Executive Summary

IDC Financial Insights, in conjunction with ACI Worldwide, recently conducted a survey across nine markets in the Asia/Pacific to better understand the current state of payments technology adoption and to assess how new Internet-based services would affect payment trends in the region. The survey was conducted in Australia, China, India, Indonesia, Japan, Malaysia, New Zealand, Singapore and Thailand. One of the central objectives of this research was to evaluate the awareness and perception of new digital methods of payment and how these would impact consumer behavior. In addition to the consumer survey, IDC also conducted several in-depth interviews with heads of payments across major financial institutions in the region to better understand how they expect the role of the bank to change in this new payment ecosystem.

These two research pillars provide insights into current consumer preferences as well as an indication of how payment adoption will evolve. Part 1 of this survey focuses on the rapidly changing landscape for digital payments, with consumers benefiting from increased mobility and the proliferation of payment choices. Part 2 of this report will be released separately and delve further into the future adoption trends and how banks, across the region, are preparing to meet the rising tide of innovation.

Here are the key takeaways from the research:

- The power within the payment value chain is shifting. The increasing availability of new payment methods, coupled with changing lifestyle trends, means that Asia/Pacific consumers now drive the decision for payment methods selection, depending on which option suits their particular needs best. This is a fundamental shift compared to the traditional model of banks making payment instruments available.

- Technology is driving digital payments adoption. In particular, the increasing ubiquity of smartphones in the Asia/Pacific region is causing shifts in online and offline commerce, with emerging markets moving towards mobile-first payment strategies.

- Eight in 10 consumers in IDC’s survey use emerging digital methods of payments, a trend that is driven by the mobile savvy, 18- to 34-year old age group.

- Consumers want faster and more efficient methods of payments (MOPs): For both emerging and mature markets, 46.4% of Asia/Pacific consumer respondents who participated in the survey cited the need for faster, more efficient services as the top reason for using new digital MOPs.
when compared to traditional payment instruments. This presents a clear opportunity for disruption, whilst supporting a move towards real-time payment infrastructures.

- Smartphone wallets have the potential to be the de facto online to offline (O2O) tool for the new “always-on” generation. The highly connected nature of younger consumers means that mobile is most likely to be the perfect replacement for cash in certain situations. New MOPs, however, may still struggle to fulfil higher value transactions, and this is where cash and cards will retain their current advantage.

- The expansion of social media providers into activities such as commerce and services means that payments is now an important part of their strategy and the overall customer experience. The ecosystem that they are building with “in-app” purchases may prove to be an important level playing field for new MOPs.

- “Sharing Economy” services and new MOPs are set to grow in tandem in the Asia/Pacific region, especially those with lower transaction values, as consumers migrate towards the services that offer the most seamless payment experience.

- To date, threats to bank’s payment revenues are confined to certain segments of business, but banks will need to adapt rapidly to shifting business models. For banks to truly be able to meet disruptors head on, significant changes in the way they approach technology adoption but also business models may ultimately be required.

Consumers are Increasingly Drawn to New Methods of Payments

Consumers across the Asia/Pacific region are facing a significantly altered landscape for payments, both offline and online. A few years ago, cards and cash where perhaps the only two viable options for purchasing goods. The subsequent rise of e-Commerce globally has not only changed the way consumers search and discover goods and services but has also influenced the way they pay for these goods. Consumers have many more options today, and the younger the demographic, the more likely they are to use non-traditional methods of payments (MOPs).

Consumers are increasingly opting for new forms of digital payments that best match their requirements depending on specific scenarios. Which payments are selected depends heavily on the type of transaction, the value and the context of the purchase and will differ according to specific needs. The survey results illustrate how payments are expanding in usage for both offline and online purchases and also shed light as to the drivers for adoption.

Cash still dominates offline scenarios but new MOPs are emerging

Traditional payment methods still have a place and will coexist with new MOPs in meeting the needs of the marketplace, as shown in Figure 1. Despite the talk about cashless payments, cash is still king when it comes to offline payments. Over 85% of the 2,000 consumer respondents across all age groups said they used cash at least once in the past six months for offline transactions. According to the recent IDC Asia/Pacific Financial Insights survey, cash remains indispensable in some categories of society, and there will always be situations where it is needed.

