



Neobanks drive financial inclusion in ASEAN, a 2022 outlook

INSIGHTS FOR SUCCESS | IDEAS TO EXECUTE

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Top 8 key takeaways :

- 1 The emerging markets in the region present a sizable opportunity for neobanks due to three prime factors:
 - large unbanked population, (~50%)
 - high mobile penetration, (More than 73%)
 - and growing middle class
- 2 There are 24 active neobanks today in ASEAN
- 3 In the region, digital spin-offs constitute around 41% of the total neobanks, whereas standalone-licenced neobanks rank second at about 36%, with digital platforms at 23%
- 4 Malaysia has recently announced its five successful applicants for a digital banking licence
- 5 Countries like Singapore, Indonesia and the Philippines have established licensing regimes, other countries are still in the discussion phase
- 6 The Philippines is ripe for neobanks, with roughly 46% of the population unbanked and 7 in 10 unbanked adults owning a mobile phone
- 7 Less than 60% of SMEs in the five countries have access to bank loans, and approximately 50% of the SMEs are unserved or underserved by financial institutions
- 8 Only 4 out of 22 neobanks cater to SMEs' needs. Jago bank is explicitly focused on SME financing and solutions. Other neobanks include TNEX, Maya bank and Diskartech have a diversified portfolio of retail and SME products

ASEAN'S booming digital economy at a glance

In the last five years, neobanks have gained immense customer popularity, becoming a disruptive force in the banking system. Among the tech-savvy, young population, neobanks have become mainstream. Neobanks also play a significant impact in reaching the unbanked and underbanked population, hence, enabling last-mile customers with access to financial products and services.

With millions still unbanked and underserved, ASEAN presents the fertile ground for neobanking. Almost 50% of the ASEAN population is unbanked, which means one in two people, with a further 24% estimated to be underbanked. More people own a mobile phone (73%) than a bank account (50%) in Southeast Asia. Hence, ASEAN's digital economy forecasts aim to exceed US\$300 billion by 2025 as demand for online services and mobile alternatives grows.

Predominantly mobile-first, the region has over 90% of its internet users connected via smartphone and 915 million active mobile connections, nearly 1.5 times its population. Given the boom of the internet and smartphone adoption across ASEAN, neobanks represent an ideal solution for achieving financial inclusion in ASEAN. Also, the emerging markets in the region present a sizable opportunity for neobanks due to three prime factors:



large unbanked population,



high mobile penetration,



and growing middle class.

New digital players are shaking up the market and transforming banking for individuals and businesses, providing access to economic opportunities while increasing liquidity for business owners.

We also view the interest of regulators with the introduction of licence policies and allocations. ASEAN has developed its policy frameworks uniquely to realise a more interconnected and inclusive digital economy.

ASEAN'S booming digital economy at a glance

S.No.	Bank	Founding year	CEO	Headquarters
1.	Timo	2015	Henry Nguyen	Vietnam
2.	Ubank	2020	Jakub Zalio (CEO), Mr. Marek Hovorka (Director of Ubank)	Vietnam
3.	Yolo by VP bank	2018	Shameek Bhargava (Director of YOLO)	Vietnam
4.	TNEX	2019	Bryan Carroll David	Vietnam
5.	CAKE by VPBank	2021	Quang Nguyen	Vietnam
6.	OFBank	2020	Leila Martin	Philippines
7.	Tonik Bank	2018	Greg Krasnov	Philippines
8.	Union Digital Bank	2021	Arvie De Vera	Philippines
9.	UNObank	2020	Manish Bhai	Philippines
10.	GOtyme	2021	Jojo Malolos	Philippines
11.	Maya Bank	2021	Angelo Madrid	Philippines
12.	Komo by eastwest	2020	Sergey Sedov (Robocash Group)	Philippines
13.	Una bank	2020	Paolo J. Baltao	Philippines
14.	EON	2018	Jakub Zalio (CEO), Mr. Marek Hovorka (Director of Ubank)	Philippines
15.	Diskartech	2020	Eugene S. Acevedo	Philippines
16.	Jenius	2016	Peterjan van Nieuwenhuizen, Head of Digital Banking, BTPN	Indonesia
17.	TMRW by UOB	2020	Kevin Lam	Indonesia
18.	Jago	2021	Kharim Indra Gupta Siregar	Indonesia
19.	Motionbanking	2021	Teddy Setiawan Tee Jadi	Indonesia
20.	LINE BK	2020	Tana Pothikamjorn	Indonesia
21.	BCA Digital (PT Bank central asia)	2021	Paulette E. Pantoja	Indonesia
22.	Frank by OCBC	2011	Helen wong	Singapore
23.	TMRW by UOB	2019	Kevin Lam	Thailand
24.	LINE BK	2020	Tana Pothikamjorn	Thailand

