The Future of FinTech in Growth Markets

Insights from SFF 2022

Kapronasia

ELEVANDI

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Contents

Methodology

The Future of FinTech in Growth Markets report was written by Kapronasia in collaboration with Elevandi. The purpose of the report is to highlight some of the key challenges and opportunities in growth markets globally.

Research for the report included secondary research which consisted of existing and new datasets from Kapronasia's databases as well as various reports, news articles, and commentaries in the media.

Primary research included discussions during the four sessions of the International Growth Markets track during the Singapore FinTech Festival 2022.

Foreword

The seventh edition of the Singapore FinTech Festival (SFF), which concluded on the 4th of November 2022, attracted more than 62,000 participants from over 115 countries. This was the largest SFF gathering since the inaugural edition in 2016.

As we look back at the Festival, it is valuable to consider the role that the Festival has played in the context of FinTech in Singapore and globally.

Throughout the years of the Festival, we have sought to bring together practitioners to discuss trends, issues, and collaboration opportunities to create a better financial industry for both participants and, most importantly, the end customers, whether consumers or businesses.

Although these discussions are of course valuable for the event itself, they also provide direction to the work we need to do to help the rest of the global community achieve their goals by both reflecting on the past as well as preparing for the future.

In this context, the 2022 Singapore FinTech Festival theme of ***resilience*** was very fitting as the industry faces challenges in the years ahead. We are at a crossroads where we must continue to innovate in FinTech but in a much more sustainable and resilient manner. That is not to say that it is all doom and gloom for the industry. As many speakers throughout the International Growth Market Track indicated, the current environment is ideal for returning to the fundamentals of sustainable business models and products.

We welcomed Swiss Federal Councilor Mr. Ueli Maurer as he kicked off the track with a brief discussion of the role of government in creating the proper framework and conditions to enable innovation. Venture capitalists (VCs) shared their views on the market and how, although the funding tap has not been turned off, VCs have become much more selective in the start-ups they fund. Start-ups spoke of their challenges and a 'back to basics' view of running a business. Finally, we discussed the need to provide financial education to end users to overcome one of the critical challenges to FinTech adoption, namely, financial literacy.

This year's session featured speakers from Ant Group, UOB, and Pine Labs, as well as numerous other practitioners from Financial Institutions, FinTechs, third-party organizations, and think tanks.

To explore the topic more deeply, we worked with Kapronasia, an Asia Pacific, financial industry focused strategic advisory firm, on this Future of FinTech in Growth Markets report, which contextualizes both the progress we have made as well as continued challenges that we face in developing markets globally.

For those operating in both developed and developing markets, this report provides valuable insight into how we can work together as a financial industry for a more prosperous future. We hope this paper will help summarize some of those findings and help you understand what it means to operate and excel in growth markets.

Sopnendu Mohanty
Chief FinTech Office, Monetary Authority of Singapore
and Chairman of the Board, Elevandi

Key Findings

1

Sensible frameworks and regulations are critical to enable FinTech innovation and growth
Governments and regulators need to work together with the industry, both within their own jurisdictions as well as cross-border, to put in place the regulations and structures to enable FinTech growth and innovation.

2

The FinTech industry has changed as a result of the current environment
Geopolitical and macroeconomic trends have impacted the financial industry significantly. On one hand, the growth of digital financial services (DFS) continues a pace. On the other, we are clearly in a 'risk off' environment.

3

The venture capital industry is changing
The low-interest rate, cheap liquidity, environment where valuations increased dramatically and funds clamored for access to the hottest technologies and start-ups is over. The current macroeconomic environment is forcing a re-think as VCs look for sustainable and resilient business models over flashy business models or tech.

4

FinTechs need to go 'back to basics'
FinTechs can no longer count on unlimited funding in the future. Many start-ups are taking the opportunity to consolidate their position in the market and move towards profitability. Companies need to focus on specific client needs and strong business models. It is also a tremendous opportunity to grow as there is less noise and distraction.

5

Trust is critical for customers in growth markets
Trust is critical for any market, but particularly for growth markets where individuals and businesses may not have experience dealing with digital finance providers. Education and financial literacy are key to enable trust.

The Role of FinTech in Growth Markets

Despite the impact that COVID had on the global economy, the increasing shift to, and demand for, digital financial services (DFS) has meant that the financial industry and FinTech itself have emerged from the pandemic relatively unscathed. Indeed, during the low-interest rate environment of the past few years (Figure 1), FinTech valuations increased dramatically across nearly every market segment, especially in certain areas like crypto.

However, in 2022, geopolitical insecurity, rising inflation, and general macroeconomic uncertainty have changed the calculus for many on the future of the FinTech industry, especially in growth markets. Higher interest rates and inflation (Figure 2) are dragging on fund-raising and growth.

In the second half of 2022, tech companies have been aggressively cutting back with notable tech firms, including Twitter, Amazon, and Meta, laying off scores of workers. Venture capital (VC) funding has become much more difficult; As one VC tech exec described it, "An entire industry got ahead of its skis."

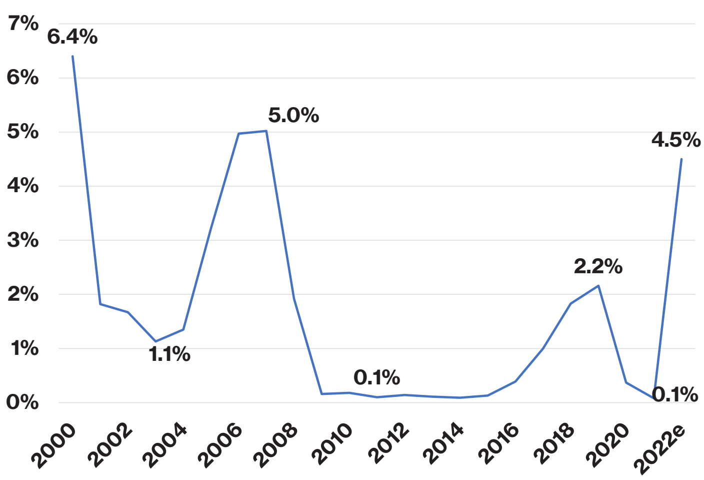
The FinTech industry has been no exception and companies like Affirm and Stripe, well off their stock market and valuation highs, have chosen to reduce their staff footprint. As of early September, already more than 80,000 tech employees have been laid off globally in 2022, a vast majority of those in June, July, and August. As a Stripe executive said, "2022 represents the beginning of a different economic climate."

