[2] and Malaysia[3] and the Philippines[4] finalized their digital banking frameworks/guidelines. At the same time, as digital banking matures, regulation tightens. In China, for instance, regulators have introduced additional rules related to risk management (including for systems, data, risk model management, and IT risk management)[5] as well as limitations on online micro-lending business.[6]

In order to reach consumers and small businesses that have struggled to gain access to financial services, many new digital banks are seeking entry into new markets. To succeed, they need to prepare for robust licensing processes, and demonstrate that they are equipped to compete in a high-performance banking environment. Considering business plan, customer proposition, and management of the application, we see 10 essential elements that new digital banks should focus on, including a unique proposition, a strong leadership team, good governance, and a clear path to profitability. The task is significant, but those companies that make the grade, and scale effectively, have an opportunity to play a part in one the world's most dynamic financial markets.

Digital banking licenses present an opportunity

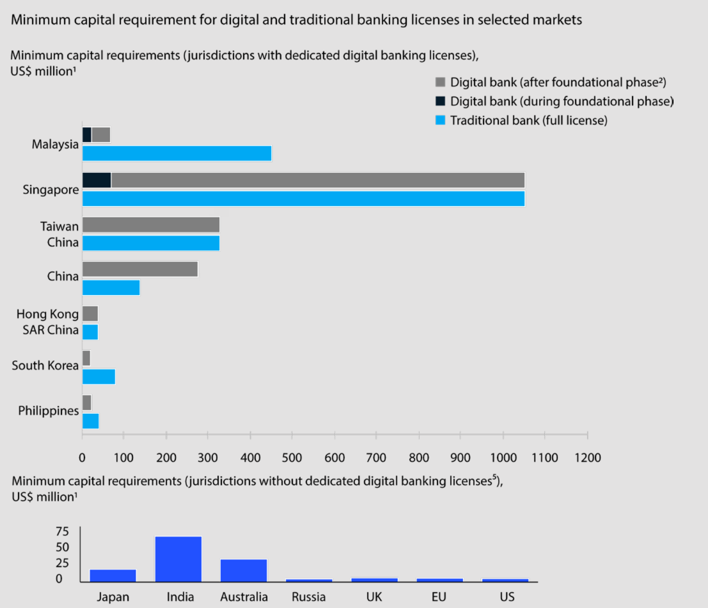
As in many regions, digital banking in Asia is competitive, and many startups have failed to scale sufficiently, or have scaled but not made a profit. In aggregate, however, Asian digital banking has been a success. Japan's Jibun bank, the first Asian digital pure play (launched in 2008), reached profitability less than five years after launch. China's WeBank and XW Bank and South Korea's KakaoBank produced positive returns two years after launch. All five Chinese digital banks were profitable in 2019, with WeBank and XW bank posting ROEs of about 28 percent and 30 percent respectively, compared with a national average for all banks of roughly 11 percent.

Successful digital banks in Asia often operate under a consortia business model that contrasts to the vertical approach seen in Europe and the United States. In China, for example, both WeBank and MYBank are consortia, led by Tencent and Alibaba's Ant Financial, respectively.

Investors have become more cautious, lending more momentum to consolidation and consortia as funding approaches for digital bank launches

Consortia do present challenges and complexity of their own, particularly in ensuring alignment between participants; but they also offer a path to scaling relatively quickly. Notably, consortia were awarded the highest number of licenses in recent licensing processes in Taiwan China and South Korea, and five of the eight digital licenses awarded in Hong Kong SAR China in 2019 went to groups of companies. (In Hong Kong SAR China, for example, Fusion Bank is led by Tencent and ICBC; Standard Chartered-led Mox is backed by HKT, PCCW, and online finance company CTrip Financial.) The majority of publicly known applicants in Singapore's licensing round, which closed in December 2019, were consortia. And in the full banking license category, which requires paid up capital of the equivalent of roughly

Exhibit 1: Digital bank capital requirements are not always lower than those for traditional ones.

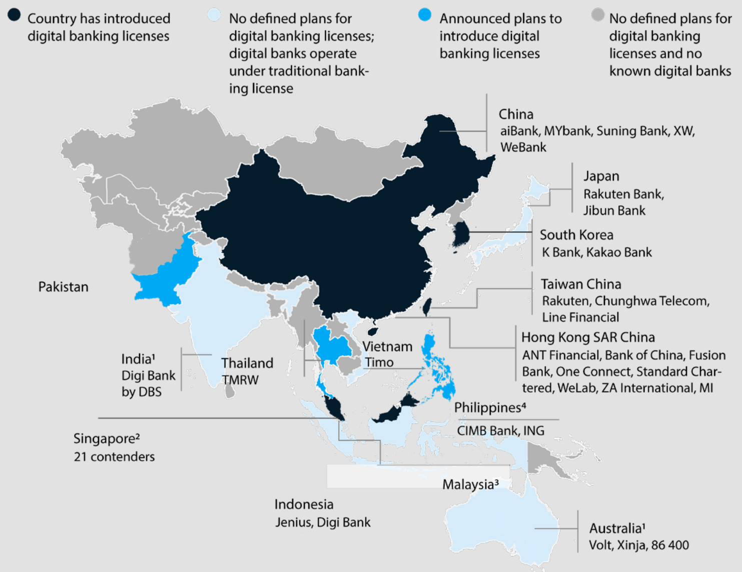


[1]FX rate as of end May 2020.
[2]"Restricted" phase in Singapore; phase with reduced capital and other requirements, but with limitations such as SGD50 million aggregate deposit book cap in Singapore and MYR3 billion total assets cap in Malaysia.
[3]For "digital full banks." (For digital wholesale banks, minimum capital requirement is SDG100 million).
[4]Universal bank with head office only.
[5]Indian Payments banking licenses are not considered digital banking licenses due to significant restrictions to the payments banks (deposit amount cap, cannot issue loans and credit cards); Australian restricted ADI licenses are not considered for the same reason.
Source: Central bank websites

[2]MAS Announces Successful Applicants of Licenses to Operate New Digital Banks in Singapore," mas.gov.sg, December 4, 2020.
[3]Licensing Framework for Digital Banks," www.bnm.gov.my, December 31, 2020.
[4]BSP Introduces Digital Banking Framework," www.bsp.gov.ph, November 25, 2020.
[5]CBIRC Releases the Provisional Rules on Internet Loans of Commercial Banks," www.cbirc.gov.cn, July 17, 2020.
[6]CBIRC and PBC Solicit Public Opinions on the Interim Rules on Online Micro Loan Business (for Consultation)," www.cbirc.gov.cn, November 2, 2020.

Exhibit 2: Digital banking licenses in Asia have unlocked access to banking markets, for non-banking firms.

Mapping the growth of digital banking in Asia[1]



[1]Indian payments banking licenses are not considered digital banking licenses due to significant restrictions (deposit amount cap, cannot issue loans and credit cards); Australian Restricted ADI licenses are not considered for the same reason.
[2]Digital banking licensing framework was introduced in 2019, successful applicants were announced on December 4, 2020; licenses yet to be granted.
[3]Finalized digital banking license framework issued on December 31, 2020; licenses expected to be awarded in 2021-22.
[4]Digital Banking Framework introduced on November 25, 2020; further developments expected.
Source: Central Bank websites, McKinsey & Company

US$1 billion, two of the four nominees eventually awarded licenses were consortia. (It is worth mentioning that capital requirements for digital banks are usually, but not always, in line with those for traditional physical banks[Exhibit 1].

In some markets, the prevalence of the consortia model has been at least partly driven by regulation. In South Korea and China, the stakes of nonfinancial services shareholders are capped at 34 percent and 30 percent, respectively, for digital banks. In some cases, regulators have stated that applicants for digital banks need to work with other entities that have track records in operating a digital business, which has encouraged market participants to seek out partnerships.

A consortia approach enables new banks to more easily assemble the ingredients required for a successful proposition, including: customer loyalty and trust; data and touchpoints; advanced technology capabilities, which support rapid proposition development and evolution; and analytics, to leverage the data. Core banking capabilities such as risk management (credit, financial risk, compliance), and a deep understanding of banking products and regulation, are table stakes in all markets.

Of course, globally, not all successful digital banks are consortia. Russia's Tinkoff bank is a greenfield stand-alone operation that delivers high profitability (2019 return on equity of 56 percent) and growth (loan book grew by 66 percent in 2019). Asian examples of stand-alone digital banks include Rakuten Bank in Japan, Hong Kong SAR China license awardees Ant SME, OneConnect Bank, and WeLab Bank, and Singaporean shortlisted candidates Ant Group and Sea Group.

