

# ASEAN Research Digest

## SPECIAL EDITION

Research Partner: **accenture**



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## INDUSTRY-LED INITIATIVES CAN ACCELERATE EVOLUTION TOWARDS AN INTEGRATED ASEAN MARKET

Lifting-the-Barriers Report 2015: Financial Services & Capital Markets

## OVERVIEW



RETAIL



HEALTHCARE



INFRASTRUCTURE



AIR  
TRANSPORTATION



FINANCIAL  
SERVICES &  
CAPITAL MARKETS



TOURISM

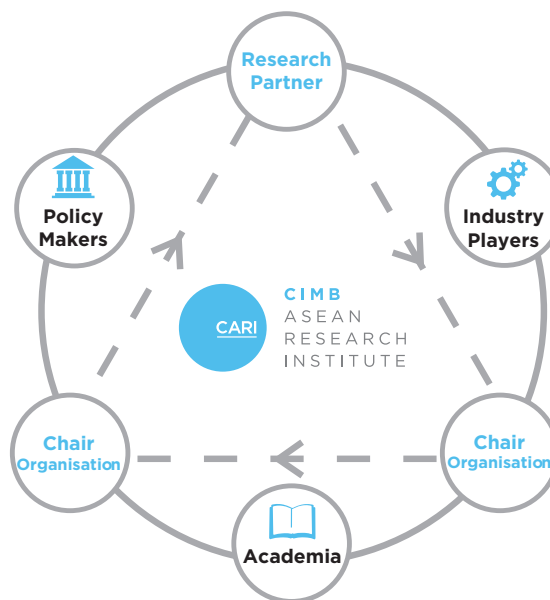
### Research objectives:

The CIMB ASEAN Research Institute (CARI) in collaboration with the ASEAN Business Club (ABC) launched the Lifting-The-Barriers Initiative (LTBI) in 2013 as an integrated year long research platform involving core research as well as stakeholder engagement.

The objective was to adopt a vertical approach by means of identifying bottlenecks and barriers hindering free trade of prioritised sectors in the context of the ASEAN Economic Community (AEC).

The LTB Initiative 2015 targets six identified sectors which have pressing relevance to the business landscape in ASEAN and will play a major role in the successful formation of the AEC. The six sectors were Retail, Healthcare, Infrastructure, Air Transportation, Financial Services & Capital Markets and Tourism.

## RESEARCH STRUCTURE



Two leading **ASEAN corporations** were selected to champion each sector, providing the direction and experiential insight into their industry. The input from these champions, or chair organisations, were key to understanding the issues faced by industry stakeholders and to develop the recommendations as part of the discourse.

CARI's Research Working Committee and its Strategic Advisors also worked closely with each of the six nominated Research Partners in producing these reports.

The Research Partners were either top management consulting firms or academic institutions who provided the technical knowledge and quantitative analysis required.

## METHODOLOGY

The Lifting-The-Barriers Initiative (LTBI) is divided into four phases.

### PHASE I

#### PRELIMINARY RESEARCH

Core research and compilation of qualitative and quantitative input from targeted sectors.

### PHASE II

#### ABC FORUM



LTB Roundtables



Plenary Sessions

### PHASE III

#### LTB REPORTS

The final outcome, a set of white papers, for ASEAN policy makers and community to effect real changes in the region.

### PHASE IV

#### FINDINGS SOCIALISATION

The findings from the LTB reports will be prioritised and presented to various stakeholders including policymakers.



# INDUSTRY-LED INITIATIVES CAN ACCELERATE EVOLUTION TOWARDS AN INTEGRATED ASEAN MARKET

**Title of Study:** Lifting the Barriers Report: Financial Services & Capital Markets  
**By:** Accenture **Published by:** CARI, May 2015



## BACKGROUND

### Research objective:

To explore the financial industry by examining capital markets infrastructure, alternative financing such as peer to peer models to meet underserved ASEAN SME financing needs and the possibilities for more efficient regional payments arising from the new age digital technology developments.

- One of the fundamental objectives of the ASEAN Economic Community (AEC) is to develop an efficient and integrated regional financial system through liberalisation of financial services and capital account, harmonisation of the payments and settlements systems, and a host of other initiatives such as capacity building, regional financing arrangements, regional surveillance and policy dialogues.
- Steady albeit slow progress has been made towards a more integrated ASEAN financial system over the past few years.