Yet it is this time that the FinTech industry is at its most needed. During the pandemic, hitherto completely offline businesses across Asia, retail and otherwise, had to digitize in order to be able to survive. Small hawker stalls needed to adopt digital payments to safely handle payments and deal with pandemic restrictions. Retail stores needed to move online to replace physical sales, which, in many countries, had completely disappeared.

DFS provided a critical lifeline to SMEs, and indeed micro-SMEs. Whether it was ordering fresh inventory or accepting digital payments at the point-of-sale, DFS were everywhere. This has been especially critical in emerging markets where, despite progress in financial inclusion, individuals and businesses often lack access to traditional financial banking services.

Figure 1

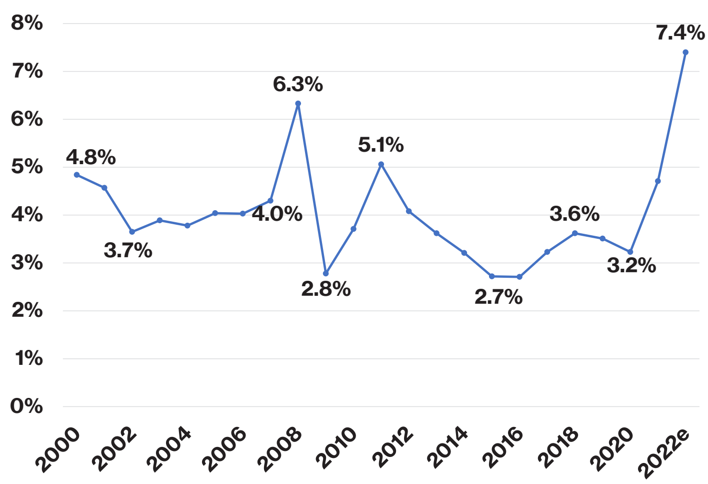
Federal Funds Rate, United States, 2000-2022e



Source: Federal Reserve

Figure 2

Annual Global Inflation, 2000-2022e



Source: IMF

Progress in Financial Inclusion

By many measures, financial inclusion has improved. According to the World Bank's Findex database, which calculates financial inclusion globally, the number of individuals with a bank account in Asia increased from 59% in 2014 to 76% in 2021.

Across Asia, the progress and current financial inclusion situation, varies (Figure 3). Certain countries like India have made remarkable progress as platforms like India's Unified Payments Interface (UPI) have brought literally hundreds of millions of individuals and businesses into the financial ecosystem. Others have made progress, albeit not as rapid.

FinTechs play a critical role in financial inclusion by addressing demand that the traditional financial institutions either cannot or choose not to address. As an example, the internal cost for a traditional Chinese bank to assess and disburse a retail loan in China is about US$280. The same cost for one of China's super-apps is about US$0.25.[1]

Considering that the average loan size for a consumer or SME is typically very low, the idea of borrowing from a traditional bank is a non-starter as it would be immediately unprofitable.

The answer has to come from DFS.

With this in mind, and with the economic and geopolitical issues that the wider financial industry currently faces, it is becoming increasingly critical to understand how FinTechs can continue to grow and innovate in the future, especially in emerging or 'growth' markets. It is a combination of funding, business models, and supporting infrastructure in the form of regulations and education, that will provide the basis for this growth. And their continued growth is critical, especially for the under-served segment of the market.

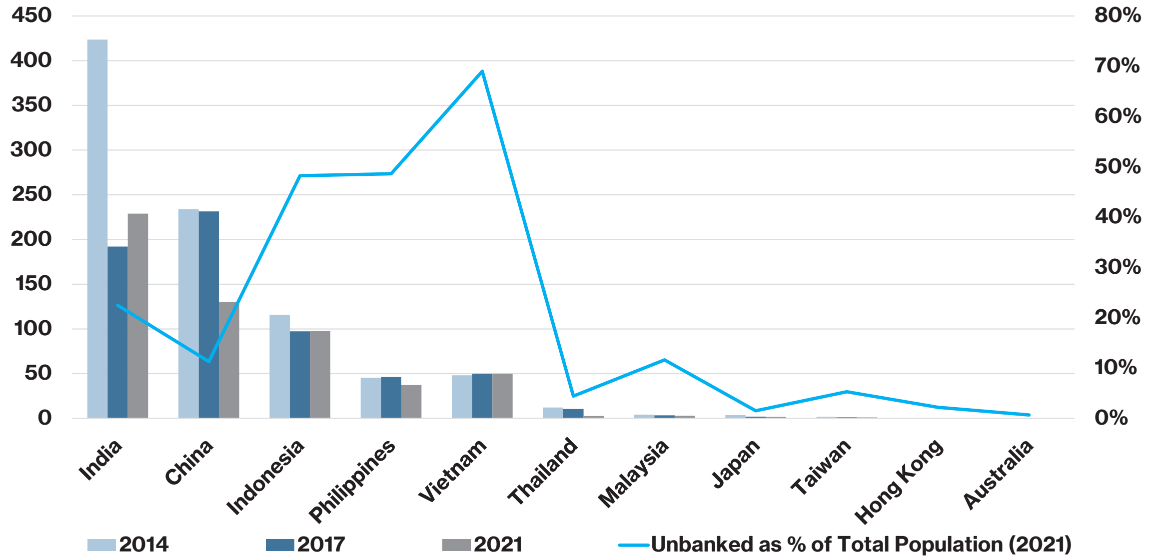
The International Growth Markets track at the 2022 Singapore FinTech Festival looked at how regulators, VCs, development organizations, and of course FinTechs themselves could approach the market to continue to innovate, and more importantly, stay resilient. The insights shared by the participants were invaluable and provide an unparalleled view into what some of the top VCs, start-ups, and educators are doing to be successful in the industry and how we, as an industry, can continue to innovate and grow.

