Future of Payments:
Ecosystem innovation and transformation in Asia Pacific
Half of the world’s internet users live in Asia Pacific with a median age of just 30 years old. How these digitally savvy consumers pay for goods and services is integral to their digital experience. As a result, Asia has become a crucible, and bellwether, for payment innovation.

Consumer and business expectations for frictionless payments are inspiring new payment solutions, and creating exciting opportunities to boost efficiency, increase financial inclusion and enhance the customer experience. Payment digitization and contactless options are only becoming more important to support business continuity and assuage customer health concerns during the current COVID-19 disruption.

In an environment of rapid change, disruption and opportunity, treasurers and finance managers across sectors are faced with new challenges on how to pivot to digital business models quickly whilst managing cost and time to execute, protect margins, and avoid common pitfalls.
Future of payments: Ecosystem drivers

Fifteen years ago, the payment landscape in Asia Pacific was dominated by cash, checks and bank cards. Although preferred payment types differed – and continue to do so – across countries.

Today, the payment makeup of many countries has been transformed. It would have been hard to imagine a few years ago but cash is now almost obsolete in countries such as China with mobile wallets ubiquitous. Payments are increasingly smaller and directly from end consumers, around the clock as well as settling in real-time from a variety of digital channels. Current health concerns around handling cash are further encouraging digital and contactless forms of payment. Citi research forecasts that digital forms of payment including wallets, instant payments and cards will comprise over 90% of the growth in C2B payments by 2021.

For consumers, the payment process is becoming invisible, embedded into social media, payment apps, and digital storefronts. No longer are payments a separate process from buying products and services, but intrinsic to it. While lack of access to banking services, such as basic bank accounts and financing, has excluded many people and small businesses in Asia economically in the past, smartphones with an array of social media, messaging, marketplace, and financial services apps have become a gateway to financial, economic and social inclusion across the region.

This seismic shift in the payment environment has been triggered by three closely interconnected trends:

1. Transformation in corporate business models to become more omni-channel and direct to consumer
2. Regulator activity to promote cashless societies, foster financial services competition and promote consumer payment choice
3. Ever-growing consumer digital demand for frictionless, low-cost payments that build loyalty and encourage repeat business

Fundamentally, these forces come together in the quest for ‘instant’: instant access, instant payment, and instant fulfilment. To meet these demands, treasurers pivoting to digital sales across industries need to consider whether their channels are mobile enabled, create a good user experience, have a broad reach to their target customers, consider fintech partnerships, and are future proofed.
1. Transforming business models:
From vertical B2B business to omni-channel B2C ecosystem

The digital-native businesses that now dominate the direct-to-consumer (D2C) landscape have emerged within the past decade, promising customers a seamless, digitally-enabled end-to-end experience with embedded payment solutions and instant access to products and services.

In the early days, digital businesses including e-commerce marketplaces, ride hailing, food delivery, social media, messaging, content, advertising and gaming disrupted traditional ‘brick and mortar’ businesses from retail stores to amusement arcades. These companies recognised and harnessed the opportunity to build ecosystems of complementary services, generating huge amounts of data that enabled entirely new customer propositions to be added.

For example, Asian digital disrupters use their core digital platforms to connect buyers with sellers through digital marketplaces. These not only created a new user experience and captured more of a user’s time, but also generated huge amounts of user data that further enabled new, value-added services centred on a bespoke customer experience and filling a gap in the market. In Asia, many of these value-added ecosystem businesses have revolved around financial services, including payments such as stored value/mobile wallets, because they provide a benefit to nearly half of the world’s unbanked population as we’ll highlight.

Figure 1. Hailing a Super App

The Grab app started as a cab booking and ride hailing platform in South East Asia where the need for frictionless payments created the opportunity to build a mobile wallet to support their core transportation app. By making this wallet available at third party merchants, Grab gained a wealth of data on customers’ payment preferences which could be married with geo-location and data from transport, food delivery, and friend networks to understand a customer’s financial profile in new ways.

Grab formed a partnership with a 3rd party consumer credit platform to create a new method of credit scoring using their wealth of data to provide micro-financing to customers, drivers and merchants. Grab’s aim is to become a “Super App” with a range of financial services from payments and credit solutions, through to travel and insurance. They could white-label technology solutions to the financial service industry, as well as applying to become their own digital bank.

