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Top 10 Fintech Trends in Asia Pacific 2024

The trends and issues that will reshape the Asia Pacific financial industry in the next year

Kapronasia
an Atlas Technologies Group Company





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Methodology

For this report, Kapronasia conducted both primary and secondary research on the 2024 Fintech trends in Asia Pacific to obtain the most relevant insights from the industry. Secondary research included, but was not limited to, market intelligence reports and studies by industry experts and professional services networks, white papers, educational materials, media articles, and marketing collateral. Primary research included interviews with relevant players across the ecosystem, including financial institutions, fintechs, and industry experts.



Introduction

This is now our 14th annual Top-10 Asia Fintech Trends report and its one of our best. Our annual fintech trends report is always one of our favorite as we can have a bit of fun, but at the same time, be firm about our projections and ‘tell it like we see it’ without holding back our thoughts or views on the market.

This year is no different as the financial services industry enters 2024 on steadier footing after weathering significant shocks over the past several years. The volatile swings that characterized crypto, digital banking, and other emerging areas seem to have stabilized. Now the focus is shifting to deliberately using technology to provide customers lasting value rather than chasing the next big fad.

Unbridled growth is out, profitability in.

Financial inclusion advances in key developing markets across Asia as long-envisioned use cases start coming to fruition. Partnerships also gain momentum as players realize the benefits of collaboration over disruption. There is renewed optimism around technology that solves real problems rather than technology for its own sake.

In this year’s report, we analyze 10 (actually 11) trends that showcase the financial industry’s ongoing digital evolution. The financial services industry continues marching toward an integrated, technology-enabled future; but it is no longer a blind charge as realism tempers the pace. Emerging areas like embedded finance and open data build on recent hard lessons by emphasizing sustainable gains over hype-fueled bubbles.

As always, we remain dedicated to clear-eyed analysis that cuts through sales pitches to determine what is actually happening on the ground. Some trends reflect that optimism still exists in areas like AI, while acknowledging the complexity of translating that potential into reality. Other trends, like the continued growth of digital currencies, come with appropriate notes of caution given recent volatility.

We aim to paint an honest picture of the financial services landscape to help our clients navigate ongoing change. Thank you for accompanying us on this journey as we embark on our 14th year of tracking fintech in Asia Pacific. We appreciate your readership and trust, and hope you continue finding value in these annual reports.

Zennon Kapron

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Open Banking: The Catalyst to Unlocking Real-Time Regional Payments in Southeast Asia

Southeast Asia's complex and disparate financial ecosystem has historically hindered the development of seamless cross-border real-time payments despite nearly every country in ASEAN having domestic real-time payment infrastructure. Notwithstanding the ASEAN bloc's focus on payment innovation, varying currencies, regulations, and technologies have prevented regional agreement. The lack of cohesion around a regional solution has led to many bilateral relationships, which is not ideal. Open Banking might be set to help.

As Open Banking develops across the region, we should start to see regional collaboration and coordination on enabling regional interoperability through common data standards and Application Programming Interfaces (APIs) for cross-border open banking transactions. This allows real-time exchange of financial information between

institutions across borders, which would help to remove cross-border friction as common API frameworks and standardized data formats would facilitate national payment infrastructure links.

These standards would provide the plumbing for real-time transaction details and rapid settlement. Exploring innovative models can further grease the wheels of regional payments – shared liquidity pools with centralized currency conversion smooth volatility across currency corridors. New settlement assets like blockchain-based stablecoins provide a standardized regional unit of exchange and settlement. A regionally accepted stablecoin running on an existing public blockchain or even a private one would also avoid arguments over infrastructure ownership, settlement currency, and rules that have hindered any regional agreement in the past.

Beyond Payments

The implications of Open Banking extend far beyond basic payments. With frictionless data sharing opening opportunities for embedded finance, transactions can be initiated and completed in seconds. E-commerce platforms could trigger real-time order payments via Open Banking. Banks can develop overlay services for consumers leveraging these Open Banking rails. Shared access to financial information enables highly customizable applications tailored to regional needs. Tools for managing overseas remittances, trade invoices, investments, and more can be built.

Furthermore, Open Banking can empower small and medium-sized enterprises (SMEs) – the backbone of the Southeast Asian economy.

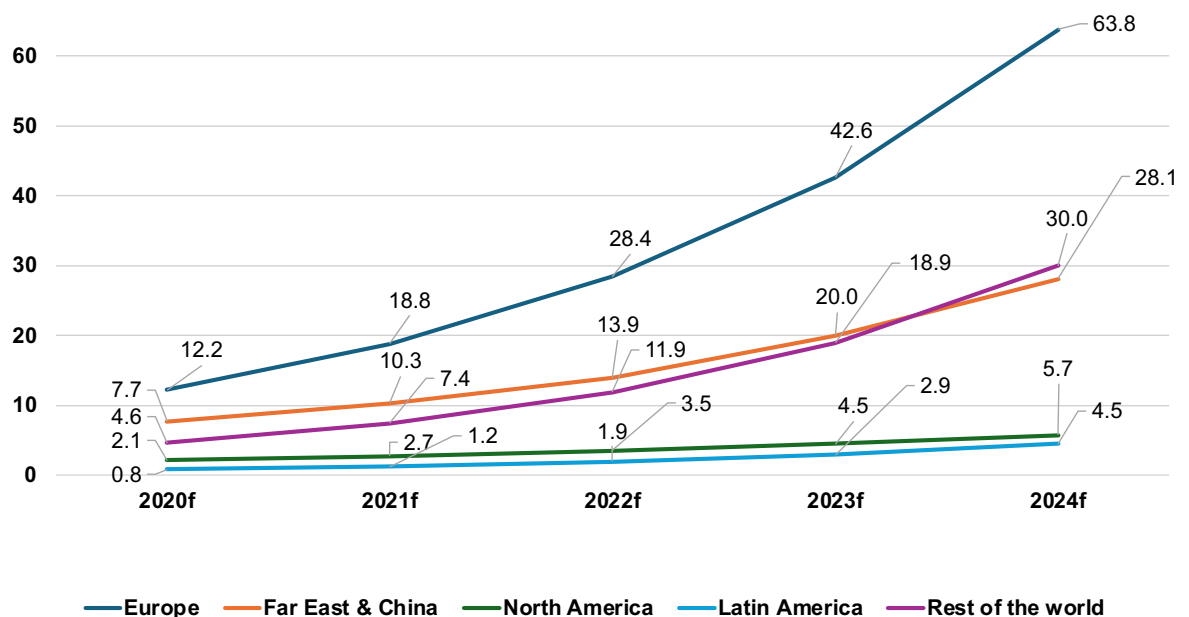
Access to trade finance solutions, data-driven risk assessments, and streamlined cross-border payments can fuel SME growth and contribute to regional economic development.

Europe is forecasted to see the most significant global growth in Open Banking users, with a forecast of 63.8 million users by 2024. That will be followed by Far East & China with 28.1 million, North America with 5.7 million, and Latin America with 4.5 million (Figure 1).¹

¹ Juniper Research, March 2021, <https://www.statista.com/statistics/1228771/open-banking-users-worldwide/>

Figure 1

Number of open banking users worldwide by region 2020-2024, millions



Source: Juniper Research

Challenges

Realizing this seamless regional payments vision will need extensive coordination throughout the ecosystem. The region must also establish robust data privacy regulations to protect individuals' financial data. Additionally, building trust and awareness among consumers about the benefits and risks of Open Banking will be crucial for widespread adoption. Finally, fostering collaboration between governments, regulators, and financial institutions will be essential for overcoming legislative hurdles and implementing Open Banking effectively. ASEAN governments have struggled to make this happen with cross-border payments. Open Banking might be the Trojan horse they need to push through.

Cybersecurity's Escalating Importance: A Crucial Focus for Asia's Financial Sector

In 2024, cybersecurity in the financial industry will be paramount. While it has always been a crucial aspect of operations for institutions and technology providers alike, the intensifying digitization of financial services, combined with increasing computational power and the ongoing shift of financial activities online, is amplifying its importance. With the annual cost of cybercrime soaring worldwide (Figure 2), financial institutions and market participants across Asia must reevaluate and reinforce their cybersecurity strategies more rigorously than ever.