One of the best places to start is with the fundamentals.

1 KA Analysis

Figure 3

Asia's Unbanked Population (millions & % of population), 2014, 2017, 2021



Source: The Global Findex Database, 2021, World Bank

Defining a Global Framework

Switzerland and Singapore share many common characteristics when it comes to FinTech. Both countries were already financial centers and their combination of infrastructure, ease of doing business, and sensible regulation have made them leaders in FinTech as well. Hence, it was only appropriate that Swiss Federal Councillor Mr. Ueli Maurer kicked off the International Growth Markets track.

Councillor Maurer stressed the importance of the positioning that Switzerland and Singapore have taken towards FinTech and the importance of communicating and sharing the vision. He also noted the positive impact that events like SFF and the inaugural Point Zero forum, which was held in June 2022 in Zurich, have on increasing this dialogue.

"Singapore and Switzerland are leading financial centers and strong innovators. Sharing our views and opinions is very important, especially in times of change and worldwide problems. The financial sector has to deal with change and find out about new changes and improvements," said Mr. Maurer as he kicked off the afternoon track.

A vital element of the development of the financial industry in his mind was the need for a framework, especially one that could be trusted.

Mr. Maurer continued, "We cannot always avoid all risks; there must be room for trial and error. We need stability and security. For this, we need the right framework to foster positive change while securing the system's stability. Trust in the framework is key for companies and their customers."

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> **Swiss Federal Councillor,**
> **Mr. Ueli Maurer**

This concept of a framework has of course always been a part of the financial sector, which is one of the most highly regulated industries in the world. None of that is really a surprise. However, Councillor Maurer's comments did raise the question of how we should be addressing cross-border frameworks in the current market context.

Global (i.e. cross-border) regulation in the financial industry has historically been the realm of third party industry bodies, such as SWIFT, the Bank of International Settlements (BIS), and the European Central Bank (ECB) who set the standards and regulations for cross-border activities. The Single European Payment Area (SEPA) is a good example of this; the ECB sits in the middle of a seamless, single-currency, real-time payments network across multiple different countries.

Bilateral vs. multilateral approaches

However, this regional approach is changing. Increasingly, we see more bilateral conversations about the future of finance, which can be faster and more fit for purpose. A good example of this is the development of cross-border real-time payments in Southeast Asia.

Initially the thinking was that the regional organizations like the Association of Southeast Asian Nations (ASEAN) would be driving more cross-border connectivity, but as it turns out, the discussion has been more bilateral. Thailand's PromptPay now connects to Singapore's PayNow. Singapore will soon be connecting into India's UPI.

With the complexity around rule-setting, technical architecture, and the other considerations that cross-border real-time payments raise, getting agreement between two countries is no small feat. More than two, especially countries without a common currency or regulator, has proved to be a much bigger challenge.

This could prove to be a valuable lesson in growth markets for both FinTechs and regulators as often the industry seems to bite off more than it can chew. Of course, in the long-run, having a multi-lateral agreement on a seamless Asia Payments Network would be ideal, but for the moment, bilateral agreements and connectivity are doing the job.

The best solution is not always the most ideal solution, but it can be one that fills a gap and allows the industry to develop. This is especially critical for ESG. Would a global set of regulations and standards be ideal? Yes, of course, but we need to make progress today.

That is not to say that all regulatory approaches should be bilateral, but in the current urgency around global challenges like ESG they may be our only choice if we want to progress as quickly as possible, especially in Asia.

As an industry, rather than perfection, we should aim for progress. If we can progress in the short-term and address more critical concerns like ESG, then perfection can be a longer-term concern, but of course not at the expense of trust, as Councillor Maurer discussed.

A robust framework benefits all participants in the financial ecosystem, from banks to the FinTechs themselves. Once a framework is in place, a critical element of FinTech start-up growth in international markets is funding.

FinTech Venture Capital and the New Normal

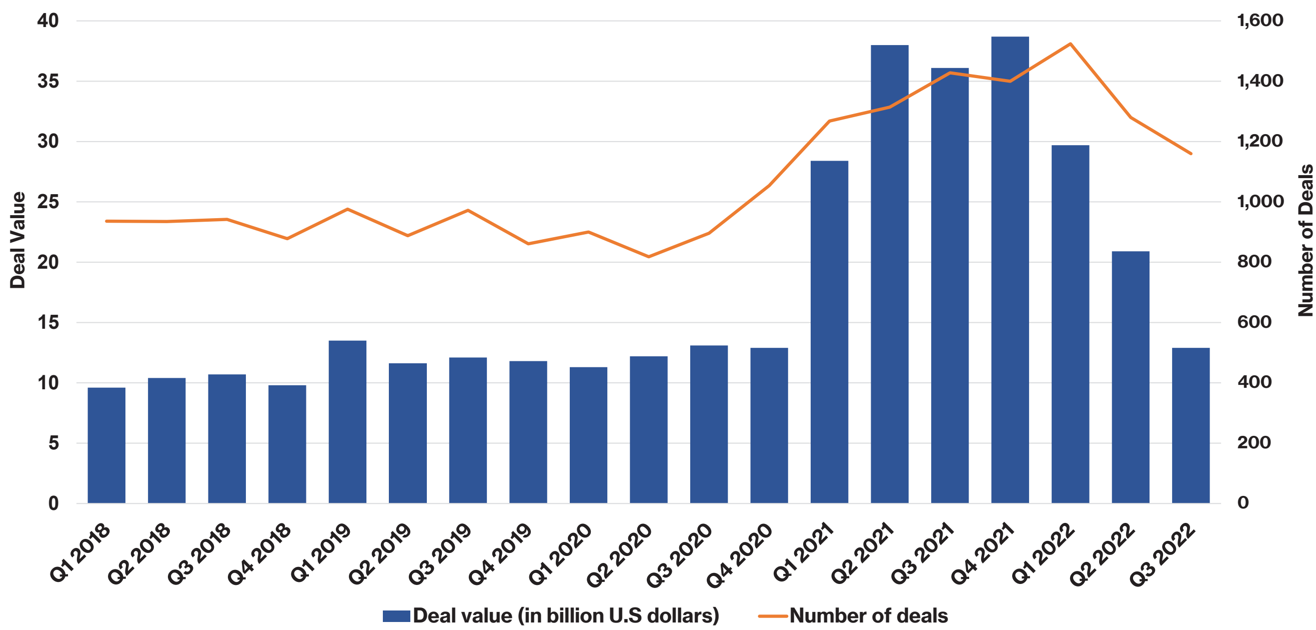
VC funding over the past decade has been unprecedented. Driven by low interest rates and the resultant cheap money, venture capital investments more than doubled year-on-year in 2021, hitting US$621 billion globally and dramatically surpassing the previous year's record of US$294 billion.[2] FinTech was no exception with over US$140 billion invested globally in the sector alone in 2021 (Figure 4).