Debit cards also have a place. The survey results show more even distribution across the survey population, supporting the assumption that younger generations will continue to use all payment options, even as they shift towards new digital formats. Consumers are increasingly opting for new forms of digital payments, but the model depends heavily on the type of transaction, the value and the context of the purchase.
Offline Payment Trends Continue to Evolve in their Complexity

Emerging Payments Usage Drivers

What is most interesting are the emerging usage trend among the younger demographics for new MOPs. In some age categories, over 30% of respondents have used smartphone wallets (highest in the 25- to 34-year-old range) for offline payments. This is largely being driven by the high up-take in China and India.

Smart Devices a Key Enabler

A combination of two trends in Asia is driving the adoption of these new MOPs. The first is the continued growth of smartphones across the region, regardless of the device type. Affordable Android devices from Chinese manufacturers have driven the shift from feature to smartphones across the region resulting in more respondents using Android OS-based models than any other mobile platform (see Figure 2)
N=2,000; respondents have used this payment at least once in the past year

**Rise of the Next Billion**

The second trend is the rise of the "next billion" segment of users. These users already own a mobile phone but are accessing the Internet for the first time. As they upgrade to more functionality-rich smartphones, they will become a key addressable market, not only for the telecommunications but also the banking sector. The growth in diversity of payment options will be driven by the proliferation of smart devices as, in many locations, mobile will represent the only or primary device to access ecommerce services (see Figure 3).
Figure 3

The Next Billion Consumers

The Rise of the Next Billion will Affect Telecom and Banking

- Next Billion - Consumers who already have a mobile phone but accessing the Internet for the 1st time over mobile
- Next Billion profile - Lower SECs, urban/semi-urban, limited access to banking, PC ownership and Broadband connectivity
- Telcos and Internet players are positioning themselves to define the Next Billion user experience. Banks will need to do the same

The Future of Digital Payments is closely tied to Mobile

Source: IDC, 2015

Mobile-first Consumers in Emerging Markets Add Complexity

The rise of the "next billion" consumers in emerging Asia and the associated surge in mobile Internet connections continue to alter shopping patterns in the emerging markets. While overall Internet traffic has already skewed towards mobile, the number of transactions are also beginning to shift to mobile. Figure 4 illustrates the differences in mature and emerging markets with regards to their choice of device for online shopping. The mobile segment in emerging Asia is clearly more pronounced compared to those in the mature economies. There also exists a mobile-only segment for whom the smartphone may either be the preferred device, or the only device through which Internet access is available. IDC expects this trend to continue as the cost of smart devices continues to drop, demonstrating the potential for mobile payments as a key enabler for financial inclusion.
New Methods of Payments for Online Purchases Driven by Younger Generations

An analysis of payment trends by age group reveals that the age group of 25-34-year olds use the greatest types of payments instruments at the same time: This segment is becoming the most complex and sophisticated customer for financial institutions. This trend mirrors that of the retail banking channel development, where new channels do not completely supersede older touchpoints, rather they are used in function and context of customer requirements.
Credit and debit card usage across the region remains prominent, although this varies dramatically between mature and emerging economies. Income and financial requirements related to obtaining credit cards are likely a major reason for differences in adoption. Meanwhile, debit card usage continues to grow across Asia as several markets across such as in India and Thailand have enacted to encourage and increase usage amongst the new working population in order to reduce the dependence on cash and improve financial inclusion.

It is important to denote the use of cash-on-delivery, an effective and low tech method to support continued growth of ecommerce in the context of a un- or underbanked population. This is where the potential to move to mobile-based solutions and remove the reliance on cash is ripe for disruption.
When we analyze the types of payments methods used when making online purchases using a mobile device, the importance of mobile payments becomes even more apparent, moving to 3rd position as the preferred mode of payment for the 18- to 24-year-old segment. Compared to the West, where smartphone-based payments may be some way off to reaching critical mass, Asia markets are already seeing mobile as a significant part of the payments landscape.