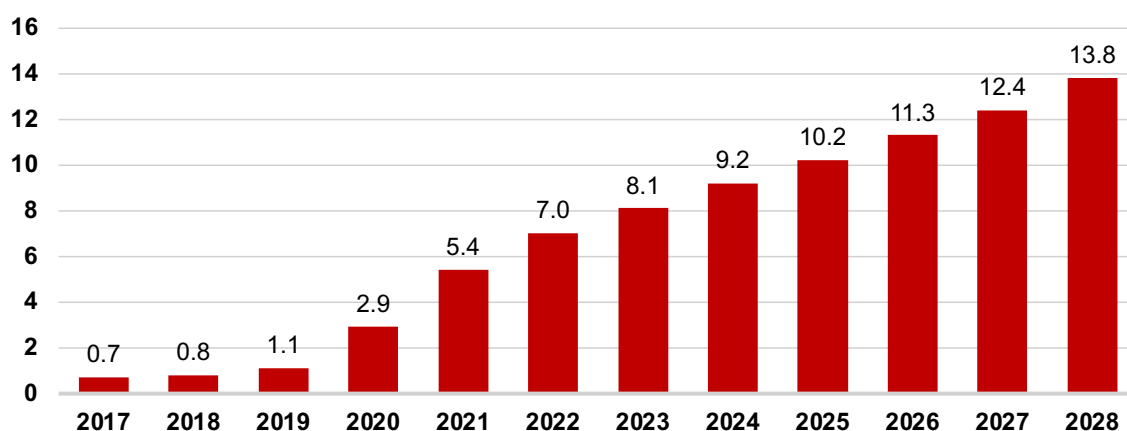
Moreover, as Asia's digital economy and technology sectors rapidly evolve, the region is facing a significant increase in cybercriminal

activity, highlighting an urgent need for enhanced cybersecurity measures. In 2022, the Asia Pacific region emerged as the most targeted area for cyberattacks, accounting for 31% of global attacks.² This year is poised to be a challenging period for financial cybersecurity, with cybercriminals employing increasingly sophisticated tactics and technologies to exploit vulnerabilities in the financial sector.

² IBM Security, "IBM Security X-Force Threat Intelligence Index 2023," 2023, <https://www.ibm.com/reports/threat-intelligence>

Figure 2

Estimated annual cost of cybercrime worldwide 2017-2028, USD trillions



Source: Statista Technology Market Insights

The Cumulative Impact of Digitization and Online Shift

The relentless pace of digitization in the financial industry brings many cyber threats. As more financial services migrate online, the attack surface for cyber threats widens, making institutions more vulnerable to sophisticated cyber-attacks. The integration of advanced technologies like AI, blockchain, and cloud computing, while beneficial, also adds complexity to the cybersecurity landscape. This complexity, combined with the vast amounts of sensitive data handled by financial institutions, makes the sector a prime target for cybercriminals.

The growth in computational power enables financial institutions to process data at incredible speeds and gives cybercriminals potent tools to exploit vulnerabilities. As computing capabilities continue to advance, so do cyber attackers' techniques, making traditional cybersecurity measures insufficient.

Asia's financial sector faces unique cybersecurity challenges. The region's diverse economic landscape, varying levels of digital maturity, and differing regulatory environments create a complex cybersecurity terrain. Furthermore, the rapid digital financial inclusion efforts in emerging economies of Asia significantly increase cybersecurity risks, as new entrants into the digital financial realm may lack awareness and preparedness against cyber threats.

Several critical trends and potential threats for this year include, but are not limited to, an increased reliance on artificial intelligence by attackers, a surge in fraudulent activities targeting direct payment systems, widespread adoption of Automated Transfer Systems (ATS), the spread of Brazilian banking trojans on a global scale, and the ongoing evolution in the strategies employed by ransomware attackers.³

Reassessing Cybersecurity Strategies

In light of these evolving challenges, financial institutions and other Asian market participants must adopt a more proactive and comprehensive approach to cybersecurity. This involves deploying advanced technological defenses and fostering a robust cybersecurity culture within organizations. Regular risk assessments, employee training, and adopting a 'security-first' approach to developing digital financial products are essential.

Collaboration among financial institutions, technology providers, and regulatory bodies is crucial in strengthening the cybersecurity framework. Sharing intelligence on emerging threats and best practices can significantly enhance collective defense mechanisms. Additionally, compliance with regional and global cybersecurity regulations and standards will be paramount. Financial institutions must stay abreast of evolving regulatory requirements to ensure their cybersecurity measures are current.

Conclusion

In 2024, the imperative for stringent cybersecurity measures in Asia's financial sector cannot be overstated. The cumulative impact of increased digitization, enhanced computing power, and the shift to online platforms elevate the risk of cyber threats to a critical level. Financial institutions and market participants must fortify their cybersecurity infrastructure and cultivate an environment of continuous vigilance and adaptation to counter these evolving threats effectively. Cybersecurity is no longer just a component of the operational strategy; it is a fundamental aspect that will define the resilience and trustworthiness of financial institutions in the digital age.

³ Kaspersky, "Crimeware and financial cyberthreats in 2024," Nov 2023, <https://securelist.com/kaspersky-security-bulletin-crimeware-financial-threats-2024/111093/>



Generative Artificial Intelligence (AI): The Normal Normal in Asia's Banking Sector

In 2024, generative AI will become a mainstream technology for banks across Asia, building upon the foundational understanding and applications established in 2023. This advancement represents a significant shift in the banking industry. AI is no longer just an innovative tool but an integral part of addressing various challenges, from streamlining operational processes to enhancing wealth management services.

2023: The Year of AI Acclimatization

In 2023, AI emerged as a critical focus for the banking industry, with companies and individuals exploring its capabilities and potential applications. This period of acclimatization laid the groundwork for understanding how AI can be leveraged effectively within the financial sector, setting the stage for more advanced implementations.

As generative AI becomes more prevalent in 2024, banks across Asia are integrating this technology to revolutionize their operations and customer service. AI-driven systems automate routine tasks,

analyze large datasets for insights, and provide personalized customer experiences. In wealth management, AI enables more sophisticated and tailored investment strategies, utilizing vast market data to inform decision-making processes.

The Ethical Dimension and Regulatory Landscape

However, the widespread adoption of AI in banking brings significant ethical considerations. Issues such as transparency, explainability, bias in AI algorithms, and the impact on employment are prompting important discussions. As a result, governments and regulatory bodies across Asia are stepping in to develop frameworks that ensure the responsible use of AI in banking. The appropriate guardrails around the use of customer data are also essential and will likely be a critical consideration for banks. Regulations and controls will be crucial for maintaining consumer trust and safeguarding against potential abuses of the technology.

Like the ramp-up in the cloud, generative AI will first be seen in non-customer data-driven applications like simple customer support and high-level interactions. Still, as implementations gather steam and financial institutions become more comfortable with the technology, we will see applications move up the value chain.

The regulatory challenge lies in determining the appropriate boundaries. In the broader context, the integration of AI in banking is part of a global AI arms race, where countries compete to lead in this technological frontier. For Asian nations, the push to adopt and innovate in AI is not just about staying competitive but about not being left behind in a rapidly advancing technological world. This urgency drives significant investments in AI research and development across the region.

Irrespective of the regulatory decisions in markets such as the U.S. and Singapore regarding AI development, there will be regulators across the globe who will adopt a more laissez-faire stance, aiming to secure an edge over their counterparts in other markets. Viewing AI as a global contest, imposing what might be prudent restrictions could place more regulated countries at a competitive disadvantage. In other words, if Singapore enforces

strict controls, what guarantee do we have that a rogue state would follow suit?