In 2022, the situation changed rapidly. As interest rates and inflation started to rise across the globe, the venture capital industry went into 'risk off' mode. As a result, global venture capital investment dropped nearly 60% from its peak of US$178 billion in Q4 2021 to US$75 billion in Q3 2022.[3] Valuations also suffered, with companies like Stripe and Klarna seeing their valuations drop 28% and 85%, respectively, in 2022.[4]

2 CB Insights, State of Venture 2021
3 CB Insights, State of Venture, Q3 2022
4 Kapronasia analysis

Figure 4

Value and volume of venture capital investment deals in FinTech Globally from 2006 to 2022

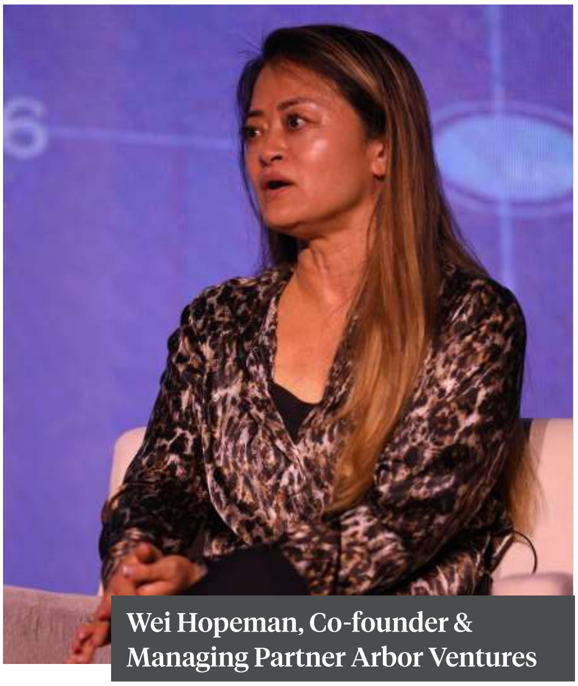


Data Source: CB Insights

It was the best of times, it was the worst of times

Arvind Sankaran, an advisor for the Asian Development Bank and moderator for the International Growth Markets session at the Singapore FinTech Festival, set the tone by alluding to the Charles Dickens novel, '*A Tale of Two Cities*.' Mr. Sankaran explained, "I picked a two cities metaphor that perhaps describes our current existence. One 'city' is the audacity of our collective vision for FinTech, which creates the momentum and the ability for us to come together from around the world to participate in a program like this and create the vision for the future. At the same time, the other 'city' we are dealing with is the adversity of factors that have created a twist in our roadmap to achieving that vision."

Wei Hopeman, Co-founder & Managing Partner at Arbor Ventures also acknowledged that we were in a difficult time, especially over the past twelve month period. She shared her experience in Silicon Valley in 2001 when the US was going through the dotcom boom and bust. Although she felt that the situation today was not as grim as it was back then.



Wei Hopeman, Co-founder & Managing Partner Arbor Ventures

Ms. Hopeman explained, "It could be considered a really bad time for founders and investors, but it is also a great time to be a founder or investor as there is a lot less noise and a lot less competition. Twelve months ago, if you had a great idea, I can guarantee you the next day, you would have had 50 companies trying to do the same thing, with free money being poured into them. Today, funding is a lot more scarce, which means the good ideas will win."

Indeed, when you look at VC funding during the dotcom era, the trends were not dissimilar insofar that US VC funding hit a near-term high of US$66.4B in 2000, an increase of nearly 85% over 1999. In 2001, funding dropped 60% and a further 48% in 2002. It was not until 2014 that we started to see deal volume return to the similar growth rates seen before the bust.[5] The delta here of course is that we are focused on Asia markets, which although have been hit hard by the COVID pandemic, likely have more economic growth potential in the longer term.

Back to Basics

When looking at the factors for success in today's market, the panelists found that solid business models and sustainability were critical. Jussi Salovaara, Co-founder & Managing Partner Asia at Antler, was upbeat on the prospects. "The enablers are better than ever. The environment is better than ever. Digital adoption rates are better than ever, especially in this region. And when times are tough, it's a great time to just focus on building. There was a lot of craziness. Crazy valuations, and teams that should not have gotten funded, got funded. And right now, that forces people to focus on building a great product," Mr. Salovaara explained.

Jinesh Patel, Managing Partner at Integra Partners continued this thinking, "There's never been a better time to invest or start building a company than now." He continued, "The only thing that's changed in our mindset is that the cost of capital has shifted. And I think that in the next ten years, founders who build on a first principles basis, are more likely to succeed. In a low interest rate environment, all manner of sins have been committed. In the next five years, that will not happen. The sustainability component of building a business was pretty much lost in the last couple of years, given the dearth of capital. That adjustment is what's going to drive value."

