

Asset and Wealth Management Research Digest

PwC | AWM Asia Pacific Market Research Centre
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FinTech in Asset and Wealth Management

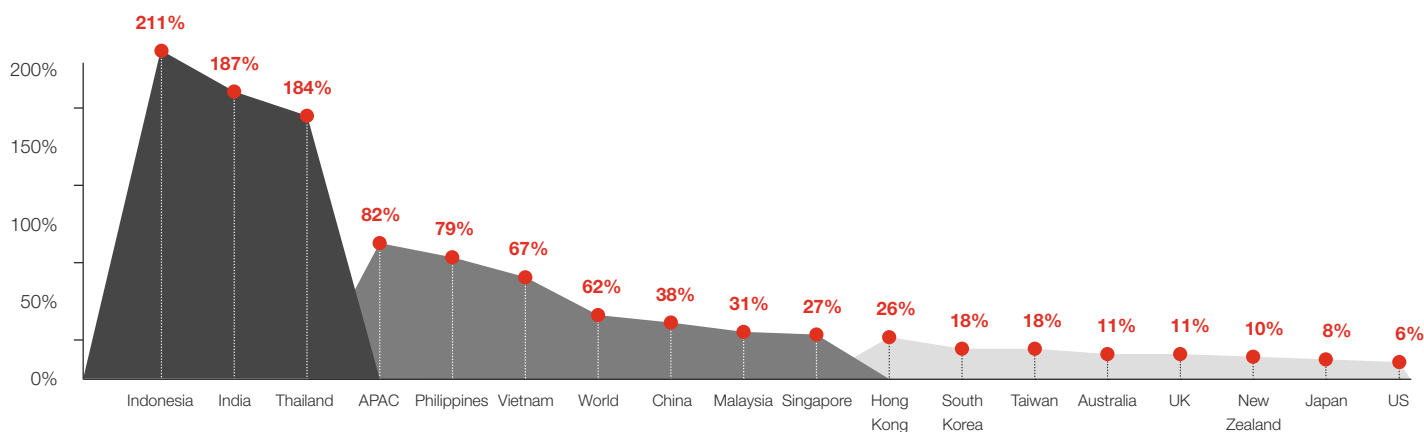
Overview

As John Maynard Keynes stated; “the difficulty lies not so much in developing new ideas as in escaping from old ones.” An illustrative example of this can be found in the relationship of between digital technologies and its adaptation in the asset and wealth management (“AWM”) space. For whilst the Asia-Pacific (“APAC”) region has experienced substantial growth in the FinTech scene, the number of internet users across the region has swollen by more than 80% over the last five-years to reach 2.3 billion individuals¹ as of June 2019, and South Asia is leading the world in financial access with growth rates of 37% over 2011-2017 compared to a global average of 18%², some argue

