

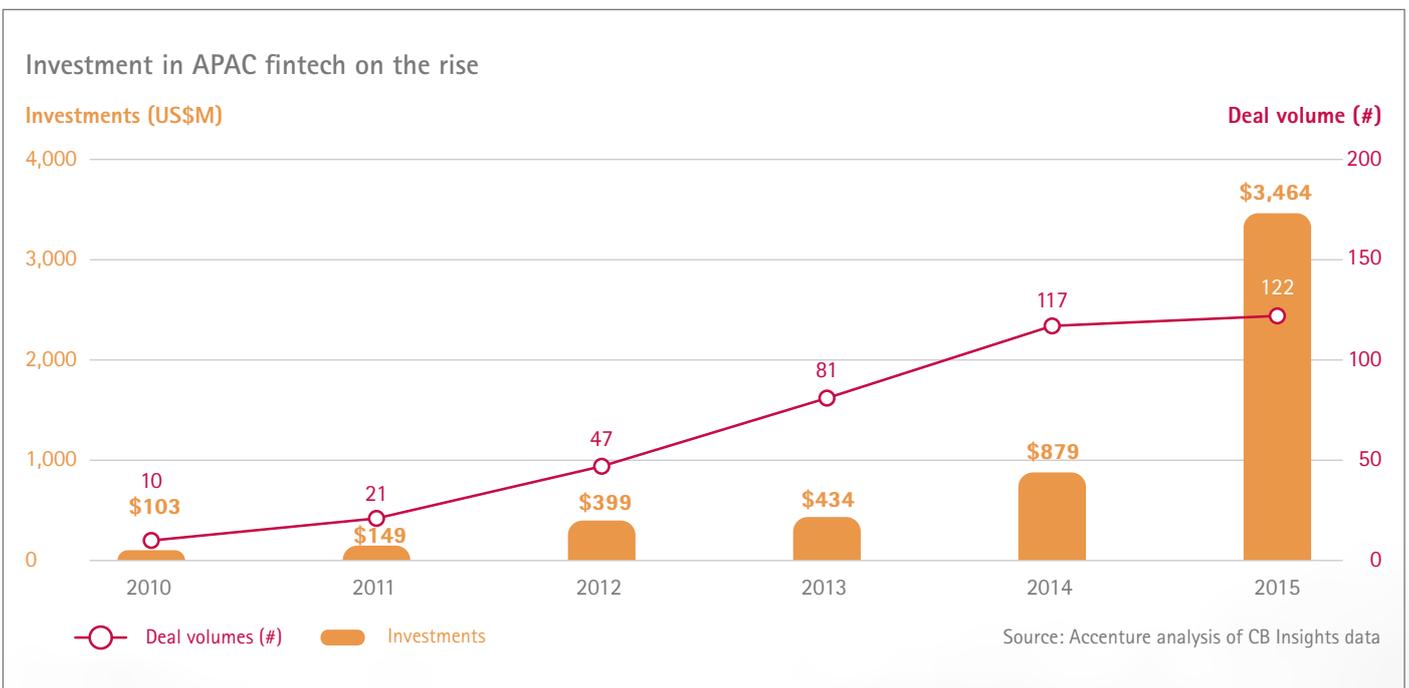


# Fintech Investment in Asia-Pacific set to at least quadruple in 2015

Lending and payments are where Asia-Pacific banks should seek startup expertise now. Blockchain, cloud and cybersecurity are the next frontier.

Fintech investment in Asia-Pacific has skyrocketed in 2015 – from about US\$880 million in all of 2014 to nearly US\$3.5 billion in just the first nine months of 2015.<sup>1</sup>

"The rapid increase of fintech investments in Asia-Pacific does not surprise us," says Jon Allaway, senior managing director of Accenture Financial Services in ASEAN and executive sponsor of the FinTech Innovation Lab Asia-Pacific. "In 2015, the majority of the financial services industry – globally – began to embrace the potential of fintech in a big way. At Accenture, we felt the impact in Asia where startups and clients from Tokyo to Jakarta contacted us to talk more about fintech."