**Impact of Mobile Payments on Asian Business Models**

This mobile-first segment for emerging Asia is likely to play an important role in dictating the development path for payments and may lead to the adoption of significantly different business models compared to more mature economies in Asia and others globally. Unlike previous generations of online payments which were derived from the desktop experience and gave rise to players such as PayPal and Alipay, the mobile format has the potential to do things differently, with more focus on real-time payments processing and delivering a more efficient and seamless customer experience.

Areas such as security can be greatly enhanced on the mobile platform by using technology such as fingerprint sensors and/or facial recognition, giving rise to a new generation of mobile-based payment tools. In time, these are likely to be used for both online and offline transactions. This co-existence of more established MOPs, newer mobile-based instruments as well as other less technology driven modes such as Cash on Delivery, will bring added complexity to the Asian payment landscape. Some of these new alternatives will ride the rails of existing payment schemes, but will nevertheless impact on customer relationship and traditional payment processing flows.

In IDC's analysis of the future of mobile payments (mpayments) in the Asia/Pacific region, we ranked all the major markets of the region and classified them based on our analysis of what form of electronic payments would likely be dominant: card payments, mobile payments or mobile money. We then further hypothesized that these current dominant payment situations would represent a semi-permanent fork in the possible development directions that the different markets will evolve toward. IDC has concluded two potential scenarios for which mobile payments will evolve in the region.

**Scenario 1:**

Figure 6 attempts to show these possible situations and movements of markets on the scale. Scenario 1, as represented by the blue broken line, paints the landscape if the Asia markets were to follow the Western model of payments as an efficiency driver and if cards usage starts to grow in the same manner as in Northern America and Europe. In this scenario, we would see markets eventually gravitating toward using cards and ultimately card-based mpayment devices as the potential end state.

**Scenario 2:**

Scenario 2, represented by the red line in Figure 5, shows IDC's suggested series of events as we believe are more likely to occur. In this case, mpayments are seen by governments and organizations as a fiscal tool to boost the gross domestic product (GDP) and to increase financial inclusion vis-à-vis reducing reliance on cumbersome and also untaxable cash payments. This scenario suggests that the Asia markets with low credit card and debit card usage at present are unlikely to invest heavily in point-of-sale (POS) financial infrastructure to drive card usage and popularity. Instead, they may turn to mpayments as a way to meet these goals. Our predictions suggest that these mpayments will likely take the form of smartphone wallets and stored value accounts.

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It must be noted that our clustering only goes so far as to indicate suggested dominance of one form of payment in a particular market. It does not preclude the possibility of other types of mpayments co-existing and also gaining some level of popularity in that same market. Indeed, we would expect in all the markets at some stage to see all types of mpayments being used in some form or another for different purposes and consumer group needs. Our hypothesis only suggests which form we think will eventually become the major dominant form of mpayments with the largest market share and which will be the most important for the relevant transactions.

**Growing Consumer Interest in the New Methods of Payments**

New MOP are already part of the consumer mind-set in Asia. When respondents were asked questions around their awareness, recent usage of and future intent to use these new payment methods, online payments were used by 72.4% of the total respondents, with 82% stating that they intended to use in the future.

Consumer interest was higher in smartphone wallets compared with mobile money, with 26.7% having already used them once and 62% indicating their intention to use in future purchases. Mobile money services (mPesa style services) indicated lowest usage but the highest jump in percentage for those who had some interest in using them in the future (see Figure 7).

Source: IDC Report: *Mobile Payments in Asia/Pacific, Where Do the Opportunities Lie?*
Figure 7

Real Consumer Interest in New Payment Methods

<table>
<thead>
<tr>
<th></th>
<th>80.1%</th>
<th>72.4%</th>
<th>82.1%</th>
<th>46.5%</th>
<th>61.8%</th>
<th>49.2%</th>
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<tbody>
<tr>
<td>Online payment services</td>
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<td>Smartphone Wallets</td>
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<td>Mobile money services</td>
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N=2,000


Emerging Markets are Leading the Way for Mobile Payments

As discussed previously, emerging markets are leading the shift towards mobile payments, reaching nearly 33% in terms of adoption (see Figure 8). Much of this has been driven by a variety of government initiatives, emphasising the higher penetration rate of mobile usage compared with levels of financial inclusion in these countries (Global Findex reports that 38% the global population remains unbanked).