Rank	Progress
2011	ASEAN Financial Integration Framework (AFIF) was adopted by the ASEAN Central Bank Governors.
2012	The ASEAN Trading Link (ATL) was established.
2013	The ASEAN Disclosure Standards were adopted by Thailand, Malaysia and Singapore.
2013	The study 'The Road to ASEAN Financial Integration' was endorsed by the ASEAN Central Bank Governors and approved by the Finance Ministers.
2014	The ASEAN Collective Investment Scheme (CIS) Framework was launched in Malaysia, Thailand and Singapore.
2015	The ASEAN Banking Integration Framework (ABIF) was established, providing a platform for Qualified ASEAN Banks.

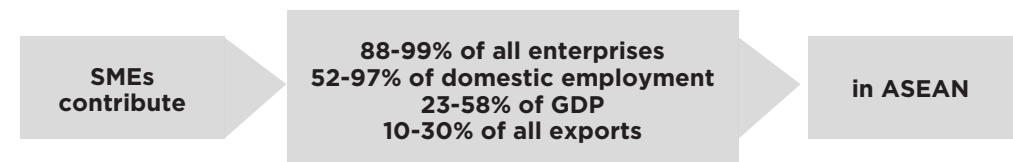
- While there has been progress, consensus is that much remains to be done to achieve the ASEAN financial integration objectives.
- Financial integration will need to continue at a measured pace due to the wide disparity in the financial development of the AMS. ASEAN should however keep exploring alternatives to further enhance efficiency and strengthen integration of the regional financial system.

### RECAP: IMPORTANCE OF EFFICIENT AND INTEGRATED FINANCIAL AND CAPITAL MARKETS

- Financial and capital markets integration benefits all market participants:

Stakeholder	Benefits
<b>Businesses</b>	<ul style="list-style-type: none"> <li>access to larger pool of financing at lower costs</li> <li>broader foreign and retail investorbase</li> <li>reduced transaction costs from harmonised regulations and common infrastructure</li> </ul>
<b>Investors</b>	<ul style="list-style-type: none"> <li>enhanced competition in the form of wider choice of products and services,</li> <li>better innovation and lower prices from competing businesses</li> </ul>
<b>Financial Institutions</b>	<ul style="list-style-type: none"> <li>economies of scale from access to a larger customer base</li> <li>greater access to diverse cross border investment choices and tap on a larger pool of investors</li> </ul>
<b>Governments and regulators</b>	<ul style="list-style-type: none"> <li>more economically efficient deployment and allocation of scarce capital and surplus savings</li> <li>improvement of regulatory standards through adoption of best practices</li> <li>lowered risk with better protection of investors</li> <li>more resilient financial sector through the development of regionally competitive banks</li> <li>enhanced ability to respond to external shocks through improved financial infrastructure, deeper and broader capital markets.</li> </ul>

- An integrated and efficient financial and capital market is also essential to foster and grow a vibrant SME segment, which is a crucial engine of growth.

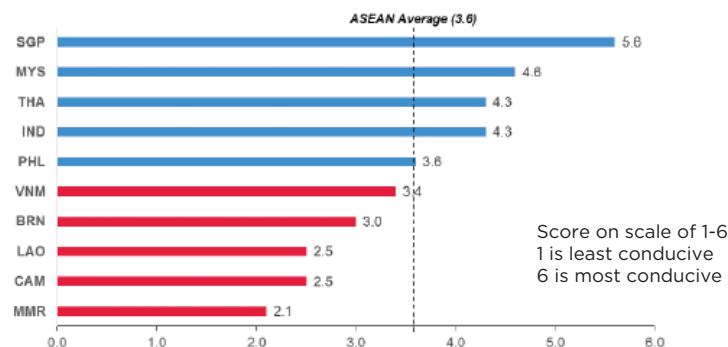


Source: ASEAN SME Policy Index 2014

# INDUSTRY-LED INITIATIVES CAN ACCELERATE EVOLUTION TOWARDS AN INTEGRATED ASEAN MARKET

- Despite being an important driver for job creation and economic growth, ASEAN SME businesses still struggle to access adequate funding in the majority of ASEAN countries.

## Overall score for 'Access to Finance' – ASEAN SME Policy Index 2014



Source: ASEAN SME Policy Index 2014, ERIA SME Research Working Group

- Main reasons for SMEs' lack of access to financing:**
  - lack of financial statements
  - limited collaterals and credit ratings
  - poor functioning cadastre system
  - stringent collateral requirements imposed by financiers
  - inadequate protection of creditor's rights
  - lack of credit risk guarantee schemes and central bureaus for credit information
- The AEC recognises the development of SMEs, including access to finance, as fundamental to achieving the ASEAN community's goals and is in the midst of implementing a strategic plan to develop a thriving SME segment.