> ***"In a low interest rate environment, all manner of sins have been committed."***
>
> **Jinesh Patel, Managing Partner, Integra Partners**

The Importance of Technology

Technology also plays a critical role. Deng Chao, CEO of Hashkey Capital, highlighted the opportunities around blockchain. "Blockchain technology is a new technology that empowers founders to do business cross-border. We see a growing number of applications gaining broader, mass adoption at the application level."

Despite the appeal of blockchain technology, the jury is still out as to whether it will be more impactful longer term. One of the most high profile trials of digital ledger technology (DLT) in the financial industry is the CHESS replacement project from the Australian Securities Exchange (ASX) which just shut-down after hundreds of millions in investment, but with little to show.[6]

5 PitchBook; NVCA; PwC/CB Insights Money Tree Report; Thomson Venture Economics
6 https://www.theaustralian.com.au/business/financial-services/asx-pauses-chess-overhaul-amid-cost-blowouts/news-story/7d1a3e955f045605cd109e87c823a75d

Deng Chao,
CEO of Hashkey Capital

Managing Risk

During these times of uncertainty, having a risk framework is more critical than ever. Mr. Patel described the framework that they use at Integra. "When looking at risk, we firstly consider the stage of a company. At seed stage, what do we know beyond the founder? How can we assess execution risk or category risk at that stage? The part of our risk framework is around capital intensity, and the business model. But the one risk I think we care about the most is timing - timing is super critical for us as venture capitalists. And so finding the right investments and founders at the right time is very important."

Engaging early was a constant theme, especially for Antler. Mr. Salovaara echoed Mr. Patel's emphasis on the importance of timing and the founding team. He shared, "We are as early as it gets; we call our approach day zero investing. It is not day 30, or day 90, we start engaging with founders on day zero. It is almost literally all about the founders; do we believe these founders can hire a great team? Can they execute to build a great business?"

In addition to focusing on the basics, it is also important for VCs to differentiate by market and risk tolerance. Mr. Patel talked about Integra's approach. He explained, "One of the other things that we should do as VCs in this environment is take risks when others will not. For example, our fund has made several investments in Pakistan."

Pakistan certainly is an outlier when it comes to VC investment. 2021 saw more VC investment into the country than the previous decade. However, similar to other markets, funding in 2022 has slowed – potentially more in Pakistan as it was very much a frontier market.

Nevertheless, Mr. Patel remains unfazed: "It is on VCs to take risks when others are not willing to. And that can be either geographic or stage, or business model. Of course, the risk premium for Pakistan is higher than the rest of the region, but that is our job. Our job is to weigh that risk, assess the risk premium of that market, and provide capital when nobody else is willing to do so."

Finding a partner

Panelists also spoke about what founders should be looking for in investors. Mr. Salovaara talked about Antler's approach: "This is a critical question, and I talk to many of our founders about this as there are differences. In the US, many founders, especially CEOs, would not want a lot of meddling from their investors, but rather just focus on building the business. The investor shows up in a quarterly board meeting and everyone is happy. In Asia, people talk a lot more about this operative support. And I think as a founder, you need to think about what you need and want yourself to build your business. If you feel like you need such operational support, then you probably should over-emphasize that in your partner selection."

Ms. Hopeman compared it to a marriage, "We are early-stage investors, and we hold portfolio companies for five, six, seven years, or maybe longer. That is longer than a lot of marriages last. So it's a real partnership and a two-way street, good founders, you know, they can get money from anywhere. So finding the right investor, and the right board members is really important. We have founders who will call me at two in the morning if they're in crisis mode. And I'm there to pick up the phone."

Fundamentally, the panel illustrated that the basics of what VCs are looking for have not changed: sustainability, product, team, capital, and strategy. Of course, that needs to be put in the context of a more challenging macroeconomic environment with geopolitical and economic uncertainty, making VCs think through investments more and focus on those fundamentals.

The flip side of the equation is, of course, the start-ups themselves.

Spotlight on FinTech Founders from Emerging Markets

The importance of execution

With inflation increasing in early 2022 and VC funding dropping rapidly as the year progressed, the environment for start-ups and their potential for success, especially considering the failure rate, has been ever less certain.

In this context, it becomes essential for start-ups, and even growing enterprises, to focus on execution. Companies need to have a compelling business model that makes life easier for the banks to serve their customers or the customers themselves and drive towards that end goal.

Amrish Rau, co-founder, and CEO of Pine Labs, shared his thinking on what has made Pine Labs successful. "We have tried to remain tech-focused, delivering tech so that banks and financial institutions look smarter and drive merchant adoption. We have been able to create a clear monetization model in our business," said Rau. That approach has helped Pine Labs to remain EBTIDA positive, nearly from the start.

Inspiration and Resilience

Beyond the business basics, inspiration was also highlighted as an important component of what made the entrepreneurs successful, including by Moove, a revenue-based vehicle financing business that works with mobility entrepreneurs in 13 global markets through APIs coupled with a credit-scoring system.

Ladi Delano, Co-founder & Co-CEO of Moove, spoke about what inspiration meant to him. "Inspiration and what we do as a business is one in the same. Our customers are our inspiration. Ultimately, they are all individuals who have dreams to succeed, but they have been locked out of the financial system for whatever reason. We are focused on ensuring that we can empower our customers and democratize access to those financial services," said Delano. This could be especially impactful considering the potential size of the ride-hailing market in the future.

Setbacks and challenges were, of course, shared experiences for all of the founders. Resilience was vital for them, especially with the impact of the pandemic when many start-ups struggled

Ladi Delano, Co-founder & Co-CEO of Moove

to make ends meet. More than anything, the pandemic highlighted the importance of cash flow, which was even more critical in a tight funding environment. One entrepreneur on the panel shared that restructuring their approach to their working capital cycle helped them decrease their burn rate and survive until their next round of funding.

