Southeast Asian Consumers Are Driving a Digital Payment Revolution
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Southeast Asian Consumers Are Driving a Digital Payment Revolution

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Southeast Asia is in the early stages of a takeoff in e-wallet adoption that is likely to transform the financial industry. The competition for market leadership is wide open and furious. But for digital finance to make the next big leap in scale, both incumbent banks and new digital challengers must overcome obstacles.

**Stumbling Blocks to Wider Adoption**
Our research finds very strong interest among Southeast Asian consumers to use e-wallets for most kinds of purchases. Currently, however, e-payment services are largely limited to urban uses, such as food delivery and ride hailing, and acceptance among the region’s merchants is low. Providers also depend heavily on discounts and cash back to win customers—a business model that is unsustainable.

**Unlocking the Potential Of Digital Payments**
To win, e-payment challengers must figure out how to monetize their customer base, expand their footprints beyond cities, gain wider acceptance from merchants, and broaden their financial-services offerings to both the banked and unbanked population segments. To defend their core customer base, incumbent banks must become more consumer-friendly, leverage their vast infrastructure and regulatory expertise, and consider joining forces with digital challengers.
Adoption of e-wallets could accelerate in the wake of the COVID-19 crisis, which has triggered a sharp rise in digital payments and home delivery.

Aisyah is the kind of customer commercial banks covet. She is 25 and has landed a good job as a marketing manager in Jakarta. Aisyah has a bank account and debit card, and will soon be in the market for loans and investment products. She currently uses her bank-issued debit card to buy clothing and shoes because it is “super easy.” But Aisyah also has two e-wallet apps, GoPay and Ovo, loaded onto her smartphone. For now, she uses her e-wallets mainly for ride hailing and payments at food stalls because they offer cash refunds. Many merchants don’t accept e-wallets, but Aisyah says she would like to be able to use her e-wallet for small and big purchases alike, and even for rent payments. “I would love to use my e-wallet to pay for everything because it is more convenient,” she says.

Southeast Asia is on the cusp of a financial revolution. Like Aisyah, about 49% of urban consumers in the region who are commercial bank customers already use e-wallets. We project that the proportion will reach 84% by 2025. In fact, adoption could accelerate in the wake of the COVID-19 crisis, which has triggered a sharp rise in digital payments and home delivery.

The enormous success of such platforms as Alipay and WeChat in China, the global leader in mobile-based payment innovation and adoption, is well known. But in Southeast Asia, one of the world’s most populous and economically dynamic growth zones, the trend is in its early stages. To gain an in-depth understanding of the future of digital payments in the region, Boston Consulting Group’s Center for Customer Insight (CCI) conducted an extensive study of how the region’s consumers are using e-wallets and how their behavior might evolve.

Our survey and interviews with nearly 5,000 consumers and merchants in 2019 revealed the scale of opportunity even before the onset of the COVID-19 outbreak. But it also highlighted the enormous unmet needs that, if met, could unlock the full potential of digital finance in Southeast Asia. Some of the key findings:

- Although often described as a means for improving financial inclusion, e-wallets are used by only 13% of Southeast Asia’s “unbanked” urban population segment—which includes nearly half of Indonesian and two-thirds of Vietnamese adults. However, our study indicates that e-wallet penetration among the region’s unbanked will surge to 58% by 2025.

- E-payment services show a strong urban bias in Southeast Asia, where food delivery to homes and offices, taxi transportation, and ride sharing are the dominant use cases. But there is very strong interest among consumers to use
their e-wallets to pay for purchases everywhere, from hawker stands and food courts to grocery stores.

- Low acceptance by merchants, cited by 54% of study respondents, is the main stumbling block in the path to greater e-wallet usage. Yet 74% of merchants surveyed in the region say they would accept e-wallets if barriers to wider adoption, such as poor understanding of processes, complex merchant payment processing, and high fees, are addressed.