Note: Out of the 24 neobanks in ASEAN listed above, TMRW by UOB and LINE BK operates in two markets, Indonesia and Thailand. Most interestingly, however, is that only Frank by OCBC runs a branch in Singapore.

ASEAN'S booming digital economy at a glance

Recently, the Monetary Authority of Singapore (MAS) has awarded digital full bank licences to the Grab-Singtel consortium and tech giant Sea and Ant group. These four neobanks expect to start their business operations later in 2022. Similarly, Malaysia has announced its five successful applicants for a digital banking licence. All of these are yet to start to their operations.

We charted an upwards slope for the growth of neobanks in the ASEAN region from 3 banks in 2018 to 20 banks in 2021 (Figure 1).

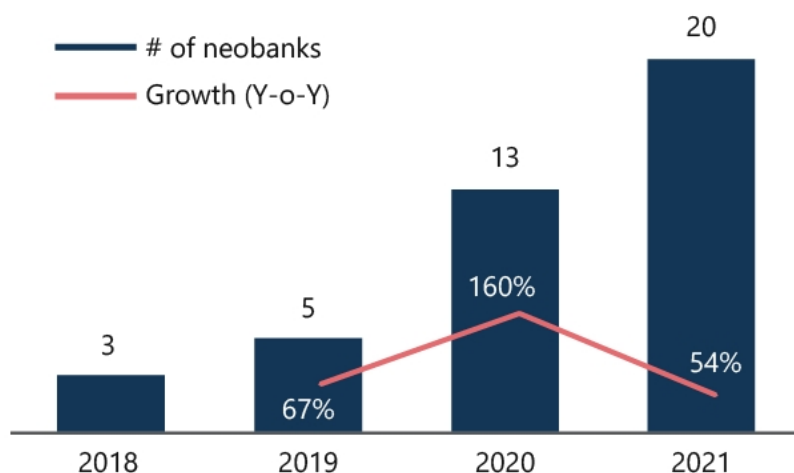


Figure 1: Growth of neobanks in ASEAN from 2018 to 2021.

Note: twimbit analysis

In the ASEAN region, digital spin-offs constitute around 41% of the total neobanks, whereas standalone-licensed neobanks rank second at about 36%, with digital platforms at 23%.

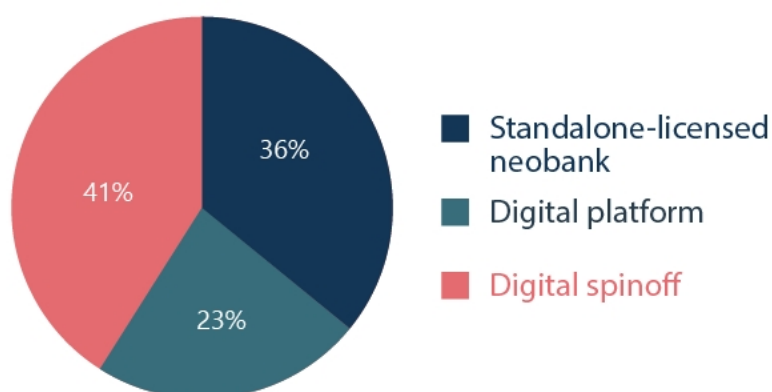


Figure 2: Classification of neobanks in ASEAN

ASEAN'S booming digital economy at a glance



Standalone-licensed neobanks

A bank with fully operational banking license obtained from the respective regulatory authority in the country of origin