Conclusion

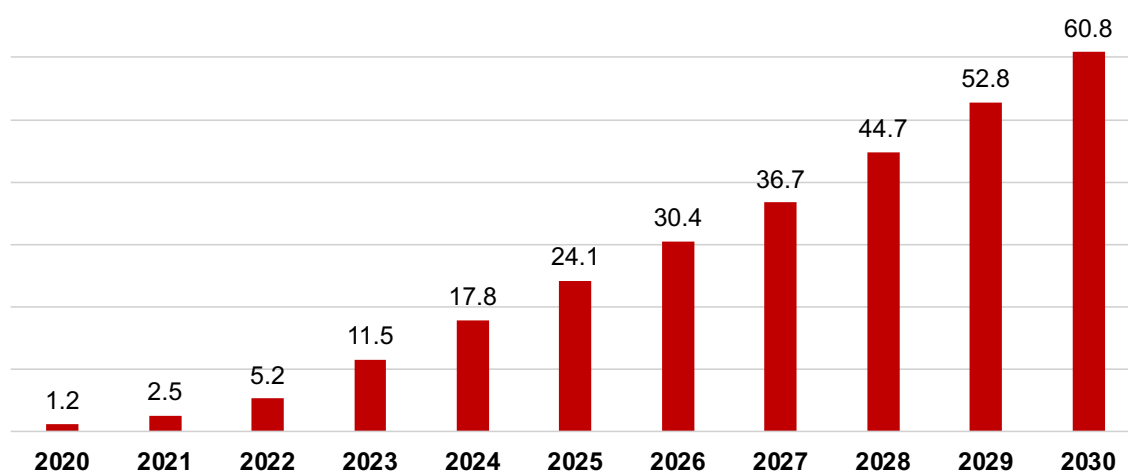
As we look ahead, generative AI will be a transformative force in Asia's banking sector. Its integration is already redefining how banks operate and interact with their customers, offering efficiencies and insights that were previously unattainable. While the journey is fraught with ethical and regulatory challenges, the overarching trend is clear: AI is becoming the normal normal, and its potential to revolutionize the banking industry is just beginning to be realized. As regulations evolve and technology advances, Asian banks that embrace AI will find themselves at the forefront of a new era in financial services.

The market size for Generative AI across Asia is expected to show an annual growth rate (CAGR 2024-2030) of 22.65 percent, resulting in a market volume of US\$60.83 billion by 2030 (Figure 3).⁴

⁴Statista Market Insights, "Generative AI Market Size Asia," Aug 2023, accessed Jan 2024, <https://www.statista.com/outlook/tmo/artificial-intelligence/generative-ai/asia?currency=USD#market-size>

Figure 3

Generative AI - Market Size Asia, USD billions



Note: Data shown is using current exchange rates and reflects market impacts of the Russia-Ukraine war.

Source: Statista Market Insights

Biometric Boom: Facial Recognition Goes Mainstream

If you traveled extensively in 2023, you likely observed the widespread integration of biometrics in airports worldwide. Traditional tickets have given way to facial recognition systems in numerous U.S. airports. For instance, Global Entry members landing at Newark Airport can breeze through security simply with a facial scan. Similarly, in Singapore, returning residents can go through a near touchless, staffless immigration process by scanning their passports and undergoing a facial recognition check for entry.

The landscape of biometric technology, particularly facial recognition, has undergone a transformative change in Asia, seamlessly integrating into various facets of daily life, from airports to banks and even payment for street vendors. Indicative of the take up of the technology across the region, Mastercard and the Japanese technology group NEC plan to launch a store checkout system using facial recognition, starting with trials this year in potential markets like Singapore, Indonesia, and elsewhere in Asia.⁵ This widespread adoption heralds a new era of convenience in financial transactions and brings significant data protection and privacy concerns to light.



The Advent of Biometrics In Asia

A confluence of rapid technological advancements, government backing, and a cultural receptiveness to tech innovations marks Asia's leap into the biometric era. Nations like China, India, and Singapore are envisioning and living the reality of facial recognition technology. This technology's impact is profound in the financial sector, offering innovative ways to interact with banking services.

Financial institutions across Asia are increasingly weaving facial recognition into their services from ATMs that allow cash withdrawals via facial scans to online banking platforms offering enhanced security measures. Such integration responds to the need for secure, efficient banking experiences, pivoting away from traditional, less secure methods like personal identification numbers (PINs) or passwords.

In India, the Unified Payments Interface (UPI) has incorporated biometrics to enhance security and ease of transactions. When a user initiates a UPI transaction, they can opt for biometric authentication instead of, or in addition to, a PIN. The user's biometric data is then matched with the data stored in a secure database (like the Aadhaar database if linked). If the match is successful, the transaction is approved. This system not only strengthens security by ensuring that the account's rightful owner is conducting the transaction but also simplifies the process for users who may find remembering PINs challenging.

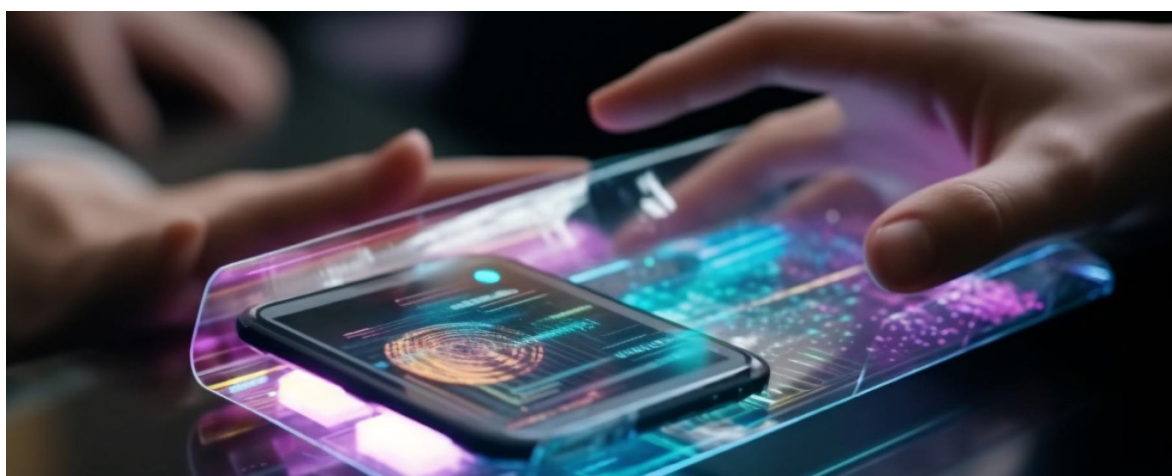
⁵Tsubasa Suruga, NikkeiAsia, "Mastercard to let Asian shoppers pay with a quick face scan," Dec 2023, <https://asia.nikkei.com/Business/Technology/Mastercard-to-let-Asian-shoppers-pay-with-a-quick-face-scan>

Benefits and Opportunities

Biometrics in finance promise heightened security and convenience. Using unique biometric data, the technology presents a more robust barrier against identity theft and financial fraud. Customers enjoy quicker transaction processes, free from remembering multiple passwords or carrying several identification forms. Additionally, banks can offer personalized services, instantly recognizing customers to cater to their specific needs, enhancing overall customer satisfaction. These systems streamline banking processes on the operational front, reducing time and resources spent on manual verifications.

Challenges and Concerns

However, the rapid adoption of biometrics in finance has challenges. Privacy concerns top the list, with apprehensions about how banks handle and store sensitive data. In many Asian countries, data protection laws are still in their infancy compared to regions like Europe, raising questions about the confidentiality of personal biometric information. Technological limitations, such as accuracy across diverse populations and algorithmic biases, pose significant hurdles. Moreover, ethical concerns about surveillance and diminishing anonymity in public spaces are growing, demanding a careful balance between security and privacy.



Regulatory Responses

In reaction to these emerging challenges, Asian governments and regulatory authorities are starting to frame laws and guidelines to regulate biometric technology use. For instance, Singapore's guidelines on AI and data analytics in financial services are a step towards responsible biometric data use. Other countries in the region also recognize the need for regulations that protect consumer interests while not stifling technological advancement.

The future of facial recognition in Asia's financial sector is set to expand further. Innovations like 3D facial recognition and enhanced liveness detection are being developed to overcome limitations. As regulatory frameworks mature, more standardized practices ensuring ethical biometrics use are expected to emerge.

The integration of facial recognition in Asia's financial services signals a pivotal shift towards a more secure, efficient, and customer-centric future. However, this transition is not without its challenges. Balancing enhanced security and convenience with the imperative need to protect individual privacy and data will be crucial. The sustainable adoption of facial recognition technologies in finance will hinge on collaboration among technology providers, financial institutions, regulators, and consumers, shaping a secure financial landscape that respects individual rights and fosters innovation.



Cash: Still King in Parts of Asia

Although the narrative in the financial industry is that digital is better, that is not always the case. Many rural economies across Asia operate on a largely informal and cash basis. A few factors are driving this. Firstly, there is often a lack of infrastructure to support cashless payments, such as limited internet access or banking services. Secondly, the rural populations often have a general distrust or lack of familiarity with digital payment systems. Additionally, the informal nature of many businesses in rural areas lends itself to cash transactions, which are perceived as more straightforward.