Today, companies across all sectors are recognizing that it is important to invest in their own digitization journey and transform their core business to become more direct to consumer (Figure 2). In addition, finance and treasury teams are responding to the current COVID-19 disruption with an accelerated review of their company’s balance between offline and online sales models. In a recent Citi survey, 70% of companies were early stage with less than 5% of their sales online, but 74% regarded a pivot as an immediate priority with 69% investing in their own direct to consumer websites, and 56% also using existing 3rd party digital marketplaces. Successful digital businesses leverage data and emerging technology to improve customer experience and meet heightened expectations for both offline and online sales with virtual demonstrations, product customization and interactive fixtures. Meanwhile, whilst traditional sectors move more online, digital natives are expanding into offline channels, for example Alibaba’s “new retail” philosophy in China which sees them moving away from being manufacturer and product-centric to consumer-centric. Their focus is on building a suite of products designed to seamlessly pair online and offline offerings to better serve customers. These “new retail” technology capabilities are on-sold to small businesses to help with inventory management, digital apps, warehousing and logistics. Innovations include pop up stores that use artificial intelligence to predict a consumer’s preferences through to highly immersive and digitally advanced flagship stores such as Hema Supermarkets.

An increased balance between offline and online, together with an ecosystem of interconnected and complementary services that maximises data analytics, will help companies position and quickly adapt their customer offering in response to unexpected events, and shifts in customer preferences.

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Figure 2. Traditional industry pivoting to integrated mobile payments at speed

In the automotive industry, ride hailing companies are considered the ‘disrupters’ but their business relies on product manufactured by traditional auto manufacturers. In response, auto manufacturers are developing their own service-oriented business models, such as app-based car rentals, as part of a revolution in the mobility sector. Auto companies are also driving innovation through the shift from diesel and petrol vehicles to electric. To create new models and new direct to consumer service opportunities, they are combining their in-house expertise in vehicle design with third party battery producers and electric charging grid providers, and working with fintechs, technology companies and energy companies to deliver truly mobile, car-based payments for fuel and electricity purchases leveraging faster internet of things connectivity to drive customer loyalty and diversify revenue streams.

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1 Citi Online Academy webinar: Winning the Race for Digital sales in the New Normal survey of 98 clients across different industries, Apr 2020
The Evolution and Opportunity of Digital Ecosystems

The result of this blurring of definitions between offline and online, and a more integrated approach to supply and sales, is that the hundreds of existing value chains and industries that exist today are coalescing into 12 major digital ecosystems.

The total revenue potential across these large ecosystems could reach over US$60 trillion by 2025, around one third of global revenue pools, creating enormous strategic opportunities for business leaders who can develop an ecosystem mind set, accelerate innovation and harness data to anticipate and deliver on customer demands.


Circle sizes show approximate revenue pool sizes. Additional ecosystems are expected to emerge in addition to those depicted; not all industries or subcategories are shown.

Source: IHS World Industry Service; Panorama by McKinsey; McKinsey analysis.
2. Regulators are building cashless societies and boosting financial inclusion

With credit card penetration and financial services accessibility relatively low in many Asia Pacific countries, digital platforms were initially hampered by the use of cash and other manual payment methods which added friction and inefficiency in the ‘last mile’ of the customer experience. However, digital leaders did not reduce the scale of their ambitions within the constraints of existing payment infrastructure.

Instead, similar to eBay and PayPal, they created their own payment services such as Alibaba’s Alipay and Tencent’s WeChatpay with many other companies following suit and creating “pay” businesses such as GoPay by GoJek, Grabpay by Grab, and BigPay by AirAsia to name a few.

These mobile wallets filled a gap in the digital payments market and mobile wallet transactions in China reached RMB 56 trillion (c. USD 8.16 trillion) in Q3, 2019 alone, reflecting YoY growth of 15.2% in an already mature market.6

The migration of customers towards digital forms of payment will continue to grow and will accelerate with COVID-19 shifts to online sales and health concerns around handling physical cash. Whilst the volume of transactions will be temporarily impacted, mobile wallet share of overall payments will continue to increase. (see Figure 4)

Figure 4. Ecommerce Payment Growth by Instrument- Asia Pacific*

Source: Citi, Worldpay, eMarketer

* Pre-COVID-19 % represents the share of growth by payment instrument between 2016-2021
** Includes stored value or wallets linked to another payment method such as a Credit Card or bank account
*** Others includes Prepay (vouchers), Post Pay, eInvoices, Carrier billing and Crypto currencies

Although mobile wallet payments are dwarfed by traditional bank volumes - for example, Citi’s global payment processing power is around US$4 trillion a day - the growth of mobile wallets is inexorable and significant.