Digital platform

A company which provides services leveraging another banks' regulatory license



Digital spin-off

A digital only bank created by an incumbent/ traditional bank

Figure 3: Examples of neobanks in each category

Neobank market landscape in ASEAN

Today, digital consumption in Southeast Asians is a way of life, almost ingrained in them. The extraordinary shift in consumer behaviour has led to the rise of the digital merchant:

- **native digital SMEs,**
- **and early adopters who have embraced end-to-end digital services.**

With e-commerce platform companies like Shopee, Lazada, Grab etc., the younger population (around 61%) already have a mindset towards digital propositions that are fast and efficient, unlike traditional banks. For younger people, neobanks are appealing, especially for those who do not want to go to a branch or cannot do so. Also, at a time when citizens avoid public spaces, remote banking proves attractive.

The demand for online banking services among the population also contributes to the growth of neobanks. For example, countries like Indonesia and the Philippines have thousands of islands, where most people stay in remote areas without much access to financial services. Particularly, these countries are becoming well suited for banking with a mobile phone instead of in brick-and-mortar branches.

Therefore, to construct a better future for them and realise the full potential of the region's demographic dividend, policymakers must understand the perspectives, priorities, and concerns of ASEAN's millennials and SMEs.

Regulators across the ASEAN countries have shown a rise in interest in encouraging the growth of neobanks. While countries like Singapore, Indonesia and the Philippines have already prepared their respective licensing regimes, other countries are still in the discussion phase. Regulatory sandboxes are present in countries like Singapore to handhold and support fintech startups. At the same time, it allows policymakers to develop expertise and laws regulating these enterprises. However, regulatory capacities vary greatly among ASEAN member countries on how to deal with fintechs.

Comparison of regulatory and market environment in 3 ASEAN countries

	Singapore	Indonesia	Philippines
Regulatory authority	Monetary Authority of Singapore (MAS)	Otoritas Jasa Keuangan (OJK)	Philippine central bank Bangko Sentral ng Pilipinas (BSP)
License type	<p>Types of licences: The two types of licences granted by the MAS:</p> <ol style="list-style-type: none"> Digital Full Bank (DFB) licence: With a DFB licence, the neobanks will operate as a full-fledged digital banking service provider offering services including taking deposit from retail and non-retail customers, issuing loans and credit cards among others. Digital wholesale bank (DWB) licence: Firms with a DWB licence can provide full-fledged banking services only to SMEs and other non-retail segments. 	<p>Legal framework , Digital bank licensing is carried out in 2 steps:</p> <ol style="list-style-type: none"> Issuance of in-principle license: A license to enable preparations to establish the bank, which valid for 6 months; and Issuance of bank business license: A commercial license to carry out banking operations which will be issued upon the completion of in-principle license. 	<p>Two types of licences namely, 'Basic' and 'Advanced':</p> <ol style="list-style-type: none"> A basic digital bank can accept deposits, grant unsecured loans, collect and pay for account holders, provide remittance and bill payment services, and issue electronic money products. The basic digital banks cater to retail and small and medium-sized enterprises (SMEs). An advanced digital bank in addition to delivering basic banking capabilities will also be allowed to issue credit cards and grant secured loans. The advanced digital banks cater to retail and SME segments besides large enterprises and corporate clients.

The Philippines

The Philippines is ripe for neobanks, with roughly 46% of the population unbanked and 7 in 10 unbanked adults owning a mobile phone, representing an untapped opportunity for enhancing neobanking in the country. By leveraging the growing use of internet technology and mobile phones, most neobanks in the Philippines primarily focus on serving the millennial generation and the unbanked population.

Although most Filipinos are still learning about digital banking and appreciating its advantages, around 60% of bankable customers in the Philippines are willing to shift to more digital banking players. The proportion of the unbanked and underbanked will be cut by about half to 20% of the country's bankable population. This rapid uptake of users indicates Filipinos are hungry for a financial development that makes banking simple, digitally-driven, and one that genuinely helps them grow their money.