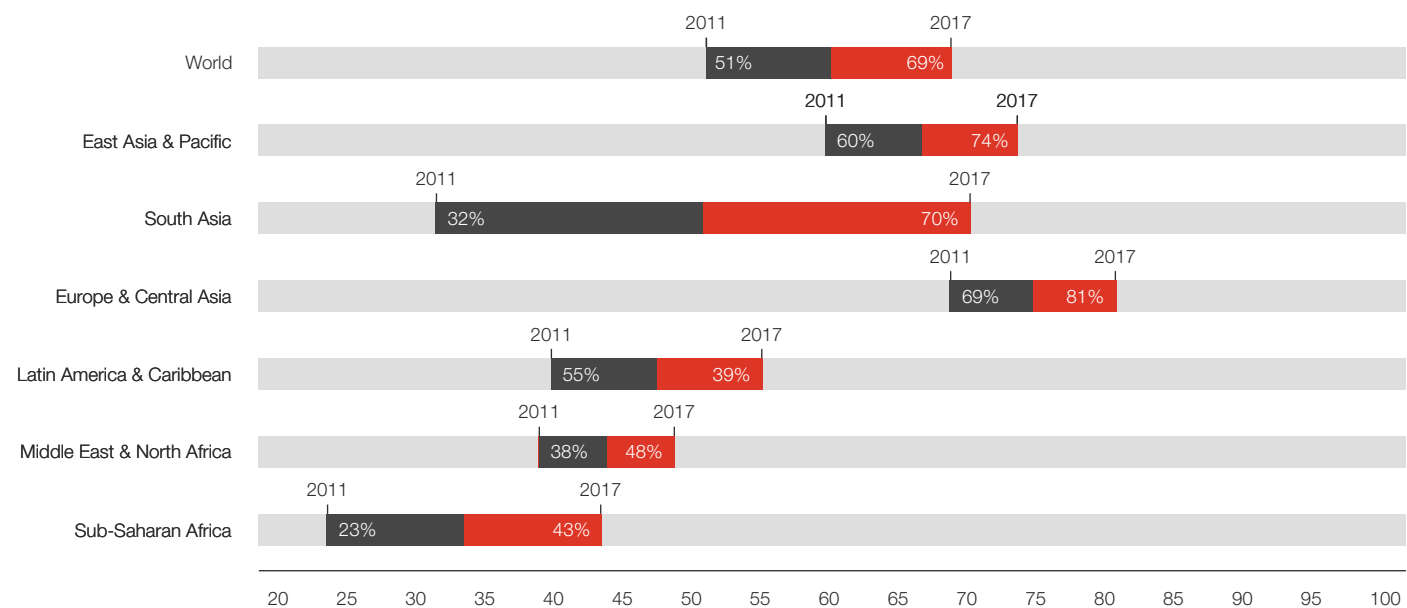
that the use of such technology in the AWM space lags behind the potential for the region, with banks and physical points of distribution for AWM products still dominating the distribution stakes.

This issue of the research digest will explore the digital ecosystems that contribute to the growth and development of digital distribution in Asian fund markets. By scanning the FinTech landscape, we attempt to identify which Asian economies are best placed for digital adoption in the AWM space and how industry players can potentially exploit the opportunities arising from the same.

Percentage increase in internet users (Dec 2013 to Jun 2019)

