Digital and wealth opportunities in Asia Pacific

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Wealth opportunities in 'the Asian century'

While the 21st century has long been touted as 'the Asian century' such a moniker does not do justice to the myriad differences and vast diversity found within the region.

The peoples, languages, cultures, geographies, and countless other facets woven together across an area of the world which comprises 37% of the world's economic output[1], 60% of the global population, and 30% of the world's landmass[2] results in a vibrant, bustling region, brimming with ideas and energy.

With strong commercial ties and robust domestic markets, economic development has been turbocharged in recent years, increasing from USD 9tn in 2000 to USD 35tn in 2021[3], growing at a compound annual growth rate (CAGR) of 6.68%

This, in turn, has led to increased affluence, and considerable wealth creation in the region.

Asia Pacific's wealth dynamics

According to the UBS Wealth Report 2023 and its accompanying Databook, Asia Pacific boasted 1,084 billionaires, at least 66,000 ultra high net worth individuals (UHNWIs) (Over USD 50 million net worth), about 16 million high net worth individuals (HNWIs) (Net Worth ranging from USD 1m to USD 30m), and over 290m mass affluent investors as of 2022[4].

Emerging markets are the main contributors of wealth, with Chinese Mainland alone making up about a quarter of the world's mass affluent, significantly ahead of the next three developed countries: Japan, South Korea, and Australia, which only make up over a tenth of this investor segment globally. It should be noted that the rapid rise in non-USD wealth is partly due to higher inflation which makes it easier to pass the USD 1m threshold. This pool of wealth is expected to increase from USD 247.8bn in 2020 to USD 811.5bn by 2030, growing at a CAGR of 12.7%[5].

Unsurprisingly, this growth, coupled with the potential for assets under management (AUM) across the region to reach USD 30tn by 2027, is fuelling increased demand for asset and wealth management services across all investor segments and spectrums.

Accordingly, there is increased interest from asset and wealth managers as to how best to tap into this rapidly growing space.

How this wealth will be accessed, and how the newly-affluent investors desire to be served and serviced, will vary considerably across the region.

[1] S&P Global, (2022), The Ascent of APAC in the Global Economy
[2] UNFCCC, (2019), From Needs to Implementation: Stories from the Technology Needs Assessments
[3] S&P Global, (2022), The Ascent of APAC in the Global Economy
[4] UBS, (2022), Billionaires aim to tackle environmental and societal challenges
[5] EINnews, (2023), Asia-Pacific Wealth Management Market Is Expected to Reach $811.5 Billion by 2032

Wealth distribution in the Asia Pacific region, 2022

Household financial wealth (USD)	Number of adults	Proportion of adult population in Asia Pacific (%)	Percentage of wealth to world (%)
UHNWI (50m and above)	60.61 thousand	0.02%	24.93%
HNWI (1m - 50m)	16.01m	1.4%	27.00%
Mass affluent (100,000 – 1m)	292.17m	24.7%	45.60%