Furthermore, the Philippines recently approved the digital bank licencing frameworks for up to seven neobank licences (Figure 3). The Bangko Sentral ng Pilipinas (BSP), also known as the Central Bank of the Philippines, has issued licences to seven firms to operate as digital banks:

- **Overseas Filipino Bank,**
- **Tonik Bank,**
- **UNO bank,**
- **GoTyme,**
- **Union Digital Bank,**
- **and Maya Bank.**

Two Singapore-headquartered fintech companies have received approval from the Philippines' BSP to operate neobanks in the country. BSP as its regulator, is progressive and collaborative, sharing a vision of creating a digital banking ecosystem to serve its pop on.

Standalone digital banks in Philippines



Figure 3: Seven standalone digital banks in the Philippines with a license from BSP

ASEAN's country-specific neobank analysis

Indonesia

Indonesia, like the Philippines, has a young population with a median age of under 30, and two-thirds of the country's unbanked individuals own a cell phone. As a result, Indonesia's unbanked population, estimated to be 83 million people, is larger than many countries' populations.

Around 24.9% of adult Indonesians have a digital bank account. The country is also home to over 60 million micro, small, and medium enterprises (MSMEs), but nearly 70% do not have access to credit. Neobanks intend to provide a new option to access financial services for the underbanked and MSMEs.

Even though the country has three digital spin-off neobanks and one standalone licensed neobank, Indonesia is not considered sceptic owing to the low percentage increase in the number of neobanks.

Therefore, there is a significant opportunity to serve most of the unbanked and underbanked population. Following this, BCA Digital, UOB Bank, and Bank Tabungan Pensiunan Nasional (BTPN) bank have launched their digital spin-offs (Blu, TMRW, and Jenius, respectively) (Figure 4).

Digital spin-offs in Indonesia



Figure 4: Three digital spin-offs in Indonesia catering to GenZ and millennial needs

Singapore

Singapore has the highest percentage of adults in the region whose financial needs are well-served. However, Singapore's stronghold on traditional banks may make it difficult for neobanks to survive, as approximately 98% of the Singaporean adult population is already banked. Furthermore, a considerable demographic shift has occurred, showing an ageing population.

An intriguing dichotomy exists among Singapore customers. On the one hand, customers are clinging to their old "safety net" of brick-and-mortar institutions while, on the other hand, adopting new habits that are more aligned with digital banking. Frank by OCBC is the only neobank landing on our list.

The entrance of new digital banking players in Singapore will further fragment the market. Moreover, given the pedigree of traditional banks who operate like technology companies, the most prominent way in which Singapore can establish a common ground for neobanks to grow and develop is by:

- **Defining a niche customer segment/persona**
- **Product innovation**
- **Owning specific customer journeys**
- **Customer experience**

ASEAN's country-specific neobank analysis

Vietnam and Thailand

Vietnam and Thailand are preparing their ecosystems to give fully digital bank licences. They already have several domestic and foreign commercial banks working in the digital domain through partnerships or fully acquired fintech enterprises.

Vietnam

Vietnam has many favourable conditions for neobanks to develop and scale up to serve the 40% of the unbanked Vietnamese population. They are a large population of almost 100 million with very high smartphone and internet adoption. In fact, most traditional banks seek to enter the neobanking space by offering innovative banking solutions through digital platforms. Also, non-cash regulations have increased the number of intermediary e-banking services such as e-wallet services and online payment gateways in the country.



Two key trends to observe in the banking industry along with providing seamless and embedded lifestyle services:

- 1) An obsession with rethinking the customer experience, and*
- 2) The personalisation in terms of data, giving the right product at the right time, the right message at the right location, and for the right person.*



- David Jimenez Maireles,
Chief Experience Officer, Deputy CEO, TNEX Bank.

Digital platforms in Vietnam



The State Bank of Vietnam is still formulating policies on digital banking. An unprepared regulatory framework is one of the significant reasons limiting local fintech growth.