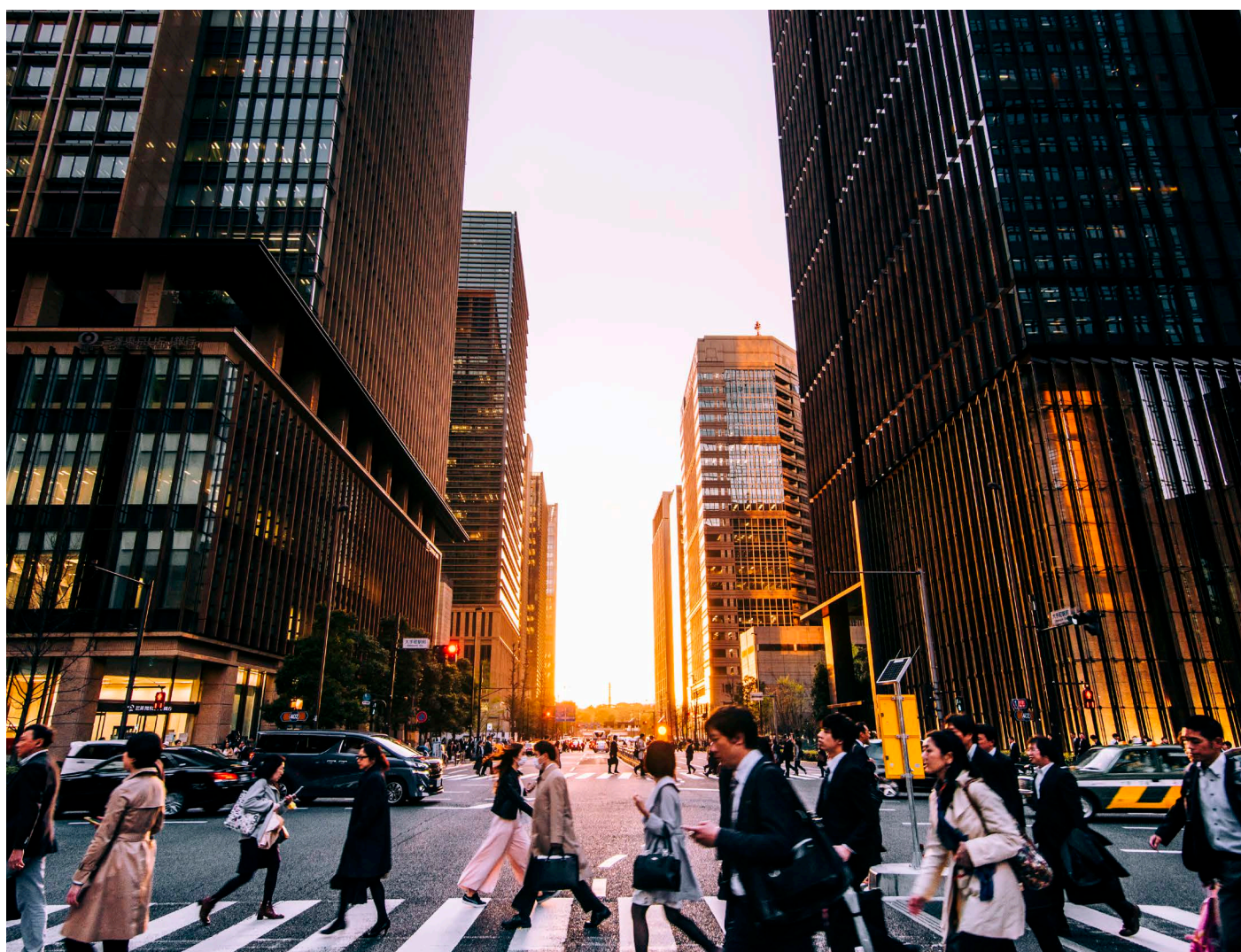


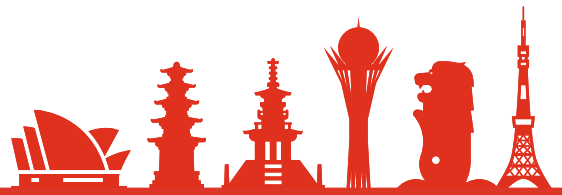
Financial access growth (2011-2017) – Asia in the lead



Figures indicate individuals (ages 15+) with access to bank account

Source: Global Financial Inclusion Database














Digital ecosystem

Many factors can contribute to a favourable digital ecosystem, including the use of regulatory sandboxes, permissive use of virtual banking licenses and other emerging technologies, adaptive infrastructure, and a supportive regulatory environment.

How some jurisdictions have utilised these tools is outlined in the tables below:

Country	Sandbox issuing authority	Participants	Nature of products tested	Virtual Banking licenses approved
 Malaysia	<ul style="list-style-type: none"> National Regulatory Sandbox – MaGIC supported by Ministry of Finance (Apr 2014) Securities Commission (SC) Regulatory sandbox under SC's FinTech Innovation Lab - aFINity (2015) Bank Negara Malaysia launched Financial Technology Regulatory Framework or BNM Framework (Oct 2016) 	<ul style="list-style-type: none"> 7 entries for BNM Framework (2 live-testing stage, 1 graduated) 	<ul style="list-style-type: none"> Alternative trading systems InsurTech, remittance, e-KYC, secured chat banking application 	No
 Singapore	<p>Launched by Monetary Authority of Singapore</p> <ul style="list-style-type: none"> FinTech Regulatory Sandbox (Nov 2016) and Sandbox Express (Aug 2019) - 	<ul style="list-style-type: none"> Sandbox - 7 entries (3 graduates, 2 active experiments) Sandbox Express – 2 active experiments 	<ul style="list-style-type: none"> Digital insurance broker, AI-based advisory, remittance, securities token offering exchange platform Online trading platform 	Plans to issue up to five new digital bank licenses, constituting of 2 digital full bank licenses and 3 digital wholesale bank licenses
 Australia	<ul style="list-style-type: none"> Australian Securities and Investments Commission (Dec 2016) 	<ul style="list-style-type: none"> 7 (1 current user) 	<ul style="list-style-type: none"> Online platforms for asset management, P2P loan comparison, financial advisory, application for saving and money transfer, share trading application, Arranging and dealing in banking products 	Australian Prudential Regulatory Authority granted first license in 2018, and along with full banking licenses to other digital lenders. Licenses granted are mostly restricted Authorised Deposit-taking Institution (ADI) licenses. Unrestricted ADI was granted to a bank in Sep 2019