However, the primary challenge of going cashless is the digital divide – the gap in access to digital technologies and internet connectivity between urban and rural areas. Technology infrastructure, or even more basic infrastructure like electricity, is limited or fragile in many markets.

In 2023, we were in-country for a field visit on a project with the Solomon Islands Central Bank. The Solomon Islands, located in the South Pacific, is an archipelagic state comprising over 900 islands. This country is known for its diverse topography, which includes mountainous regions, low-lying coral atolls, and dense rainforests. Honiara, situated on Guadalcanal Island, is the capital and the largest

city, serving as the administrative and economic center of the country. The economy is primarily based on subsistence agriculture, fishing, and forestry, with a growing focus on tourism.

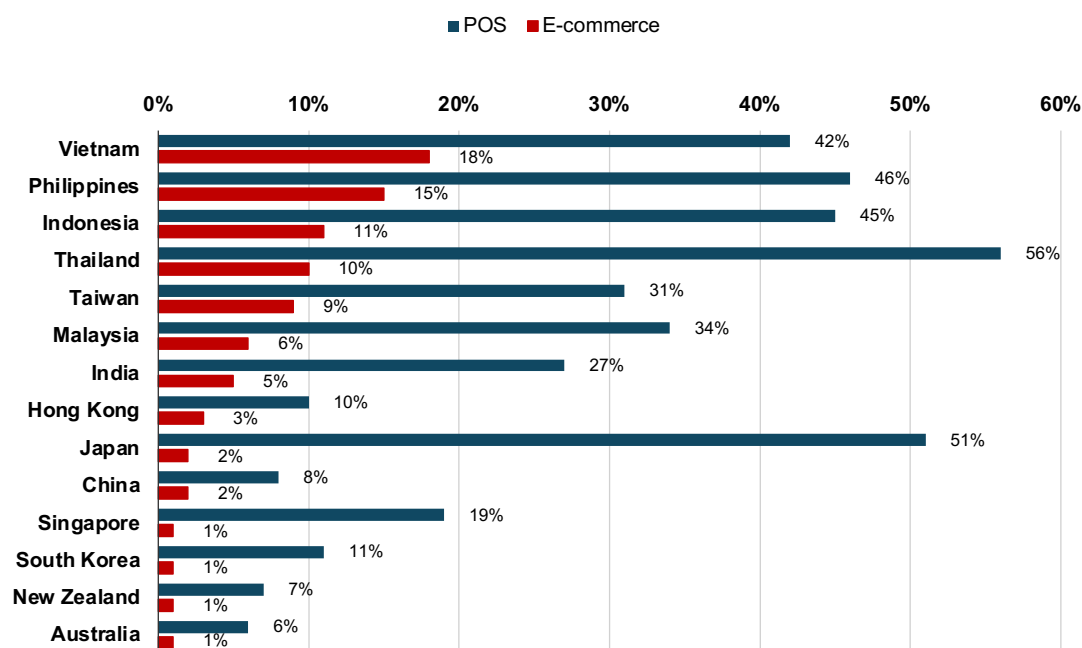
The country is also nearly wholly powered by diesel fuel. Think about that for a minute.

Regularly, large tankers come in from Singapore or Australia and fill up storage facilities where diesel fuel is burned. Regular blackouts and disruptions in shipping lines can be catastrophic. Although the solar power industry is gradually developing, the cost is prohibitive. When the Tina River Hydropower Development Project, supported by many international development agencies, is complete, nearly 70% of Solomon Islands' power will come from renewable and consistent sources.

Until that project is finished, the power grid in the Solomons remains incredibly fragile. During our trip, during a discussion at a café, the electricity went out, as did our cell signal. Suddenly, cash was king again as cards and phones became useless. These are problems that Solomons' central city, Honiara, faces; the challenges of infrastructure and connectivity are even more stark in the remote islands.

Figure 4

Cash payments as a share of e-commerce and point-of-sale (POS) payments in the Asia Pacific region in 2022, by country or territory



Source: Worldpay

Cash: A Symbol of Accessibility and Simplicity

In this context, cash remains a symbol of accessibility and simplicity. It does not require technological prowess or connectivity and is universally accepted. For many, especially in rural communities, cash transactions represent a sense of security and immediacy that digital transactions cannot yet match.

In 2022, cash payments amounted to 18 percent of e-commerce and 42 percent of point-of-sale (POS) payments in Vietnam. In comparison, cash payments took up one percent of e-commerce and six percent of POS payments in Australia in 2022 (Figure 4).

The continued use of cash in rural Asia has implications for financial service providers and policymakers. It underscores the need for a balanced approach to financial inclusion that accommodates different populations' diverse needs and preferences. Financial institutions might need to rethink their strategies to include more hybrid models catering to digital and cash transactions. For policymakers, this trend highlights the importance of addressing the digital divide and enhancing financial literacy to make digital financial inclusion a reality.

The prevalence of cash in Asia's rural areas is a reminder of the diverse and complex nature of financial ecosystems. While digital financial services continue to grow, the persistence of cash transactions in these regions speaks to deeper issues of accessibility, infrastructure, and trust. Addressing these challenges requires a nuanced understanding of local contexts and a commitment to inclusive financial policies that bridge the gap between the old and the new. As Asia moves forward in its financial journey, the coexistence of cash and digital finance will likely be a defining feature of its diverse economic landscape.

FinLit Goes Viral: Revolutionizing Financial Education in Asia with Gamification and Influencers

In today's Asian financial landscape, the need for improved financial literacy among young people is paramount. Traditional educational methods are evolving, with gamified apps and influencer-led initiatives leading the charge. These modern tools are reshaping financial education, making it more interactive, accessible, and pertinent for today's young people. Given that Asia is home to 60% of the world's youth, the region faces a pressing need to excel in financial literacy education.⁶ The implications are significant.

Gamification: A New Era of Financial Learning

Gamification and behavioral nudges are key to engaging customers, fostering sustainable financial behaviors, and advancing social development. The transition to gamified financial learning marks a departure from conventional methods, injecting a fun and interactive dimension into what is often seen as an intimidating subject. For example, Visa's "Mind Your Ringgit" in Malaysia offers a web-based game that simulates real-life financial scenarios, from digital payments to investment strategies, thus simplifying complex financial concepts for younger audiences.⁷

The "Money Coach" feature in ICICI Bank's iMobile app is another example of effective gamification in financial literacy. It engages users with challenges and scenarios to encourage saving, allowing them to set and track financial goals while earning rewards and badges for their achievements.⁸ Meanwhile, DBS Bank's 'Digibank' app utilizes gamified features like virtual badges, scores, and leaderboards to promote saving habits.⁹

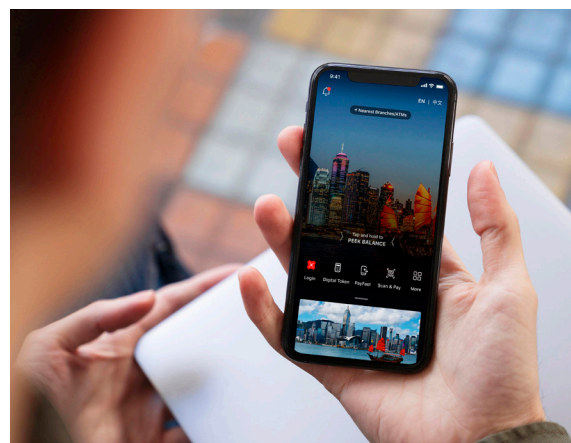
These apps and others like them leverage interactive scenarios, challenges, and reward systems to maintain user engagement, making financial literacy appealing and enjoyable for a generation that is inherently tech-savvy and digital-first.

The Role of Influencers in Financial Education

As well as gamification, influencers are also increasingly becoming pivotal in financial education. Their ability to break down complex financial concepts into digestible, engaging content makes them powerful educators for the digital age.

Through various formats, such as vlogs, webinars, and interactive sessions, influencers are making financial education more accessible and relatable.

For example, influencers use their platforms to discuss practical financial topics, ranging from managing personal budgets to more complex issues like investment strategies and understanding market trends. Their relatable approach and use of layperson's terms help demystify financial jargon, making it easier for young audiences to grasp complex concepts. This is particularly true on social media platforms, which have become significant sources of financial advice for Generation Z. The rise of "finfluencers" – financial influencers with large followings – is noteworthy.



