THE WIN-WIN PROPOSITION
Why APAC’s fintech momentum is driven by partnerships
Opportunities abound across the fast-evolving Asia-Pacific (APAC) fintech landscape, and investment is rushing to tap into them. Open banking and other regulatory initiatives are redefining financial services markets, with third-party providers ready to gain access to formerly proprietary bank customer data.

Crucially, there is now widespread acceptance that the best way forward for banks and fintech startups is partnership rather than competition, and that the creation of broader ecosystems – the potential of which have already been demonstrated in the region – will play a bigger role in unlocking value for all stakeholders, especially consumers. Banks and fintech startups alike will have to overcome practical, talent- and mindset-related challenges to seize the opportunities presented by building financial services ecosystems. If they can do so, those in APAC – and Hong Kong in particular – are well placed to reap the rewards.
It is a truth universally acknowledged that banks need fintech startups to help them innovate, and fintech startups need banks to help them scale. Over the past 12 to 18 months, there has been a clear shift in focus from competition to collaboration between the two groups across the globe.

All the while, fintech investment has been gravitating towards the Asia-Pacific (APAC) region, with APAC overtaking North America in 2018 to become the leading destination for fintech fundraising. The bulk of the inflows are naturally going to regional behemoths Mainland China and India, but Hong Kong has also been receiving an outsized share, owing to its role as an international financial centre and key facilitator of China’s trade flows.

**2018 saw the largest fintech deal to date with the $14Bn Series C round in Ant Financial**

Geographical Split 2018 USD

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<thead>
<tr>
<th>Region</th>
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<tr>
<td>SINGAPORE</td>
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Source: Accenture Research analysis on CB Insights data
Partnering up

More broadly, fintech in APAC is moving with the times. In the past five years, many fintech firms sought to win customers by providing an improved customer experience, with strong UX and UI design. They made it easier for customers to engage with them, reducing the barriers to entry into financial services.

For instance, one of the founding principles of BankSimple (since renamed Simple) a decade ago was to make the user experience “more human.” In Hong Kong, TNG FinTech Group (TNG) and Neat have done a great job of making their platforms transparent and easy to navigate. Australia’s Volt Bank, the country’s first independent digital startup bank, also wins points for the elegant simplicity and seamlessness of its interface.

But now that established players are focused on closing the UX/UI gap, that advantage is coming to an end. With UX moving to the rear-view, data and artificial intelligence are gaining prominence, with fintech innovators bringing new ways of looking at and utilising data. Hence the key is to develop or extend partnerships with institutions, who have the data but often lack an analytics or insight advantage.

This requires a mindset shift that is underway globally and has been articulated by industry leaders including PayPal and Allianz, urging fintech firms to seek partnerships with established financial institutions to create niche solutions and ecosystem plays.1

The considerable value that will be generated via ecosystem plays in the coming years means it is far from a zero-sum game, suggesting an inexorable move away from an “us versus them” mentality to an “us with them” mindset that creates opportunities for all players.
Ant Financial: the world’s most valuable fintech firm

Last year’s APAC fintech investment figure of US$29.8 billion was somewhat skewed by the massive US$14 billion Series C funding round for China’s Ant Financial (an affiliate of e-commerce giant Alibaba). Still, even discounting this would put APAC on a par with North America and far ahead of Europe and the rest of the world.

Not that this deal should be discounted: the blockbuster Ant Financial Series C round is emblematic of the scale and potential of fintech in the region. Made at an implied valuation of US$150 billion, it meant not only that Ant was ranked among the world’s most valuable financial firms, but also that it displaced PayPal as the world’s most highly valued fintech firm.

Global fintech financing (activity by region)

No. of deals grew 19% YOY in 2018. Total funding in the same period grew at 107% primarily driven by the $14Bn round in Mainland China

Note:
Investments value referred to only deals with amount reported by CB Insights and deals volumes referred to all deals

Disclaimer:
There might be variations in historical numbers in new releases of the FinTech Watchtower as Accenture Research performs historical review of the previous data in every release which include, not limiting to, adding/removing deals from CB Insights database based on relevance.

Source: Accenture Research analysis on CB Insights data
Ecosystems as the main change agent

A report by the WEF in collaboration withAccenture estimated that ecosystems enabled by digital platforms could unlock a staggering US$100 trillion of value for all businesses and wider society over the coming decade, with finance highlighted as one of the main beneficiaries.2

In a separate Accenture Strategy survey of business leaders from diverse industries across the world, 76 percent of respondents believed current business models would be unrecognizable in the next five years, with ecosystems identified as the main change agent.3

In many ways APAC has shown the potential of this approach, and some of its fintech innovators have reaped the windfall. In China, which leads the world in fintech adoption,4 the ultimate embodiment of the potential of ecosystems enabled by digital platforms is the all-encompassing “super app,” Tencent’s WeChat, boasting over a billion users. In ASEAN, ride-hailing apps Grab and Go-Jek are locked in a heated battle to emerge as the dominant digital ecosystem, and to that end both have embarked on a partnership and fintech investment spree.