Currently, Vietnam is home to four digital platforms (Figure 5) and one digital spin-off.

Figure 5: Four digital platforms in Vietnam

ASEAN's country-specific neobank analysis

Thailand

Thailand banks possess a conservative and traditional attitude toward digitalisation. It has a large chunk of the unbanked (18%) and underbanked population (45%). However, many fintech firms are utilising the 72% mobile penetration rate to offer digital banking services such as e-wallets and payments.

Moreover, the Bank of Thailand has announced its intention to research the various licences it could issue to serve its primarily underbanked and unbanked populations. This move will encourage competition in the country's banking industry, drive financial inclusion and grant Thailand access to an enriched and personalised banking experience. In addition, the success of industry disruptors in other sectors is driving banks and non-banking businesses to offer customised and customer-centric digital banking services.

Malaysia

Bank Negara Malaysia (BNM) and the Minister of Finance Malaysia are looking forward to announce the five successful applicants for the digital bank licences

- A** The following applicants are to be licensed under the Financial Services Act 2013 (FSA):
- a consortium of RHB Bank Berhad and Boost Holdings Sdn. Bhd.;
 - a consortium led by Kuok Brothers Sdn. Bhd. and GXS Bank Pte. Ltd; and
 - a consortium led by YTL Digital Capital Sdn Bhd. and Sea Limited
- B** The following applicants are to be licensed under the Islamic Financial Services Act 2013 (IFSA):
- a consortium of AEON Financial Service Co., Ltd., AEON Credit Service (M) Berhad and MoneyLion Inc.; and
 - a consortium led by KAF Investment Bank Sdn.Bhd.

Three out of the five consortiums are majority owned by Malaysians namely Boost Holdings and RHB Bank Berhad, Sea Limited and YTL Digital Capital Sdn. Bhd. and KAF Investment Bank Sd Bhd.

The role of SME's in ASEAN and challenges faced in accessing finance

The benefits of going digital in ASEAN are not being experienced equally by all sectors of the economy. Even with a rise in consumer fintech and e-commerce innovation, the SME sector remains stuck with traditional banking and business. As a result, millions of ASEAN's SMEs face significant barriers when accessing and using digital technologies, preventing them from reaping the full benefits of participating in the digital economy and realising their full potential.

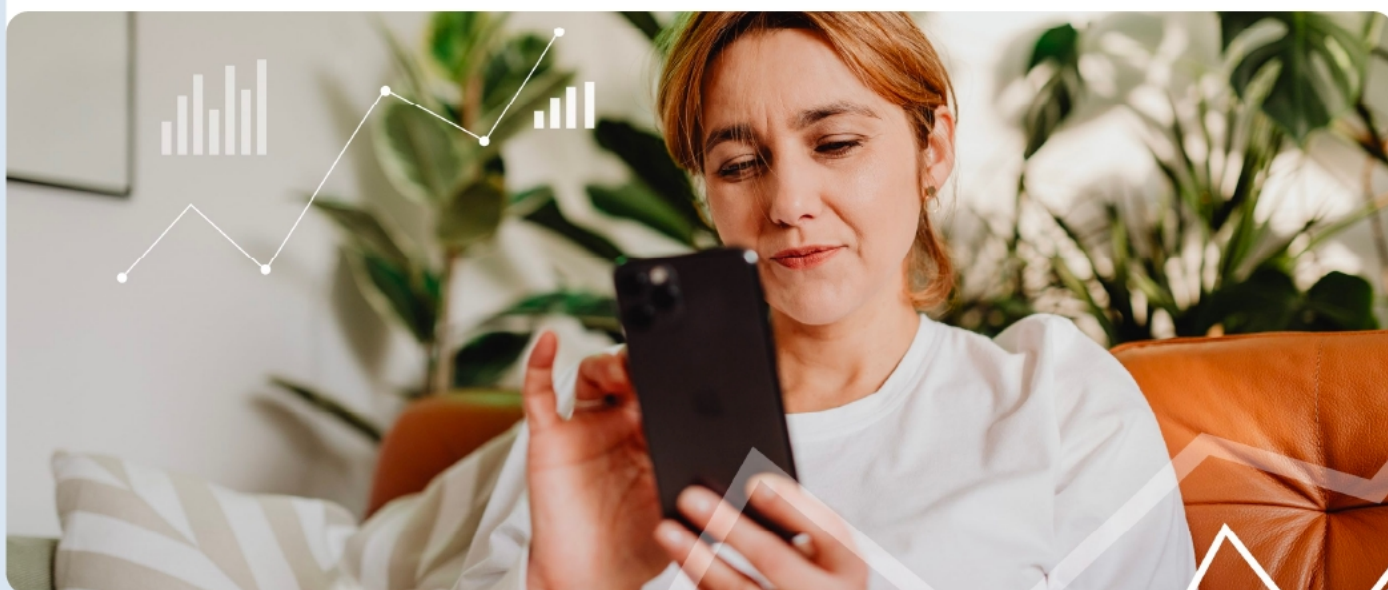
Small and medium-sized enterprises (SMEs) are an important segment in the economies of member states in ASEAN. Across the five countries discussed above, SMEs contribute between 30% and 60% of a country's GDP. While SMEs play a significant role in the economy, most have limited access to financing. Less than 60% of SMEs in the five countries have access to bank loans, and approximately 50% of the SMEs are unserved or underserved by financial institutions.