⁶ Kirk Kenny, CNA, "Commentary: We need to make students smarter about money," Aug 2023, <https://www.channelnewsasia.com/commentary/children-generation-alpha-finance-education-literacy-money-cashless-digital-tiktok-school-3692451>

⁷ Campaign, "Visa gamifies financial literacy in Malaysia," Nov 2020, <https://www.campaignasia.com/article/visa-gamifies-financial-literacy-in-malaysia/464627>

⁸ Lotte Schou-Zibell and Swati Chowdhary, ADB, "Banking on Fun: How Gamification and Nudges Can Foster Sustainable Finances," <https://blogs.adb.org/blog/banking-fun-how-gamification-and-nudges-can-foster-sustainable-finance>

⁹ Smartico, "Gamification Strategies for Banks Targeting Young Adults," Oct 2023, <https://smartico.ai/gamification-strategies-banks-young-adults/>

Challenges and Opportunities

While these innovative financial education methods are engaging, they present challenges. One of the foremost challenges in influencer-led financial education is the accuracy and reliability of content. There is a concern that influencers, often lacking formal financial training, might inadvertently spread misinformation. This has prompted regulatory bodies across Asian countries to scrutinize influencer content more closely to prevent the dissemination of misleading financial advice.

Another significant challenge is the digital divide. While gamified apps and social media platforms are highly effective in urban, well-connected areas, their reach and accessibility can be limited in rural or less developed regions, potentially leading to uneven financial literacy levels among different demographics. Additionally, there's the issue of engagement versus depth in learning. While gamification and social media content are adept at capturing users' attention, the challenge lies in ensuring that this engagement translates into meaningful knowledge. The risk is that users may perceive these platforms more as sources of entertainment rather than educational tools, resulting in a superficial understanding of financial concepts.

Despite these challenges, gamified apps and influencer-led campaigns offer significant opportunities. The adoption of gamified apps and influencers in financial education provides several distinct advantages, including broader reach and engagement. These modern tools have proven their

appeal, particularly among younger audiences, as evidenced by the high download rates and usage of financial literacy apps. This indicates a growing interest in these innovative learning formats over traditional methods.

Moreover, these digital platforms provide tailored learning experiences. For instance, gamified apps can adjust their difficulty levels and content to match the user's progress, offering a more personalized educational journey. Another key benefit is the capacity for real-time updates and relevance. Given the rapidly evolving financial landscape, these tools can quickly incorporate current financial trends and scenarios, ensuring that the education provided is timely and pertinent.

Additionally, these platforms offer data-driven insights for continuous improvement. The extensive user data collected can be analyzed to enhance the effectiveness of financial literacy programs. Metrics on user engagement, for example, can reveal which topics or methods resonate more effectively, allowing for ongoing refinement and enhancement of the educational content.

The integration of gamification and influencer-driven strategies in financial education marks a transformative era in how financial literacy is imparted among Asian youth. These approaches are not just about making finance fun; they are about adapting financial education to the needs, habits, and preferences of a digitally native generation, thereby preparing them for a more financially responsible and empowered future.





China: A More Nuanced Strategy Towards the Fintech Sector in 2024

Starting in the early 2000s, China's fintech sector experienced remarkable growth. Traditional financial institutions in China, often conservative and regulated, lagged behind in innovative financial solutions. This created an opportunity for fintech companies to offer services that were more in tune with the digital era. Companies like Alibaba and Tencent capitalized on this, introducing platforms like Alipay and WeChat Pay which revolutionized digital payments and financial services in China. Additionally, the fintech market saw a surge in companies focusing on consumer finance, third-party payment, and B2B models, adapting to tighter government controls over internet finance and the rise in fraudulent business models in marketplace lending.

The fintech industry in China was further boosted by the country's technological infrastructure and the soaring demand for financial services, especially among small-to-medium-sized enterprises (SMEs) and individuals. Despite SMEs contributing significantly to China's GDP and employment, traditional banks mostly focused on state-owned enterprises, leaving a gap in the market. In 2014, only 9.6 percent of Chinese adults had access to credit from financial institutions, highlighting the scope for fintech firms to step in.¹⁰

¹⁰ Wei Wang and David Dollar, Brookings, "What's happening with China's fintech industry?," Feb 2018, <https://www.brookings.edu/articles/whats-happening-with-chinas-fintech-industry/>

The State of Fintech in China Today

However, the Chinese fintech sector's trajectory altered dramatically with the regulatory crackdown that began in late 2020. A pivotal moment was the cancellation of Ant Group's record-setting IPO in November 2020, following Jack Ma's critical speech at the Bund Finance Summit in Shanghai. This event marked the beginning of a sweeping regulatory storm against major tech firms, including Alibaba, Tencent, Meituan, and Didi, fundamentally reshaping the fintech landscape.¹¹

This crackdown, part of a broader initiative to rein in Big Tech's "disorderly expansion of capital," resulted in trillions of dollars in lost market value for Chinese tech companies and signaled the end of the "barbaric" growth of the internet industry. The government's actions included antitrust investigations, hefty fines, and stringent regulations to curb monopolistic practices and unfair competition, significantly impacting the fintech sector's operations and market dynamics.¹²

Hope that this bloodletting would end came at the start of 2023 when Guo Shuqing, the Communist Party boss at the People's Bank of China, said that the crackdown on fintech operations of more than a dozen internet companies was "basically" over.¹³ However, despite this positive sentiment, the sector did not see a return to the pre-2020 "business-as-usual" mode, indicating a new era of regulation and compliance for China's fintech industry.

The Need for a More Nuanced Strategy in 2024

This year, the Chinese government is expected to adopt a more nuanced approach toward the fintech sector. This shift is necessitated by broader economic challenges, including slowing growth and rising debt levels. A balanced strategy will likely involve clearer regulatory frameworks, supporting fintech R&D, and fostering synergies between traditional financial institutions and fintech firms. The aim is to create an ecosystem that enables fintech innovation within a regulated environment that safeguards the financial system and consumer rights.

In 2024, China's approach to fintech is expected to balance regulatory oversight with support for innovation. This strategy, a response to the current challenges and a strategic move for future growth, will be an attempt by authorities to integrate innovation with stability in the digital age. While the fintech sector may no longer experience the unrestrained growth of the past, it remains a vital component of China's economic development. Whether or not it is able to adapt and thrive in this new regulatory landscape is still an open question.

¹¹ Lillian Zhang, SCMP, "A timeline of China's 32-month Big Tech crackdown that killed the world's largest IPO and wiped out trillions in value," July 2023, <https://www.scmp.com/tech/big-tech/article/3227753/timeline-chinas-32-month-big-tech-crackdown-killed-worlds-largest-ipo-and-wiped-out-trillions-value>

¹² Ibid.

¹³ Laura He, CNN, "China's crackdown on tech giants is 'basically' over, top official says," Jan 2023, <https://edition.cnn.com/2023/01/09/economy/china-economy-guo-shuqing-ant-group-intl-hnk/index.html>



Japan's Fintech Awakening: Navigating Demographic Shifts with Financial Technology