Source: UBS Global Wealth Databook 2023

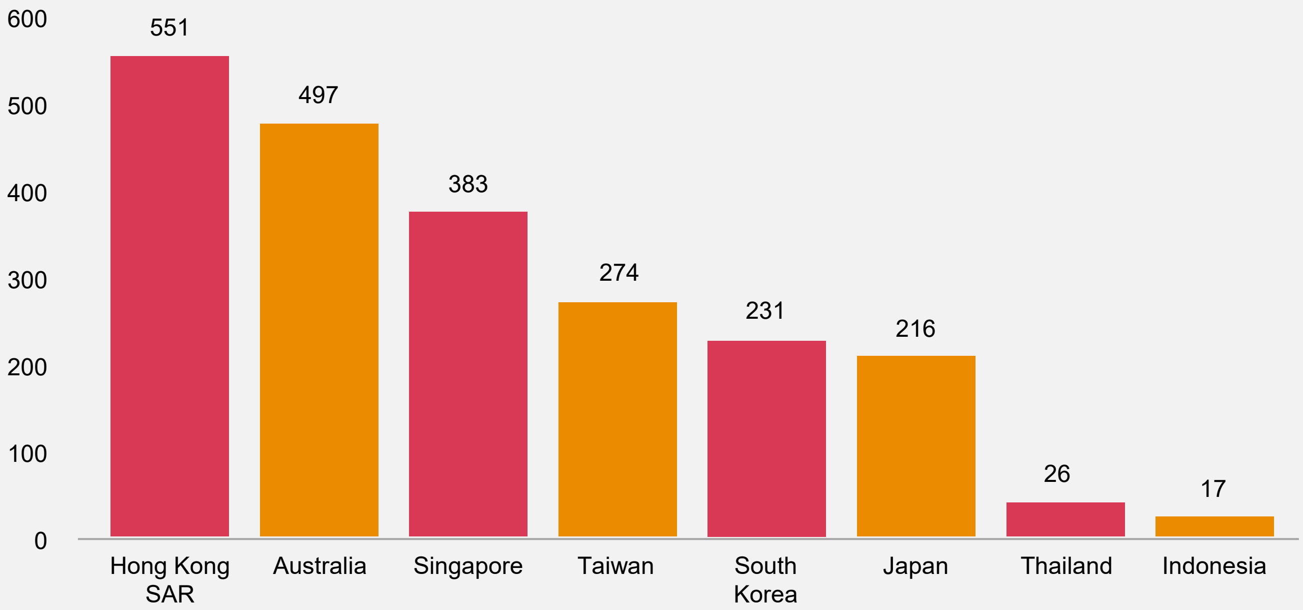
Within mature Asia Pacific markets like Singapore, Hong Kong SAR, Japan, and Australia, bank distribution is well-established and there are strongly entrenched ecosystems.

Despite this strong position, digital threats are emerging in the form of challenger banks, digital investor platforms, and other digital platforms, in response to investor demands, especially from younger generations.

At the other end of the spectrum, emerging and frontier Asia Pacific markets are vastly different and poised to bypass legacy infrastructure found in their mature market peers, moving directly to digital platforms.

This presents unique opportunities and challenges for those operating in the digital wealth management space, with many individuals who joined or stand poised to join the ranks of the affluent and wealthy being far more tech-savvy than previous generations.

Wealth per-adult in selected Asia Pacific centres, USD '000's



Source: UBS Global Wealth Databook 2023

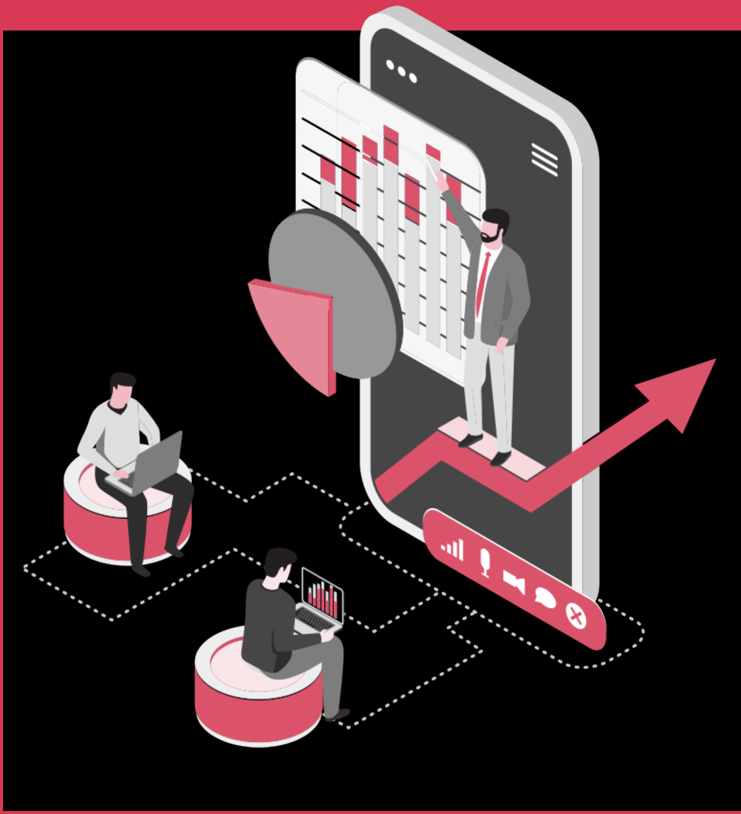
Technology shaping the market landscape

These individuals are a younger cohort of investors, digital natives attuned to developments in the FinTech space and are open to wealth management transformations through various technology streams.