Although SMEs are vital in the Philippine economy, comprising 99.5% of all businesses, they only employ 63% of the workforce. Hence, they underperform, accounting for 36% of value-added to the economy. Many barriers prevent the Philippine SMEs from reaching their full potential in the digital economy. The most obvious ones are poor internet infrastructure and digital skills.

This problem becomes even more acute for the 80% of SMEs in rural areas where business owners have limited digital and financial literacy and have little or no access to reliable mobile or broadband internet. The most intriguing, however, is one related to a lack of innovative digital financial products that address the specific needs of SMEs.

Poor financial infrastructure with low SME coverage by credit bureaus and inadequate distribution channels limiting banks from reaching out and servicing SMEs in either the physical or digital space are several key factors restricting SME lending and resulting in the poor financial inclusion of SMEs.

The arduous and time-consuming paperwork combined with the slim prospects of getting financial aid is limiting the growth of this market. Banks have always perceived lending to SMEs as high risk. Credit scoring for SMEs is a challenging task. Banks do not have digital avenues to access information about SMEs and use only their financial statements.



Neobanks are at the cusp of unlocking a massive SME growth opportunity

The challenge for banks and financial institutions lies in their ability to assess the creditworthiness of SMEs accurately. Moreover, traditional norms plague the credit risk assessment when evaluating the company's financials. Neobanks are creating an intelligent loan application process by capturing customer data beyond the financial statements. This includes;

- **customer reviews,**
- **repeat purchases,**
- **delivery cycles,**
- **pricing mechanisms,**
- **and customer interactions on social channels**

Neobanks have brought a strong shift by aiming to become a one-stop shop for all SME needs. In Vietnam, the role of SMEs is very important to the national economy, but the SME sector still faces many difficulties and obstacles in accessing funding and financial services.

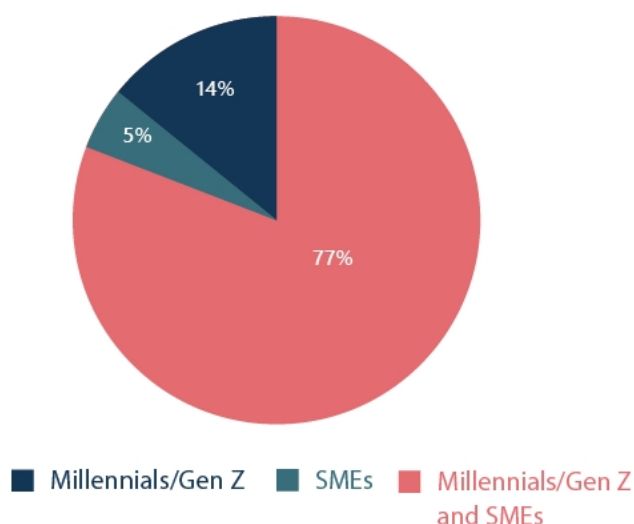
In the ASEAN region, only 4 out of 22 neobanks cater to SMEs' needs. Among all the neobanks, only Jago bank is explicitly catering to the needs of SMEs. Other neobanks include TNEX, Maya bank and Diskartech.