- More than one-third of Southeast Asian consumers surveyed are willing to shift some of their banking activity, including credit cards and loans, to nonbank digital players. Our research shows that up to 10% of deposits and up to 12% of credit card business in Indonesia, Malaysia, Thailand, and Vietnam could move to nonbank digital players.

Both incumbent banks and nonbank challengers must address several obstacles if Southeast Asia’s digital finance market is to make the next great leap in scale.

Most e-payment challengers must figure out how to monetize their customer base by moving beyond business models that depend on financial incentives, such as discounts and cash-back programs, to improve market share. They must expand their footprints beyond cities and win wider acceptance by the region’s merchants. Challengers must broaden their offerings to banked consumers, using loans and other higher-value financial products, as well as to unbanked consumers, using such instruments as microloans and microinsurance.

Incumbent banks must become more consumer-friendly in order to compete with digital challengers in their core businesses and leverage their vast infrastructure and regulatory expertise in the digital realm. Banks should also consider collaborating with fintechs and other digital challengers as the competitive field consolidates. The ultimate winners of Southeast Asia’s next financial revolution could well be alliances of disrupters and incumbent institutions that leverage the strengths of each.

**Why Digital Payment Is a Critical Battleground**

Digital disruption is already a fact of life around the world. In just two years—between 2017 and 2019—the number of e-wallet users globally exploded from 500 million to 2.1 billion. Developing nations account for most of that growth: China and India alone account for 70% of all e-wallet users; Africa and the Middle East for another 12%.

Developing nations have been the vanguard in the digital payment revolution largely because conventional consumer financial services are underdeveloped and riddled with friction. In many nations, it is hard for consumers to get credit cards from banks because there is no way to verify borrower creditworthiness. And when credit cards are available, many merchants resist accepting them because of high fees. Paying with wads of cash can also be inconvenient; finding ATMs to make withdrawals is often difficult. And ATMs require bank accounts, which often require extensive documentation. The process of registering and completing electronic trans-
actions through banking accounts, meanwhile, can be time-consuming and frustrating.

The COVID-19 outbreak and its aftermath are expected to prompt many more Southeast Asian households to embrace digital payments. Compared with physical cash exchange, e-wallets could be seen as a safer means of making purchases, and consumers are expected to continue reducing their visits to crowded restaurants and stores. In the first months after the onset of the outbreak, the Development Bank of Singapore reported sharp increases in digital-payment transactions, and home deliveries of food and groceries leapt dramatically in Thailand.

Because payments represent the most frequent source of engagement with customers—and an immensely valuable source of data on their preferences, interests, and purchasing behavior—a wide range of nontraditional financial players offer innovative, inexpensive, and convenient payment solutions. In China, for example, the Alipay e-wallet, owned by Alibaba affiliate Ant Financial Services, has more than 600 million active monthly users, while Tencent’s WeChat Pay has around 900 million users. Mobile providers are emerging as major players, too: in Kenya, for example, M-Pesa processes payments equal to nearly half of the country’s GDP. Of the 41 e-wallet operators in Indonesia licensed by the central bank, 14 started operations in the past year. Based on the number of monthly active users in 2019, the top five e-wallet mobile applications were Gojek, Ovo, DANA, LinkAja, and Jenius.

To defend their turf, incumbent commercial banks have invested to improve their digital banking offerings and make payment experiences as seamless as those of e-wallets. Some have either launched their own e-wallets or partnered with companies that offer them.

Regulatory agencies in many nations are supporting the development of e-payment infrastructure to promote financial inclusion. For instance, Thailand has introduced a real-time retail payment system, PromptPay, that allows for free, instantaneous money transfers with high levels of security. In most of the region, such transfers require several days. Several Southeast Asian countries, including Singapore and Thailand, have followed China’s path and are well advanced toward standardized QR codes.

Southeast Asia at a Tipping Point
Southeast Asia—a region of more than 660 million— is fast emerging as the world’s next megamarket for digital consumer finance. At least 10% of the adult populations of Malaysia, Vietnam, Thailand, Indonesia, and Singapore already use e-wallets, and penetration rates are well ahead of those in advanced economies. (See Exhibit 1.)