To meet this demand, asset and wealth managers alike are investing substantial amounts of resources and have made, and continue to make, significant advances with regards to their use of technology to better service new and existing clients.

Developments and innovations such as the use of data driven artificial intelligence (AI) tools to provide personalised financial advice, increased integration with national identity card frameworks to speed and reduce friction in client onboarding, and linkages with e-wallets to provide channels for money to be deposited and withdrawn, all serve to reduce barriers to investment.

This leads to increased customers and growing AUM for the wealth management players able to seize the opportunities presented.



Increased ease of access

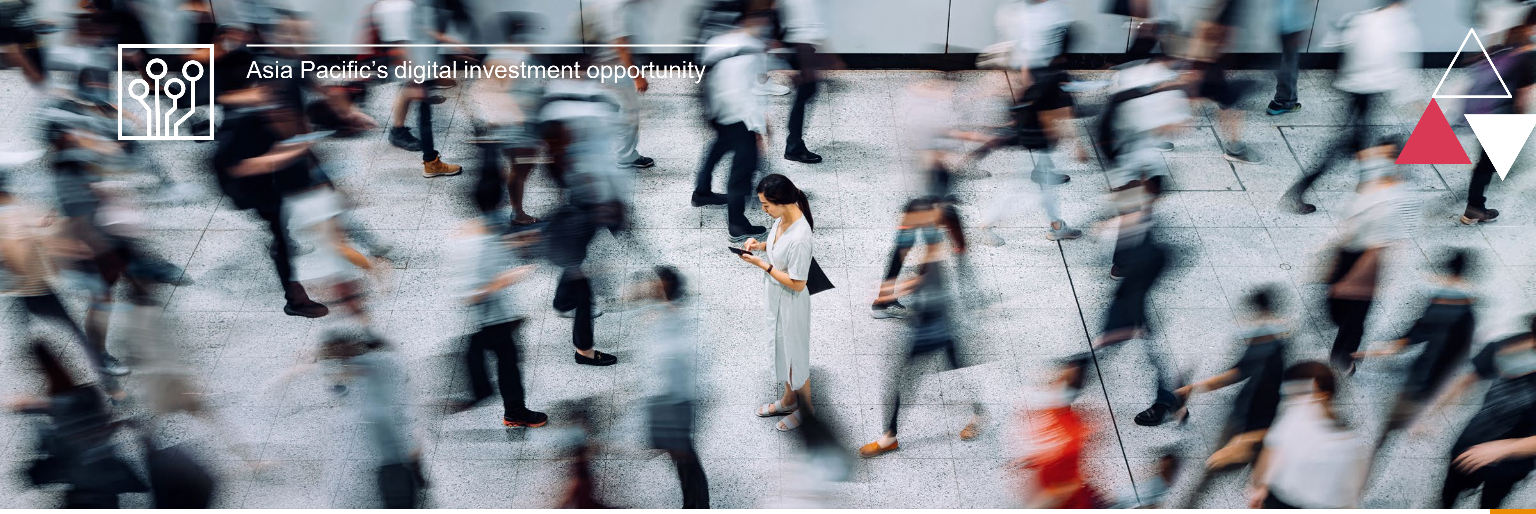
The potential of digital investment platforms stands in contrast to their largely redundant primogenitor, the online fund supermarket. These platforms, whilst operating in developed markets with plenty of investors and offering access to, in some cases, thousands of products, never quite seemed to reach the potential that they offered.

This could be due to a number of factors; interfaces were often cumbersome, useability varied considerably, and other frictions existed which often made it easier for would-be investors to simply rely on their bank, financial advisor, or other traditional investment product distributor.

Despite this, fund supermarkets do serve to remind legacy and next-generation investment platforms alike that simply "being digital" isn't enough. Useability, interaction, and a host of other factors are needed to succeed.

Nowadays, the ubiquity of smartphones across Asia Pacific means that the distribution power along digital channels is vastly improved on those of online fund supermarkets, as well as far more engaging and frictionless interfaces to facilitate investing, and digital investment platforms are able to seize on this[6].

[6] UNCDF, (2022), 2022 ASEAN Monitoring Progress



The digital native ecosystem

In addition to the accelerated development of the FinTech industry across the region seen during Covid-19, the arrival of digital or challenger banks across Asia Pacific is also likely to further the opportunities for digital investment platforms and digital wealth managers.