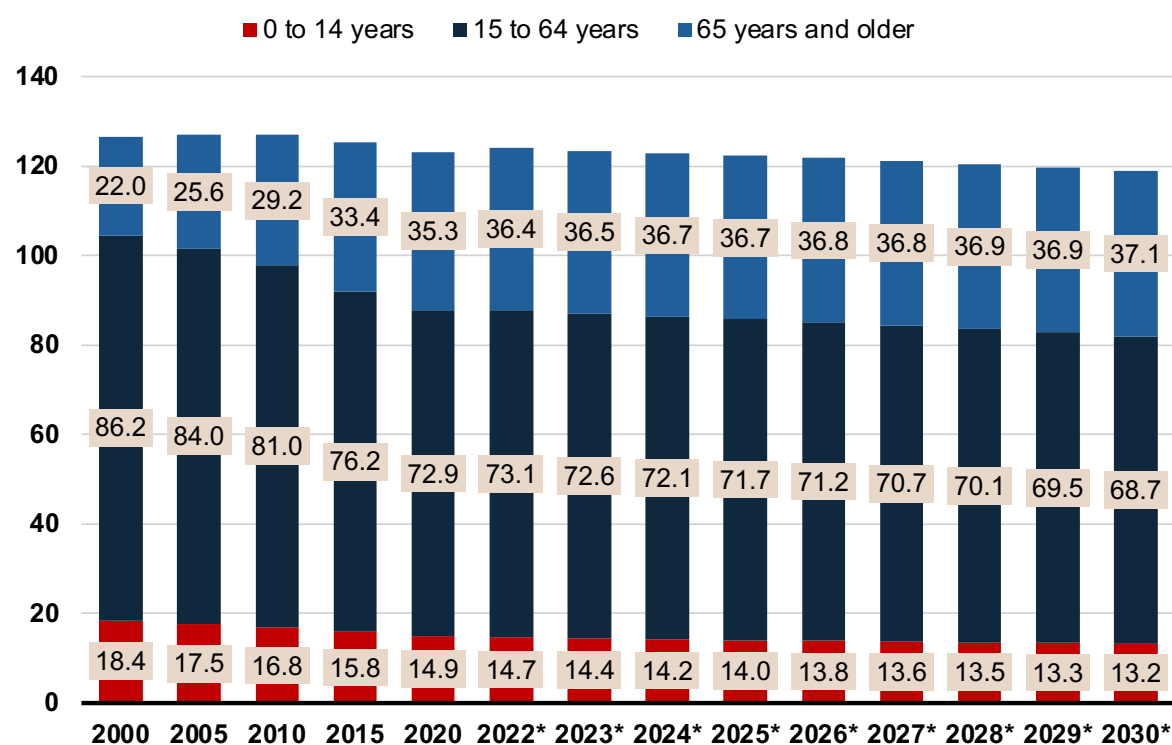
The Japanese fintech sector exhibits a rich diversity, underscored by robust growth in digital payments. This is evident in the widespread adoption of platforms such as d-Barai, PayPay, and LINE Pay. Concurrently, there's been a notable surge in Buy Now, Pay Later (BNPL) services, digital banking, crowdfunding, insurtech, and regulatory technology (regtech), signaling a departure from Japan's traditional reliance on cash transactions. In this transformation, the roles of major banks and the government are crucial, although Japan's characteristic cautious approach to innovation and its lingering preference for cash set its fintech landscape apart from global trends.

However, Japan, as the world's third-largest economy, grapples with a unique challenge: an ageing population – expected to comprise about 35.3% of the total population by 2040, according to the National Institute of Population and Social Security Research¹⁴. This demographic shift casts a profound impact across various sectors, not least within fintech. Despite its dynamic evolution and adoption of innovations like digital payments and blockchain, Japan's fintech sector faces a significant hurdle: the hesitance of its aging populace to embrace these new technologies. This reluctance underscores a critical obstacle in fully realizing the potential of fintech advancements within the nation.

By 2030, Japan's 65 years and older age demographic is expected to comprise almost a third of the population (Figure 5).

Figure 5

Japan's Population Evolution, millions



Source: Ministry of Internal Affairs and Communications (Japan); Statistics Bureau of Japan; Kapronasia analysis

¹⁴ The Asahi Shimbun, "Survey: more than half of those aged 65-69 work, a first in Japan," Sept 2022, <https://www.asahi.com/ajw/articles/14722447>



Barriers to Fintech Adoption Among the Elderly in Japan

Japan's aging population faces several obstacles in adopting fintech. Primary among these are security concerns, as older adults often apprehend the safety of their funds and personal information in digital formats. The perceived complexity of fintech applications can be overwhelming for this demographic, who are more accustomed to traditional banking methods.

A significant portion of Japan's elderly population lacks digital literacy, posing a substantial hurdle in adopting fintech solutions. Resistance to change from established financial habits also plays a role, with many seniors preferring the tangibility and familiarity of cash transactions and in-person banking services.

Trust in traditional banks and physical currency remains strong, making it difficult for fintech companies to win over elderly customers. Isolation and accessibility issues, especially for those living in rural areas or with mobility issues, compound the challenge, as these individuals may find it difficult to access both physical banking services and digital alternatives.

Engagement with fintech and digital transactions is considerably lower among the elderly than younger demographics. This gap highlights the need for targeted strategies to increase fintech adoption among seniors, considering the unique cultural, technological, and social factors that influence their financial behaviors.

Bridging the Gap: Catering Fintech to Seniors in Japan

To effectively integrate Japan's ageing population into the fintech revolution, strategies must be developed to address seniors' unique needs and concerns. This includes creating simplified user interfaces with larger fonts, clear instructions, and easy navigation. Incorporating voice recognition technology can also aid seniors who may struggle with typing or navigating through touchscreens.

Enhancing security protocols is crucial to gaining the trust of the elderly, who are often concerned about online fraud and scams. Transparent communication about security measures and clear instructions on safe usage can help alleviate these fears. Implementing advanced fraud detection systems and offering prompt customer assistance in case of security breaches can further encourage seniors to adopt fintech solutions.

Educational initiatives such as workshops and training sessions focused on improving digital literacy among seniors can empower them to use fintech applications confidently. Collaborating with local community centers and senior clubs to provide hands-on training and support can effectively reach a wider elderly audience.

Examples of Successful Senior-Focused Fintechs Globally

Globally, several fintech companies have successfully tailored their services to cater to the older demographic. True Link Financial in the U.S. specializes in offering financial services for seniors, focusing on simplicity and security.¹⁵ EverSafe's platform protects seniors from financial exploitation and fraud, while SilverBills and PensionBee simplify financial management and pension tracking for the elderly.¹⁶

These examples highlight the importance of creating secure, straightforward fintech solutions that resonate with senior users. Offering personalized services that cater to their unique financial needs, such as retirement planning and fraud protection, can significantly increase fintech adoption among this demographic. Providing educational resources and support demystifies fintech for seniors, building their confidence in digital financial services.

Recommendations and Future Directions for Japanese Fintech

Fintech companies should focus on inclusive design, partnerships with traditional banks, customized financial products, community outreach, and enhanced customer support. Collaborating with

government agencies and financial institutions to develop policies that encourage digital financial inclusion among seniors is crucial.

Predictions for the future of fintech in Japan include increased digital adoption among seniors and growth in senior-centric fintech solutions. Advanced technologies like AI and machine learning could be leveraged to provide personalized financial advice and improve the security of online transactions for seniors. A collaborative ecosystem involving traditional banks, fintech firms, government agencies, and the elderly population is essential.

Adapting Japan's fintech sector to its aging population is vital for inclusive growth and innovation. This adaptation involves a combination of technology, user-friendly design, educational initiatives, and collaborative efforts. Embracing these strategies can position Japan as a global leader in senior-friendly fintech solutions, setting a benchmark for inclusivity and innovation in the fintech sector. Stakeholders in Japan's fintech sector are urged to invest in technologies and initiatives that cater to the elderly, ensuring the benefits of fintech are inclusive and accessible to all segments of society. The future of fintech in Japan lies in its ability to adapt, innovate, and inclusively cater to a diverse population.

¹⁵ SeniorLiving.org, "True Link Review," May 2023, <https://www.seniorliving.org/finance/true-link/>

¹⁶ Preetam Kaushik, ASEAN Today, "How will Singapore's ageing population shape its fintech sector?" Jan 2020, <https://www.ascantoday.com/2020/01/how-will-singapores-ageing-population-shape-its-fintech-sector/>