## ASEAN Strategic Plan for SME Development (2010-2015) – Access to Finance

5 Key Goals	Investments and initiatives to ease SME's access to finance and funding
<b>Access to Finance</b>	2008 - 2009 : Established a common curriculum for entrepreneurship in ASEAN
<b>Access to Market and Internationalization of SMEs</b>	2010 - 2011 : Established a comprehensive SME service center with regional and subregional linkages in ASEAN Member Countries
<b>Access to Human Resource Development</b>	2010 - 2011 : Established an SME financial facility in each ASEAN Member Country
<b>Access to Information and Advisory Services</b>	2012 - 2013 : Established a regional programme for the promotion of internship for staff exchanges and visits for skills training
<b>Access to Technology and Innovation</b>	2014 - 2015 : Established a regional SME development fund that would be used as a financial source for SMEs that are undertaking business in the ASEAN region

- There is a growing recognition that alternative sources of financing, such as channelling through domestic and regional networks of equity fund, venture capital finance, angel capitalists, and crowdfunding platforms, could help address the SME financing gap.

## PROGRESSING EFFICIENCY AND INTEGRATION GOALS WITH INDUSTRY LED INITIATIVES

- In the 2014 LTB Report, we examined a two-pronged approach to address the integration of ASEAN financial and capital markets, with policy makers on one hand and the financial services business community on the other.

## 2014 Lifting the Barriers Report on Financial & Capital Markets - Opportunities to foster the integration of ASEAN financial and capital markets



### Financial Services Industry

Establish regional industry utilities to foster an integrated financial and capital market

- Leverage exchange infrastructure (e.g. ASEAN trading link)
- Participant-led utilities driven by a consortium of banks
- Lead with industry practices especially in new domain, laying the foundation for policy and regulation

Leverage new phenomena such as internet financial services platforms to provide alternative funding options that mitigate constraints

- Peer-to-peer financing
- Crowdfunding



### Policy Makers

Build trust through enhanced regulatory alignment

- Move towards a common regulatory framework (e.g. alignment and coordination of policies)
- Standardised rule making body
- Capital flow liberalisation

Creation of an ASEAN "growth" bank to support economic development

- Foster greater financial and development cooperation among ASEAN member states
- Provide financing for infrastructure projects

Support industry-driven initiatives

Focus on talent development and mobility

Source: Accenture

- In this report, we will explore the industry-led theme further and expand on some of last year's ideas.

- Push forward the ASEAN Trading Link (ATL) initiative** – regional depository and clearing links to drive further integration and efficiency in regional capital markets.
- Explore Peer-to-Peer (P2P) models** – start with crowdfunding, explore alternative financing models to fulfil the needs of the underserved SME segment.
- Enhance efficiency of regional payments** leveraging new age digital technology developments.