Neobanking models strive to overcome the aforementioned key factors limiting SME lending and address the varied financial and non-financial needs by financing SMEs and offering a comprehensive suite of products and services. Neobanks, are harnessing the power of data, technology and partnership to create a pure-play customised digital offering for SMEs.

Given the importance of SMEs to ASEAN's national economies through their significant contribution to employment and GDP, financial institutions in the ASEAN region have to rethink the role banks want to play in the SME banking services area. Neobanks have options to organically build capabilities and establish ecosystems by forming strategic partnerships with incumbents, fintechs and e-commerce providers. Most importantly, they will gain SME market leadership in the industry.

Neobanks must consider what innovation business models work best and which partners will help them achieve the right solutions to cater to this unserved and underserved market.

Governments, policymakers and regulators need to work in tandem to encourage an innovation-friendly business climate which encourages collaboration. If captured effectively and responsibly, the benefits to banks, SMEs, the national economy and society will be immense.



Graph: ASEAN neobanks segmentation with respect to customer type (twimbit analysis)

Future growth opportunities for ASEAN's neobanking industry

Consumer banking behaviour has been effectively curtailed by the new normal, and the future aims to remain digital. However, customers will continue to look for and choose banks that encourage a more human relationship built on mutual trust, speed, and convenience, rather than the often tedious and frustrating transactional interactions. This can be seen unfolding with key developments in industry regulations and customer expectations.

Consumers are digital-ready with a strong digital infrastructure backing the region. Also, the strong digital infrastructure supports the commercial launch of 5G and high smartphone penetration.

By collaborating with incumbents, fintech companies and other non-bank players, including telecom and technology giants, neobanks can;

- **create powerful digital propositions for niche customer segments,**
- **co-create features customised to every customer's need,**
- **enable smoother neobanking functions.**

Furthermore, the developments in the neobanking regulatory framework will allow the establishment of operational banks by non-banking players in the future.

With growing buzz around the neobanking sector in ASEAN, funding and investors are plunging into the market. In fact, the ASEAN region is becoming a new hotspot for investors and a great opportunity for innovation. On top of this, digital financial services have remained centre stage and are likely to continue attracting more investments.

Name	Total Funding (in \$ Million)	Investors
Timo	20	Jungle ventures, FinAccel, Phoenix Holdings, Granite Oak, Square Peg Capital
Tonik bank	175	Mizuho Bank, iGlobe Partners, Point72 Ventures, Sequoia Capital India, Insignia Ventures Partners
GOtyme	180	Tencent Holdings Ltd., CDC Group, JG Summit Holding's venture capital firm, JG Digital Equity Ventures
Una bank	5	-
Jago	160	Gojek, GIC
Maya Bank	167	-

Table: Total funding amount including all rounds

Appendix

Neobanks are at the cusp of unlocking a massive SME growth opportunity

Neobank segmentation by customer type		
Retail (Millennials/ Gen Z)	Business/SME	Retail/Business (Millennials/ Gen Z and SME's)
Timo	Jago	TNEX
Ubank		Maya bank
YOLO by VP bank		Diskartech
Cake by VP bank		
Tonik		
Union Digital bank		
UNO bank		
GOTyme		
Komo by eastwest		
UNA bank		
EON		
Jenius		
TMRW by UOB		
Motionbanking		
LINE bank		
BLU by BCA digital		
Frank by OCBC		
OF Bank		

Table: Neobanks catering to the needs of different customer segments

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Insights



Immersions



Challenges

How can we help?

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