The effects are reverberating across the commercial, banking and government sectors, and contributing significantly to the development of real-time and instant payment schemes that have become a regional and global phenomenon.

The rise of new payment methods, and changes in consumer behaviour to expect frictionless experiences, have triggered a transformation in the wider payment environment.

The leaps in payment innovation taking place are not solely the result of changes in the way that commerce is being conducted. Governments and regulators are playing a significant role in encouraging digital payments and directing innovation pathways. With instant and real-time payment schemes now live in 15 Asian markets, real-time account-to-account payments have become an industry norm. The use of real-time payments is also expanding, from consumer-to-consumer use cases enabled by third party apps to consumer-to-business (C2B) both for online and offline payments. As transaction limits increase at scheme level, business-to-business (B2B) payments are also increasingly transacted in real-time, as companies seek to utilise the enhanced transaction remittance data available with these payment methods to improve beneficiary reconciliation, speed up release of credit lines to increase sales, and improve customer service through real-time visibility of payment status.

Many of these core scheme features are facilitated through API connectivity. In Singapore, the government has been keen to create a digital economy to improve convenience for citizens, and avoid the risk, cost and lack of transparency associated with high cash usage. Singapore was one of the first countries globally to launch its faster payment scheme, complemented more recently with developments such as PayNow and PayNow Corporate. PayNow allows mobile or personal identification numbers to be used as proxies meaning consumers and businesses can make and receive payments easily in real-time without needing to transfer, record and manage hefty bank account details prone to human error.

Governments in countries such as Australia, Hong Kong, India, Indonesia, Malaysia, Philippines and Thailand have driven initiatives towards instant payments. A key motivation for regulators to make payments low cost and frictionless is to increase financial inclusion (see Figure 5). These governments have created national payment infrastructures that support mobile, instant payments, harnessing the widespread use of smartphones and technology such as digital IDs, tokenisation and QR codes to be able to make and receive low cost, real-time payments between bank accounts or to digitally top-up mobile wallets. The next stage of development is to link these instant schemes cross-border to create ubiquity and drive adoption further.

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1-4 Real-time Payments Are Here and Will Fuel Emerging Business Models, Citi, Dec 2019
In 2017, there were 1.7 billion unbanked adults globally nearly one third of the world’s population. Nearly half are in Asia. Widespread economic exclusion places limits on growth, and prevents individuals from increasing their earnings potential and reducing poverty.

According to Citi’s ‘Banking the Next Billion’ report, digital initiatives by public and private sector actors will bring a period of unprecedented growth in financial inclusion by 2022, and an additional 700-800 million adults will be included in the formal economy, leaving just 15% of the global population unbanked, down from 49% in 2011.

With 79% of adults in emerging economies having access to a mobile phone, including 69% in India and 93% in China, harnessing smart phones to increase access to financial services is a natural synergy that can help people participate economically and boost prosperity.

Citi’s report cites 4 major drivers for increased financial inclusion as a Unique Identity System (for security, registration and trust), access to mobile money and wallets to digitize payments, access to consumer financing to boost spending power, and the development of digital currencies.

Encouraged by regulators, digital leaders are partnering with banks to provide mass market financial services that are mobile enabled, make payments easier, and provide instant access to credit. As a result, over 214 billion people globally will buy goods and services online in 2021, up from 1.66 billion in 2016 and mobile ecommerce will reach over US$3.5 trillion by 2021.

In some countries like China, over 75% of eCommerce purchases are already made via mobile devices and Alibaba records over 90% of their huge online sales on Singles Day from mobile devices.