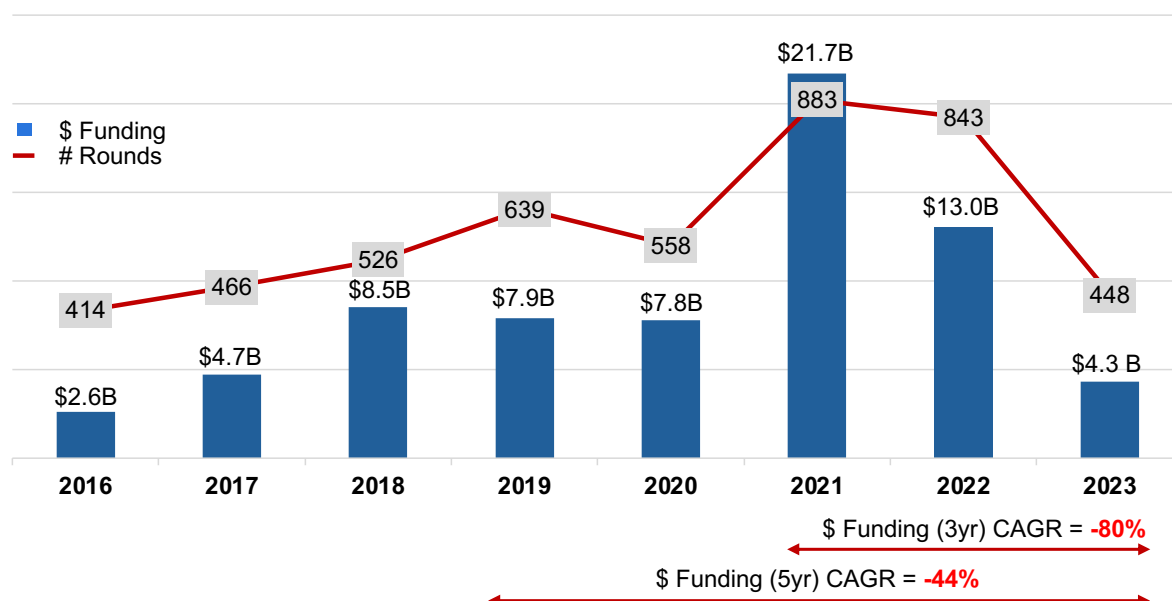
Southeast Asia's Fintech Bubble Bursts?: Navigating Challenges and Sustaining Innovation

The Southeast Asian Tech sector received a total funding of US\$4.3 billion in 2023 (as of December 5, 2023), a 65% plunge from US\$12.4 billion raised in the same period the year before (Figure 6).¹⁷

In Southeast Asia, Fintech funding hit a five-year low in 2023 with fintech companies in the region raising just US\$2 billion, a 65 percent plunge from US\$5.9 billion in 2022. Notably, seed-stage funding saw an even more pronounced decline, dropping by 84% to US\$9.5 million.¹⁸

Figure 6

Southeast Asia Y-o-Y Tech Funding



Note: Funding includes only Equity Funding. It excludes Debt, Grant, Post-IPO and ICO funding.

Source: Tracxn Geo Annual Report, SEA Tech 2023

The fintech landscape in Southeast Asia, once a hotbed for skyrocketing valuations and rapid startup growth, is approaching a critical juncture. Amid concerns of overvaluation, fintech startups in the region are bracing for potential funding challenges and market consolidation. Despite these hurdles, Southeast Asia presents fertile ground for financial innovation, driven by its unique market dynamics and digital readiness.

¹⁷ Tracxn, "SEA Tech – Annual Report – 2023," Dec 2023, <https://w.tracxn.com/report-releases/sea-tech-annual-report-2023>

¹⁸ Sainul Abudheen K, e27, "Fintech funding in Southeast Asia hits a five-year low in 2023," Jan 2024, <https://e27.co/fintech-funding-hits-a-five-year-low-in-southeast-asia-tracxn-20240110/>

The Challenge of Overvaluation

In recent years, the fintech sector in Southeast Asia has witnessed a surge in investment, leading to inflated valuations for numerous startups. This trend has been propelled by the region's growing digital economy, high mobile penetration, and the promise of tapping into underserved markets. However, as the market matures, questions arise about the sustainability of these high valuations, pushing startups to prove their long-term viability and profitability.

Startups across Southeast Asia are likely to face more stringent funding conditions. Investors are becoming more cautious and shifting their focus from growth at all costs to sustainable business models and profitability. This shift may lead to consolidation in the fintech sector, where only the most resilient and adaptable companies survive. Mergers and acquisitions could become more common as firms seek to strengthen their market positions and diversify offerings.

Continued Fertile Ground for Innovation

Despite the overall decrease in funding, recent reports by UOB, PwC Singapore, and the Singapore FinTech Association reveal some bright spots. There is growing investor interest in green fintechs and the enduring appeal of markets like Singapore and Indonesia. Alternative lending firms have emerged as significant, with almost a third of total ASEAN-6 investments, highlighting a shift in investment focus.¹⁹

Notwithstanding these challenges, Southeast Asia remains a vibrant landscape for fintech innovation. The region's diverse economies, each at different stages of digital and financial maturity, offer ample opportunities for fintech solutions. The high unbanked population and increasing internet and smartphone penetration continue to drive demand for innovative financial services.

Localized Solutions and Inclusive Finance

One of the strengths of Southeast Asia's fintech ecosystem is its focus on localized and inclusive solutions. Startups addressing specific local challenges, such as remittances, microloans, and digital payments, are well-positioned for growth. There is also a significant opportunity for fintech to drive financial inclusion in the region, providing access to financial services for underserved communities.

Governments across Southeast Asia recognize the potential of fintech in driving economic growth and financial inclusion. Many actively support the sector through favorable policies, regulatory sandboxes, and digital infrastructure development. As regulatory frameworks evolve to keep pace with technological advancements, they will play a crucial role in shaping the future trajectory of the fintech sector in the region.

While the fintech bubble in Southeast Asia may show signs of strain, the market's underlying fundamentals remain strong. The region's continued appetite for digital financial services, with supportive governmental policies and a focus on localized, inclusive solutions, ensures that Southeast Asia will continue to be a fintech innovation hub. In the face of funding challenges and market consolidation, resilient and adaptable fintech firms have the opportunity to thrive and contribute to the region's dynamic financial landscape.

The addition of AI and machine learning is poised to become a key driver of fintech innovations despite the potential hype and challenges associated with these technologies. The sector's adaptability in embracing these new technologies, the evolving regulatory landscape and the focus on sustainable and green finance, will likely shape its trajectory in the coming years.

¹⁹ Kapronasia, "Fintech funding in Southeast Asia: a glass half-full," Dec 2023, <https://www.kapronasia.com/research/blog/fintech-funding-in-southeast-asia-a-glass-half-full.html>



Finance Moves Upstream in the Gig Economy: A New Era of Embedded Finance and Gig Worker Empowerment

The Asia Pacific region is experiencing a significant surge in its gig economy, fueled by technological advancements, changing work preferences, and economic imperatives. This sector, encompassing everything from traditional freelancing to app-based services like ride-sharing and delivery, is rapidly growing. Key platforms like Ola and Gojek have become staples in this economy, especially in countries like India, Indonesia, and the Philippines.

Statistical forecasts are a testament to this growth. For instance, by 2025, Southeast Asia's internet economy is expected to triple, exceeding \$300 billion.²⁰ By 2030, India's gig economy will employ

over 23.5 million people, about 7% of its non-farm workforce, according to NITI Aayog, an Indian government think tank.²¹ This growth is more than an economic shift; it reflects a profound cultural transformation, especially among the younger generation, who are drawn to the gig economy's flexibility, autonomy, and varied work options.

²⁰ Faizal bin Yahya, Lee Kuan Yew School of Public Policy, "Southeast Asia's tech take-off and layoffs," Jan 2023, <https://lkyspp.nus.edu.sg/gia/article/southeast-asia-s-tech-take-off-and-layoffs>

²¹ Manoj Kumar, Reuters, "India plans welfare measures for gig workers ahead of elections," Aug 2023, <https://www.reuters.com/world/india/india-plans-welfare-measures-gig-workers-ahead-elections-2023-08-11/>

Embedded Finance Solutions for Gig Workers

However, this expansion highlights the unique challenges of gig work. Unlike traditional jobs, gig employment often lacks essential benefits like health insurance, stable income, and retirement plans. This discrepancy presents an opportunity for embedded finance to step in, offering customized solutions that address the distinct needs of gig workers in the Asia Pacific, helping them manage the inherent financial uncertainties of gig employment.

Embedded finance represents a paradigm shift in the gig economy of the Asia Pacific, empowering gig workers with unprecedented access to financial products and services seamlessly integrated into their work platforms. This includes streamlined access to banking services and tailored credit and loan services, leveraging alternative data like work history and earnings.

A significant contribution of embedded finance is digital payment solutions, ensuring gig workers receive their earnings swiftly and securely. Integrating real-time payment systems with gig platforms allows immediate fund access post-job completion, a crucial shift from traditional pay cycles. This immediacy is critical for those

reliant on daily earnings. Embedded finance also simplifies tax management and compliance, once a complex aspect of freelance work.

Income and expense tracking is another area where embedded finance shines. Many gig workers struggle with inconsistent incomes and expense management. Embedded finance tools provide intuitive interfaces for financial management and budgeting, crucial for maintaining financial health.