Country	Sandbox issuing authority	Participants	Nature of products tested	Virtual Banking licenses approved
 Thailand	<ul style="list-style-type: none"> Bank of Thailand (Dec 2016) Securities Exchange and Commission <ul style="list-style-type: none"> - securities and derivative business (Mar 2017) - FinTech clearing houses (May 2017) - e-trading platforms (2017) -KYC (Jun 2017) 	<ul style="list-style-type: none"> 47³ 10⁴ 	<ul style="list-style-type: none"> QR code payment, facial recognition (e-KYC), blockchain-based letter of guarantee and cross-border money transfer Blockchain technology, financial inclusion technology and RegTech 	No
 Hong Kong	<ul style="list-style-type: none"> FinTech Supervisory Sandbox (FSS)* <ul style="list-style-type: none"> - Hong Kong Monetary Authority (Sept 2016) *upgraded later to FSS 2.0 	<ul style="list-style-type: none"> 74 entries 	<ul style="list-style-type: none"> Biometric authentication, soft tokens, chatbots, distributed ledger technologies, API services, RegTech and mobile application enhancements 	<p>Eight recipients granted virtual banking licenses as of July 2019.</p> <p>First batch of licenses awarded in March 2019 to 3 companies</p>
 Indonesia	<ul style="list-style-type: none"> Bank Indonesia (Nov 2017) OJK – Financial Services Authority (August 2018) 	<ul style="list-style-type: none"> 58 registrants 35 FinTechs sampled in the test phase⁵ 	<ul style="list-style-type: none"> Payments, supporting provider, market supporter⁶ 	No
 Taiwan	<ul style="list-style-type: none"> Financial Supervisory Commission (Apr 2018) 	<ul style="list-style-type: none"> 6 approved applications⁷ 	<ul style="list-style-type: none"> Remittance services, microcredit strategy, InsurTech, blockchain for domestic fund transfer and payment services, fund management 	First batch of virtual banking licences for 2019 awarded to 3 recipients
 Japan	<ul style="list-style-type: none"> Government of Japan (Jun 2018) 	<ul style="list-style-type: none"> 6⁸ 	<ul style="list-style-type: none"> Internet of Things, cryptocurrency, detection of unauthorized openings of online bank accounts 	No
 South Korea	<ul style="list-style-type: none"> Financial Services Commission (Apr 2019) 	<ul style="list-style-type: none"> 42 application approved⁸ 	<ul style="list-style-type: none"> Payments, loans, transfer management and stock lending platforms, P2P finance, brokerage services, AI-based products, insurtech, financial services using blockchain 	<p>As of July 2019, there are two digital banks in South Korea.</p> <p>New rounds of application are expected to start in October 2019</p>

³Estimated as of Feb 2019 ⁶Nature of FinTech as classified by Bank of Indonesia
⁴Estimated as of Oct 2018 ⁷Estimated as of September 2019
⁵Estimated as of July 2019 ⁸Estimated as of June 2019

Some early-adopters of regulatory sandboxes were Malaysia, Singapore, and Thailand, with the first two also inviting local and global banks to work with technology companies. Common products tested include remittance and payments, online platforms, and scattered use of blockchain and artificial intelligence (“AI”). Late-adopters include the Reserve Bank of India which has only recently proposed the establishment of sandboxes to encourage FinTech developments in insurance in financial services.