# INDUSTRY-LED INITIATIVES CAN ACCELERATE EVOLUTION TOWARDS AN INTEGRATED ASEAN MARKET

## 1. Push forward the ASEAN Trading Link (ATL) initiative

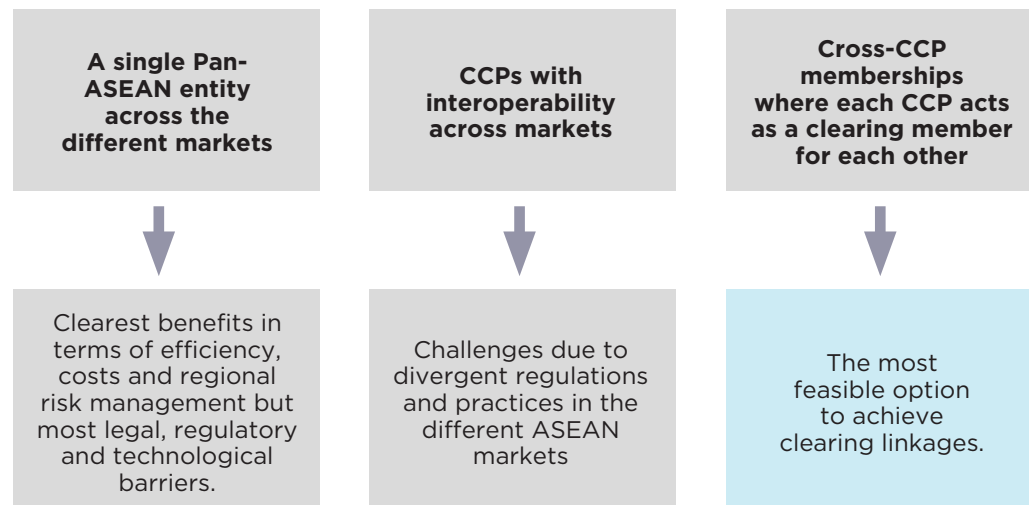
- The establishment of the ASEAN Trading Link (ATL) was an important first step in establishing an integrated regional capital market. The **ATL is a B2B arrangement** where participating exchanges are interconnected through an electronic network for cross border trading and order routing.
- The initiative was **driven by the ASEAN Exchanges** – a collaboration of seven stock exchanges within ASEAN – with the objective of promoting ASEAN financial market growth through freer flow of capital.
- With the ATL, brokers of participating stock exchanges have access to trading infrastructure to deal in shares listed on other participating stock exchanges, even if they do not have a trading license to operate in that jurisdiction.
- With the ATL, brokers of participating stock exchanges have access to trading infrastructure to deal in shares listed on other participating stock exchanges, even if they do not have a trading license to operate in that jurisdiction.
  - Collectively, these three stock exchanges offered nearly **2,300 listed companies** with a market capitalisation of **US\$1.4 trillion**, i.e. 70% of the total ASEAN market capitalisation at the time of launch.
  - Other ASEAN stock exchanges are anticipated to join later, with the timing depending on their market maturity.
- To further strengthen the linkages between the region's capital markets, it is recommended to embark upon the Phase 2 and Phase 3 activities involving the ASEAN depository link and ASEAN clearing link – with Malaysia, Singapore and Thailand as pioneers

## Current clearing and settlement structures in ASEAN markets

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam (HNX)	Vietnam (HOSE)
Trading	Indonesia Stock Exchange (IDX)	Bursa Malaysia (BM)	Philippine Stock Exchange (PSE)	Singapore Exchange (SGX)	Stock Exchange of Thailand (SET)	Hanoi Stock Exchange (HNX)	Ho Chi Minh Stock Exchange (HOSE)
Matching	Kustodian Sentral Efek Indonesia (KSEI)	Bursa Malaysia Securities Clearing (BMSC)	Philippine Depository & Trust Corporation (PDTC)	Central Depository (CDP)		Thailand Clearing House(TCH)	Vietnam Securities Depository (VSD)
Clearing	Kliring Penjaminan Efek Indonesia (KPEI)		Securities Clearing Corporation of the Philippines (SCCP)				
Securities Settlement	Kustodian Sentral Efek Indonesia (KSEI)	Bursa Malaysia Depository (BMD)	Philippine Depository & Trust Corporation (PDTC)				
Cash Settlement	Approved Commercial Banks	Bank Negara Malaysia (BNM)	Approved Commercial Banks	Approved Commercial Banks	Approved Commercial Banks	Bank for Investment & Development of Vietnam (BIDV)	Bank for Investment & Development of Vietnam (BIDV)

Source: Deutsche Bank Direct Securities Services, ASEAN Countries

- There are currently no infrastructure linkages between the central securities depositories (CSDs) and central clearing counterparties (CCPs) across ASEAN.
  - Post-trade processing is fully within national boundaries, with clearing and settlement processes for cross border trade executed in the security's country of issuance.
- Regional clearing links would enable a broker to manage a single account for margin and collateral across all markets from a single clearing membership, resulting in greater efficiency and reduced costs to trade regionally.
  - Linkages between CCPs can take the following forms:







- Regional depository links would enable investors in one country to purchase and settle shares in the other markets through their domestic broker and hold them in their domestic account, thereby reducing transaction time, lowering overall costs and settlement risks.
- Similar to CCPs, regional depository linkages could take the form of a single Pan-ASEAN CSD entity which would likewise face the same legal, regulatory and technological barriers to implement.
- A more feasible alternative could be for a CSD to CSD correspondent account relationship, where CSDs would open securities settlement accounts with each other, and each CSD acts as an agent for the others by maintaining records for tracking of investors' foreign assets. The success of such a depository linkage model would rest on having the appropriate integration technology in place.
- Beyond the ATL, the ASEAN clearing and depository link would be the strategic stepping stones towards an integrated ASEAN capital market.