Regulators spurring innovation

Open banking initiatives across APAC are spurring banks to innovate as they seek a competitive edge ahead of opening up their Application Programming Interfaces (APIs) to fintech startups and other institutions. Most APAC jurisdictions have now issued open API guidelines, with notable exceptions including Indonesia and Thailand.

Asian regulators have also been amending rules to allow technology firms to own and run virtual banks, though it’s not an entirely new phenomenon: Japan has allowed branchless banks since the late 1990s.5 In China, Tencent’s WeBank and Ant Financial’s MyBank were among the first five privately owned banks to receive a license from the China Banking Regulatory Commission in 2015 and are now among the most well-known virtual banks anywhere.

Looking ahead, Hong Kong is on the verge of granting its first virtual banking licenses, with the regulator having made clear its aim to create greater financial inclusion, competition and innovation. Meanwhile, Hong Kong’s Insurance Authority has already fast-tracked the approval in December 2018 of Bowtie Life Insurance as the city’s first digital insurer.
To be sure, ecosystem plays are no silver bullet, with several instances of value-added ecosystem offerings introduced by incumbents having thus far been met with lukewarm take-up. But ecosystem partnerships are nevertheless an important part of established players’ multi-pronged response to evolving market conditions – as well as vital to preventing their customer bases from being gradually picked off by niche offerings.6

For the most part, banks are not yet feeling the pain of losses to fintech startups. The loss of, say, 10,000 customers here or there may be relatively inconsequential to banks with millions of customers, which to some extent have the resources to “hunker down” and wait for low-profit entrants to run out of steam. But it would be prudent for incumbents to pre-emptively adopt an ecosystem and innovation mindset in order to stave off further losses and avoid being caught out by those newcomers who attain scale.

Many incumbents are hedging with more than one response due to uncertainty over market structure and value shift

Digitise the bank

Set up a neo bank

Generate revenue from tech services in parallel with business to business

Develop partnerships

Incumbent banks have responded to competitive intensity in different ways

Have innovation at the heart of the investment portfolio

Source: Rapid Evolution Required, Accenture Research
Take, for instance, the success of digital-only bank Monzo in the UK, which went after the specific demographic of millennial travellers through initial offers such as free overseas spending and ATM withdrawals, travel insurance, and other promotions tailored to a travel-oriented segment. Launched in 2015, Monzo now has 1.5 million customers and shows banks the value of tailoring their offerings to different segments among their clientele. Monzo’s customers are also especially loyal. It’s net promoter score (NPS) is close to +80, the highest of any UK bank, and compared to an industry-wide average of around +15.

The lesson is that banks need to start treating customers individually – which is where the ecosystem can come in: banks will have to start developing partnerships and offers that are tailored to different customer segments. Because people don’t buy loans; they finance a lifestyle. This is no less true in APAC’s underserved emerging markets than its developed ones (See excerpt on page 9).

Ecosystem plays are just as important in the insurance space, constituting a win-win proposition for insurers as well as insurtech firms and third-party partners. A recent Accenture survey found 94 percent of insurance carriers acknowledge that adopting a platform-based business model and engaging in ecosystems with digital as well as traditional partners will be critical to their success.

The ability to develop such ecosystems is limited only by the willingness of players to partner each other. But that willingness is slowly building, creating opportunities for first movers. The same survey indicated that only 33 percent of insurers are actually aggressively taking steps to participate in digital ecosystems.

One example of the potential of partnerships and ecosystems in the insurance industry is Chinese online-only insurance company Zhong An, which listed on the Hong Kong Stock Exchange – becoming the world’s first insurtech listing – just four years after it was jointly founded in 2013 by Chinese tech giants Alibaba and Tencent along with the country’s second-largest insurer, Ping An.

Shenzhen-based market research firm CI Consulting forecasts total insurance premiums collected by China’s online insurance providers to reach 430.2 billion yuan (US$64 billion) in 2019, with compound annual growth of around 22 percent between 2017 and 2022. Chinese insurtech firms are now posing a serious challenge to traditional insurers. The successful organisations in future will be those that embrace the ecosystem partnership view.