Another FinTech development showing regional promise is e-KYC, with India proposing to use its national identity card Aadhaar programme for e-KYC and facilitate online

authentication, Thailand demonstrating its first instance of using facial recognition technology for account openings, and Japan equipping ATMs with facial recognition technology alongside their adoption of digital signatures for online investing. Malaysia and Philippines, among others, are also considering e-KYC guidelines and a blockchain powered digital banking ID registry. However, for countries lacking a sound digital infrastructure and unable to commit to the high costs of development, integration and maintenance, e-KYC may not be viable.



FinTech landscape – Digital fund distribution in APAC

Fund distribution in Asia remains highly fragmented with no single channel having dominance in every market. For instance, in Hong Kong retail banks dominate the sale of fund products, securities firms own the bulk of market share in Korea, and in Australia, 'wrap platforms' or master trusts are largely sold through independent advisors.

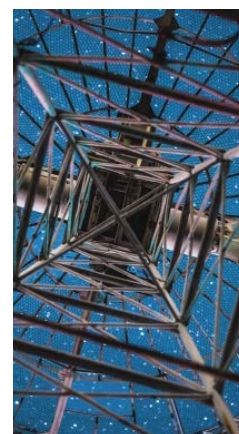
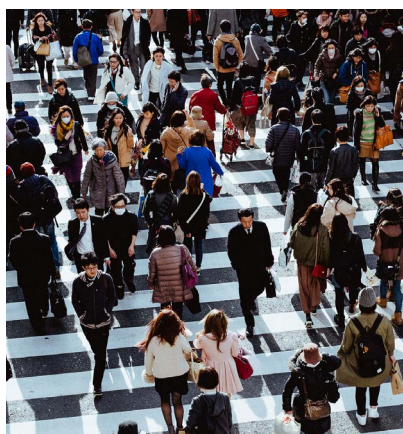
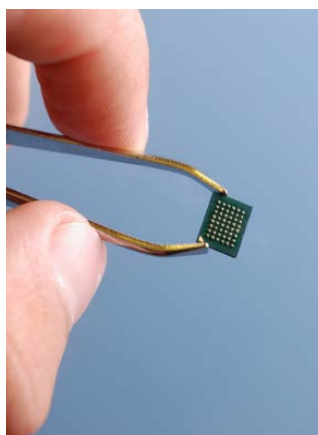
The digital fund distribution landscape in Asia is no different with different economies at varied stages of FinTech adoption in Asia. Countries such as China, India, and Singapore, among others, are steaming full-ahead, while others have just begun to take proactive measures to spur themselves in this digital distribution race.

China

China's online fund distribution is dominated by large platforms backed by technology giants. These online platforms lead not only in terms of scale and investor base but also in terms of wide suite of products and services and ease of access. Starting with encouraging online consumers to shift their idle cash balances in digital wallets to money market funds, these platforms now offer a range of AWM products, many of which have minimum investment thresholds of less than USD1.

The importance of reaching China's 829 million¹⁰ internet users via digital platforms has been realised by AWM players, both foreign and domestic, with many establishing their own online platforms and robo-advisory services. Smaller, third-party platforms do exist in the market but they are likely to be squeezed between the tech titans and the in-house platforms. The ecosystem may become further entangled as some of the tech titans establish their own AWM arms, either in conjunction with other parties or by themselves, and manufacture their own products whilst continuing to distribute that of their competitors.

Even amidst this digital uptake, banks have a significant role to play in fund distribution, with anecdotal insight from industry professionals noting that banks and traditional distributors are crucial at the IPO stage of a fund launch to reach a critical mass, before online platforms pick-up the slack and drive future inflows.