Recent experience shows that, whether operating as consortia or stand-alone entities, successful and profitable digital banks share the following strengths:

- A truly differentiated customer value proposition. The successful value proposition extends beyond a sleek customer interface to offer seamless digital onboarding (typically just a few clicks); fast loan approval and disbursement (e.g., MyBank's three-minute SME loan approval); 24/7 customer support (one Korean bank and some leading Chinese players manage roughly 80 percent of customer inquiries via chat bot); attractive pricing, enabled by richer data and a lower marginal cost of loan disbursement.
- Early revenue generation. Successful digital banks tend to focus early on revenue-generating products, including loans, remittances, and third-party offerings such as wealth management and insurance. This approach both boosts profitability and fosters the development of sticky customer relationships. KakaoBank, for example, offered loans soon after launch and achieved breakeven in less than two years. Banks that can access high-quality external data to enable effective credit scoring and partnerships with powerful platforms that engender trust and loyalty are also more likely to thrive.
- Quick scalability. Digital banks need to attract a critical mass of customers to be viable. China's aiBank, for example, attracted 30 million customers in two years.
- Cost efficiency. An existing customer base is not just a route to scaling—it also significantly reduces the need to spend significantly on customer acquisition. Indeed, access to large volumes of data enables better targeting and therefore marketing optimization and more accurate risk management. Digital-only models and the use of new technologies such as artificial intelligence and robotic process automation significantly reduce cost-to-serve and fixed costs. WeBank and XW Bank posted cost-to-income ratios of 25 percent and 23 percent respectively in 2019, among the lowest globally.

> **Successful digital banks tend to focus early on revenue generating products to boost profitability and foster the development of sticky customer relationships**

Licensing is expanding in Asia
Before 2015, there were very few

pure-play digital banks in Asia, for reasons that included limitations in infrastructure, regulatory hurdles (including the lack of e-know-your-customer frameworks), insufficient customer interest, and incumbent bank oligopolies.[7,8]

The situation started to change in 2015, when the People's Bank of China granted five internet-only banking licenses [Exhibit 2]. In the following years, several geographies followed suit, including South Korea (two licenses in 2017, one in 2019), Taiwan China (three licenses in 2019), and Hong Kong SAR China (eight licenses in 2019).[9] The Monetary Authority of Singapore received 21 applications for up to five licenses in 2019, eventually short-listing four candidates in December 2020. The same year Bank Negara Malaysia finalized its licensing framework and BSP in the Philippines introduced its Digital Banking Framework. Bank of Thailand is set to launch a licensing program in the near future. Across Greater China, South Korea, and Singapore, some 22 licenses have now been or are about to be granted. China, meanwhile, is working to finalize rules for digital banking, which could open the way for foreign banks to set up separate digital banking platforms.

Digital banking prospects are often tied to the extent of accommodation provided by licensing regimes. Banks operating under more stringent regulations have seen relatively limited growth. The Reserve Bank of India granted provisional "payments bank" licenses to 11 entities in 2015, permitting them to accept restricted deposits and issue debit cards—but not to issue loans or credit cards. Seven of these entities remain active and none are meaningfully challenging incumbent market share. In 2019, Australia granted "restricted licenses" to digital banks, capping total deposits at AU$2 million and individual deposits at AU$250,000. These banks initially grew slowly and only started to achieve momentum when they gained full licenses. Xinja Bank became a fully licensed deposit-taking institution in 2019, and saw AU$200 million in deposit inflows in its first month of operations.

Who can compete? Asia's sector-agnostic blueprint

There are no preconditions in Asia on the applicant business activity or sector best suited to set up a digital bank or apply for license. Chinese tech giant Alibaba, Tencent and OneConnect are all involved, as is Japan's Rakuten (e-commerce, social media), Taiwan's LINE (social media), and Singapore's Grab (a "super-app" encompassing a range of services) and Sea Group (e-commerce, gaming). These companies bring tech know-how and access to customers and data to the table, along with advanced analytics capabilities.

Incumbent banks are often significant participants, seeking to capture new customer segments, compete against potential competitors and disruptors, and create a technology hedge against legacy infrastructure. For example, China's CITIC controls AiBank, with a 70 percent stake; Standard Chartered owns 65 percent of Mox; and BOC has a 44 percent stake in Hong Kong SAR China's Livibank. Non-banking financial services firms are also often involved. A subsidiary of Chinese insurer ZhongAN co-owns newly-launched ZA Bank in Hong Kong SAR China and investment firm Korea Investment & Securities has a stake in South Korea's KakaoBank.

Telecoms, with their extensive data resources and large customer bases, are often part of the equation, typically as minority shareholders. Examples include Taiwan's Chunghwa Mobile, which is the major shareholder in Next

Digital banking prospects are often tied to the extent of accommodation provided by licensing regimes

Bank, and Singtel, which partnered with Grab to apply for a license in Singapore. Electronics manufacturer Xiaomi has a stake in mainland China's digital-only XW Bank and Airstar in Hong Kong SAR China. Automotive components manufacturer Wanxiang Group is one of the largest shareholders in MYBank, and conglomerates New Hope Group and Jardine Matheson Group are shareholders in XW Bank and Mox, respectively. Supermarket chain Chengdu Hongqi is a minority shareholder in XW Bank and PX Mart has a stake in Taiwan's Next Bank.

Next steps: Best-practice license applications

In markets where they have been awarded, license applications are highly competitive. In addition to meeting all regulatory criteria, applicants must demonstrate their right to compete against large, established incumbents, and that they offer a unique and compelling customer value proposition. They must have a business model that will lead to positive financial performance, and a plan to scale so they can reach enough customers to build a sustainable business. In addition, the process itself is challenging, usually requiring thoroughly crafted set of documents, multiple contributors, and several months of preparation.

We have identified 10 success factors to consider during a licensing application, which we group under three broad categories: an experienced team that can implement a plan; the vision and roadmap for a stable and ultimately profitable and differentiated offering; and following the licensing process and engaging with the regulator.

Regulators require applicants to demonstrate that they can make a positive contribution to society

[7]For Asia, we refer to the entire Asia-Pacific region, including Australia and New Zealand.
[8]Exceptions include Japanese pure-play digital bank Jibun Bank, launched in 2008; mixed-model internet banks such as ING in Australia (launched in 1999); and Japan's Rakuten Bank (launched in 2000).
[9]Other Asia-Pacific jurisdictions have introduced similar frameworks (e.g., India's payments banking licenses in 2015, Australia's Restricted ADI Framework in 2018); these were not considered in depth in this article mainly due to significant restrictions on the licenses.

ANALYSIS: DIGITAL BANKING

An experienced team

Applicants, whether acting alone or in consortia, must demonstrate to a regulator that they have the know-how, experience, resources, and appetite to deliver. To do so, they should demonstrate that they are:

- Diligent risk managers: Non-banks must show that they are as effective at managing risk as any incumbent, and that they possess (or will develop) cutting-edge risk management capabilities. Risk management capabilities might, for example, be based on extensive data resources for better credit underwriting, or on a track record of scaling and operating tech-centric businesses while mitigating IT and cyber risk. Most successful applicants have experience of managing a financial business (typically payments or lending), or have partnered with an organization that has such experience.
- Proven innovators, household names, and respected brands: Regulators tend to value a track record of innovation and the ability to create novel offerings. Similarly, brands with reputations for attracting, nurturing, and retaining talent improve their chances of being granted licenses.
- Well-funded with strong support from parents or investors: Applicants must be able to demonstrate they can sustain themselves as they scale up. This typically requires a four- to five-year funding commitment.
- A strong, cohesive team with a singular vision (for JVs and consortium applicants): While consortia may possess complementary skills, a higher number of stakeholders can also be an impediment to decision making, and can add complexity to execution. Consortia must present a cohesive, singular, and convincing vision, with clear value added by each partner (Exhibit 3). Companies seeking to launch with partners should start discussions early; the necessary strategic alignment and mutual trust take time to develop. Exploratory conversations should take place before regulators finalize license criteria. Malaysian telecom Axiata has said it is in conversation with 11 potential partners in advance of Bank Negara Malaysia's finalization of its digital banking licensing framework at the end of 2020.