Figure 8

Emerging Market Usage of New Payment Methods is Higher

<table>
<thead>
<tr>
<th></th>
<th>70.3%</th>
<th>72.4%</th>
<th>17.3%</th>
<th>32.8%</th>
<th>6.2%</th>
<th>13.3%</th>
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<tr>
<td>Online payment services</td>
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N=2,000; respondents have used this payment at least once in the past year

If we go further into country segments, the standout leader in the adoption of new payment modes is China, which reported the highest usage by respondents for both smartphone wallets and online payment tools (see Figure 9). This is closely linked with the rise of the Alipay and WeChat wallets and the broader ecommerce boom. India also shows high adoption of mobile based payments, although it continues to rely on mobile money services. This is as a direct result of the launch of several high profile mobile payment systems, in particular Paytm launched in 2014 which has seen substantial uptake. Others have also been promoted and marketed by several major mobile operators such as Vodafone with mPesa and banks (ICIC, HDFC Bank, Axis Bank and others). India is likely to continue to show strong adoption of all types of new MOPs with the introduction of Payments Banks by the Reserve Bank of India, opening up competition to a whole new range of service providers.

Figure 9

Usage of Methods of Payments across Asian markets

Of the mature markets, Japan stands as an interesting case of a highly mature market which has relatively low usage of new MOPs. This has generally been attributed to reasons of security and concern regarding the input and electronic transfer of data across the Internet (issues which up to now have not been resolved in the consumer mind-set) Interestingly debit card penetration is also low in Japan remaining largely a cash based economy (other than credit cards for high-value transactions and prepaid contactless cards for micropayments). Other mature markets while having high usage of online payment services, have relatively low usage of other MOPs such as smartphone wallets.

The survey results for emerging markets suggest that there is a real need for payment services beyond what banks can provide in whole. Evidence of high usage of online payment services, smartphone wallets and mobile money would suggest that consumer needs in those markets are not being met in full by banks, and that non-bank payment services are becoming a viable alternative.

New Payment Modes are Faster, More Efficient Services

The question of why new MOPs were used as opposed to other alternatives proved to be a critical factor in determining the advantages that these new alternatives have over more traditional payments.
methods. For online payment services, smartphone wallets and mobile money services, the number one reason chosen was “faster, more efficient services,” as shown in Figure 10. The user experience of many of the newer types of digital payments is one of the key features in which these compete against more traditional instruments. Many new entrants have designed the purchase around efficiency and seamlessness rather than around facilitating a transaction, embedding security authentication steps for example, within the application. Although some regulatory changes may impact new comers (as in India where two factor authentication is being imposed on non-bank payment providers), their offerings are generally designed around the customer, focusing on the processes to remain as close to "one click' as feasible.

**Figure 10**

<table>
<thead>
<tr>
<th>Reason for using Payment Method</th>
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<tbody>
<tr>
<td><strong>Online Payment Services</strong></td>
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<tr>
<td>Better rates when compared to competitors</td>
</tr>
<tr>
<td>Faster more efficient services</td>
</tr>
<tr>
<td>Trust these services more than other competitors</td>
</tr>
<tr>
<td>Do not have access to regular banks so used these as an alternative</td>
</tr>
<tr>
<td>Other please state</td>
</tr>
<tr>
<td><strong>Smartphone Wallets</strong></td>
</tr>
<tr>
<td>Better rates when compared to competitors</td>
</tr>
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N=2,000