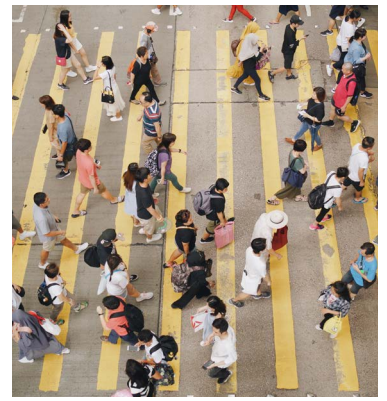
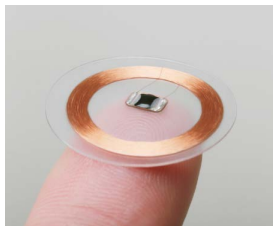
¹⁰in 2018

India

FinTech permeates all facets of the AWM value chain in India. Unlike China, where technology companies have been a catalyst to digitalisation, regulations have boosted FinTech efforts in the sub-continent. Effective April 2019, The Securities and Exchange Board of India ("SEBI") introduced reporting standards for market participants using artificial intelligence or machine-learning based technologies, and directed AWM entities to implement a cyber-security and cyber resilience framework. Such initiatives demonstrate that the regulator is not only paying close attention to recent technological developments, but also taking steps to evaluate its impact on the AWM industry and safeguard it against potential risks.

Post demonetisation there has been an increase in online payment platforms and e-wallets in a country otherwise dominated by physical cash transactions. This has been driven by SEBI which in 2017 allowed investors to buy mutual funds, up to a limit, using digital wallets and has also awarded distribution licences to payment platforms to sell mutual funds directly. These developments appear to have had a direct impact on the share of digital flows into mutual funds as shown below.

As robo-advisors and digital platforms continue to enter the market and drive down the costs of investment, we would expect increased financial awareness and participation among the population. It will be interesting to observe whether this increased accessibility and reach of digital platforms eventually translates into growth in India's AWM industry.