Vision and roadmap

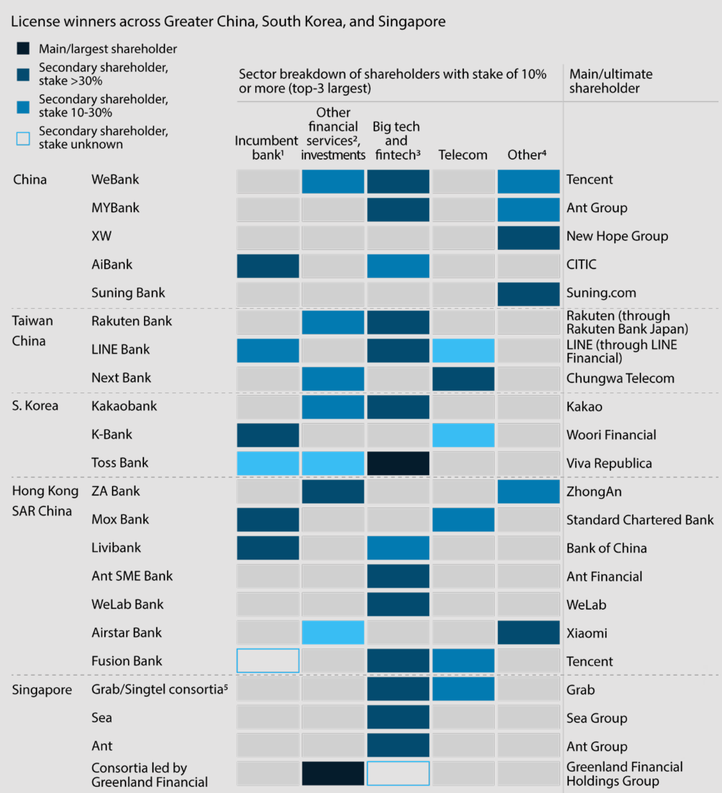
Regulators typically require applicants to demonstrate the ability to balance the potentially competing objectives of encouraging innovation and promoting stability in the banking system, and benefiting customers and the broader community. Applicants must show they have a vision for a differentiated offering that will have staying power.

Successful applicants we have studied have articulated their capabilities in the following areas:

- Leverage unique capabilities to provide a differentiated service: Applicants must possess unique capabilities that will enable them to offer a differentiated proposition. This may be associated with the user experience (a tech-native company may be better positioned to offer a distinctive experience than traditional banks); the range of services offered (an ecosystem owner might leverage its deep customer relationships to provide additional use cases for its products); or the ability to manage risk (an e-commerce platform or telco may have access to large volumes of data that can inform superior credit underwriting of "thin-file" customers).
- Identify a clear path to profitability: Regulators can be accommodating on timeframe (with some accepting plans for five or more years of unprofitable scaling up), but applicants must be able to demonstrate a clear path to profitability based on reasonable business assumptions and a realistic business model.

> **Those applying for licenses must demonstrate to a regulator that they have the know-how, experience, resources, and appetite to deliver**

Exhibit 3: Various financial and non-financial sector companies are forming consortia; typically only big techs and fintechs apply solo.



[1] *Locally licensed banks.*
[2] *Eg, insurance, securities, investment holding companies; includes online-only.*
[3] *Large internet-based companies and conglomerates with core businesses in e-commerce, online gaming, social media, internet search, etc., and their financial services subsidiaries.*
[4] *Eg, manufacturing, retail.*
[5] *Not official names as licenses are freshly assigned.*
Source: Central bank websites; company websites; interviews.

- Develop a safe and robust enterprise: Applicants must be able to assure regulators that they have designed their business models and target operating models to be resilient. To do so, applicants must identify any potential events or developments that would cause them to exit the market (for example, if the business fails), define governance processes for activation and escalation of an exit plan, establish a clear contingency plan, identify relevant indicators to be monitored, and outline a communication strategy for before, during, and after activation of the plan.
- Positively impact society: Many regulators require applicants to demonstrate they can make a positive contribution to the local financial services and technology sectors, and to society more broadly. Applicants should articulate their intentions to hire locally, support the development of capabilities (e.g., through investment in skills development and hackathons, or by offering internships to local university students), and help position the host country as an innovator and digital financial services hub or leader.

Putting together an exemplary application process

Regulators set out their broad expectations of applicants in exposure drafts, public statements, and published license criteria. However, applicants should also expect to have to provide specific details about their proposed offering, and further clarifications. Strong applicants will consider the following steps:

- Establish a dialogue with regulators: Applicants that are willing to hold frequent discussions (as often as every two weeks) on specific topics, with the aim of clarifying understanding and testing ideas, increase the likelihood that their applications meet regulator requirements. An agile and iterative approach may allow for a product that is more fully developed and better aligned with regulatory expectations. A dialogue that allows for an element of co-creation and regular interaction, and which deepens understanding of the regulator's expectations, will likely be more constructive. There should be no surprises by the time of the final application submission. Applicants should demonstrate their understanding of core banking concepts and digital banking needs (value proposition, risk, financial viability). Applicants may also consider showcasing their proposed offering through live demonstrations, so that regulators can see first-hand what customers will experience, and provide feedback.
- Explicitly address regulatory objectives: Regulators have stated that the introduction of new licenses is intended, among other things, to boost competition, widen financial inclusion, and accelerate innovation.[10] Applicants should articulate how they plan to meet these objectives, both in their ongoing dialogues and final submissions. Just as the product offering and execution plan will be refined and tailored, so should the applicant's mode of communication reflect the regulator's expectations.

Digital banking in Asia has followed a unique path to success, with large companies across industries playing a leading role

The key factors in receiving a license are demonstrating the ability to execute, a compelling vision, and the capacity to meet regulatory standards—and a license application that runs like clockwork

Digital banking in Asia has followed a unique path to success, with large companies across industries playing a leading role. The digital business model offers significant benefits, from boosting revenues to obtaining access to new customers, technologies, and partners. To earn the right to compete, applicants must show that they offer an outstanding proposition and have the strategic, operational, and financial resources to operate in one of the world's most dynamic banking environments.

A review of successful endeavors shows that consortia have a strong chance of success, but this model is not the only one that can succeed. The key factors in receiving a license are demonstrating the ability to execute, a compelling vision, and the capacity to meet regulatory standards—and a license application that runs like clockwork.

*Written by **Raphael Bick**, Shanghai-based partner, **Denis Bugrov**, Singapore-based senior partner, **Hernán Gerson,** Singapore-based associate partner, **Alexander McFaull** Kuala Lumpur-based consultant and **Alexander Pariyskiy** Bangkok-based consultant. The authors would like to acknowledge the contributions of **Callie Cao, Hyunjoo Lee, and Wenyang Su** to this report.*

This research report has been re-printed with kind permission of McKinsey & Company and can be found on their website at https://www.mckinsey.com/industries/financial-services/our-insights/joining-the-next-generation-of-digital-banks-in-asia

[10] See www.mas.gov.sg/regulation/Banking/digital-bank-licence; "Licensing Framework for Digital Banks," www.bnm.gov.my; "Licensing Framework for Digital Banks," www.bnm.gov.my.

Not everything is black-and-white in evolving Asian digital banking

Traditional banks and neobanks can work together whilst also competing against each other.

Digital banks do pose a real threat to traditional banks mainly through targeting and appropriating their services to younger clients and certain segments, as their established traditional peers focus on their primary revenue streams such as wealth management and extend propositions backed by analytics. However, the environment is not black-and-white, and the banking landscape allows both traditional and neobanks to compete and collaborate with each other at the same time.

Asian Banking & Finance caught up with Raphael Bick, one of the authors, to know more about the Asian digital banking scene, the competition between incumbent banks and new entrants, and what the post-pandemic era will look like for the banking sector across Asia Pacific.

We need to improve our customer experience so every two weeks, we roll out improvements.

What significant difference does a consortia approach to digital banks in Asia have over the vertical approach?
The two benefits mentioned above are very important on their own and are significant reasons to consider a consortia model, despite all the complexities related to it.

Being part of a consortia may increase chances of winning a digital banking license. In fact, it is often a requirement for applying for a license in the first place. For example, in some jurisdictions, there are caps on ownership by non-banking players. In others, there are guidelines prioritising local control, or financial inclusion objectives. These requirements can create a compelling case for a consortium that includes, say, a successful digital platform that is very confident in its ability to build a digital bank on its own, and a locally rooted "traditional" company—for example, a telecom or a diversified conglomerate.

There may also be considerations related to the appetite to invest and the ability to bear financial burdens. It is no secret that even the strongest digital banks have taken two to three years to break even; hence the rationale of having backers to share the risks and minimise financial impact via holding a non-consolidating stake, as an example.

What threats do the next generation of digital banks present, and how can incumbents keep up with them?
Digital banks present a credible threat to incumbents. For example, in South Korea, relatively young digital banks have already captured more than 5% of the unsecured lending market, and there are reasons to believe that their importance will continue to grow. At the same time, leading incumbent banks are investing substantial resources into digitisation efforts, which do pay off. Moreover, they also still hold a very valuable asset – customer trust and stickiness.