Meanwhile, from the insurtechs’ point of view, owing to the significant barriers to entry imposed by regulation and capital reserve requirements, it will remain very difficult to create an insurance business from scratch without partnership with a traditional player. The incentive to collaborate is therefore two-way.
Ecosystems for financial inclusion

The fintech boom and the development of financial ecosystems in APAC – and China in particular – has had profound economic and social impacts, filling gaps in financial infrastructure and bringing access to the unbanked and underbanked.

After all, China’s fintech revolution arose largely in response to pent-up demand in a market with underdeveloped payments infrastructure and low credit card penetration. Although incomes were surging on the back of the country’s strong and steady economic growth, spending growth was curtailed by the need to use cash for most transactions. State-owned banks were slow to respond, paving the way for technology firms to fill the gap.

China’s fintech giants are now seeking to export their capabilities to less developed Southeast Asian markets, such as Indonesia and the Philippines, where as many of two-thirds of adults still don’t have bank accounts, even though Internet penetration stands at over 60 percent among the population aged 15 or older in Indonesia and close to 90 percent in the Philippines.
Why Hong Kong’s Fintech scene is set to blossom

Notably, while the ecosystem mindset pervades most of APAC, it has yet to take hold in Hong Kong. And there in lies opportunity.

Hong Kong has so far been a bit of a laggard in terms of consumer fintech adoption, largely owing to a general distrust of mobile payments among the local population, despite their ubiquity in the Mainland, where more than US$15.4 trillion worth of mobile payments were handled by third-party platforms in 2017 — more than 40 times the amount processed in the US. A recent survey by the Hong Kong Productivity Council found 70 percent of Hong Kongers have never made a mobile payment, and more than 50 percent have no plans to do so.

In addition to the absence of ecosystem plays, there has been a lack of compelling offers to disrupt the saturated local banking and insurance markets. But the tide has been turning, spearheaded by new entrants drawn in by the city’s open banking initiatives – there are now estimated to be around 550 fintech startups in Hong Kong, up from 140 in 2016. Of these, 52% are from abroad. Hong Kong’s attraction to fintech startups is clear. It's a leading international financial hub, and last year held the title of world’s number-one IPO market, with 125 companies raising US$36.5 billion.

It is early days for fintech challengers in Hong Kong and its closest regional competitor, Singapore, in terms of their impact in the market. Extensive research by Accenture reveals both cities are at the low end internationally of financial services revenue shifts to new players. In Hong Kong’s case, it is an expected result of the nascent state of the challenge from fintech startups and low level of market fragmentation. The UK, which has seen the largest number of new entrants, unsurprisingly leads the world in terms of revenue captured by new players, who have grabbed around a 14% share.

But there is no denying Hong Kong’s potential. Along with Singapore it is seen as a base where fintech startups with regional ambition tend to gravitate, whereas the startups emerging in other APAC jurisdictions tend to be focused more on their local markets.

Revenue shift to new players

Source: Rapid Evolution Required, Accenture Research
There has also been much discussion of the impact on Hong Kong’s financial industry and fintech firms from the Greater Bay Area (GBA) initiative that’s set to create closer integration between Hong Kong, Macau and nine economically-important cities in China’s Guangdong province. Rather than asking what the initiative can do for Hong Kong, a better question might be “how can fintech firms help the Greater Bay Area open up?” By taking that approach, local fintech innovators could help Hong Kong reinvigorate its traditional role as the major facilitator of China’s trade flows.

Hong Kong fintech firms thus have a unique role to play in leading innovation across the region and fostering collaboration across various players in the new technology ecosystems.

Moreover, it is important to remember the enormous potential presented by the city’s high concentration of B2B opportunities – particularly among small businesses and startups, which remain underserved. One Hong Kong fintech already working on this niche is Neat, which offers current accounts for businesses along with debit cards, as well as services for payroll, expense management and receiving global payments. Neat claims to have customers in 100 countries with a new business signing up every 20 minutes.

**FILAP: Capitalising on Hong Kong’s advantages**

Accenture launched its FinTech Innovation Lab Asia-Pacific (FILAP) in Hong Kong in 2014 as an annual 12-week mentorship programme, and its alumni companies have grown in step with the region’s fintech landscape. To date, the Lab has received nearly 600 applications and helped alumni raise over US$508 million, resulting in the creation of 1,462 jobs, completion and progress on 189 proofs of concept, and 158 implementations.