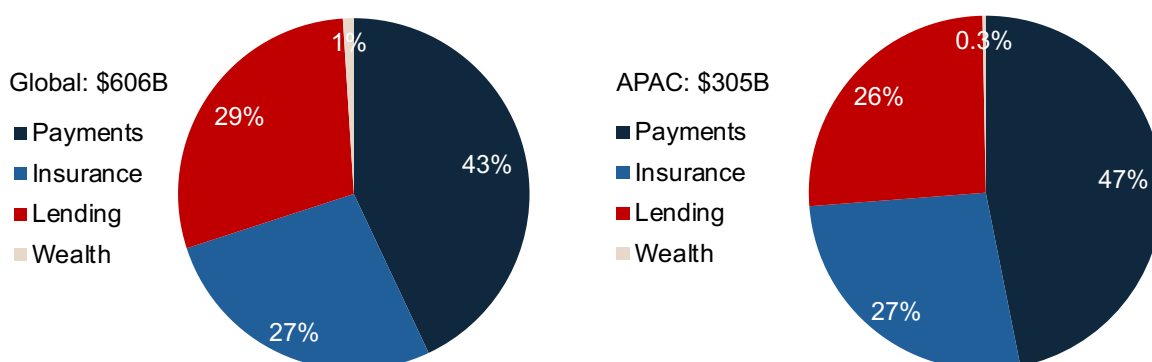
Moreover, embedded finance startups are filling gaps in insurance and benefits for gig workers. They offer flexible, affordable health insurance plans, income protection, and other micro-insurance products suited to the unpredictable nature of gig work. Often overlooked in this sector, retirement planning is being simplified through embedded finance platforms, facilitating the setup and contributions to retirement accounts.

The market size for global embedded finance across the entire value chain is estimated to rise substantially from US\$264 billion in 2021 to touch US\$606 billion by 2025 with Asia Pacific being the most promising embedded finance region globally (Figure 7).²²

²² TC Liang and Bhavna Monga, EY, "How will embedded finance revolutionize industries in Southeast Asia?" Sep 2023, https://www.ey.com/en_sg/financial-services/how-will-embedded-finance-revolutionize-industries-in-southeast-asia

Figure 7

Forecasted EmFi revenues for 2025



Note: Based on total revenue potential from the entire value chain of financial products. Revenue for Payments is from subscription and processing fees, Lending is from interest rates for loans, Insurance is from gross written premiums, and Wealth is from management and performance fees.

Source: EY Knowledge analysis

Implications for the Future of Gig Work

Integrating embedded finance into the gig economy signifies a significant evolution, redefining the financial landscape for gig workers and altering the operational dynamics of gig platforms. It enhances gig workers' financial stability, increases gig platforms' attractiveness, and promotes financial inclusion, especially in areas with substantial unbanked populations.

The embedded finance revolution also drives innovation in financial products and services, creating an environment ripe for continuous improvement and adaptation. As embedded finance becomes more integral to the gig economy, it influences policy-making and regulatory frameworks, necessitating adaptive measures by governments and financial regulators to protect gig workers' interests.

The Asia Pacific region's successful implementations of embedded finance in the gig economy are setting precedents for global adoption, showcasing the positive impact on gig workers. This intertwining of embedded finance with the gig economy marks a transformative era, indicating a significant shift in how gig workers manage their finances and how gig platforms operate.

The fusion of embedded finance solutions with the gig economy is revolutionizing the financial landscape for freelancers and independent contractors. This new era of embedded finance and gig worker empowerment signifies a substantial shift in work and financial well-being, opening up new possibilities for workers across the globe.



Fintech's Pivot to Transition Finance: A Multi-Faceted Strategy is Required

In the face of escalating climate change challenges, the Asia Pacific region stands at a crucial juncture. The need for a comprehensive transition to a low-carbon economy has never been more pressing. This transition, however, requires a shift in technological and industrial practices and a transformation in financial strategies. This is where FinTech's focus on transition finance becomes pivotal.

According to recent research, reducing financing costs for environmentally friendly ("green") firms results in minimal environmental improvements. In contrast, higher financing costs for less environmentally friendly ("brown") firms significantly worsen their ecological impact. Sustainable investing strategies, which shift capital from brown to green firms, may inadvertently exacerbate the ecological issues of brown firms while not substantially enhancing the greenness of green firms.²³

Transition finance, then emerging as a critical tool in sustainable finance, is designed to support high carbon-emitting industries in their path towards decarbonization.

Unlike green finance, which is geared towards already low-emission projects, transition finance is dedicated to transforming sectors with significant carbon footprints, such as coal-fired power generation, steel, cement, and aviation. While there is neither a consensus definition of transition finance nor a set of technical criteria or qualifying sectors or technologies that are commonly agreed upon, the OECD opines that "transition finance focuses on the dynamic process of becoming sustainable, rather than providing a point-in-time assessment of what is already sustainable, to provide solutions for a whole-of-economy decarbonization, and to decarbonize the most

polluting and hard-to-abate industries today."²⁴ As these industries are particularly prevalent in the Asia Pacific region, transition finance holds immense relevance and potential impact.

Challenges in Transition Finance and Fintech's Role

The application of transition finance is not without its challenges, including legal, regulatory, and reputational risks, primarily the risk of greenwashing. FinTech, with its innovative digital solutions, can play a crucial role in overcoming these challenges. By leveraging data analytics, blockchain technology, and artificial intelligence, FinTech can enhance the transparency and accountability of financial transactions in transition finance. These technologies can also assist in developing credible transition plans, which are essential for avoiding greenwashing and ensuring that financed activities genuinely contribute to the net-zero target.

The Asia Pacific region, characterized by its diverse economies and significant carbon-intensive industries, faces unique challenges in its transition journey. The region's commitment to the Paris Agreement and the increasing pressure from stakeholders demand a swift and effective transition to a sustainable economy. This transition requires a massive investment in clean energy and sustainable practices, with estimates indicating a need for trillions of dollars in investment before 2030.

²³ Samuel Hartzmark and Kelly Shue, "Counterproductive Sustainable Investing: The Impact Elasticity of Brown and Green Firms," Dec 2023, accessed 9th January 2024

²⁴ Aayush Tandon, "Transition finance: Investigating the state of play: A stocktake of emerging approaches and financial instruments, Environment Working Paper No. 179," Aug 2021, accessed on 18th Jan 2024 and OECDiLibrary, "OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans," <https://www.oecd-ilibrary.org/sites/7c68a1ee-en/index.html?itemId=/content/publication/7c68a1ee-en>



A Multi-Faceted Strategy to Facilitate Transition Finance

FinTech firms in the Asia Pacific region should adopt a multi-faceted strategy to facilitate transition finance effectively. This strategy should include:

Developing Partnerships: Collaborations between FinTech firms, traditional financial institutions, and governmental bodies are crucial. These partnerships can leverage the strengths of each sector, providing comprehensive financial solutions that address the unique needs of the region's high-emission industries.

Creating Tailored Financial Products: FinTech has the opportunity to design innovative financial products specifically for transition finance. These products could include sustainability-linked loans and bonds, incentivizing companies to reduce emissions and adopt sustainable practices.

Utilizing Advanced Technologies for Decision Making: The deployment of big data, AI, and blockchain can provide more profound insights into the environmental impact of investments and facilitate better decision-making in the allocation of transition finance.

Ensuring Compliance and Reporting: Given the stringent reporting requirements and the need for transparency in transition finance, FinTech can innovate in creating efficient and accurate reporting tools. This will aid companies in adhering to environmental regulations and standards.

Addressing Socioeconomic Impacts: Transition finance in the Asia Pacific must also consider the social implications of the transition, such as job displacement and community impacts. FinTech can develop platforms to assess and mitigate these impacts, ensuring a just and equitable transition.

Conclusion

The path to establishing a robust transition finance framework in the Asia Pacific is laden with challenges, including the need for a common definition, credible transition plans, and tackling greenwashing concerns. Financial institutions must establish robust governance and reporting mechanisms, and there is a need for greater clarity in defining transition activities and assessing their impact.

The Asia Pacific region's journey towards a sustainable future is contingent on the successful implementation of transition finance, and FinTech plays a crucial role in this process. By embracing innovation and strategic partnerships, FinTech can help unlock the potential of transition finance, steering the region towards its net-zero goals. As the world converges on the importance of sustainable finance, the Asia Pacific region, backed by the ingenuity and resources of FinTech, can lead the way in this transformative journey.



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