Mr. Rau spoke of the challenge of moving from a corporate to a product-led start-up, "I had to learn this new concept of building a product. So however smart that you might be as a founder, one advice that I will give you is, go and build a product within your organization, don't outsource building a product or building something integral to your business. You have got to get your hands dirty. You have got to be fully involved in building that product. And once you go through that journey, you'll learn many things."

Expansion

Cross-border expansion was also challenging for the start-ups, including Moove. Mr. Delano described his experience in emerging markets. "In emerging markets, you face the standard kind of market challenges, which are how can you get your product or your service to market? How can you build the business, get the scale, get the free cash flow? And how can you win? But there also non-commercial challenges, like regulation, and dealing with government and dealing with all these different stakeholders. And that in and of itself, is quite complex," Mr. Delano said.

Mr. Delano continued, sharing what he thought was the most difficult challenge in operating cross-border. "The most difficult challenge that nobody tells you about is managing people. And essentially, you realize, as a founder, you have all these great ideas, you have this wonderful business, but you spend most of your time figuring out how to build a team and get that team to buy into the vision. That challenge is by far the most difficult and trying to do that in a number of markets globally, like we do, also brings other aspects into it like cultural nuances. The way to think about scaling into different markets is you have to take a different approach for every single market you go into."

The nuances between markets are not just related to teams and cultures, but business structure as well. In similar markets, you can centralize some of the operations and product development, but in others, companies need to take a much more decentralized approach so that they are able to cater to the local market needs.

Finding a balance

Despite the challenges of funding and market dynamics, the start-ups all suggested that there needs to be a balance between caution and growth, because, ultimately, start-ups are launched by founders finding or founding companies that are solving real problems. There was a common agreement that companies need to be prudent with how they run their business and manage VC capital, but at the same time ensure the business grows and can meet customers at their point of need.

Finally, it is important to remember that business is cyclical and has been for centuries. So although the industry might be facing a more difficult time today, the macro-environment will be more forgiving in a few years. Start-ups must ensure they are hitting the basics but still very intentionally growing.

Throughout the International Growth Markets track, panels had already explored the challenges and opportunities for the FinTechs and the VCs that fund them, the last session was focused on the customers, and more specifically, the customers in emerging markets and on improving financial education and literacy.

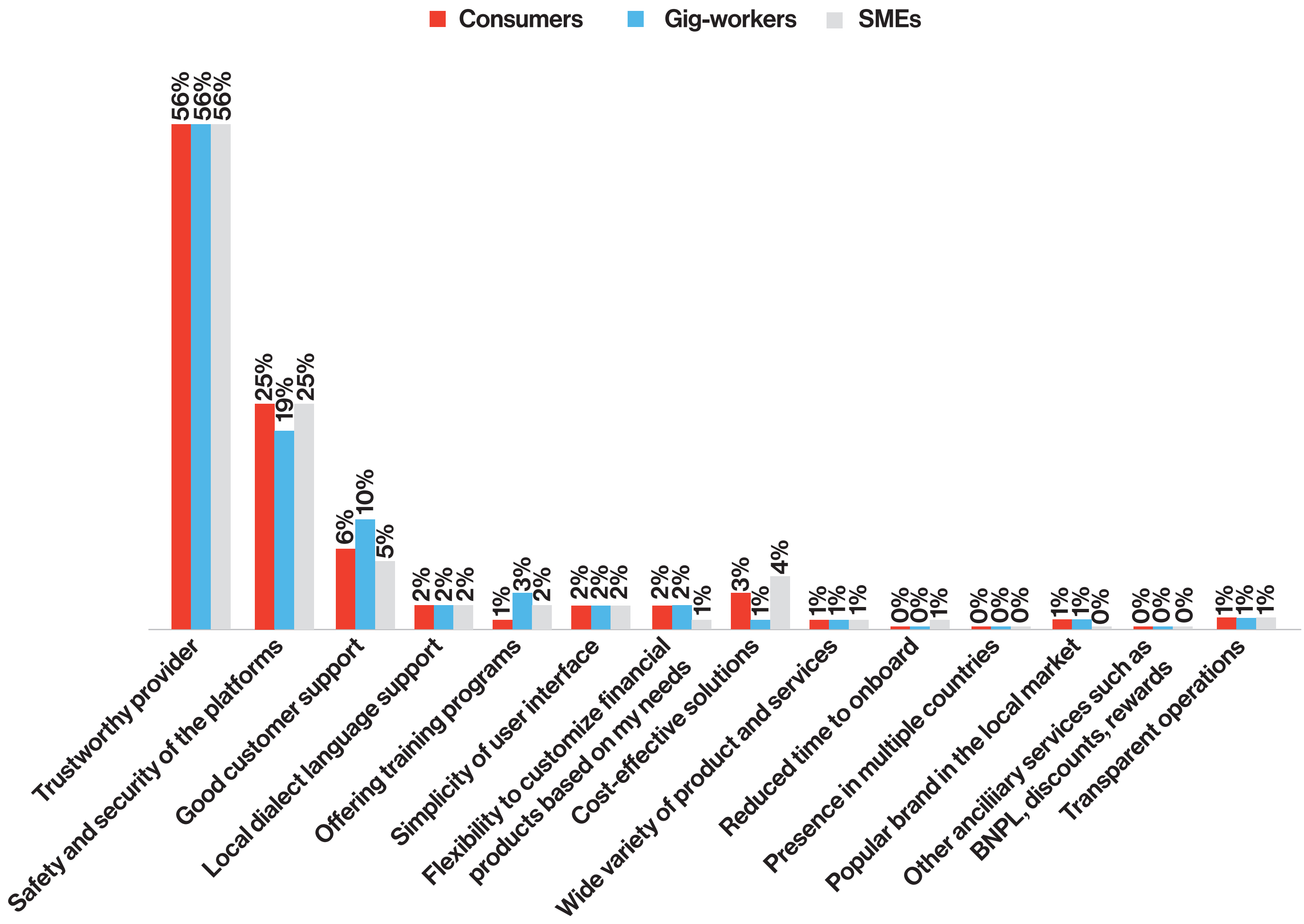
Consumer and SME Financial Education & Literacy

Despite advances in addressing the financial inclusion gap, a significant portion of Asia's population is still without access to traditional financial services. In a country like Singapore, nearly the entire population, including, incidentally, migrant workers, are banked, but the challenge is a bit starker in neighboring emerging markets. According to the latest data from the World Bank Findex database, nearly half the population in Indonesia and the Philippines is still underbanked.