As licences are being issued or planned for issuance in several markets, including Hong Kong SAR, Singapore, Malaysia, Indonesia, and the Philippines, the impact of these could be substantial, especially among the unbanked population of the region.

With an eclectic mix of consortiums and stand-alone players entering the space, many will be able to leverage the trust of their parent companies to alleviate concerns. Further, once a critical-mass is reached, which based on examples from Hong Kong SAR appears to be around the 100,000-customer mark or the USD 1bn in assets level, digital banks start to branch out to offering asset and wealth management products and services.

30%

Of some Asia Pacific investor's wealth may move to a different manager

For many, they will likely seek to partner with established players in this space, integrating dashboards and functionality for the benefit of their clientele. Established digital investment platforms could seek to fill that role, enabling their products and services to be integrated and offered via digital banks.

Digital banks in Asia Pacific appear to recognise the need to better service their customers, with all of them placing customers satisfaction at the top of their priority list, and leveraging their technology to ensure the provision of quality customer service to each customer in order to draw more interest from users. A clear alignment with what should be a priority for digital investment platforms.

Asia Pacific's digital banking market is estimated to reach USD 2.37bn in 2026, up from USD 0.75bn in 2018, and will no doubt continue to grow. The pairing of digital native players in both the banking and asset and wealth management sectors would be a tremendous boon for many in the region, and one which digital investment platforms and digital wealth managers should look to collaborate with[7].

With younger investors and the unbanked eschewing traditional methods and transitioning to the digital space for their financial needs, digital investment platforms, eWallets, digital banks, and others across the broader FinTech ecosystem stand to benefit, both as individual segments, and collectively.

The nature of Asia Pacific investors, and their relationship with asset and wealth managers may also provide a benefit, with said investors consistently looking to swap wealth managers or add new advisors in response to market vagaries.

It is estimated that in Asia Pacific, between 30% and 60% of a rapidly expanding wealthy class plan to shift 30% or more of their wealth to a different manager[8].

[7] CIOSea, (2023), Emerging digital banks in APAC and their prospects
[8] Consultancy.asia, (2021), APAC's rich looking to switch wealth management providers

Evolving NextGen investor preferences

Changing investor expectations also provide an opportunity for digital wealth managers to exploit.

As mass-affluent investors increase their knowledge and understanding of the investment landscape and product range, they are increasingly unlikely to be placated by the offerings of traditional banks.

These offerings usually amount to an account with 'Premier' or some other aspirational descriptor in the title, a slightly shorter wait time when visiting a branch in person, and what appears to be a revolving door of "personal" wealth managers and advisors proffering the same product range as available to the mass-retail segment.

In short, not a lot.

From a bank's perspective, these individuals lack the investable assets to qualify for alternative products or those with higher returns; and fees.

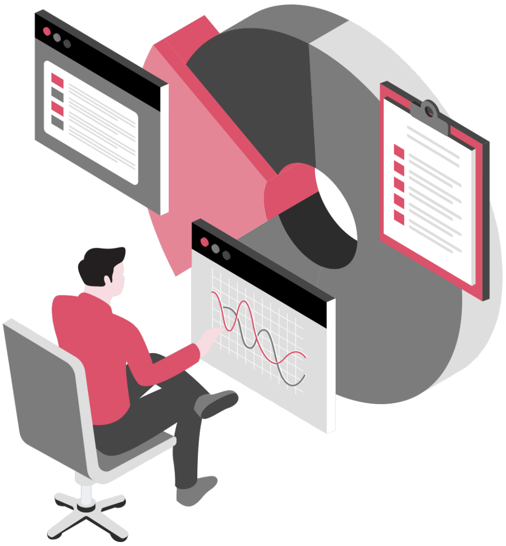
Further, they do not posses the assets for the banks to instantly profit from them, unlike those in the USD 1.5m – USD 3m range.

Additionally, their numbers are substantial enough that to increase their level of servicing would likely entail substantial expense and resourcing.

The opportunities for digital investment platforms in this space are therefore manifold.

Digital investment platforms can look to seize market share directly among mass-retail and mass-affluent investors across Asia Pacific, providing a wide range of investment opportunities and options, from low-cost exchange traded funds (ETFs) and mutual funds, to more sophisticated products.

Higher levels of client servicing, investor education and engagement, and more, can also be offered.