Southeast Asia possesses many of the key characteristics that fueled the takeoff and rapid evolution of digital payments in China: high digital penetration and digital engagement, extensive friction between consumers and commercial banks, investments by startups and digital platforms, a steady expansion of e-payment use cases, and a strong government push.
High digital penetration and digitally savvy consumers are critical preconditions for the takeoff of e-payments in developing nations. Across Southeast Asia, more than 70% of millennials are connected to the internet. What’s more, Southeast Asian consumers are among the most digitally engaged in the world. The average Thai, Malaysian, or Indonesian, for example, spends four hours per day on his or her cell phone.

There is extensive friction between consumers and commercial banks in all of the Southeast Asian markets studied except Singapore. We estimate that more than 174 million adults across the region lack bank accounts or credit cards, while another 30 million make minimal use of banks. As a result, nearly three-quarters of consumer payments in Southeast Asia’s six biggest economies—Indonesia, Malaysia, the Philippines, Thailand, Singapore, and Vietnam—are transacted in cash.

One manifestation of the gulf between formal financial institutions and low-income households in Southeast Asia is the dramatic growth of peer-to-peer (P2P) lending, through which individuals borrow directly from other individuals. In Indonesia, for example, millions of people obtain funds through informal social gatherings known as “arisan,” which serve as revolving microcredit groups. At arisan meetings, typically hosted monthly in homes, borrowers raise small loans from the rest of the group, usually repaid without interest after a year. Now, Indonesian P2P lending is being digitized. Through its app, the Indonesia-based company Mapan serves 200,000 arisan lenders and roughly 2.5 million members, facilitating loans as well as payments for purchases.

Southeast Asia is also seeing rising investment in the e-payment field. In fact, as of the first quarter of 2018, 43% of new fintech company investments in Southeast
Asia have been in digital payment providers. Giant investors such as Alibaba, Tencent, and Softbank have provided much of the backing. This investment is developing higher demand across the region and creating the digital infrastructure needed to make e-wallet acceptance much easier.

When e-wallets were launched in China and India, they started with a handful of simple offerings and expanded their use cases. In China, merchant acceptance is now nearly ubiquitous, including hypermarkets, shopping malls, gas stations, premium restaurants, and public transportation services. Ant Financial has evolved into a comprehensive finance platform that includes savings accounts, loans, and investment products.

Southeast Asia is following a similar evolutionary path for e-wallet usage, but it is at an earlier stage. E-wallets are used mainly by urbanites for ride hailing and food deliveries, and providers rely heavily on discounts and cash refunds to attract and retain customers. But other use cases are proliferating fast. E-wallet payments for groceries, bills, and e-commerce are gaining momentum. According to our survey, 33% of the value of e-wallet payments are in those three categories. We expect this share to approach 55% by 2025.

Finally, Southeast Asian governments and regulatory agencies are promoting the digitalization of financial transactions. Currently, with limited ability to transfer funds directly to nonbanks, the region is well behind China and India in terms of payment infrastructure. But infrastructure is improving. Singapore and Thailand already have real-time retail payment systems. In 2018, the Philippines launched InstaPay, a national retail payment system. The Bank of Indonesia is promoting the use of chip-based stored-value cards as an alternative to cash, and the government has established a national payment gateway aimed at ensuring interconnectivity and interoperability of domestic retail payment instruments.

A Diverse Banking Landscape
While there are many similarities across Southeast Asia, there are also important differences that distinguish the individual markets.

The maturity of consumer banking products, for example, varies sharply from one country to the next. While 90% of Malaysian consumers and 98% of Singaporeans have bank accounts, only 61% of Indonesians and 40% of Vietnamese have them. Eighty-five percent of Singaporeans have credit cards, but that mark drops to 30% in Thailand, 11% in Vietnam, and a mere 6% in Indonesia. While 42% of Malaysians take out loans from banks, only 27% do so in Singapore and just 14% in Thailand. (See Exhibit 2.)