In many studies, education has proven to be a key stumbling block in the adoption of DFS solutions. In the 2022 report "Moving the Needle" from Kapronasia and Grab, trust was the number one issue stated by both SMEs and consumers as the most important reason for selecting a financial services provider. (Figure 5). Trust is of course in the company and the platform itself, but also the ability to understand how the platform works. Indeed, beyond trust, most other concerns came down to clarity of what was being offered.

Figure 5

Ranking of importance when deciding future financial providers, percentage of respondents ranking first, By segment, Regional



Platform education

The onus for ensuring that consumers are educated on the products they are buying often lies with the platforms themselves, which was the first topic that the day's final panel tackled.

Dr. Adesola Adeduntan, CEO of FirstBank Group, explained that education was about empowerment and educating customers about the potential of financial services to help them understand both the purpose of the platform as well as how it should be used. Dr. Adeduntan also spoke about tailoring the educational experience, explaining, "The education needs to be in a manner that you are providing the right level of financial education to people at the right level that enables them to make the right choices. In designing the financial literacy program, you are trying to address mindset issues and knowledge gap behaviors that have kept people from accessing financial products."

These barriers are not unique to consumers. Lawrence Loh, Managing Director and Head of Group Business Banking for Singapore's United Overseas Bank (UOB), described the approach UOB takes to SME education. "SME founders are not homogeneous, they come from different backgrounds, some of them were previously professionals, some of them have just started out, taking over the reins from their parents, and others have just come straight out of school. So that financial literacy, that digitalization education has got to be tailored across the various sub-segments, and it's not just digital either," said Loh.

Lawrence Loh, Managing Director and Head of Group Business Banking, United Overseas Bank (UOB)

Jason Pau,
Senior Director at Ant Group

Jason Pau, Senior Director at Ant Group, also spoke of the platform's role in providing education. "We owe it to our consumers to design clear products. They need to be able to understand what they're taking on, they need to understand how to leverage the opportunities that digital technology can bring. In that regard, COVID-19 provided a silver lining. It accelerated the move towards digitalization," said Pau.

Reacting to digitization

The recent rapid digitization affects both consumers and SMEs. As Mr. Loh from UOB explained, "For SMEs today, we really look at it not just in terms of pure financial literacy but also in terms of teaching them how to be able to digitize themselves. Given that COVID has really made it difficult for SMEs, especially those operating brick and mortar, the ability for them to operate their business in the online space is critical."

For many SMEs in Singapore and across the region, digitization was a massive challenge. For larger organizations like large retail stores, the shift was less dramatic, as many already had online platorms to leverage, but for others, especially for micro-SMEs, the challenge was much more stark.

The other main stakeholders in the education process are the government and regulators. Financial institutions and FinTechs spoke throughout the session about their engagement with regulators for their own businesses and the industry's growth.

There was a general consensus that it was important to have continuous education for the regulators themselves as there is a constant stream of innovation from the industry that is developing alongside the traditional financial industry. Regulators need to be certain that they understand the new business models as well as the constituents who use them.

"When you put access to capital in the hands of those who need it, there also has to be an understanding of how to manage the risk of that capital, how to invest... Financial education and access to capital have to go hand in hand."

Nicole Valentine, FinTech Director at the Milken Institute

Financial education also includes understanding the underlying risk of the products. Nicole Valentine, FinTech Director at the Milken Institute elaborated. "When you put access to capital in the hands of those who need it, there also has to be an understanding of how to manage the risk of that capital, how to invest that capital, how to move forward with it. Financial education and access to capital have to go hand in hand."

The transition from financial literacy to financial inclusion was a common theme throughout the panel. Mr. Loh from UOB saw a strong need to leverage data to be able to bridge that gap. "Today, we are working with some of the platforms to leverage their data, so that even before they [the merchants] even ask for a loan, we can reach out to them proactively."

Finally, what is also critical is the ability to understand the work that is being done to improve financial inclusion. Ms. Valentine stressed the importance of measuring impact. She elaborated, “I speak with industry leaders at all levels as well as financial institutions and FinTechs, and I often ask them, what kind of data are you collecting on your impact? Most answer that they do not collect a lot of data. As a think-tank, we are evidence-based and data-driven and would like to know the real impact of FinTechs in the space."

Serving the next generation

The panel also spoke to the need of working with and educating the next generation of consumers and DFS users. Mr. Pau talked about the work Ant Group has done as part of the 10x1000 Tech For Inclusion Program.

Mr Pau explained, “We have 1800 learners that we certified over the last two years through the program. We run a capstone project every year that brings together virtual teams from all over the world. This year, at least half of those capstone projects were about youth in financial literacy. The youth today understand technology better than us, actually.”

Clearly, the next generation is an integral part of the story. Although they are often more digitally savvy, financial education still plays an important role in ensuring that they are part of the financial ecosystem and can contribute effectively both for their own financial future and the industry as a whole.