The largest share of 2015 Asia-Pacific fintech investment deals were in payments (40 percent) and lending (24 percent), which have traditionally been the sole domain of banks. This year, non-traditional players such as Alibaba Group Holding and its Ant Financial Services Group subsidiary have led the charge in and outside of China. Consider their investments into Paytm, a mobile payment and commerce platform in India.<sup>2</sup>

Alternative providers, too, are taking market share from traditional financial services firms via new payment and lending platforms, particularly in China. In 2015:

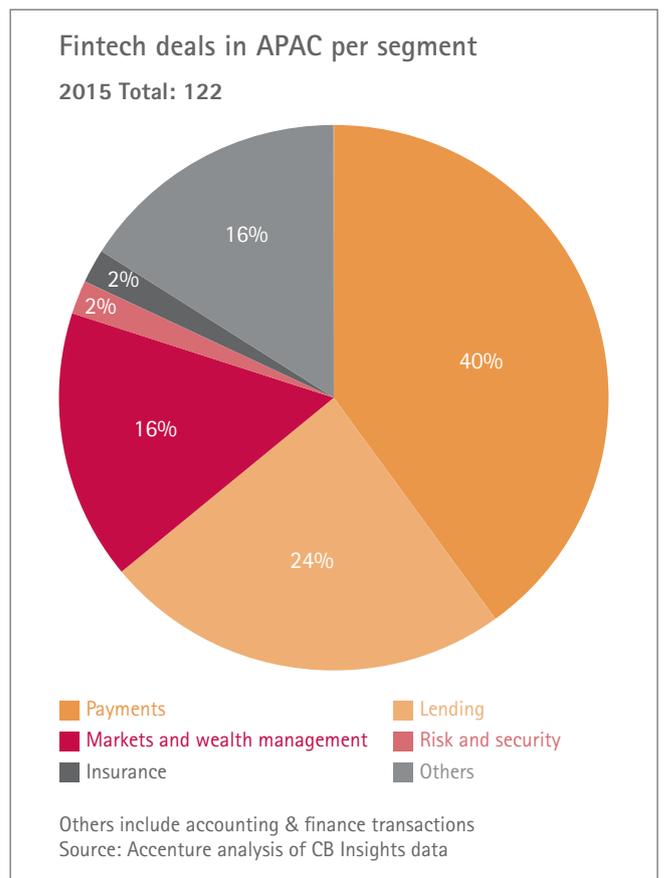
- **Ping An Insurance Group venture Lufax\*** raised money as it continued to develop multiple alternative financing and lending platforms, including peer-to-peer and business-to-customer platforms.<sup>3</sup>
- **Beijing Wecash Wonder Technology Co. Ltd.** raised funding to help it further expand its app for analyzing Chinese customers' credit. Customers download the app, provide information and receive a credit evaluation within 15 minutes. By mining public mobile data from roughly 600 million mobile internet users, Wecash is able to quickly provide extensive credit assessments and build predictive models for customers' credit risk – a technology that is useful for start-up payment platforms as well as banks.

While banks need to be mindful of market-share dilution from competitors in the consumer and merchant payment and lending space, moving forward, Allaway says there are still opportunities in business-to-business (B2B) payments, particularly in trade and invoicing, and there is a need for new payment solutions within the sharing economy.

"Fintech is one of the hottest topics in financial services right now," says Beat Monnerat, senior managing director at Accenture and the company's Financial Services lead in Asia-Pacific. "Financial institutions across Asia are trying to determine how best to connect into the fintech ecosystem; some are investing in companies, while others are creating incubators themselves or have paired up with partners such as Accenture to connect with startups. These firms recognize that innovation is happening and that they need to be a part of it."