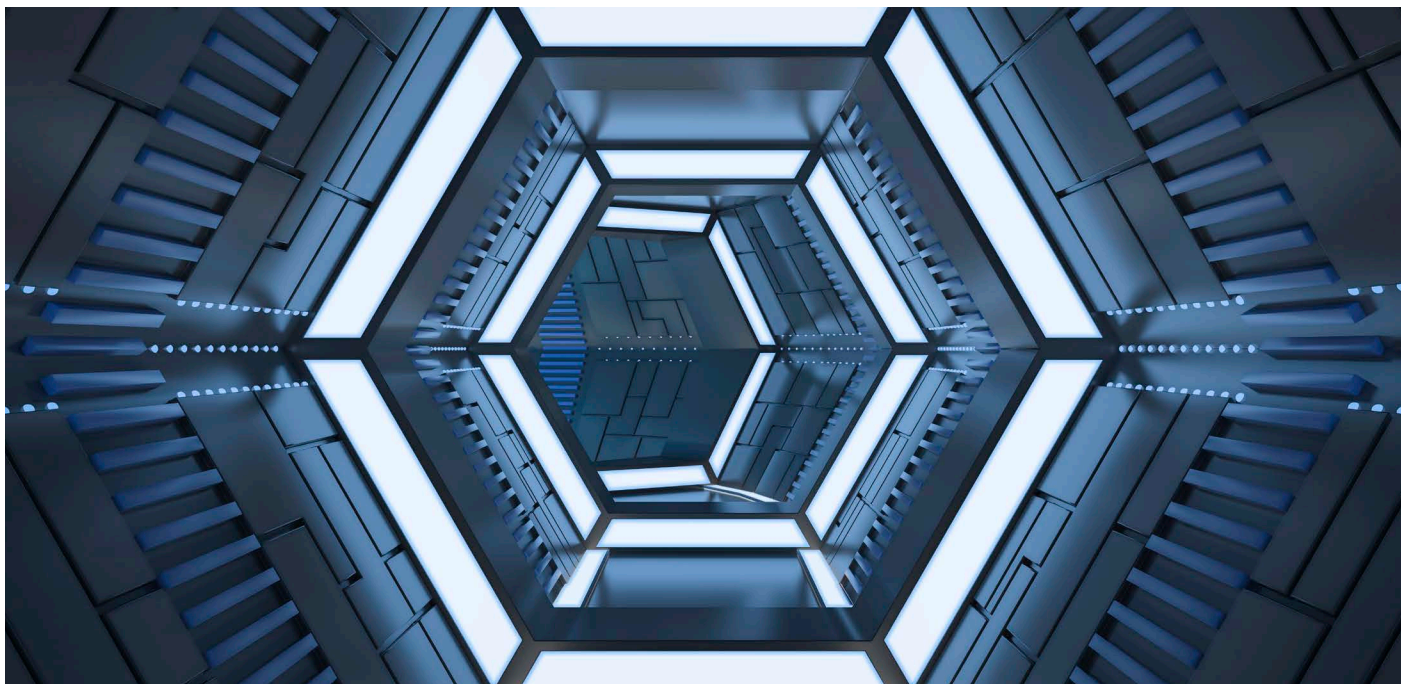
Hong Kong and Singapore

Uptake of FinTech services in Hong Kong and Singapore has been slower in comparison to China and India, though Singapore appears to edge Hong Kong in terms of acceptability and infrastructure readiness. This disparity is largely due to the work of The Monetary Authority of Singapore which works closely with the financial industry to develop FinTech technology across the sector.

Both markets see global AWM entities enhance their digital services for clients with establish players and new entrants to the market pushing digital technologies to further their client's interests and meet their demands

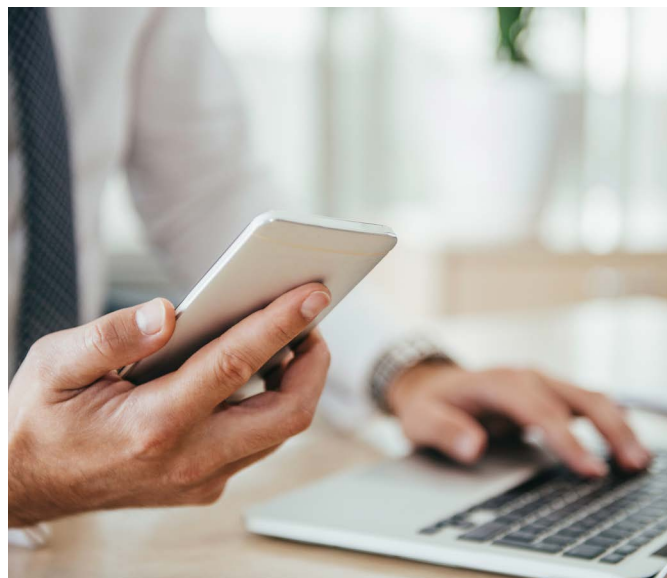
Australia and Japan

Australia lists 14 robo-advisors in the AWM space across online advisory, smart investing managed funds, fixed income and defensive assets and B2B financial technology solutions. Japan's robo-advisors are primarily targeting younger investors and the nation is seeing an increasing number of tie-ups between robo-advisor operators and local financial institutions. For both markets, there does not seem to be any distinguishing strategies for FinTech adoption in comparison to other APAC countries.



South Korea and Taiwan 🇰🇷 🇹🇼

In Korea, over 2019 the Financial Services Commission (“FSC”) has undertaken initiatives allowing for AI-driven investment to have greater business scope. Regulatory support has encouraged industry players to build dedicated online investment platforms. This has led to AWM products becoming more accessible across the various investor segments and an increase in robo-advisory programmes. Despite this, digital penetration remains low, possibly due to the high market concentration of distributors, with Korea’s first online fund supermarket only accessed by less than 2% of the retail user base despite its low fees. Taiwan’s situation is similar to Korea’s with low interest in digital distribution due to high fund churning and low fee transparency. FinTech is yet to gain a strong foothold within the overall AWM industry though there has been a rise in e-payment platforms in the country which tends to lead to increased AWM FinTech services as the digital adoption spreads.



Other Southeast Asian economies

Southeast Asian economies are in nascent stages of FinTech development. Thailand, under its Thailand 4.0 initiative, is pivoting towards digital transformation to boost innovation and competitiveness and the number of internet users has grown by more than 80% over 2013-2018. The favourable digital environment has prompted robo-advisory firms to enter the country and AWM firms are also undertaking initiatives to develop their digital infrastructure and platforms to reach a wider investor base.