As a result, incumbents still dominate across the globe, and the leading incumbents are offering competitive digital

Raphael Bick, McKinsey analyst

and analytics-driven propositions. As for leading non-banking firms, they tend to have important advantages over banks such as access to a large customer base with ongoing engagement and large sets of privileged data, as well as superb digital delivery and analytics capability – core ingredients for successful digital banking players.

However, there are three important nuances.

Firstly, digital banks are not attacking all segments across the board; they are typically very focused on certain products and/or segments, particularly when they launch. They start with simple products such as payments, deposits, and unsecured lending, and perhaps only sometimes with a simple investment proposition.

Secondly, the competition between digital banks and incumbents is not binary. Many incumbents are launching digital banks that are outside of their core abilities, both domestically and internationally. Some investment banks are now trying to disrupt retail banking and cash management with digital offerings – far outside of their traditional focus.

Thirdly, there is an ongoing value chain reconfiguration. Banks that were traditionally playing across the value chain – acquiring and servicing customers, assessing and managing risk, providing balance sheets, and building technology capabilities – are refocusing on some parts and cooperating with more advanced service providers.

Benjamin Wong, Co-founder and CEO of TranSwap

How TranSwap helps SMEs expand to global markets

The company has developed a range of FX solutions with API integration, which enables even very small transfers to be credited in real-time.

During the height of the Asian Financial Crisis in 1997, Benjamin Wong faced a problem: he had wanted to hedge his US dollar currency exposure with an FX forward contract, but found the premium quoted too expensive and the spread for a spot rate huge.

Problems involving exchanging currencies and making international payments are nothing new to individuals and businesses who need to send money abroad. Amongst the plethora of challenges that greet them are the lengthy processing times, high and fluctuating transfer and conversion rates, a lack of transparency, and limited traceability to track their cross-border payments in real time.

At that time, Wong had an overseas friend who agreed to swap US dollars with SG dollars at a mid-market rate. But the same case wasn't exactly available or viable for other individuals and businesses at the time, and they were forced to shoulder the high costs and other challenges just to make international payments and various banking transactions.

Spurred by his experience and by the increasing acceptance of regulatory authorities over the following years, Wong eventually left his corporate job and co-founded TranSwap, a cross-border payments platform that seeks to simplify overseas payments and collections by reducing foreign exchange costs and complexity.

"In recent years, as fintech became a reality and received wide acceptance by the regulatory authorities, this reignited my passion for solving the foreign-exchange problems that I, like many other SMEs faced, such as high costs and lack of transparency in the transaction process," Wong told *Asian Banking & Finance.*

TranSwap offers improved payments options through its wide network of FX partners and a proprietary platform. The company aims to help businesses, particularly SMEs, overcome the barriers to going global and enter new markets with improved payment options for consumers, according to Wong.

The company's payment solution has been developed with API integration, which enables small transfers in large volumes to be credited directly to beneficiaries' wallets and bank accounts in real time. This improves processing speed and optimizing settlements – a key element in maintaining cash flow.

COVID-19 has certainly exposed many brick-and-mortar companies, both big and small, to fintech and the online space

Wong and TranSwap's goal of improving cross-border payments for individuals and small businesses alike became even more important when the pandemic struck early last year. In Singapore, a circuit breaker period was imposed from March, effectively shuttering many physical stores and remittance shops, and making it even harder for many individuals and businesses to send money overseas.

TranSwap recognized how challenging it was for foreign domestic workers (FDWs) to access remittance services to send money home and support their families during this period. This led the fintech to launch an e-remittance service for employers of foreign domestic workers (FDWs) so that they can digitally send money back to FDWs' families.

The new service reportedly allows employers the flexibility of sending money to the homes of their foreign domestic workers without physically going to remittance shops in town.

This was just one of the new services that fintechs such as TranSwap launched in response to the digital needs of individuals arising due to the COVID-19 pandemic.

"COVID-19 has accelerated the adoption of online transactions, resulting in a significant shift towards online payments," Wong noted. He sees this as just the start of a surge in fintech and online businesses.

"COVID-19 has certainly exposed many brick-and-mortar companies, both big and small, to fintech and the online space," he added.

Moving forward, Wong and TranSwap anticipate an uptick in the number of collaborations with fintech companies and an increased level of inter-operability between different products and solutions.

Wong also believes that technologies will continue to be enhanced, especially those related to open banking technologies and 5G networks that will revolutionize payments. Wong also expects AI and blockchain to be adopted in the mainstream. *By Frances Gagua*

Centre commercial area of Futian district (Photo by Charlie Fong via Wikimedia Commons)

Chinese online microlenders at risk of stunted growth over new regulations

Additional schemes could further stifle the potential growth of cross-provincial borrowing.

China's leading non-banking financial firms face the risk of antitrust investigations and forced divestitures once the country's new regulations come into play. This could also potentially hinder cross-provincial lending, consumer borrowing, and the growth of the country's online and digital microlenders.

In September 2020, China issued new regulations on financial holding companies, citing a loophole in current regulations. Over a month later, China's Financial Stability and Development Committee warned about the risks that come along with rapid digitisation, and regulators recommended stricter rules for online microlending firms to curb rising debt levels.

Under the new regulations published by the China Banking and Insurance Regulatory Commission (CBIRC) on 20 February, in the event that a commercial bank and a partner institution should jointly fund an internet loan, the balance of the bank's loan shall not exceed 25% of its net Tier 1 capital. The balance of internet loans issued jointly by a commercial bank and a cooperative institution shall not exceed 50% of the bank's total loan balance. A local corporate bank which conducts an internet loan business shall only serve local clients, and must not extend their Internet business across jurisdictions of registration.

Commercial banks are also not allowed to outsource key aspects of their pre-loan, loan-in, or post-loan management. They should independently complete risk control links that have a significant impact on loan risk assessment and risk control, CBIRC's new regulations outlined.

Commercial banks should independently complete risk control links that have a significant impact on loan risk assessment and risk control

The new regulations underscore regulators' increased commitment to stabilizing the local banking sector amidst tech disruptions, which has left it more vulnerable compared to other major countries, S&P Global Ratings analyst Fern Wang noted in a report.

"Whilst policymakers are in favour of innovation, there is a declining regulatory risk as they look into financial trends that could trigger systemic failures in the industry. To counter this, they have begun tightening rules to preserve system stability," Wang added.

The suspension of Ant Financial's IPO is a sign of the impact of these tightening regulations, Wang wrote in another S&P report, adding that it could temper lending growth for China's more than 200 licensed internet lenders. According to a Fitch report, the proposed regulations look into capping online microloan (OM) firms' exposure to single borrowers at one-third of three-year average income for individuals, and at $155,000 (CNY1m) for non-individual and business borrowers.

"These online lenders typically offer small, unsecured loans and are not permitted to take deposits. Their licenses were initially granted by local financial bureaus under relatively lax regulations compared with those for banks. The new regulations aim at constraining leverage for such lenders, and preventing excessive consumer borrowing," S&P's Wang wrote.

Whilst relatively small compared to banking assets, online microloans can still lead to asset-quality risks for some banks due to their partnerships with OM firms, with joint-stock commercial banks and city commercial lenders at most risk, Fitch wrote. These banks' underwriting and risk management processes rely on consumer behaviour data sourced from their online partners, but this is a relatively new and untested method.

In addition, some of the microloans originated or sourced by OM companies are packaged into trust products or asset-backed securities (ABS), where investors are also exposed to asset risk.

Regulators want to create an equal environment for banks and non-bank financial institutions alike, Wang said. As noted, policymakers hold a tight watch over banks which are required to extend a reasonable amount of capital contribution to unsecured consumer lending units. In contrast, firms like Ant are allowed to retain a meagre 2% of total outstanding credit balance on originated loans in their balance sheets.

On top of that, OMs will also be asked to share data on borrowers' creditworthiness to regulators in order to ensure that risks are also contained to that sector.

If implemented, these proposals will result in higher barriers to entry for the sector, Fitch warned. OM firms will now be required an additional central regulatory approval to operate outside of the province in which they are registered. Additionally, at least $774.3m (CNY 5b) of registered capital will be a must which will vary by region. This will hamper the growth of cross-provincial lending, limit maximum loan amounts, and restrict the use of ABS instruments.

> **Online microloans can still lead to asset-quality risks for some banks**

"Chinese regulators' top priority is financial stability," said Wang. "They have a particularly strong incentive to manage fast-growing consumer lending to vulnerable lower-income borrowers."

S&P analyst Ryan Tsang expects the Chinese government to update its regulatory framework in response to the high-speed ascent of the fintech sector along with the risks associated with it. The challenge now, he said, is to find balance between spurring innovation and guaranteeing the stability of the financial sector.