Wide income disparities across Southeast Asia largely explain the differences in product adoption rates. Research by BCG’s CCI found that bank account ownership matures as soon as people enter the middle class. The number of people using debit cards or loans tends to stagnate as people exit the middle class. Ownership of e-wallets, credit cards, and investment products, by contrast, continues to increase as household income grows. (See Exhibit 3.)
Infrastructure is at various levels of development in Southeast Asia, contributing to the disparity in usage of conventional financial products. One reason credit card usage is so low in Indonesia, for example, is that the country’s credit bureau does not have data on the creditworthiness of low-income citizens.

Regulatory differences also contribute to the highly fragmented nature of Southeast Asia’s e-payments landscape. Licensing requirements vary from country to country. While Indonesia has foreign ownership limits, for instance, most others do not. The spending and balance limits on e-wallet accounts, the minimum capital and technical requirements, and the approvals needed to offer different financial services also vary.

Another big difference from the e-wallet markets in China and India is that, while there are only a handful of players in those nations, there are numerous providers in Southeast Asia. More than 40 e-payment licenses have been issued in Malaysia and the Philippines, for example, which suggests that the competition is overheated. In addition to fintechs, two or three established commercial banks also offer e-wallet apps in each market, as do different telecom operators and companies as diverse as Seven-Eleven in Thailand, AirAsia in Malaysia, and Indonesia’s LinkAja.

This situation will likely change as the field consolidates. To acquire as many users as possible, many providers are burning cash on incentives and charging no fees—a business model that is unsustainable. A number of independent players will probably be forced out of the business or acquired by larger, financially stronger rivals, or they may form partnerships with commercial banks. The largest regional players, such as the Singapore-based ride hailing service Grab and the Jakarta-based multi-service and digital payment platform Gojek, will likely benefit.
Unlocking the Potential for E-Wallets

Both the e-wallet providers that are disrupting Southeast Asia’s payments market and the region’s incumbent traditional banks face significant challenges as digital payments graduate from a niche business to large-scale financial services.

The disruptors must monetize their vast customer bases in the region and become profitable, financially sustainable enterprises by providing higher-value services at a large scale. Traditional banks, by contrast, must defend their core consumer businesses, such as credit cards, home and car loans, and investment products, from digital disruptors that will increasingly target their most lucrative customers and diversify into other financial services.

To gain a deeper understanding of the challenges and opportunities facing both digital disrupters and traditional banks in Southeast Asia, BCG’s CCI conducted extensive research on the attitudes and e-wallet intentions of urban consumers, who currently account for about 85% of e-wallet users in Southeast Asia, and merchants. We surveyed 3,250 consumers and 1,350 merchants.

In our research, we categorized consumers as “banked,” “underbanked,” or “unbanked.” Banked consumers are those who regularly use commercial banking services. Use of such services by the underbanked is generally limited to savings...
accounts and debit cards. The unbanked do not use commercial bank services, but they represent a critical growth market. (For further explanation of these terms and our study, see the sidebar “Our Research Methodology.”)

We also categorized consumers into five cohorts based on their income bands: “poor,” “aspirant,” “emerging middle class,” “established middle class,” and “affluent.” The income bands for these segments differ by country. (See the sidebar “BCG’s Method for Classifying Household Income Segments” for explanations of the income bands in each country.)

The Challenges for E-Wallet Providers

Our research identified three core challenges for e-wallet disruptors: making usage ubiquitous across populations, upgrading customer loyalty and value, and increasing merchant acceptance.

Making Usage Ubiquitous Across Populations. E-wallets in Southeast Asia are currently used primarily by customers who already use traditional banking services. And

To gain a deeper understanding of the challenges and opportunities facing both digital disrupters and traditional banks in Southeast Asia, BCG’s Center for Customer Insight conducted extensive research into consumers’ usage, attitudes, and intentions with respect to e-wallets. We surveyed approximately 3,250 urban consumers in Indonesia, Malaysia, Singapore, Thailand, and Vietnam, countries that account for roughly 85% of e-wallet users in Southeast Asia. We also surveyed 1,350 merchants in these five nations. We supplemented the surveys with qualitative, in-depth ethnographic interviews. We focused primarily on urban consumers and merchants because urban adoption rates are currently much higher than those in the countryside.