This year 12 financial institutions participated in the FinTech Innovation Lab Asia-Pacific. Founded in 2014, the lab is modeled on a similar program that was co-founded by Accenture and the Partnership Fund for New York City in 2010. Since that time, Accenture has launched other FinTech Innovation Labs in London (2012) and Dublin (2014). Highlights include:

- **The New York FinTech Innovation Lab** – 31 alumni fintech startups raised more than US\$175 million in venture financing after participating in the program. In 2015 alone, four participants have been acquired – including Standard Treasury and BillGuard.
- **The FinTech Innovation Lab London** – 21 alumni fintech startups raised more than US\$35 million in new investments, signed nearly 50 contracts to do business with banks, and increased revenues by 170 percent, on average.
- **The FinTech Innovation Lab Asia-Pacific** – Alumni fintech startups raised more than US\$26.5 million.



## Banks: Keep your Eye on Blockchain, Cloud and Cybersecurity Fintech Startups

**Blockchain** – Accenture expects to see strong growth in fintech around blockchain, the underlying distributed ledger technology that supports the exchange of cryptocurrency and cryptographically secured financial assets.

Investors show particular interest in cryptocurrency and blockchain technology startups. Globally, US\$461 million has been invested in 54 companies during the first nine months of 2015, for an average investment of US\$8.53 million, according to CoinDesk.<sup>4</sup> While in APAC, Singapore-based BitX, a cryptocurrency-based startup operating a wallet, several exchanges and merchant integration services, raised US\$4 million in July through a Series-A round of fundraising.<sup>5</sup> And Bitspark – a Hong Kong-based company with a remittance platform that uses blockchain technology to send and receive payments in emerging markets – was one of seven startups selected for the 2015 FinTech Innovation Lab Asia-Pacific.

We forecast that blockchain investments in Asia-Pacific will continue to grow, and we see its potential in the securitization of physical assets. This is because although much of the blockchain focus has been on front-office applications, blockchain and similar distributed ledger technologies might soon play a role in the entire lifecycle of a trade, including clearing and settlement, collateral management, payments and reconciliation. We also expect distributed ledger technologies to become a critical part of the backbone of future capital markets. This creates multiple opportunities for startups, so banks should pay close attention and have strategies in place for working these technologies into their development roadmaps.

**Cloud** – Cloud adoption is gaining momentum in financial services firms and investment is increasing. As banks identify which data should be maintained in a private cloud and which can be hosted in the public cloud, it allows them to take advantage of the efficiency, flexibility, and on-demand capabilities that cloud offers. However, challenges remain for global banks as country-specific policies around data hosting and data privacy often differ from one country to another. In Asia-Pacific, this creates an opportunity for startups to develop niche solutions tailored to the market.

**Cybersecurity** – We expect cybersecurity to see significant growth in the coming year. Overwhelming media attention surrounding huge data breaches makes cybersecurity a hot button for consumers. Indeed, nearly nine in 10 financial services firms plan to increase their investment in risk-management capabilities in the next two years in response to emerging risks of cybersecurity and fraud, according to the Accenture 2015 Global Risk Management Study issued in May.<sup>6</sup>

The study – based on a survey of more than 450 senior risk-management executives in the banking, capital markets and insurance industries – found that more than eight in 10 respondents (82 percent) said that emerging risks, such as cyber and social media, account for more of the chief risk officer's (CRO) time than ever before. Nearly two-thirds (65 percent) of respondents said that cyber/IT risk will have an increased impact on their business in the next two years, with 26 percent saying that the increase would be significant.<sup>7</sup>

According to CB Insights, global investment in cybersecurity companies hit US\$2.4 billion in 2014, up 40 percent from 2013.<sup>8</sup> This creates an opportunity for fintech startups to present solutions to banks to help them fight fraud and financial crime.

## Conclusion

Customers' demands for more digital services will solidify fintech's staying power. Financial services firms are faced with a few strategic options on their path to becoming truly digital: build or acquire digital assets or partner with third parties to access new technologies, ultimately to help transform the industry. They need to look at fintech startups in Asia-Pacific to help them along this journey.

As banks start to weave together their fintech threads – in payments, lending, data analysis, blockchain, etc. – they have an opportunity to build and become the new platforms of tomorrow... and they should explore the innovations that startups are developing.

\*Short for: Shanghai Lujiazui International Financial Asset Exchange Co