China's card payments market to reach US$23.9t by 2023

Card payments in China grew by 7.1% in 2020 and are forecast to grow by a robust compound annual growth rate (CAGR) of 11% between 2020 and 2023. This will see the figure reach $23.9t (CNY166.2t) in the next three years, reports data and analytics firm GlobalData.

From 2015 to 2019, card payments in the country grew by a CAGR of 19.8%, rising from $7.9t (CNY55t) in 2015 to $16.3t (CNY113.3t) in 2019.

Growth was supported by the rising financial inclusion and improvement in payment infrastructure. Whilst the economy was impacted by COVID-19 pandemic, it is gradually returning to near normalcy, said Kartik Challa, payments senior analyst with research firm GlobalData.

China introduced stringent lockdown measures quickly, which allowed the country to control the virus and limit transmission, the report noted. This, combined with the introduction of their $829.95b stimulus package or equivalent to 5.61% of GDP, has set the stage for a strong recovery.

The COVID-19 pandemic and the subsequent economic slowdown forced individuals to spend prudently, which is expected to slow down credit card usage in the short term, noted GlobalData. However, with the economy's expected recovery, credit card usage is expected to increase during the forecast period.

China is the largest debit card market globally, with an estimated 8.1 billion cards in circulation in 2020. Debit cards reportedly remain the most preferred card payment method, accounting for 57% of the total card payments by value in 2020.

Furthermore, the increase in consumer demand for credit, especially from the growing middle-class population, has pushed the expansion of credit and charge card transactions.

Notedly, in 2020, credit and charge cards' share in the total card payments value increased to 43% from 39.4% five years earlier.

"China has a developed payment market with a strong payment infrastructure and high consumer preference for electronic payments. Whilst the COVID-19 pandemic and the uncertainty associated with it impacted card payments, the resumption of business activities and recovery in consumer spending will bring it back on its high growth trajectory," concluded Challa.

Get ready for even more growth in card payments this year.

Bank Indonesia (Source: Wikimedia Commons)

Indonesia upturns payments systems with new foreigner-friendly regulations

The new regulations reduce the number of licenses and makes clinching foreign capital easier.

Indonesia is shaking up its payments market with the introduction of a new payments regulation that will make it easier for foreign players to enter the market as well as allow local payment firms to much easily secure much-needed capital.

Beginning 1 July, the archipelago's restructured payments market will allow foreign investors to control 85% of economic interests in payment service providers, up from the maximum of 49% earlier. Voting rights for foreigners is maintained at 49%, however. Bank Indonesia (BI), the country's regulator, expects that this would better position domestic players to continue investing in upgrading technology, improve the user experience, and attract new customers to digital payments.

In effect, foreign companies now have greater headroom to invest in domestic payment service providers and domestic players can tap a broader source of funding beyond domestic investors, McKinsey's **Guillaume de Gantès**, Senior Partner, and **Reet Chaudhuri**, Expert Associate Partner, told *Asian Banking & Finance* in an interview.

"There is likely to have a relatively limited impact on existing payments players given that BI has provided a limited grandfathering clause," de Gantès and Chaudhuri said in an email correspondence last month.

Despite the expanded legroom for foreign ownership, BI's decision to keep the minimum local shareholding and control requirements is unsurprising given the importance of the payment sector for a country's economy and financial stability, according to Vik Tang, senior international counsel at law firm Hisawara Bunjamin & Tandung (HBT) and partner of Herbert Smith Freehils (HSF); and Michelle Virgiany, international counsel at HBT and partner senior associate of HSF.

The division between share ownership and control gives foreign owners more space to move whilst ensuring that Indonesians remain in control

The division between share ownership and control gives foreign owners more space to move whilst ensuring that Indonesians remain in control. "In cases where the current foreign ownership exceeds the proposed limit, the higher share may still be maintained as long no change is made to the share ownership composition or shareholder control by the foreign parties after 1 July 2021. Any such changes will trigger the requirement to comply with the new limits under the Payment Systems Regulation," said de Gantès and Chaudhuri.

Tang and Virgiany expect to see

With licensing now simpler, expect more crossovers of incumbents into different finance fields.

more preference shares being used in the payment sector, so that the foreign shareholders can optimise their level of ownership whilst still ensuring compliance with the local control test.

Another major change is that the BI is now subjecting payment gateway, e-wallet, acquiror, and remittance companies to foreign ownership or control limits beginning 1 July. Players currently holding such licenses will therefore need to be mindful of any corporate actions that could result in their "grandfathered" status being revoked, they warned.

Streamlined licensing

Despite prospected limited effect on the current system, it does heavily impact licensing, making it simpler, said Tan and Virgiany.

"The licensing regime will be much simpler. Currently we have 9 types of payment licenses. After 1 July, front-end players will be given a payment services provider license and back-end players will be appointed through issuance of a determination by Bank Indonesia," they noted.

Instead, there will only be three licenses for payment service providers that will dictate what specific payment activities they are each allowed to delve in.

As an example, prior to the new regulation, a company intending to carry out e-money, e-wallet, payment gateway, and remittance activities will need to apply for four different payment licenses from Bank Indonesia. But under the new regime, that company will only need one license, which is the payment services provider license, Virgiany advised.

Whilst simplifying the process, the next few years would be a tedious exercise for BI as they complete the daunting task of converting current licenses into new once. Virgiany expects that the regulator will engage with existing licensed payment companies to discuss their activities and the necessary conversion of their licenses.

But they assured that currently running companies need not to worry much as they will only need to comply with such requirements in the event of any change of composition of foreign shareholding or change of control by a foreign party.

Level-playing field

The new payments act also shifts the regulatory framework from an entity-based approach to activity and risk-based approach.

By doing so, the new regulation seeks to achieve a level playing field between banks and fintech players in the payments space, says de Gantès and Chaudhuri.

"The new regulations also ensures that regulatory oversight is focused on the highest risk players and activities, thereby bringing down overall risks to the payment system," they added.

The new approach is intended to reduce the regulatory burden on the industry and ensure faster time to market for enhancements in product features

Under the new rules,Payment services operators (PJPs) and Payment system infrastructure operators (PIPs) will be classified as systemic operators, critical payment system operators and general payment system operators based on their volumes of activities, complexity, and interconnectedness. The regulatory scrutiny will be the maximum for systemic operators and expected to be lower for general payment system operators.

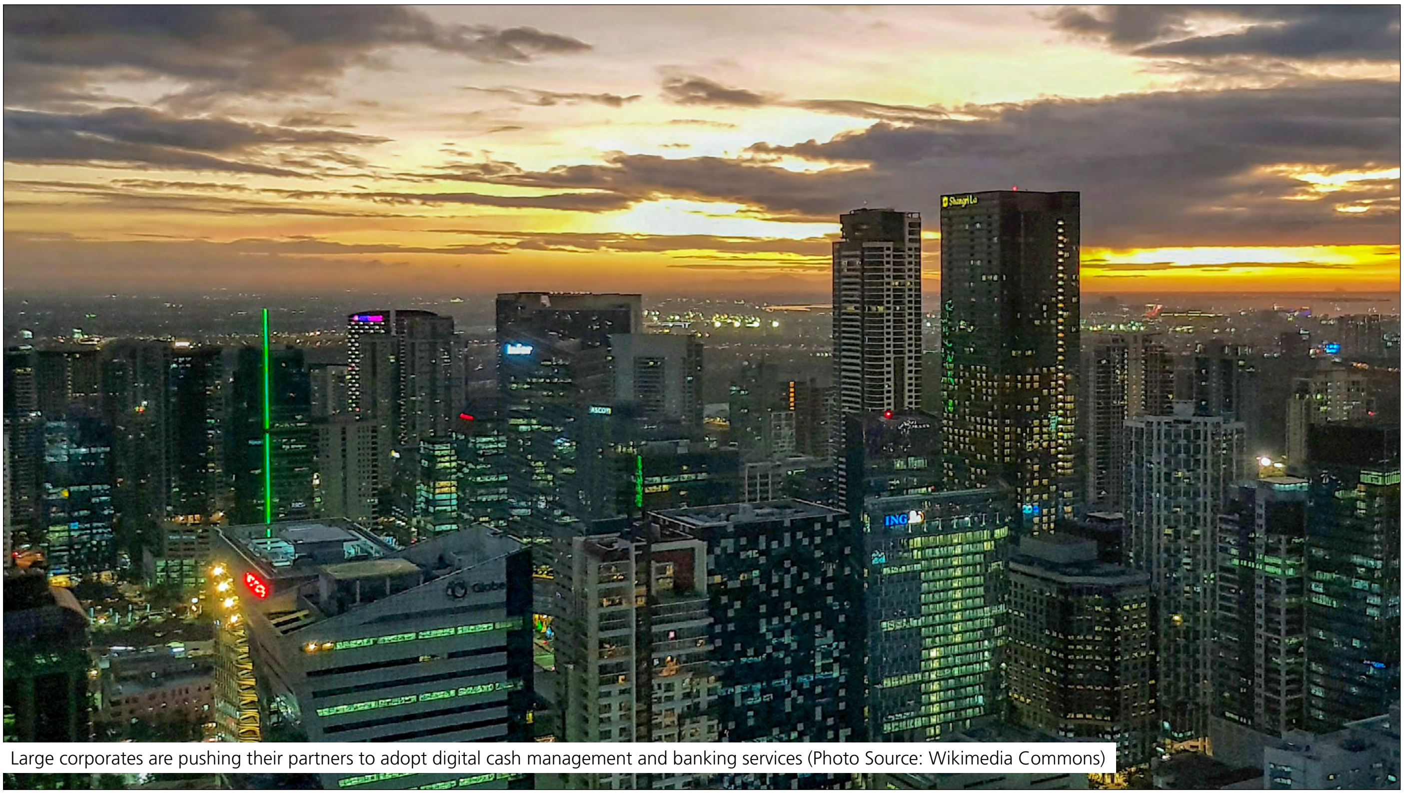
This approach is intended to reduce the regulatory burden on the industry and ensure faster time to market in the case of minor enhancements being added to existing product features.