Accordingly, wealth managers will need to ensure they have a product suite beyond that traditionally offered, as well as knowledge of said products.

Both aspects and areas that digital investment platforms can work with wealth managers to provide, either by stepping-in and seizing this investor segment, or presenting legacy wealth managers with a turn-key option ready and waiting for them, integrating the digital platforms into client dashboards.

Already, as investors in this segment demand increased alternative products, digital investment platforms have been entering into partnerships with private fund managers and alternative product providers, ensuring that qualified investors have access to the products which they are demanding.

With asset managers faced with the choice of either building, borrowing, or buying their own digital distribution platforms, many are choosing the 'borrow' option, placing their best-in-class funds for sale on the growing range of digital investment platforms which exist in the market.

Examples of these include: Franklin Templeton and Finnomena Funds as well as Schroders and Robowealth in Thailand, Value Partners with Wahed in Malaysia, PIMCO and Syfe; BlackRock and Stashaway; and Amundi and Endowus in Singapore, and, until late 2023 at least, Vanguard with Ant Financial in China.

Such examples amply display the prevalence of opportunities across emerging, frontier, and mature Asia Pacific markets and investor segments. At the higher end of the investor scale, a similar opportunity exists for digital investment platforms to work with, or compete directly with, private banks and wealth managers.

Relationship managers to the HNWI and above segments have noticed an increasing trend, particularly among the younger generation, of hybrid-advice models, where clients leverage the advantages that digital platforms offer, while still having the benefits of a dedicated individual or team to assist them.

Further, the new clientele of wealth managers seeks non-traditional assets, want their wealth to achieve a purpose, and have higher expectations of relationship managers than their parents did.

The ASEAN bloc is likely to be fertile ground for digital investment platforms

The ten-nation association boasts an aggregate gross domestic product (GDP) of over USD 3.3tn as of 2021[9], the 3rd largest economic grouping in Asia behind China and Japan, as well as a population of approximately 600m, the third largest globally. Prior to the pandemic, a mix of urbanisation and strong economic growth alleviated poverty and gave rise to a middle class. As the region continues to recover from the effects of the pandemic, many nations will continue to observe upward social and economic mobility, ushering in tens of millions of new investors who are hungry for advice, products and returns.

Despite this, the region boasts a largely unbanked and under-banked population at an estimated 70% of the adult population as of August 2023[10], with no or limited access to financial products. This, combined with the lack of financial literacy, with only 30% of adults in most countries deemed as financially literate[11], throughout much of the region, has left the area financially underserved with immense opportunities yet to be tapped.

This landscape provides a tremendous opportunity for digital investment platforms and digital wealth managers, with a large, urbanising, digitally savvy, population that traditional asset and wealth managers will likely find too costly to service directly. As such, identifying which income / population groups are underserved is fundamental for financial institutions offering investment opportunities.

Targeting segments in this bracket can lead to significant growth, as many within are just waiting to have investment opportunities tailored to them at long last.

Reasons for the un-and-underbanked population largely stem from limitations around minimum transaction amounts, generic risk management systems, and documentation requirements, which mean traditional banks are unable to adequately serve those with lower incomes. Additionally, the region boasts a strong youth population who are slowly starting to enter the workforce.

USD 3.3tn

In aggregate ASEAN GDP in 2021

[9] ASEANstats, (2022), ASEAN Statistical Highlights 2022
[10] Temenos, (2023), Charting the Future of Banking in ASEAN
[11] The ASEAN, (2022), Financial Literacy Made Easy