## 2. Explore Peer-to-Peer (P2P) models

- With its roots in the retail sector, Peer to Peer (P2P) financing models have now been around for more than a decade and are increasingly gaining acceptance as a viable source of funding for smaller or less established firms.
- In addition to meeting the financing needs of SMEs at lower costs, these web-based models also leverage the inherent 'anytime, anywhere' nature of the internet.
- P2P platforms have shown success in helping to meet the financing needs of SMEs in the US, Europe and Asia.
- Across these geographies, regulators are either in the process or have issued rules on P2P financing.

Examples	Target SME segments	Highlights
 LendingClub	Micro, Small and Medium Enterprises in the US	<ul style="list-style-type: none"> <li>World's largest P2P lending platform with US\$7.6 billion loans funded by end-2014</li> <li>Recent partnerships with Google and Alibaba to provide loans to their partners and merchants</li> </ul>
 陆金所 Lifex 金融资产管理市场	Micro, Small and Medium Enterprises in China	<ul style="list-style-type: none"> <li>Total transaction value of over USD\$ 6.4 billion in 2014</li> <li>Highest Alexa ranked Internet Banking type website in China</li> </ul>
 Funding Circle	Small and Medium Enterprises in the UK and US	<ul style="list-style-type: none"> <li>Since its launch in 2010, over GBP 803 mil lent to British businesses, originated over 10K loans, with more than 39K investors.</li> <li>Referral partnerships with RBS and Santander UK for smaller businesses the bank is unable to lend to</li> <li>Has worked with the Government and Local Councils to provide funding directly to SMEs in the UK</li> </ul>
 zidisha	Micro Companies in Developing Countries	<ul style="list-style-type: none"> <li>Provides affordable micro-financing to entrepreneurs in emerging markets through its online-only P2P platform</li> <li>It is a non-profit, cross border P2P platform connecting borrowers and lenders in 9 countries</li> <li>US\$ 3 million raised to fund ~13,000 projects</li> <li>Only charges a 5% fee on each loan compared to microfinance loans which charge 40 – 50% interest</li> </ul>

Source: Accenture

- Crowdfunding, being one form of P2P funding, generally falls into two categories:

### Reward based

- Non-monetary payback
- Examples: Kickstarter, Indiegogo

### Equity based

- Investors in an equity based model receive unlisted shares.
- Examples: Crowdcube, Seedrs

- While still small relative to the size of traditional financial and capital markets, use of equity crowdfunding to raise capital for businesses is gaining traction with successful platforms such as Crowdcube and Seedrs in the UK, both of which are regulated by the UK Financial Conduct Authority.

## Equity crowdfunding to raise capital for businesses

 <ul style="list-style-type: none"> <li>Founded in 2010 with the goal of helping businesses raise equity funding in the UK.</li> <li>Has helped fund 258 businesses in the technology, food and beverage, professional and business services, internet and retail sectors.</li> <li>Average time to fund a business of just 43 days.</li> <li>Total capital raised as at mid 2015 of GBP 85.7 mil from over 185,000 investors with an average investment of GBP 1,917 per investor.</li> <li>Funded businesses across the spectrum of start-ups, early stage and growth phases: <ul style="list-style-type: none"> <li>59 startups totaling GBP 12.6 mil</li> <li>98 early stage businesses totaling GBP 15.5 mil</li> <li>53 growth stage businesses totaling GBP 14.3 mil</li> </ul> </li> <li>Investors are given equity in the businesses they fund, proportionate to the investment amount.</li> <li>Has also helped raised mini-bonds worth GBP 7.8 mil at an average return p.a. of 7.3% for businesses in the education and food and beverage sectors.</li> <li>Is regulated by the UK Financial Conduct Authority</li> </ul>	 <ul style="list-style-type: none"> <li>An equity crowdfunding platform based in the UK and launched in 2012.</li> <li>Provides businesses access to an investor base from 31 countries.</li> <li>Invests an average of GBP 1.6 mil into 10 businesses per month</li> <li>Average time to fund a business of just 27 days</li> <li>Average investment per investor of GBP 3,174.</li> <li>Seedrs operates with a nominee structure arrangement in place, where it holds and manages the shares of startups on behalf of the underlying investors after an investment is completed. <ul style="list-style-type: none"> <li>Full economic interests vests with the investors</li> <li>Seedrs acts on behalf these investors to monitor and protect shareholder rights</li> </ul> </li> <li>Investors have a choice of investing in equity, funds or convertibles.</li> <li>Is regulated by the UK Financial Conduct Authority</li> </ul>
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Source: Accenture

- Reflecting the growing recognition of these alternative financing models, various ASEAN regulators are also taking steps to regulate crowdfunding and P2P financing.
- Progress on the ASEAN regulatory front is an encouraging development and is an important step in establishing a conducive environment for alternative financing models to flourish.
- Already, six crowdfunding platforms have secured approval to operate in Malaysia where regulations have been finalised:
  - Alix Global
  - Ata Plus
  - Crowdonomic
  - Eureca
  - PitchIN
  - Propellar Crowd+
- A number of P2P financing platforms, such as CapitalMatch and FundedHere, have also announced their launch in Singapore in anticipation of the finalisation of regulations.