Malaysia’s securities regulator supports a holistic development of FinTech for Malaysian capital markets and announced the first licences for Digital Investment Framework Management in mid-2018. So far, three robo-advisory licences have been issued by the Securities Commission, with the most recent one being announced in August 2019. Additionally, Malaysia’s Employees Provident Fund (“EPF”) launched an i-Invest online platform in August 2019 which enables members to invest in unit trust investments directly from EPF account with substantially lower fees.

The burgeoning rise of mobile payment platforms in Indonesia is likely to spur online retail fund distribution as the FinTech scene develops. Only 0.3% of the Indonesia’s population invests in mutual funds according to OJK as of 2018. Despite this low base, digital platforms have proven an integral means of attracting new investors and increasing mutual fund penetration across the archipelago.

Financial technology is in infancy in the Philippines and, as of 2018, more than 70% of Filipino adults lack bank accounts¹¹. Financial literacy, financial inclusion, and investing awareness in the country also fares on the low side. However, inspired by the success of money market funds sold on e-wallets in China, many fund firms in the country are looking forward to developing their own platforms or partnering with existing mobile payment services.

Though the country has an online fund supermarket, in existence since 2015, Philippines’ first investment marketplace in a mobile wallet app was launched in early 2019. With a minimum investment amount of PHP 50, it does not require an investor to own a bank account. The first robo financial advisor in the Philippines was launched in June 2018.

Uptake of digitalisation in Vietnam’s AWM industry has been low, with FinTech witnessing some momentum only in the last 2-3 years. Vietnam’s first robo-advisory platform, targeted at millennials, was launched in 2017. Some domestic asset managers have online platforms and have shown an interest in e-KYC. In July 2019, a Vietnamese asset manager acquired a robo-advisor with a view to expand its platform across Southeast Asia. However, locally domiciled open-end funds are primarily reliant on bank distribution and direct selling via agents.



▼ ¹¹Bangko Sentral ng Pilipinas, 2018



Where do opportunities lie?

Fund Market	FinTech adoption in fund distribution	Digital Ecosystem Development Stage	Internet penetration growth % (2013 – Jun 2019)	Deposit balances growth % (2013 – 2018)	% Increase in Financial Access (2011 – 2017)
China	High	Advanced	38%	42%	16%
India	Medium/High	Developing	187%	28%	45%
Singapore	Medium/High	Developing/Advanced	27%	42%	0%
Hong Kong	Low/Medium	Developing	26%	36%	7%
Australia	Low/Medium	Developing	11%	-2%	0%
Japan	Low/Medium	Developing	8%	7%	2%
South Korea	Low/Medium	Nascent/Developing	18%	36%	2%
Taiwan	Low/Medium	Nascent/Developing	18%	24%	7%
Thailand	Low	Nascent/Developing	184%	21%	9%
Malaysia	Low	Nascent	31%	-5%	19%
Indonesia	Low	Nascent/Developing	211%	18%	29%
Philippines	Low	Nascent	79%	56%	8%
Vietnam	Absent/Low	Nascent	67%	108%	9%

🌐 Sources: World Bank, S&P Intelligence, PwC Analysis

Opportunities for AWM players and FinTech firms exist across the APAC region, though the nature of the opportunities will vary significantly across the various nations and markets within the region. The region shares an increasing number of internet savvy populations such as in Indonesia, India and Thailand and rising deposit balances in Philippines, China and Singapore. Increase in financial access in India and Indonesia has been among the highest in the region. These factors should prove to be significant drivers of digitalised AWM services in the aforementioned markets.

Regulators and policy-makers are, for the most part, engaging with industry to promote the development and adoption of FinTech across a range of financial services though their approaches can be staggered and inconsistent.

Whilst the idiosyncratic nature of the region makes a uniform FinTech and digital approach to AWM unlikely, and even unwise, industry players should consider FinTech adoption in fund distribution not as a sprint, but as a marathon of developing a cohesive and sustainable digital infrastructure and ecosystem.



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Editorial contribution



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