TOP 4

TOP 4 GROWTH OPPORTUNITIES IN THE FINTECH INDUSTRY FOR 2021 IN ASIA-PACIFIC

– WHAT YOU NEED TO KNOW NOW

FROST & SULLIVAN

State of the Industry –
What You Need to Know Now

COVID-19 has shaken up the financial services industry. Traditional players have found their digital investments wanting and Fintech companies have capitalized on their native digital business.

Banks will need to make their products available through digital channels and put in place holistic life-cycle management of digital customers. This will be key to their future success.

The industry needs to address challenges such as expediting digital investment, transforming physical channels to digital-friendly setups, and optimize the cost of operations to benefit from the disruption.

Fintech companies, banks, and other financial institutions have tremendous opportunities ahead and need to embrace four strategic levers:

1. Digitize their business processes
2. Onboard and serve customers online
3. Strengthen their Ecosystem play
4. Form partnerships and acquire other industry players

By adopting these levers, industry players can take full advantage of the disruption from COVID-19, simultaneously optimizing cost and gaining high-value customers.

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BANK NETWORKS – BRANCHES AND ATMs

COVID-19 has forced Banks to Transform

- Banks' have been under pressure since the COVID-19 enforced lockdowns. In Thailand, the top seven banks collective performance indicated that the profit declined by more than half in Q3 CY2020 versus Q3 CY2019.
- Banks have felt pressure due to the decreasing loans portfolio, as they have been cautious in lending to businesses and consumers. Swelling deposits have also put immense pressure on their Net Interest Margin (NIM).
- Frost & Sullivan expects that banks will try to rationalize their costs by moving consumers to digital channels and optimizing physical channels.

Will the Number of Bank Branches Reduce in the Future?

- Since the start of lockdowns, banks have seen a very high increase in Internet and mobile banking across the Asia-Pacific region.
- Correspondingly, the number of consumers visiting bank branches has dropped by 70 to 80 percent, leading to very low utilization of branches.
- The number of bank branches in the United States has reduced from 93,300 in 2015 to 86,400 in 2019 while the number of branches in Europe has fallen from 156,000 to 129,000 over the same period.

Outlook for Bank Branches and ATMs

- Bank branches will be repurposed to make them more appealing and accommodate the digital lifestyle of customers, leading to a reduction in the size of branches. The number of bank branches will also shrink at an increased rate.
- Frost & Sullivan expects up to 40% reduction in the size of branches and 10% of bank branches to close over the next 3 years.
- ATMs will see a slow decline and will be repurposed to support features such as cashless transactions, cardless withdrawals, and remote video teller support.

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PEER-TO-PEER LENDING

Peer-to-Peer Lending Platforms Offer Flexibility

- Generally, P2P lending companies have seen growth. Wisr, an Austalia-based, company has seen its revenue grow by 136% in Fiscal Year (FY) 2020 compared to FY2019. Additionally, their new loan originations grew by 95% in FY2020.

- On a broader scale and supplementing this trend, the Malaysia P2P Lending platform industry continues to grow from strength to strength, doubling its total loan origination amount in H1 CY2020 compared to H1 CY2019.

Factors Driving Growth of P2P Lending Platforms

- Some successful P2P Lending platforms have adopted alternate ways of raising funds such as obtaining warehouse funding from the financial institutions.
- Other platform providers are helping governments distribute financial assistance for SMEs, adding new accounts to their portfolio.
- A majority have refined their collection process and moved to hosting loans with higher credit scores, reducing the risk of defaults.

Outlook for Asia-Pacific P2P Lending Platform

- P2P lending platform providers will continue to favor digital-focused SME or SME that sell through digital channels.
- Non-performing loans are also expected to rise, as new platform providers typically start their business focusing on the unbanked and underbanked.
- This will lead to industry consolidation, as banks and large P2P players acquire smaller P2P lending platforms. Simultaneously, some P2P players will close and exit the market.