The regulations also introduces a self-assessment system for payment service providers looking to launch new products and services. Under this system, the company must assign a risk rating to the proposed new product/service or cooperation arrangement with other payment service providers.

Digital banking creeps in

The new regulations may not be the end to the payments system overhaul, as the rise of digital-only banks across Asia has inspired players in Indonesia's payments market. Companies holding e-money licences are already taking action or are considering launching a digital bank arm, Virigany noted.

"Market players should keep a lookout for the digital banking regulations that may be issued by the Indonesian Financial Services Authority (Otoritas Jasa Keuangan or OJK)," she said. "Digital platforms holding e-money licenses are already taking actions (or are at least considering) to have a digital bank arm in their group. We will likely see some form of integration or cross-functionality being introduced in relation to e-money and banking accounts."



Large corporates are pushing their partners to adopt digital cash management and banking services (Photo Source: Wikimedia Commons)

How cash management services in the Philippines thrived through the crisis

COVID-19 has pushed small businesses and reluctant clients to take up digital banking channels.

More than 99.5% of the total businesses in the Philippines are micro, small, and medium enterprises (MSMEs), according to the latest data from the country's Department of Trade and Industry. That means that only 4,700 companies are considered large enterprises from the over 1 million businesses that existed in the country in 2019.

This predominance of smaller businesses, coupled with digital infrastructures being vastly different between metro areas and provinces and continued strong preference for physical transactions, has meant that cash management services (CMS) remain rare in the Philippines.

This spells trouble for a country whose financial regulator has set an ambitious target on banks to have 50% of their transactions on electronic mediums by 2023—even for the country's biggest banks, where many of their clients still prefer to pay and transact via physical means.

Even those small businesses that have CMS have owners who prefer to go to bank branches as they still distrust digital processes, according to **Carlo Nazareno**, senior vice president and head of cash management at BDO Unibank. Nazareno describes the CMS scene in the Philippines as "a good mix of electronic cash management services, in addition to physical (currency)".

"In certain areas in the Philippines, where we may not have a very good infrastructure in terms of technology such as internet access or even mobile access, the need for physical branch presence still plays a major part," Nazareno told *Asian Banking & Finance* in an exclusive interview last month.

> **Of the more than 1 million businesses in 2019, only 4,700 were considered "large" enterprises**

He added that even at places where BDO has no branches, the bank still collects money through still physical brick-and-mortar alternatives like pawn shops or even money transfer bureaus.

Another reason why MSMEs have failed to incorporate CMS before has been simply because up until recently they were not the target of banks, says **John Carry Ong**, executive vice president for the Transaction Banking Group within Security Bank.

Ong notes that the low adoption of CMS in MSMEs isn't because they have traditionally resisted online platforms, as commonly thought — but because banks have mainly targeted large and medium sized companies for cash management services.

"The reason is clear – due to

manual and disjointed internal processes, banks have limited resources and these resources were channeled towards larger companies who can generate more core deposits per (each and every) account," he explained.

"In a sense, MSMEs were excluded as a target market. But the game has now changed. Banks now have to build scalable and flexible systems with self service capabilities in order to accommodate the growing demand for cash management services from MSMEs," he added.

Problematic legacies

Ong named three challenges in introducing cash management systems in the Philippines: legacy systems, legacy mindsets, and legacy ways of working.

Separately, Nazareno recognized these problems, adding that there was only so much banks can do when it comes to infrastructure outside of metro areas and how "bank, king, and customers" interact and operate.

"If you look at the non-metro areas in the provinces, they may not have the same amount of access to the internet or even mobile devices," he noted, adding that although they want to align with the vision of the local regulator, Bangko Sentral ng Pilipinas (BSP) for electronic payments to make up 50% of payment transactions in two years, it is very challenging given the holes in technological infrastructure in the provinces.

In terms of operations, having businesses take up electronic cash management and banking services is also a challenge given that bureaus in the government itself continue to require physical documents to transact.

"For example, if you look at the Bureau of Internal Revenue (BIR) and what its requirements are for corporate clients, they still require physical official receipts [and] physical proofs of payment for tax returns. There really isn't a program to help migrate these into electronic forms, so there will still be a need for a physical process," Nazareno said.

Physical processes are not only less efficient than electronic processes, they're also more costly in Nazareno's view, and present challenges in the efficiency and organization of businesses.

"So although we may want people to move electronically, it has to be a complete end-to-end view of all of the different points in the cycle of a payment. It needs upgrading or changes for us to fully realize the benefits of digital payments," he added.

For their part, banks like BDO have participated in roundtables with BSP and their corporate clients to look for ways to streamline the take-up of electronic and digital banking services in the country.

"As long as the dialogue is ongoing, and there are clear milestones that the industry is looking towards to achieving them, I think the Philippines can take that step forward now in really getting more digital than what it is today.

"But it will have to be a concerted effort amongst all of the players, the government, the central bank, the banks, the clearing houses, and the corporates whilst working to get it easier for the entire industry," Nazareno said.

Meanwhile, Security Bank said that they are architecting a CMS platform with speed and flexibility in mind, investing heavily in training its staff and bringing in new people with fresh perspectives. The bank says it is constantly adapting and reorganizing its team to ensure that they are also looking towards the future and focusing on strategic initiatives.

Banks are now looking for ways to streamline the take-up of electronic and digital banking services

Game changer

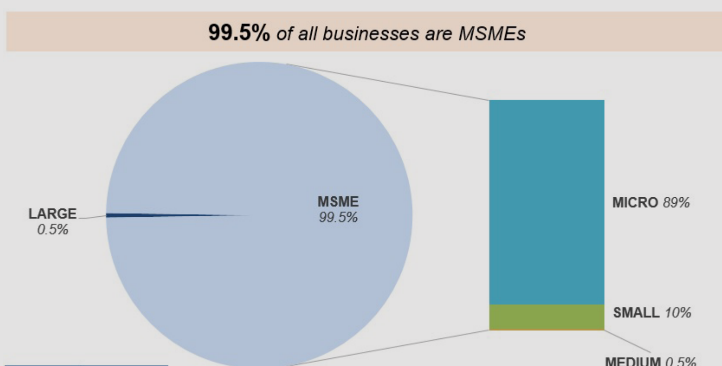
The COVID-19 pandemic has shaken up this ecosystem, driving more customers to take up digital banking channels. The trend includes even older clients who are not willing or who initially do not understand how to use the digital channels available.

BDO's Nazareno shared that due to lockdown measures imposed by the government last March, even their most online banking-averse customers have taken up their digital banking platforms.

"A lot of customers, even the traditional Chinese customers who we work with in Binondo and who are very averse to using online banking and mobile banking, are now opening their doors to installing online banking [platforms and apps], and using them," Nazareno said.

Big businesses have especially been key to pushing MSMEs to take up digital CMS and banking services, according to Nazareno. His team have observed how larger corporate clients drove

MSME statistics in the Philippines



MICRO	891,044
SMALL	99,936
MEDIUM	4,765
LARGE	4,761
TOTAL	1,000,506

Number of Establishments, 2019 List of Establishments, PSA

Source: Department of Trade and Industry

MSMEs to go digital by asking their supply chain partners to send their money and confirm their orders via online services. This is helpful in letting smaller businesses see the benefits of online processing and cash management, he said.