In our research, we segmented consumers according to their “banked,” “underbanked,” or “unbanked” status.

Banked consumers represent 56% of Southeast Asia’s population. They regularly use banking services such as savings accounts, credit and debit cards, and loans. Banked consumers are early adopters of e-wallets, and they set the adoption trends for the region.

Underbanked consumers represent 6% of Southeast Asia’s population. They have savings accounts and debit cards but generally use no other banking services. A significant portion are adopting e-wallets, and they will be pivotal for expansion of use cases in the future.

Unbanked consumers represent 37% of Southeast Asia’s population. Although they do not use commercial banking services, they represent critical potential growth markets for both conventional banks and non-bank providers of digital consumer finance.
while they are often described as a means to improve financial inclusion, the leading e-wallets target primarily affluent, urban populations. In Indonesia, for example, our research found that 57% of banked respondents use e-wallets, compared with 26% of underbanked Indonesians and only 14% of the unbanked. In Vietnam, e-wallet use is 42% among the banked and 17% among the unbanked. Thirty-one percent of banked Malaysians use them, but only 9% of the unbanked. (See Exhibit 4.)

The fact that respondents cited such services as food delivery and local transportation among their most frequent uses underscores the urban bias of the e-payment business in Southeast Asia. In Indonesia, for example, taxis and ride sharing
account for 59% of the value of e-wallet purchases among consumers surveyed. E-payments must be much more widely used by consumers at all income levels and far more ubiquitous—as they are in China—in order for the industry to significantly scale up and achieve government aspirations for financial inclusion. In fact, our research revealed that there is a vast underserved market in Southeast Asia.

Although banked consumers are likely to remain the most important e-wallet customers for some time—adoption in that segment is projected to reach 84% by 2025—there is also intense interest among the rest of the population. On the basis of responses to our survey, we project that the e-wallet penetration rate among the underbanked will triple across the region’s urban areas, reaching 78% by 2025, while adoption by the unbanked will surge from 13% to 58% over the same period. Our survey also indicated that the share of the value of transactions made via e-wallets will roughly double for the underbanked, reaching 25% by 2025, and take a fivefold leap, to 20%, for the unbanked.

Southeast Asian consumers expressed a strong willingness to broaden their usage. Our research reveals that, by 2025, roughly 35% of the value of e-wallet purchases by Southeast Asian users is expected to come from small, inexpensive items such as snacks. That would be a sevenfold increase in the small-ticket category. Many consumers also reported that they expect to sharply increase e-wallet usage for food-court and hawker-stand purchases, groceries, and leisure and beauty expenses.

Upgrading Customer Loyalty and Value. Consumer loyalty with e-wallets remains relatively low in Southeast Asia, and users tend to hop from one app to another on the basis of the discounts or cash refunds that they offer.

The abilities to earn rewards and receive promotional discounts and cash back were cited as key factors in e-wallet use by 56% of respondents across Southeast Asia; in
Indonesia and Malaysia, such enticements ranked as the most important reason for using an e-wallet. However, our research also found that providers could lessen this dependence on discounts. An average of 60% of urban customers across the region said they would continue to use their e-wallets even if providers did not offer promotions and discounts. The prevalence of this sentiment varied widely by market, however. When we asked consumers if they would still use an e-wallet without such enticements, 76% of Thais, for example, agreed, but only 30% of Singaporeans did.

**Increasing Merchant Acceptance.** In most of Southeast Asia, the biggest barrier to wider e-wallet adoption is acceptance by merchants. While acceptance in Singapore is high—there are approximately 46 point-of-sale terminals per 1,000 people—there are only 15 terminals per 1,000 in Malaysia, 11 in Thailand, and three to four in Indonesia, the Philippines, and Vietnam. Fifty-six percent of respondents across the region cited “not accepted by merchants” as the main problem with using e-wallets. An average of 38% of retailers in Indonesia, Malaysia, Thailand, and Vietnam indicated that they accept credit cards, and 35% noted that they accept debit cards. But only 28% said they accept e-wallet payments. The gap was widest in Malaysia, where 45% of merchants surveyed take credit cards but only 24% accept e-wallets.