**FILAP 2014-2018 in numbers**

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<th>Contents</th>
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<th>Fundraising</th>
<th>Job Creation</th>
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Source: Accenture FinTech Innovation Lab Asia-Pacific
Hong Kong’s shifting fintech investment focus

As elsewhere, artificial intelligence is emerging as the next technology focus of fintech investment in Hong Kong. Examples include Oriente, which is committed to unlocking financial inclusion in emerging Asia by using AI, machine learning, and data science to provide real-time credit scoring, lending and other services. Founded in 2017, Oriente now has over 1,200 employees across APAC. Its US$105 million Series A round is one of APAC’s largest early-stage fintech investments. Two of Hong Kong’s other biggest fintech investments of last year were also in the AI space, including US$12.7 million to Trend Lab and US$10 million to robo-adviser Quantifeed.

The product categories receiving the lion’s share of fintech funding over the past five years, both globally and within APAC include Payments, Lending and Wealth management. Hong Kong’s two biggest homegrown fintech success stories, WeLab and TNG, are in the Lending and Payments spaces. WeLab, one of seven Hong Kong unicorn startups, with total fundraising of US$425 million to date, operates online lending platforms in Hong Kong and Mainland China and claims over 32 million users. TNG, meanwhile, which raised US$115 million in its Series A round in 2017, has made a name for itself providing cheaper and more convenient remittance services for Hong Kong’s foreign domestic workers.

Recent months have seen an uptick in insurtech investment, which accounted for close to 30% of fintech fundraising in Hong Kong last year, including a US$30 million Series A investment in Bowtie Life Insurance, which became the city’s first digital insurer, and US$25.4 million to online pet insurer OneDegree, also in a Series A round.

APAC fintech financing (activity by products)

Insurance and current accounts emerging as the next key areas of investment after payments, lending & wealth mgmt

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<th>Year</th>
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<td>2018</td>
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Source: Accenture Research analysis on CB Insights data
Challenges to overcome

Even though banking and insurance giants might see value in the offerings of fintech innovators working on niche parts of their value chains, that does not guarantee it will be smooth sailing for the fintech firms to be onboarded by established players.

Big organisations typically have procurement practices that are made for dealing with other big organisations: startups could burn capital just going through the red tape of the contracting process with one major partner, if that partner doesn’t have a flexible or nimble enough culture.

Another problem faced by technology companies everywhere, and no less in APAC, is a shortage of talent – a problem addressed by recently launched ventures in APAC including Thailand-based GetLinks, focused on filling tech jobs, and Singapore’s HaTCH, serving the specific needs of startups. The Hong Kong government is seeking to remedy the city’s technology skills gap by easing the importation of workers through the recently introduced Technology Talent Scheme, while the city’s tertiary education institutions are set to introduce fintech postgraduate courses later this year.

Although labour will likely remain a near-term bottleneck, with the expansion of fintech opportunities and investment, the sector is now attracting a much broader talent pool than five years ago. More insurance industry veterans and some of the industry’s rising stars are leaving established firms and setting up insurtech startups. This is helping with the maturity of the propositions that are coming to market. That balance between industry and technical expertise makes fintech and insurtech firms well positioned for success moving forwards.
Moving towards partnerships

Fintech startups and established players across APAC can be fairly clear that partnerships are a mutually beneficial way forward, and together they can create value from ecosystems both within and beyond the financial realm.

This is true even of China’s titanic fintech companies – Ant Financial and Tencent – which are so large and powerful they could arguably have gone it alone. But precisely because they’ve come so far so fast, regulators have recently seen fit to curtail their further growth through deposit caps and investment and withdrawal limits in order to protect the country’s banks from a further potentially destabilising exodus of customers.34

In the wake of those restrictions, Ant and Tencent have shifted their focus to serving as banks’ technology providers. That’s a model that could become the norm globally: the provision of platform-as-a-service (PaaS) for many core banking functions and operations is a staple strategy for digital startup banks such as Oaknorth and N26, as well as an approach adopted by incumbents either looking to deconstruct the back office via APIs or offering services out to third parties.

For startups and incumbents that lead the way, the rewards are set to multiply. Investment chases opportunities but also creates them. Given the increasing concentration of fintech investment in APAC, all stakeholders should follow that money in search of opportunities of their own.

And within the region, Hong Kong is pound for pound arguably the most attractive fintech destination, bolstered by positive regulatory changes and supportive policies from not only the local government, but also the central government in Beijing in the form of the Greater Bay Area initiative. There are also clear trends and market gaps that point the way forward, from the increasing focus on artificial intelligence to the underserved small business segment.

Still, in the true spirit of innovation, it could well be that APAC’s next fintech unicorn succeeds by delivering an as yet unimagined proposition. It is as likely to be developed in Hong Kong as anywhere in the world.
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