**Smartphone Wallets are a Natural Cash Replacement, but maybe not Card Replacements**

This also gives insight into where new MOPs may be best suited in the market. Large ticket items such as plane tickets, hotels, and electronics purchases will usually require large amounts to be stored in the 'wallet' of the payment tool – a barrier that many consumers are still somewhat unwilling to perform due to security concerns. There are also many markets where regulation limits the amount of funds which can be stored in a wallet. These payment scenarios will continue to better suit the use of credit cards and debit cards which offer some degree of protection and are perceived as offering higher security guarantees for such important purchases. For small-ticket transactions such as daily goods, transport, and other small items, however, the customer is willing to sacrifice some level of security for ease and convenience. This "under $50" transaction space, coupled with the ever-present and ever-ready mobile device gives rise to genuine potential for new payments to replace cash in these situations. To some extent, we are already witnessing a significant amount of “cash” typically used for small-value transactions that is flowing outside the traditional payment channels.
Taking a look at the type of transactions that were made with online payment tools and smartphone wallets, Figure 11 lends further evidence to the cash replacement theory. Online payment tools are likely to remain mostly ecommerce transactions for the short term, although mobile is closing the gap. Smartphone wallets are currently showing high usage for real-world services such as offline shopping and for taxis, generally smaller ticket items. They are already being used for situations where the only other alternative might have been a cash payment and are likely to continue displacing cash. Interestingly there is now a number of transactions which are now being equally fulfilled through online and smartphone payment services.

Social, Mobile and Commerce are Coming Together

There is a growing convergence of social media, mobile and ecommerce activities in the Asia/Pacific region. Social media services are evolving rapidly from networking platforms to increasingly complex and integrated ecosystems focusing on the entire lifestyle experiences of its members. The addition of commerce and financial services, such as banking and payments, to social media tools cements their potential as significant disruptors to the industry.

The Asia/Pacific region is highly connected, with Indonesia for example showing some of the highest Facebook adoption rates. As social media services throughout the region continue to gain scale, many are focusing on developing a full-featured experience. Payments are a natural extension of the interactions and the activities which already exist within the platforms. Coupled with the existing networks between friends and other connections including official merchant mini-sites within social media, adding payments to social media functionality becomes a natural space for platform developers to expand service offerings and revenue streams.

Figure 12 shows the some of the related activities which respondents performed in three popular social media services in Asia: WeChat, Line and Facebook.
As the chart shows, the move toward payments in social media has already begun. All three platforms — Facebook, WeChat, and Line — have payments built into their ecosystem, and are being used by consumers. Purchase of virtual products can be seen as the first step in establishing payments in the ecosystem and was the most reported payment made across all networks. Mobile phone top ups and P2P transfers seem to be the next step in evolution for in-network payments and have already been adopted by some interviewees. Full-blown ecommerce and integrated payment within social media will be the ultimate goal for many providers. This goal has already been reached by Line, WeChat and most recently by Twitter with its tie-up with Stripe to offer "in-site" payment for goods displayed on its platform. Other social media services will likely follow suit if success is seen.

Merchant acceptance of such payments may take longer to become the norm, but as consumers are increasingly drawn to them, coupled with relatively lower merchant fees, they have huge potential for becoming the preferred method of payment for small business-to-business (B2B) and consumer-to-consumer (C2C) transactions. To date, the main bottleneck of many of these services is their limited geographical availability, as regulatory oversight is clarified. In some cases, these type of payments may only be available in partnership with existing banking participants. However, the potential for cross-border payments, and international remittances will become an interesting development for this segment.

Social media cannot be mentioned without taking a closer look into the third most reported category, "services such as calling taxis or food." Both WeChat and Line have ecosystems in-app which allow booking taxis as well as a variety of other services which are based on the concept of the "sharing
economy." While social media provides another platform for payments expansion, sharing economy services or the "internet of services" is also another potential huge growth engine for new payments.

**The 'Sharing Economy' is a Catalyst for further Disintermediation of Banks**

The sharing economy or the Internet of services reached media attention through popular consumer services such as Uber and Airbnb. Some of these services are also known as on-demand or O2O (services. The sharing economy creates marketplaces that "redistribute" underutilized assets between individuals and businesses. They are also known for creating seamless, user-friendly experiences that make the entire process from search and discovery to payment and fulfilment much more efficient and often at lower cost than traditional providers.