"If a customer of ours sees the benefit of electronic [platforms] by looking at how quickly and more efficient they can get money into the door, and then carrying it around to their suppliers without affecting their operation, then they tend to want to use it more often," Nazareno explained.

Big businesses have been key to pushing MSMEs to take up digital CMS and banking services, according to Nazareno. He shared that during the height of the pandemic, his team observed how larger corporate clients drove MSMEs to go digital by asking their supply chain partners to send money and orders via online means added.

For their part, Security Bank's Ong said that the bank rolled out a plethora of new services that allowed MSMEs not only to open accounts digitally, but to also enroll in various cash management services.

The pandemic allowed cash management systems like Security Bank's DigiBanker to gain momentum as businesses were forced to operate remotely to prevent the spread of the COVID-19 virus, he noted.

"Cash management used to be more of a value-added service but today it has become a critical core business of banks. Previously, the idea of working in cash management was unexciting, but today, it's regarded as one of the most dynamic and vibrant areas to work in and definitely a key area for growth in the finance sector," Ong added.

In the future, Nazareno expects two main trends to influence how CMS will grow and thrive in the Philippines: increased efficiency of electronic payments, and the increased importance of information in banking. He cited open banking as a future in improving cash management services and systems not just in the Philippines, but in all countries around the globe.

"How do we leverage information, not only to help our clients better manage their cash, but also help them strategically?" he asked. "Because operationally, yes, [clients] need to know where the money is. They need to know that they need to pay these people. They need to know that they got paid by these people to manage the inventory, the accounts receivables, the accounts payables.

"[But] cash management, I think, goes beyond that when we talk about strategic cash management. It is important that they see how the operations are moving, how the entire supply chain or how their supply chain affects the way they operate," Nazareno noted.

He added that openness of information could also help in unique circumstances like the COVID-19 scenario, where clients' having access to information could help them make the necessary strategic decisions.

"I think there are good visions out there. It's a matter of how we, as an industry, execute it. And I think the openness is also going to be important among the players," he concluded. *By Frances Gagua.*

Big businesses have been key to pushing MSMEs to take up digital cash management and banking services

Pandemic drives cultural reset of Filipino banking behaviors

One of the biggest hurdles to pushing Philippine small businesses to adopt cash management services (CMS) is culture—that is, how Filipino corporate clients are conducting their banking.

Traditionally, Filipino corporate clients, especially those outside of cities and metro areas, prefer to go to a branch and develop a face-to-face banking relationship with the peoplethere, observed Carlo Nazareno, head of CMS at BDO Unibank.

"If you look at the Filipinos and how they look at cash management outside of the metros, it's very traditional for them to want to go into a branch, have a coffee with the branch manager, [and] develop personal working relationships with people. And that is very difficult to change," he noted.

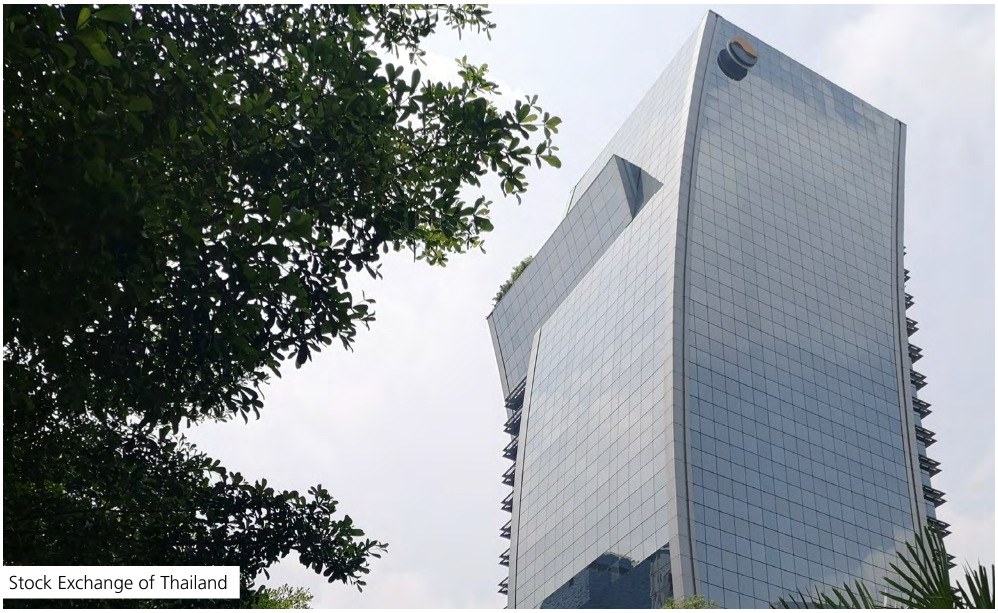
As a result, customers may not have been ready to migrate automatically into electronic platforms. This, in turn, resulted in BDO seeing a slowdown in its transaction volumes immediately after the country was locked down in March last year, as clients outside of the metro areas were unable to go to branches and were unfamiliar with virtual and online banking platforms.

Eventually, COVID-19 turned from a business disruptor to a cultural reset, as the prolonged lockdowns coupled with local banks' initiatives helped to drumup interest in CMS from SMEs.

In 2020, BDO hit more than 26,000 SMEs doing business with the bank, a record for the bank given that it has traditionally focused on servicing large corporate and financial institutions in the cash management space.

One of BDO's major CMS products, payroll, notedly an increase in the use of online banking. "We've seen people migrate to paying their bills online either through a mobile app or through an online banking channel to reduce physical contact and writing of checks," he added.


Carlo Nazareno, BDO



Stock Exchange of Thailand

Strong IPO turnout buoys Thailand's investment banks

Investment markets in Thailand rebounded in the second half of last year, raising much more capital than was delivered in 2019.

The market rebounded in H2, 2020 and ended up raising more capital than had been raised in 2019.

Thailand's capital market activity came to a virtual standstill when the pandemic kicked in last March. But fast-forward to just nine months later, and the country has become the second-most active IPO market in Asia, buoying local investment banks' performance in 2020.

The country's relative success in containing the spread of the COVID-19 virus drove investor confidence to recover fast during the second half of the year, according to **Veena Lertnimitr**, Executive Vice President, Investment Banking Division of Siam Commercial Bank. From only two initial public offerings (IPO) in the first half of 2020, a total of 24 companies listed in the second half of the year.

"As a direct beneficiary of COVID-19, Stri Thiang Gloves (Thailand) Public Company's successful listing in July helped signal the resumption of capital market activity in Thailand," Lertnimitr said. "Overall, Thailand saw over $5.3b (THB 164b) of capital raised through primary listings in 2020, up from around $4.01b (THB 124b) raised in 2019."

In contrast, other Asian markets saw capital inflows for IPOs fall drastically during the period. Most notably, Singapore's IPO proceeds were almost halved compared to a year earlier, falling 49.7% to only US$1.1b in 2020, according to data from Refinitiv.

Four major listings helped push capital raised from 2020 IPOs in Thailand to be so much higher than those a year earlier: Central Retail Corporation (CRC), SCG Packaging (SCGP), Sri Trang Gloves (STGT), and Kerry Express (KEX).

Lertnimitr noted that companies who were not much affected by the pandemic, and whose businesses' benefited from the specific demands arising from the pandemic, took advantage of market conditions.

"Of the four largest Thai IPOs in 2020, three (SCGP, KEX, STGT) were launched post-COVID in H2, 2020 and were in industries (Express Delivery, Packaging etc) considered net beneficiaries or relatively unimpacted by COVID-19 and any potential new normal in consumer behaviors," she said.

Veena Lertnimitr

Siam Commercial Bank's Investment Banking Division served a lead role in the SCGP and KEX's listings, and the listing of food and condiments exporter NR Instant Produce (NRF) on the Stock Exchange of Thailand. All three listings generated overwhelming interest from both institutional and retail investors, resulting in the books covered multiple times over and the strong post-listing performance with current share prices at least 40% above their respective IPO prices, she shared.

But despite Thailand's capital markets rebounding in H2 2020, investment banks still faced many obstacles in helping corporates achieve successful listings post-COVID. Investors have turned cautious in where to put their money, whilst fears of a COVID-19 resurgence—and its wider impact to Thailand's economy—dampened the domestic investing market.

"Investors were considerably more conservative of aggressive growth strategies, placing greater emphasis on long-term business sustainability and risk management," said Lertnimitr. "[H2 2020] also presented several hurdles tempering market sentiment, including political protests and concerns on the economic impact from the prolonged spread of the COVID-19 pandemic."

Listing motivations also varied greatly, with some companies raising capital to fund future expansion opportunities (SCGP, NRF) while domestic investor appetite (both institutional and retail) remained strong, albeit selective, throughout the second half of the year.