However mature the payment infrastructure is in their respective countries, governments across the region are keen to increase security and user control over payments and personal data, and encourage innovation and competition across financial services. To foster competition, and manage customer data, open banking and digital bank initiatives are being encouraged by regulators to democratise banking services and increase customer choice. New fintech players are being encouraged to create financial services through open application programming interfaces (APIs), and scale quickly using the latest financial services technology and cloud infrastructure. Many countries including China, Hong Kong, Korea, Australia, Taiwan and Singapore have set up digital banking licenses to increase financial services competition. New digital banking players aim to deliver an expanded value proposition by leveraging cloud infrastructure, digital servicing and new methods of credit scoring for faster credit card and loan approvals.

Source: World Bank, CIA eMarketer
3. Delighting customers and building loyal relationships

Ultimately, the efforts of corporations, governments and regulators to digitize societies would be pointless unless they were adopted at scale by consumers and small businesses. Consumers have welcomed convenient, instant access to information, products and services, with demand continuing to grow for 24/7, ‘always on’ payment processing, and instant engagement and fulfillment. In theory, open platforms create a competitive advantage for those that can provide a positive customer experience; the difficulty, however, is that the easier it is to do business, the easier it becomes for customers to switch their business to other providers if there is friction encountered during shopping cart checkout, or a limited range of payment options forces shoppers towards cash on delivery or other slow payment methods. Sales drop-offs are a genuine concern for digital businesses so removing payment friction, making it easy for repeat custom, whilst protecting customer data, building trust, and minimizing fraud are key priorities.

Consequently, the challenge for businesses is not only how to gain customers, but how to build long-term relationships. We see our clients doing this by using data to personalize the customer experience as far as possible, creating new D2C business models to increase average revenue per user and improve margins, and balancing offline manufacturing or production businesses with value-added “everything as a service” offerings. The key is to encourage repeat customers, create long-term loyalty, and enable revenue diversification. While the early adopters of the subscription economy were insurers and media companies, many sectors such as cosmetics and clothing, fast moving consumer goods, technology, healthcare, pharmaceutical prescriptions, and vehicle servicing are all developing D2C subscription models.

‘The challenge for businesses is not only how to gain customers, but how to build long-term relationships.’
Treasurers and finance managers cannot simply watch the transformation of their businesses from the sidelines. Rather, they must be central to it.

As we’ve discussed, treasurers building a successful digital business that is future proofed to meet payment trends in Asia will need to consider payments are:

- increasingly instant, mobile enabled, secure and ubiquitous.
- frictionless to create a good user experience, options that reach the broadest customer and small business demographic in each country.
- likely to involve a fintech/bank partnership with access to an ecosystem of ancillary financial services including credit, instant payments and mobile wallets.

On the one hand, more direct connection with customers gives companies a greater understanding of local consumer buying behaviours which in turn helps to refine their product offering. On the other, treasury and financial shared services need to manage the risk created by new localised customer billing structures, new currencies being handled, new markets entered, regulatory requirements including licenses, exchange controls, and liquidity dynamics such as intercompany funding and investment. New payment methods and customer demands are emerging constantly, so treasurers and finance managers need to explore how best to meet changing demands without creating fragmentation and additional processing costs for their business that significantly eat into profit margins and eventually outweigh top line sales growth. Incoming micro payment flows in large volumes need to be reconciled promptly which relies on robust bank and payment partner connectivity, reconciliation tools such as Citi’s virtual account solution, APIs for real-time processing, and access to consistent transaction data to make new markets a ‘plug and play’ tech integration project.

Working with the right banking partner like Citi who brings a wealth of experience in helping clients across different industries tackle these challenges is essential to help maximise fast-changing opportunities for digitally delighting customers.

At Citi, we provide clients with a banking platform that leverages our global network across more than 90 countries, ensuring reliable and standardised data which enables a client to go-to-market faster and scale quickly across different countries. Whether operating in a single market or multiple jurisdictions, selling digital services or physical goods, Citi supports innovative payment options wherever these are being rolled out. We also offer expert advisory services embedded in each market to help treasurers understand the local regulatory landscape, understand the AML risks of intermediating payment flows, and help to build integrated working capital, liquidity and FX management solutions.

In the next feature in this series of articles on the future of payments in Asia Pacific, we will take a deeper dive into the implications of these macro trends on payments and how Citi is creating innovative tools to help our clients expand their ecosystems.

**Treasurers as Business Enablers: Moving from reactive execution to proactive engagement**

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