A customer in Kuala Lumpur explained that she would “love” to use an e-wallet in more places, but most small merchants accept only cash. A consumer in Jakarta said that while some food stalls in his country take payments via Ovo, “most accept only cash, and none of the stalls near my workshop accepts e-wallets.” Even retailers who say they accept e-wallet payments still push for cash, explained another consumer in Jakarta.

Nevertheless, we found a high willingness among Southeast Asian merchants to accept e-wallets in the future. Seventy-four percent of merchants surveyed said they would be open to accepting e-wallets if their current pain points are addressed.

Chief among merchants’ pain points is complexity. Sixty-three percent of merchants surveyed across the region agreed with the statement “I do not completely understand this payment process.” The next most frequently cited putoff was inconvenience. A merchant in Medan told us that he was instructed to personally go to the office of the e-wallet provider, register, and submit documents. “Who has the time?” the merchant asked. “Customers are ready to pay in cash, so what’s the need?” (See Exhibit 5.)

**The Challenges for Incumbent Banks**

Although payments themselves do not make money for banks, retaining this business is critical. Payments provide valuable data on middle-class and affluent customers and serve as hooks for getting these customers to use other banking products. In addition, as our research shows, e-wallets are targeting consumers who are closer to core banking’s customer targets than originally thought.

Our research identified two key challenges confronting incumbent banks: keeping customers from switching to nonbank digital players, and stepping up the experience for retail customers and small and midsize enterprises (SMEs).
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Keeping Customers from Switching to Nonbank Digital Players. We found a high willingness among both consumers and merchants to shift some of their financial business from banks to nonbank digital players. We asked Southeast Asian consumers how likely they are “to open a banking account with a digital bank offered by nonbanking players.” Thirty-four percent in the five countries surveyed responded that they are either “likely” or “highly likely” to open an account. The portion ranged from 20% in Singapore to 38% in Vietnam. What’s more, responses were remarkably consistent across banked, underbanked, and unbanked consumers, with roughly one-third of respondents in each segment saying they are likely or highly likely to switch.

Close behind banking accounts, credit cards were the second most mentioned category in connection with switching, ranging from 18% in Singapore to 37% in Vietnam. Investment services were cited by 17% of Singaporeans and 32% of Vietnamese consumers, for example, and personal loans and mortgages by 17% in Singapore and 30% in Vietnam. Our survey also revealed a strong willingness among Southeast Asian merchants to shift funds and business to nonbank digital players. Our research suggests that 6% to 15% of deposits in Indonesia, Malaysia, Thailand, and Vietnam could shift to digital disruptors. Among SMEs, 9% to 16% of deposits could shift. (See Exhibit 6.)

Stepping Up the Experience for Retail Customers and SMEs. To secure their consumer base, incumbent commercial banks must dramatically improve the customer experience and address their customers’ concerns over quality of service. When we asked consumers who were considering switching to nonbanks to cite

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**EXHIBIT 5 | Complexity and Inconvenience Are Top Reasons for Not Accepting E-Wallet Payments**

<table>
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<tr>
<th>Reasonegin</th>
<th>Percentage of Southeast Asian merchant respondents who cite a reason as the most important in not accepting payment through e-wallets</th>
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<tbody>
<tr>
<td>I do not completely understand this payment process</td>
<td>58</td>
</tr>
<tr>
<td>It is quite inconvenient for me to process payment through this option</td>
<td>45</td>
</tr>
<tr>
<td>The charges/fees are high</td>
<td>40</td>
</tr>
<tr>
<td>No one approached me to explain this payment method</td>
<td>38</td>
</tr>
<tr>
<td>I don’t trust payment processing companies</td>
<td>34</td>
</tr>
<tr>
<td>I have poor/slow internet connectivity at my shop</td>
<td>30</td>
</tr>
</tbody>
</table>