**Sharing Economy Services have Piqued Consumers' Interest**

This process of cutting out the middleman has been great for consumers but is also disrupting business models, bringing new challenges for service providers and traditional financial services institutions (FSIs). Services such as peer-to-peer (P2P) lending and foreign exchange services have already emerged in many parts of the world and are eating away into banks’ margins. Additionally, the sharing economy may also impact payment behaviours. To examine their ultimate impact on payments in the Asia/Pacific region, we must first understand their adoption and usage. Figure 13 illustrates consumer awareness of, current usage and future intent to use shared services. While awareness and usage are growing, over 80% of respondents confirmed their intent to use these services in the future.

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**Figure 13**

**Usage of Shared Economy Services across Asia/Pacific markets**

N=2,000

The Rise of In-app Purchases Has Significant Implications for Payments

Many of the new sharing economy services are driving towards integrating payments into the experience, even though this is limited in the Asia/Pacific region by the relatively low card adoption rates for emerging economies. However, consumers are likely drive demand for less cash or card based transactions driving payments to be made in the application itself. New payment methods such as mobile can offer the convenience factor users are looking for, without always riding on the existing card networks. This may drive an opportunity to replace the existing high level of cash usage and could result in an increase in digital micro-payments.

Figure 14 highlights the potential for cash replacement in low value transactions such as paying for taxi hire services (e.g., Uber and GrabTaxi) compared with the preference for cards for paying larger transactions such as room hire services (e.g., Airbnb and Xiao Zhu). Both payments could still be based on a mobile application but lower value payments could be done through alternative schemes instead of those already in place.

Figure 14

Taxi Hire services –How Payments were Made

Room Hire Services – How Payments were Made

N=2,000; respondents have used this payment at least once in the past year


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The potential for conversion from cash to smartphone wallets is high, especially if the payment could be integrated into the app itself. Cards in these use cases often still require verification processes which slow down fulfilment (depending on market and relevant regulation) making it cumbersome. Services that eliminate this kind of “friction” are the ones with real potential for success. Smartphone wallets here have the potential to be the de facto payment method if engineered to provide a superior and seamless experience compared with cards.

Other services such as food delivery and car hire services also fall into similar categories of low value-high volume and high value-low volume type transactions and results for their usage are similar. New MOP will likely grow in tandem with shared economy services but only for those in which convenience, speed and seamlessness are valued above other factors such as security and protection.

**Are Banks Really Still in Control?**

Given the disruption from FinTech players and changes in consumer behaviour are banks still in control in Asia/Pacific? Figures from the Bank of Thailand show that banks still controlled 98.5% of electronic payments made in the country in 2014 and these figures would certainly be similar for many other markets. While this current dominance would seem substantial, the threat from non-bank disruptors remains very real. Interviews conducted with key banks across the region revealed that the need for innovation and a review of business models is already well underway.

*Trust is still crucial in some markets*

Some institutions, although cognisant to this disruption ultimately believed that the trust in the banking system would counteract some of the impact in certain markets in Asia/Pacific. In particular banks in India pointed to the previous attempts to disruption from Telco’s in payments and how this was ultimately unsuccessful in a market where banks are still perceived as providing the appropriate security levels required for monetary transactions. While our consumer research suggested that some level of security may be overlooked by consumers for small value transactions in favour of speed, efficiency and simplicity additional protection was required for larger purchases. This may of course change with the introduction of payment banks in India.

Another example is that of Japan which has for long struggled to incorporate electronic payments into its payments framework. Despite it having one of the first standardized mobile payments network (The Osaifu-Ketai system), this has done little in reducing Japan’s cash based economy. Cultural issues such as these may prove to be significant and banks must leverage this inherent advantage to remain the primary payment provider. However they will also need to drive the next generation of payments methods focused on providing faster and more efficient services to the consumer.

Indeed, in some markets it is the banks that drive innovation launching new MOPs on new form factors such as Twitter or Facebook payments that ride on the rails of immediate payment infrastructures (bank-to-bank) as in the case of India or Singapore and in the future Australia.