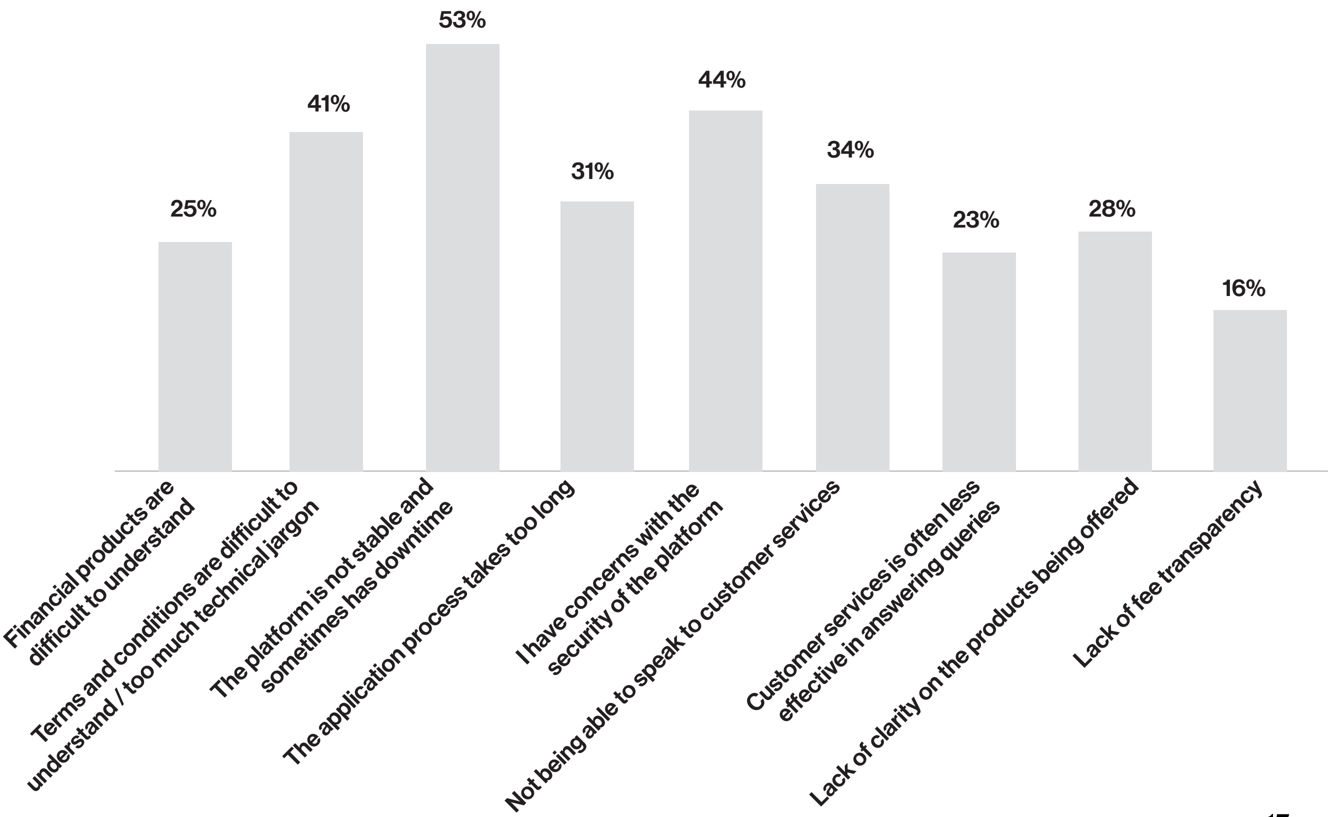
Easing the pain points

Finally, both FinTechs and traditional providers need to focus on addressing the key pain points with existing financial products and services. In the Moving the Needle report, SMEs citied a variety of challenges that they were facing with DFS including education, technical, and customer services (Figure 6).

This shows that as seamless as DFS can be, often there are still bottlenecks and inhibitors to better financial inclusion. If we truly want DFS to better serve the under-served, addressing these issues is a key prerequisite.

Figure 6

Pain points with digital financial technology services, percentage of respondents, SMEs, Regional



Conclusion

Growth markets remain a crucial element of the FinTech story in Asia as the combination of technology, and the financial industry have created new solutions for both financially included and excluded individuals and businesses.

In developed markets, new solutions bring convenience to typically already-banked individuals. More importantly, they also bring an element of competition that pushes traditional providers to up-level their offerings.

In emerging markets, the growth of DFS has had a tremendous positive impact on financial inclusion. The numbers show success: UPI alone has brought more people into the financial system in a shorter time than any other initiative in modern history.

Because of the progress, the conversation around financial inclusion is also changing. Financial inclusion is broadly defined as individuals having access to traditional financial services – which today could be through a conventional bank, a non-bank financial institution, or one of their digital counterparts. In many jurisdictions, as evidenced by the World Bank data shared earlier, we are making progress toward achieving financial inclusion.

Therefore, for the industry to progress, we must advance the traditional definition of financial inclusion to include a broader set of financial products and services. In other words, financial inclusion's future is not just having access to traditional financial services but all of the products and services the financial industry offers.

FinTechs will be an integral part of this future, and indeed already are. In India, these are the start-ups that are enabling lending for merchants using UPI. In Singapore, digital wealth managers allow investors to move money more easily using PayNow. Across the region, agile start-ups are leveraging technology to redefine the customer experience.

That is not to say the journey will be easy. The next few years will be challenging for all the geopolitical and economic issues we discussed earlier in the paper. VC funding is becoming harder to come by as the industry has become more selective and focused on sustainable business models.

FinTechs will have to return to basics and focus on customer issues to build solutions that solve friction points rather than rely on fancy but ultimately unnecessary technology. It is about resilience in the face of adversity. Innovating, but at the same time sustaining.

The FinTechs that can survive will be the ones that find that ever so fine balance.

ELEVANDI

Elevandi is set up by the Monetary Authority of Singapore to foster an open dialogue between the public and private sectors to advance FinTech in the digital economy. Elevandi works closely with governments, founders, investors, and corporate leaders to drive collaboration, education, and new sources of value at the industry and national levels. Elevandi's initiatives have convened over 300,000 people to drive the growth of FinTech through events, closed-door roundtables, investor programmes, educational initiatives, and research. A flagship product is the Singapore FinTech Festival alongside fast-rising platforms, including the World FinTech Festival, Point Zero Forum, and the recently launched Elevandi Insights Forum.

Kapronasia

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