# INDUSTRY-LED INITIATIVES CAN ACCELERATE EVOLUTION TOWARDS AN INTEGRATED ASEAN MARKET

## Regulatory developments in ASEAN for crowdfunding



The Monetary Authority of Singapore (MAS) has published a consultation paper looking at how to allow businesses to raise finance through securities-based crowdfunding (SCF).



The Securities Commission Malaysia released guidelines on crowdfunding in Feb 2015 and has approved 6 equity crowdfunding platforms as at June 2015.

The Malaysian Parliament passed laws regulating crowdfunding in July 2015 – the first country in ASEAN with a legal framework in place.



The Securities and Exchange Commission (SEC) of Thailand said the rules (for crowdfunding portals) are now being finalized and could be out within the year



Cambodian Secretary of State, Ministry of Posts & Telecommunications, Mr. Kan Channmata, expressed his desire for Cambodia to leverage crowdfunding to boost their entrepreneurial class and grow their economy.

- While it is early days for crowdfunding and P2P financing in ASEAN, regulators and industry participants should keep a close watch on developments in these alternative models given its vast potential.
- Crowdfunding may be more viable in ASEAN in the medium term based on the current regulatory landscape, with other P2P financing models a longer term consideration.

### 3. Enhance efficiency of regional payments

- There is also tremendous benefits in forging region-wide payment infrastructure, specifically in addressing the currently rather inefficient cross-border currency exchange and remittance network.
  - ▶ One potential solution could be to use nascent distributed cryptographic transaction capability, increasingly commonly deployed on the Internet, for instance blockchain-based payment infrastructure or Ripple system.
  - ▶ Ripple is a payment system, currency exchange and remittance network by Ripple Labs where users make cryptographically signed transactions. It is an Internet Protocol (IP) based technology for financial institutions to clear and settle transactions in real-time via a distributed network.
  - ▶ A number of US banks have already signed on to adopt Ripple's opensource distributed transaction infrastructure.
- This technology is still in its infancy and requires more years to develop and mature but it is worthwhile for ASEAN to keep up with its development as its application has the potential to transform the payments landscape for the benefit all market participants, especially SMEs, and further tighten the integration and efficiency of ASEAN financial and capital markets.

## CONCLUSIONS

- Much progress was made leading up to the formation of the AEC in 2015 but the challenges of pulling along the diverse ASEAN markets on the path to integration remain.
- The more developed markets have a key role to play in forging the way ahead by laying the foundation for a more integrated and efficient ASEAN financial and capital market.
- Policy led integration is likely to make slow progress, even between the more developed markets, as the AMS have differing local regulations, environment and operating contexts.
- Industry-led initiatives on the other hand have the potential to accelerate evolution towards an integrated ASEAN market. This report explored 3 such initiatives:
  - 1. Push forward with ASEAN clearing and depository linkages.**  
There is a growing call for the national clearing and settlement bodies, especially in Malaysia, Singapore and Thailand, to give serious consideration to building out cross-border linkages or establishing a regional utility.
  - 2. P2P models to meet the needs of the underserved SME segment.**  
Despite the perceived threat of disintermediation to banks, it is worthwhile for the ASEAN financial community to take a leaf from the playbook of banks in the US and Europe such as Santander, Citigroup and RBS, which have found innovative and constructive roles to play in P2P ecosystems, and in doing so help to foster growth of alternative financing.
  - 3. Regional payments based on new digital era technology.**  
ASEAN banks can be pioneers spearheading the next generation in regional payments technology. The largest ASEAN banks could invest their significant financial resources and current positions as stalwarts of domestic financial markets to not only bring about potential revolutionary changes to regional payments but also to establish a leg up on the competition from non-banks payments provider.
- In conclusion, while policy initiatives provide the foundation and framework, truly advancing ASEAN financial and capital markets integration and forging a robust, dynamic regional market would ultimately hinge on all industry participants heeding the call to action.

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