*Threat is confined to certain segments of business now but not forever*

In China, the dynamics have been quite different and banks have already had to contend with huge competition from technology-based new entrants. In these markets, banks expressed a real sense of threat in particular in primarily consumer focused businesses such as deposits, payments and less complex financial products such as personal loans. These consumer services were deemed to be particularly under threat as they are relatively easy to develop and bring to market in an attractive form factor. Banks felt that the threat was lower for more complex products such as in the mortgage and corporate banking sector.
However, other institutions felt that the threat to the consumer side of the business would quickly translate to threats in the other areas of the banks business. In particular cross-border payments, foreign exchange, business to business lending are all transaction banking opportunities for disruption, drawing in large venture capital investments not only in China but across Asia/Pacific.

The next few years are likely to see more possible new entrants aiming to claim a larger stake into the financial services pie, especially if we see a move from regulators in this region to replicate mandates similar to Payment Services Directive 2 (PSD2) in the European Union. For example, opening up bank application programming interfaces (APIs) to third parties allowing for external services which can directly interface with the customer's account. This opens the door for services such as account consolidation, account spending analysis tools and much more. Such transitions in Asia will likely rest on the results seen in other regions and will occur at market level rather than a consolidated regional level.

**Beating the Disruptors at their Own Game?**

**Start-ups within the Bank?**

Banks in Singapore expressed unified views that it was possible to beat the disruptors at their own game, especially against the backdrop of a regulatory framework which traditionally favors banks for security. Many banks are embarking on their own technology transformation to develop payment platforms that will protect their existing architecture investments whilst enabling innovation to adapt to new customer expectations. In many cases the creation of sub-units within the bank itself has led to the rise of a more "start-up" culture being nurtured and encouraged — even to the point of housing technology units in hubs outside of the traditional corporate business district. Along with this new culture has also come a shift in business mind-set with a "allow-to-fail" approach with regards to development of new initiatives — mimicking the agile and aggressive nature of new start-up firms.

Whereas internal bank projects may previously have taken six to eighteen months to bring to market, these next generation units are aiming to bring new initiatives online much quicker to meet the rapidly changing needs of a technology driven consumer base. The challenge remains to bring this innovation to market as delivery still needs to be integrated with existing payment systems and fit in an organisation that essentially remains structured around products rather than customers.

**Time for a Holistic and Radical Approach?**

These innovation strategies may prove successful where banks have natural and inherent foothold, but where banks have less reach such as in markets where there is a large unbanked or underbanked population, this may prove to be less sustainable. Questions also arise over the real speed and culture shift that banks can deliver when oversight, review and appraisal is ultimately still in the hands of a more traditional banking organizational structure and framework. A more systemic and holistic approach to restructuring not just technology, but the overall processes and business lines of a bank may be required to deliver real change. This requirement for more fundamental business and technology transformation will be covered in the part 2 of this research.

**Conclusion**

Disruption to the financial services marketplace will be strongest where there is an opportunity gap, unfulfilled by traditional payment methods. This is the case in emerging economies where adoption rates of traditional MOPs remain lower or in the case of countries where the introduction of new internet-based services privileges speed and convenience.

The Asia/Pacific region needs to reduce its reliance on cash in order to facilitate continued economic development and greater integration of trade flows. The research suggests that mobile-based
payments may fulfil many of the requirements for cash replacement. Smartphone wallets will take many form factors; some riding the rails of traditional payment instruments, some not (cards, account transfers, prepaid wallets, social media transfers, credits). However, 62% of consumers surveyed are already showing a high intent to use. There is a potential for banks to take ownership of this opportunity, although it is one that is unlikely to be fulfilled without greater cooperation with the wider ecosystem.

Banks in the region will need to adapt to a more sophisticated customer base, especially in the 25- to 34-year segment which will require substantial business and technology transformation. Although banks in the region will benefit from regulated frameworks that will curb new market entrants in the short term, these barriers to entry are likely to be removed as governments favour measures that encourage economic development and financial inclusion.

Looking Further into the Changes of the Future

In the next part of this report, we will look at the future changes within payments, and how banks are preparing, reacting and in some cases even joining up with the disruptors. We will delve further into the survey results from both consumers and banks and investigate:

- How customers in Asia/Pacific want to pay for transactions,
- How commerce, social, the sharing economy and new MOPs will further converge and merge ecosystems,
- How banks must respond to new threats such as fraud and security breaches potentially caused by new methods of payments

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