Lertnimitr forecasts a surge in technology-related companies listing from 2021 onwards.

Given greater investor importance on issues like business sustainability, environmental, social, and governance (credentials), and the emergence of a 'new normal' in the post-COVID era, there will likely be a surge in technology related companies from 2021 onwards," she told *Asian Banking & Finance* last month.

ANDREW YEONG

Financial services sector transformation gathers pace with COVID-19

Without a doubt, COVID-19 is rapidly changing the way business is done and this is visible across industries. For players in the financial services sector, in particular, customer interactions are swiftly switching from physical to digital platforms.

With 5G being rolled out in many global markets, remote working being the new norm, and video-on-demand taking root everywhere, it is not alarming to know that four out of every five consumer transactions have moved to the digital eco-system post-COVID, according to IDC.

To survive and thrive in this altered landscape, financial institutions must speed up their digital transformation, and embrace disruptive technologies like 5G and AI to meet new business needs and evolving customer expectations.

A mobile-first strategy paramount

The emergence of transformative new technologies has created digital disruption across both retail and commercial lines in the banking industry. Today, creating a great customer experience is fundamental to a bank's revenue and market share. Unlike a decade ago, where customer experience management was retail or franchise driven, the focus now is on the user interface, developing APIs, and enabling highly secure transactions to take place.

COVID-19 has made some of these considerations more tangible and dynamic. Rising competition is forcing financial services organisations to fast track their digital transformation and pivot their organisations to embrace new ways of working through technology. An IDC report predicted that by 2022, three out of four tier 1 Asia Pacific banks will deploy intelligent automation solutions at scale to enhance intelligent decision making and improved operational efficiencies.

For example, now it might be enough to have a chatbot or a call centre with remote agents, engaging with banking customers. Soon, this will not suffice. Banks will want more analytics and technology that let them know their customers better. Banking clients will also demand ultra-rich media such as having a video chat with a live customer service person, and demonstrably more robust cybersecurity.

Harness the power of 5G

5G is also set to change the paradigms of transmit, compute, analyse and store. According to GSMA, mobile operators in Asia Pacific will invest over US$331b between 2020 and 2025.

Deployed effectively, 5G can result in major customer experience enhancements, unleashing a new wave of productivity. Underbanked areas can be tapped thanks to the proliferation of 5G and the use of seamless augmented reality/virtual reality leading to better financial inclusion.

The banking industry will gain tremendously as both speed and lower latency enable immense improvements in the end-user experience of financial transactions. All cogs in the wheel will move towards delivering improved levels of customer experience – from connecting inventory to information to financial flows.

Take to the cloud

The benefits of running operations from the cloud is by now well-established. Many financial institutions, however, have legacy apps that cannot easily be shifted over to the cloud.

Financial services firms need to figure which apps are important to move to the cloud and run an audit to assess if these can indeed be moved.

In parallel, the infrastructure needed to enable the transition has to be evaluated with a focus on the total cost of ownership. In their haste to migrate to the cloud, many enterprises shift apps without taking into account infrastructure requirements necessary for an upgrade.

Cloud migration needs planning and an organised approach, starting with a study and an audit of the applications estate, followed by a phased migration approach based on cost-benefit analysis.

It is also crucial to prioritise which apps need to be moved to which cloud and consider modifying or upgrading the associated network and security infrastructure. All these should be done sequentially in a controlled manner.

Lastly, in carrying out all the above recommendations, don't forget something that is very innate to the business of banking – security.

In the new era, financial services players need to view security more broadly as a complete solution that is rooted in their business strategy. Security is not just about blocking attacks but also leveraging technologies such as AI for predictive analysis of high-risk threats. Only then can financial institutions navigate and get ahead of the increasingly sophisticated threat and business landscape.

In summary, enterprises need a robust business strategy that covers three fundamental aspects: secure, connected, and digital and brings this all together to offer the best possible employee, customer and partner experiences.

ANDREW YEONG
Vice President and Head of Sales, APAC region
Tata Communications

Wealth Management: Using a conversational approach to attract and win clients

Helene Ackermann, VP of Group Sales and Marketing at CREALOGIX, shares insights on how wealth management firms can take a more digital and personalised approach to their client services

Helene Ackermann, VP of Group Sales and Marketing at CREALOGIX

Traditional forms of wealth management use face-to-face engagement when managing client relationships. However, with transactions rapidly shifting to digital channels and big tech firms like Facebook, Google and Amazon moving into financial advisory services, wealth management firms are exploring how to leverage digitisation to counter these threats.

There are three key things that wealth management firms can do to meet these challenges:

1. Be open to innovation

Wealth management firms have always relied on human interface to get the job done. However, the rapid rise of digital transformation has disrupted how they operate in both local and global markets. Therefore, they need to be innovative in adapting to the new digital landscape. Failure to do so could be detrimental to a firm's long-term survival.

In fact, moving from personal, face-to-face engagement to using innovative digital services provides wealth management firms with the opportunity to engage more with clients, whilst keeping the personal touch that is the foundation of successful client relationship management.

2. Provide digital channels

A recent report by PWC revealed that most high-net worth individuals (HNWIs) use multiple digital services, and 85% of them use three or more digital devices for five or more hours a day.

Moreover, a survey conducted by Accenture Consulting revealed that 41% of HNWIs consider themselves early adopters of technology, with 83% of respondents already using digital for financial services.

With such a high proportion of HNWIs open to digital technology, the demand to provide digital wealth management services will undoubtedly increase. Unfortunately, a large number of wealth management firms seem to be lagging behind when it comes to providing digital services, with many having access to customer data but lacking the analytical tools needed to extract value from that data.

If wealth management firms want to gain a competitive edge, they need to utilise more of these types of tools and develop services that really meet client demands. Aside from leveraging predictive analytics, they should also consider using unstructured data analysis, investor preferences and past investment histories to predict the client's future behaviour.

3. Take a conversational approach

Taking a conversational approach to digital wealth management enables firms to establishing richer and more personalised communications. It can not only enhance customer engagement, but also allows seamless integration of data, tasks and communication via one digital interface.

The end result for clients is a convenient and much more personalised service.

A conversational approach to wealth management can be used in many ways, such as efficiently addressing compliance requirements. For example, a 10% depreciation notification can include an automated communication with a clear audit trail, read receipts and opportunities to book a phone call or an in-person meeting.

This approach also enables the communication of investment opportunities and empowers investors via self-service, supported with the use of secure chat. Targeted and personalised offers, for example, can range from updating a portfolio to more focused services such as ESG investing. Personalised information can also be provided to clients in a structured way to support nurturing.

A conversational approach can also make administrative tasks, such as updating a passport, much easier. Without it, this task can often take weeks and can be highly inconvenient for clients. In addition, such a task can be costly for wealth management firms to manage securely.

Striking a balance

There is a balance to be struck between face-to-face and digital wealth management services. Whilst the goal of providing a better digital user experience (UX) is not to fully replace in-person services, it can augment them with more efficient messaging and processes that better reflect the firm's brand, whilst enhancing customer loyalty over time.

CREALOGIX provides a conversational solution that operates across desktop, laptop and smartphone (iOS/Android), providing a seamless and secure client experience layer.

Using our technology, wealth management companies and private banks can enhance client loyalty and attract new clients via convenient and differentiated digital services.

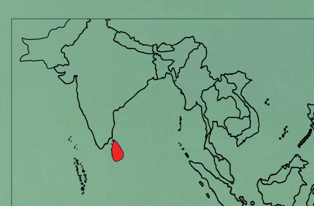
"CREALOGIX provides a conversational solution that operates across desktop and iOS/Android, providing a seamless and secure client experience layer"

Powering growth in one of the emerging financial hubs of South Asia.

NDB Group, the largest financial services conglomerate in Sri Lanka, is the engine propelling the island nation towards becoming one of the fastest developing nations in South Asia.

Our group's expertise ranges from Corporate Banking, Personal Banking, Private Banking and Investment Banking to Advisory Services, Mutual Fund Management, Wealth Management and Private Equity & Security Trading Services.

With over forty years of expertise, we are charting a new course in exceptional financial services, fortified by new age digital capabilities both at the customer deliverable and internal processes fronts.



NDB bank | NDB Capital Holdings | NDB Investment Bank | NDB Wealth Management | NDB Securities | NDB ZEPHYR PARTNERS | NDB Capital Limited | NDB GROUP

A+ (lka) Fitch Rating - National Development Bank PLC (PQ 27) is a licensed commercial bank supervised by the Central Bank of Sri Lanka.
Sri Lanka's Largest Financial Services Conglomerate.