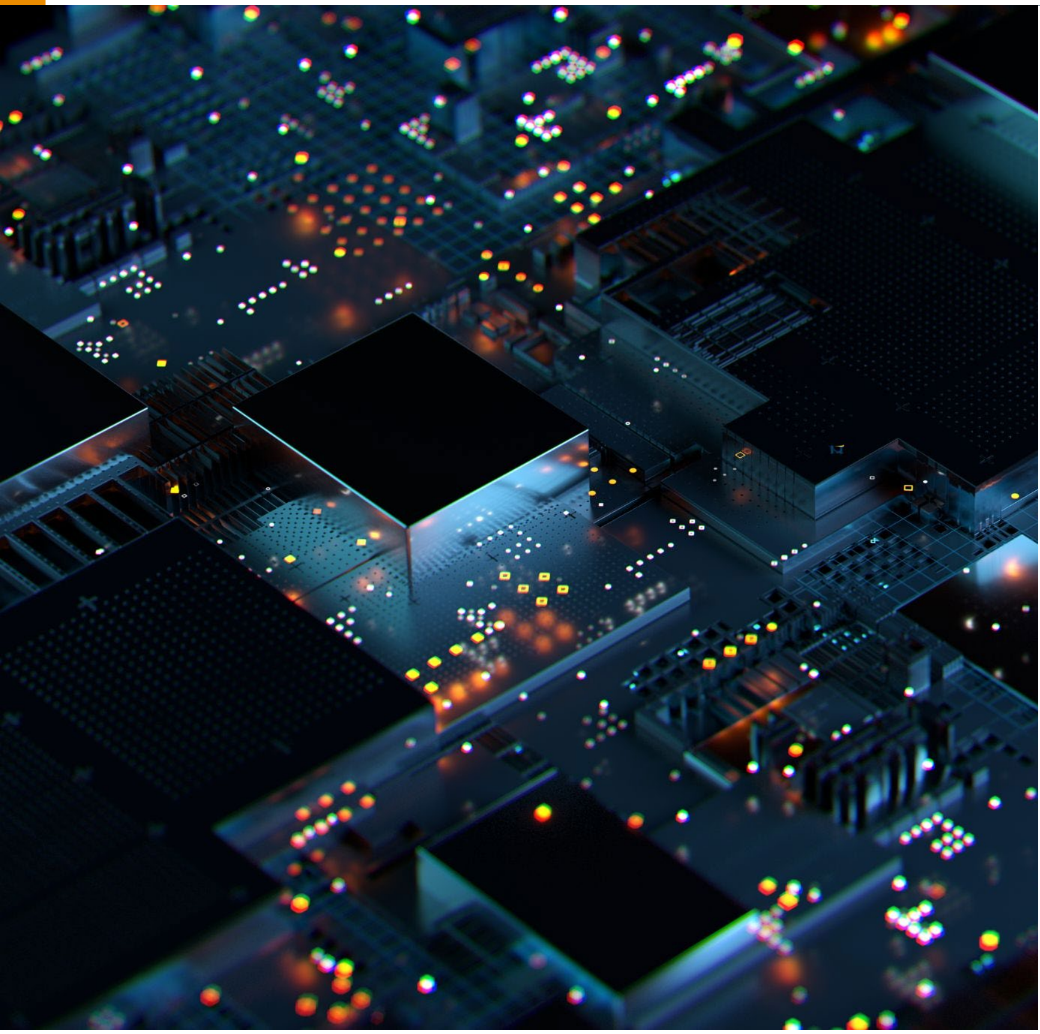
These individuals have grown up in the current digital generation and would remain much more accepting towards digital streams of wealth management.

Low-financial literacy rates remain a problem, so much so that several financial regulators have specific targets and initiatives in their strategic plans to remedy the situation. Increasing penetration of digital investment platforms and digital platforms in the region would provide investors with a range of easily accessible, targeted, education around financial products and investing. Something which, over time as it becomes entrenched, could go a long way in alleviating this situation.

This situation varies considerably across the region, with Singapore boasting the most developed financial system and most individuals there in possession of at least one bank account and able to access a plethora of financial services and products.

At the other end of the scale, Vietnam has the lowest banking penetration at only 31%, and placed the lowest among ASEAN-6 countries for financial literacy at 118th place[12].

This diversity presents digital investment platforms with numerous options for partnership or market entry, either operating directly in a market or entering into arrangements with FinTech's and other technology companies in order to boost their penetration and visibility.



12 Temasek, (2019), Fulfilling Its Promise: The future of Southeast Asia's digital financial services

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Syfe is Asia's leading holistic digital wealth management platform, empowering people to build their wealth for a better future. Built on the pillars of access, advice and affordability, Syfe caters to the different wealth needs of individuals with diversified proprietary portfolios, cash management solutions and brokerage. In Singapore alone, Syfe manages over US$1B in assets and over 5% adult citizens are using the platform to achieve their financial goals.

Licensed and operational in Singapore, Hong Kong and Australia, Syfe has customers from 60+ countries. The company has raised US$52m and is backed by leading global investors including Peter Thiel's Valar Ventures, Unbound, and partners from DST.

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