Viewpoints on the FinTech sector in Southeast Asia during, and following, the COVID-19 pandemic

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KING&WOOD MALLESONS 金杜律师事务所

What are some of the general trends we are observing now that affect the FinTech landscape in Southeast Asia?

- Old habits broken and **new habits formed** – increased reliance on e-payments/wallets and move away from physical cash
- Social distancing has significantly **increased reliance on technology and digital solutions** in general in banking, insurance and wealth management – this has been magnified by the current crisis
- FinTechs have been assisting Governments with disbursing aid/subsidies from a technical perspective, **data analytics/AI applications** in monitoring spread of virus and the real time economic effects of lockdowns
- “digital first” infrastructure of FinTechs has shown **strength and resilience** compared to traditional finance providers with digital interfaces for legacy/manually orientated systems
- **Wake up call for millions** for the need of insurance, savings, wealth management products
- Initial success of FinTech as a vector for financial inclusion in Southeast Asia and the **demands and requirements for a wider range of consumer and retail financial services is validated**

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What are the market entry opportunities for foreign players into the Southeast Asia FinTech sector? Are we in the buyer's market now?

- Fundamentals haven't changed, and arguably, COVID-19 has **accelerated the march towards digitisation and the need for FinTech solutions**. Valuations have taken a hit in the short term and therefore present significant opportunities for market entry – we are in a buyer's market.
- Southeast Asia (SEA) was **one of the hottest markets globally for FinTech** before COVID-19.
- There has been, and continues to be, a **recognition by both institutional and strategic investors** (e.g. Softbank and MUFG) of the region's huge growth potential. Strong fundamentals include:

  Demographics - a growing middle class, large number of unbanked, lack of historic cumbersome infrastructure and high mobile penetration.

  Lack of regional players - other than ride-hailers such as Grab and GoJek. The key to success in the FinTech space in SEA is to scale up as quickly as possible on a regional basis.

- China has begun to successfully join the dots in SEA to create a regional presence (e.g. Ant Financial/WePay), but there are **still plenty of opportunities for US / European players** to fine-tune their strategy.

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What are the different entry points for non-Asian investors into the Southeast Asia FinTech sector?

- US and European FinTech players have historically found the **barriers to entry into Asia staggering for greenfield operations**. They have previously not been ready to consider the prospect of partnering with a local license holder, FinTech or distribution partner (especially not through combining strategic equity and a commercial joint venture - i.e. a "pay to play" model).

- Post Covid-19, we **don't expect it to get any easier** for foreign entrants to set up a greenfield operation, **but it should be possible to achieve similar objectives** by taking incremental steps.

- The **M&A toolbox** for this consists of:

Secondary sales

Primary investments

"Pay to play"
Investment + commercial deal

Strategic JVs*

** Strategic JVs offer many advantages, including: significant costs savings and no time delays of organic growth as JVs can enable immediate access to JV partner's customers and customer data*

What types of deals do you see non-Asian investors looking at in Southeast Asia?

For financial services platforms/ providers

Deals with **existing incumbent institutions or digital distribution / e-commerce platforms** looking to do product development, marketing and distribution deals

For technology enablers

Strategic partnerships with existing financial institutions and new domestic/regional FinTech players

Are previous barriers to investment from foreigners in the financial services space likely to be relaxed?

- Historically, one of the impediments to investment by foreign investors into financial services in SEA has been the protectionist approach taken by regulators and policy makers (FDI restrictions, moratoria on granting new licences etc).
- Before COVID-19, incumbents in SEA such as Grab, Go-Jek and Tokopedia were already **highly dependent on foreign investment**. Following COVID-19, **this dependency is likely to be magnified**.
- Regulators will ultimately come under political pressure to **lower entry barriers for foreigners**.
- US and European investors are **likely to be well received from a policy perspective**.
- Whilst SEA has not been a ground breaker for lowering regional barriers to entry in the FinTech sector, **there is a recognition in the recent round of digibank licenses that JVs involving foreign investors or players are required to bring capital and expertise to these projects**.
- As digitalisation agendas grow, policymakers will continue to adapt to the economic reality that cross-border investment is necessary.

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Do you agree with our sentiments?

What are your observations of the market in the current climate and when the pandemic is over?

Speak to our FinTech experts or your KWM contact if you would like to explore how you can pursue opportunities in the FinTech sector in Southeast Asia.

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