**Source:** BCG Center for Customer Insight 2019 payments and digital banking survey of 3,250 consumers and 1,350 merchants in Indonesia, Malaysia, Singapore, Thailand, and Vietnam.
their major reasons, a majority cited frustration with service. Fifty-eight percent agreed with the statement “My current bank does not advise me correctly on my financial and bank product needs.” Forty-five percent responded that their current banks charge too much, 40% said their bank’s image is “not attractive enough,” and 38% agreed with the statement “I don’t trust my bank.” More than 30% indicated that their banks do not meet their needs for credit and that the application processes are too long and tedious.

Similar complaints were voiced in personal interviews with consumers. “It’s so difficult to reach customer care,” a consumer in Singapore told us. “It involves a long wait and repeated calling. The experience is so frustrating.” Another consumer told us that he had tried to open an account at a major Indonesian bank but “they asked me for so many documents and cards and needed so many forms filled out that I simply gave up.”

Incumbent banks must also address the pain points of Southeast Asian merchants if they are to avoid losing substantial business to digital banks. The chief complaint about banks cited by businesspeople in the five countries in our survey was “lack of advice,” noted by 54% of Indonesians, 58% of Singaporeans, 66% of Thais, and 83% of Vietnamese. Another frequent complaint was “access to finance,” cited in the range of 40% (Thailand) to 43% (Malaysia). In both Singapore and Vietnam, 48% of businesspeople complained of “high charges and fees.” (See Exhibit 7.)

In interviews, a merchant in Singapore told us that his application for a loan to make a rent deposit on a shop was rejected, “and they never even cared to tell me
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why.” A merchant in Indonesia complained of “very bad service” from a major international bank. Officials gave only very generic answers to questions about currency conversion rates and the required number of days. A merchant in Vietnam explained that banks charge too much and make unexpected deductions from his accounts without explanation. “I would rather take money from friends or relatives for expanding my business than from a bank,” he said.

Incumbent banks can make several moves to meet rising customer expectations and become more competitive against nonbank digital players in digital payments. They must digitize their core businesses and create new digital channels to better serve customers. Incumbent banks can also consider partnering with fintechs and other leading tech companies to acquire new digital capabilities, such as AI and advanced data analytics, as well as new products and services. Singapore’s DBS Bank, for example, has developed more than 150 application programming interfaces across more than 20 product categories and has formed partnerships with more than 50 fintechs to help develop new solutions for its consumers.

Most banks should invest to significantly improve their existing digital channels and back-end processes. They should also consider launching new digital banks that target young adults, the prime target market of the nonbank digital players. In Indonesia alone, for instance, Bank BTPN has launched the digital bank Jenius, DBS has introduced DBS Digibank, and United Overseas Bank has launched TMRW.

Source: BCG Center for Customer Insight 2019 payments and digital banking survey of 3,250 consumers and 1,350 merchants in Indonesia, Malaysia, Singapore, Thailand, and Vietnam.
China and India have blazed the trail in digitization of finance. Now Southeast Asia is emerging as the next global hotspot of this financial revolution, and the race for competitive advantage is on. The same fundamental drivers—such as high digital adoption, digitally savvy consumers, large populations that are underserved by conventional banks, and rising pools of investment capital—are at work as they were in China and India. But the ultimate winners in Southeast Asia are far from clear.

Many of the competitors vying for e-wallet position have advantages, such as established customer bases, cutting-edge digital expertise, strong financial banking, and experience in other markets. But to achieve scale and build sustainable, profitable businesses, they must penetrate markets beyond affluent urbanites, convince people to use e-wallets for a wider range of purposes, and build greater merchant acceptance. The ultimate winners of Southeast Asia’s next financial revolution could well be alliances of disrupters and incumbent institutions that leverage each other’s strengths to take digital finance to the next level.
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