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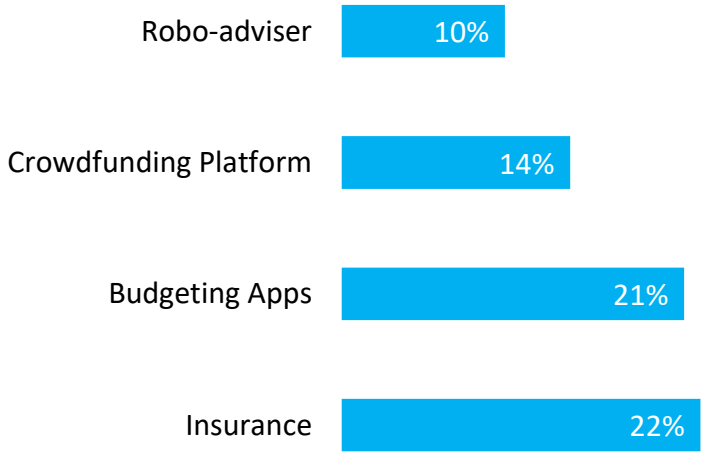
FINTECH ON THE RISE

Covid-19 Accelerates Fintech Adoption

- Lockdowns in March 2020 forced consumers to resort to performing their financial transactions online, leading to an increased usage of Fintech services.
- In general, Fintech companies offer a very compelling proposition, extremely user-friendly interface, and engaging customer service. Given that consumers have already tried their services, these platforms' usage is expected to increase in the future.

Fintech Gaining Ground

Fintech Usage Post Covid-19, Consumer Survey, 2020



- In its latest survey, Frost & Sullivan found that usage of Fintech services is expected to rise post-COVID-19.
- Primary services in demand include purchasing insurance online and using budgeting applications.
- A few regional E-Commerce players are also expected to enter the market or increase their Fintech activities in 2021.

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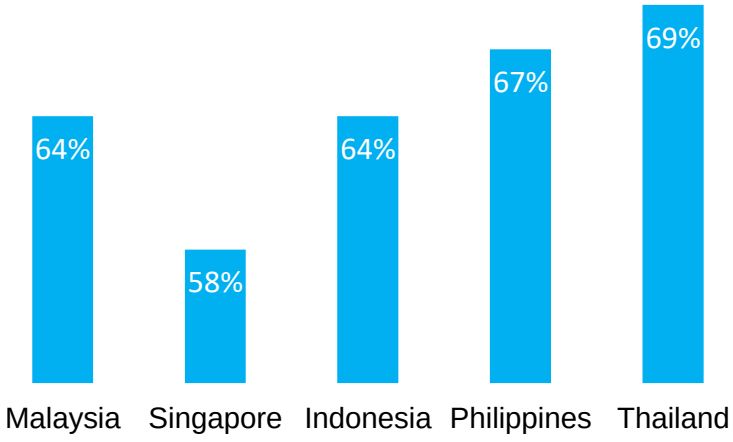
INSURTECHS CLAIMING INCREASED MARKET SHARE

Disruption to Physical Sales of Insurance

- The lockdowns across the globe had an adverse effect on the insurance industry as their sales through agents decreased significantly.
- The insurance industry responded swiftly to the disruption by investing in digital technologies to enable its agents to close sales completely online. Some insurance providers who had relatively better digital readiness used this disruption to further their sales and poach customers from competitors.
- The overall outlook for the insurance industry remains vulnerable as it struggles to sell policies digitally and control rising costs due to COVID-19.
- However, this presents a great opportunity for Insurtechs who have always been focused on selling insurance online. Hence, they were ready when the disruption happened.
- Frost & Sullivan expects Insurtechs to gain from the disruption in the near to long term future.

New Sales and/or Renewal of Insurance Shifts Online

PERCENTAGE OF CONSUMERS EXPECTED TO BUY INSURANCE ONLINE IN NEXT SIX MONTHS



- The Southeast Asia region is expected to see over 60% of insurance renewal and new sales happening online, either through aggregator websites, direct purchase from insurance companies, or through agents.
- The shift in online insurance purchase is here to stay, albeit regulators continued enforcement of the wet signature that was relaxed during lockdowns.

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Recommended Readings:

- ✓ Frost Radar™: ASEAN Peer-to-Peer (P2P) Lending Market, 2020
- ✓ ASEAN Peer-to-Peer Lending Market Study, 2019
- ✓ The Malaysian FinTech Landscape, 2019
- ✓ The Malaysian InsurTech Landscape, 2019

Is your organization prepared for the next profound wave of industry convergence, disruptive technologies, increasing competitive intensity, Mega Trends, breakthrough best practices, changing customer dynamics, and emerging economies?

Leverage digital transformation that addresses the global challenges and related growth opportunities that will make or break today's market participants.

For more than 50 years, Frost & Sullivan has developed growth strategies for the Global 1000, emerging businesses, the public sector, and the investment community. Let us put our expertise to work for you!

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