About CARI
The CIMB ASEAN Research Institute (CARI) was established in 2011 as a member of CIMB Group. CARI prides itself on being the first independent, transnational research institute dedicated solely to the advancement and acceleration of the ASEAN integration agenda. CARI was designed to pursue research and to promote thought leadership in support of an integrated ASEAN Community. CARI seeks pragmatic solutions and policy recommendations to address challenges in ASEAN integration and connectivity. CARI’s headquarters is located in Kuala Lumpur but the institute has a regional presence.

About ASEAN Business Club
A fully private sector driven initiative of ASEAN’s leading businesses coming together to support economic integration while providing a platform for networking. The ABC creates an avenue for ASEAN’s businesses to engage with global regional leaders. The club’s vision is ASEAN: Open for Business.

About Accenture
Accenture is a global management consulting technology services and outsourcing company with approximately 266,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. In ASEAN, Accenture’s offices are located in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.
PREFACE

The Lifting-The-Barrier Initiative (LTBI) is a year-long research exercise designed in conjunction with the ASEAN Business Club (ABC) Forum. The overall objective is to conduct sector based research with the purpose of identifying bottlenecks and barriers to trade and ASEAN economic integration.

The LTBI in 2013 and 2014 have yielded 13 reports for 11 sectors, namely 1) Financial Services, 2) Capital Markets, 3) Connectivity, 4) Aviation, 5) Infrastructure, Power and Utilities, 6) Healthcare, 7) Legal and Tax, 8) Automotive and manufacturing, 9) Minerals, Oil and Gas, 10) Retail, 11) Food and Beverage Industry. The LTBI 2015 continues to highlight five key sectors covered in 2013 and 2014, with the addition of the tourism sector which is one of the twelve priority integration sectors (PIS) of the ASEAN Economic Community Blueprint.

The Lifting-The-Barrier reports have been widely referred to by ASEAN policy makers and stakeholders. The ASEAN Chair of 2015, the Right Honourable Prime Minister Dato’ Sri Najib Razak, publicly cited the LTB reports as being a useful guide for Malaysia’s stocktake exercise to identify the gaps between ASEAN aspirations and the reality in the business sector, in anticipation of the pronouncement of the ASEAN Economic Community later this year.

The LTBI has four phases, each playing a unique role in helping achieve the wider objective. Details of the initiatives are:

**Phase I:**
Phase I of the LTBI involves core research and seeks to identify the existing barriers in each sector to assist in understanding the challenges faced by different segments of the industry. We also study the AEC obligations and impacts on businesses and the industry as a whole.

**Phase II:**
Phase II convenes around the sector based “Lifting-The-Barrier Roundtables” at the ABC Forum. The roundtables serve as a platform for different stakeholders to deliberate on the future of their sector and of ASEAN as a region.

**Phase III:**
Phase III consists of the production of the final outcome of this exercise, the Lifting-The-Barrier Reports, white papers delivered to the relevant regulatory bodies to effect real change and accelerate ASEAN integration efforts. This phase will consolidate materials from Phase I and Phase II. The Reports summarise the industrial insights and ideas discussed at the Roundtables.

**Phase IV:**
Phase IV is the socialisation of key findings from the LTBI. This phase involves the distribution and presentation of the key findings to the relevant regulatory bodies as well as to other industry stakeholders. The 2014 LTB Reports were distributed to over 1000 companies and corporate entities as well as presented to various ASEAN government bodies and institutions.

DISCLAIMER:
This is a discussion paper intended to inform and facilitate debate for the ASEAN Business Club Forum on the 14th of May 2014. It is not for submission, distribution or for any other purpose for which it was not intended. No citation or quotation is to be extracted from this report without the express consent of CIMB ASEAN Research Institute and the relevant Research Partner.
FULFILLING THE NEEDS OF THE ASEAN UNDERSERVED

RECAP OF 2014 ABC FORUM ON ‘FUELING ASEAN GROWTH THROUGH AN INTEGRATED FINANCIAL AND CAPITAL MARKET’

Financial Services Industry

Establish regional industry utilities to foster 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

Support industry-driven initiatives

Focus on talent development and mobility

Implementation of Recommendations is in Progress

ASEAN-5: Indonesia, Malaysia, the Philippines, Singapore and Thailand
BCLMV: Brunei, Cambodia, Laos, Myanmar, Vietnam

MANY SMALL AND MID-SIZED CORPORATES HAVE STRUGGLED TO OBTAIN FUNDING THROUGH FINANCIAL INSTITUTIONS TO MEET FINANCING NEEDS

Underserved Corporate Financing Needs –Micro to MidCaps

- Today, most public exchanges only list and trade equities, debt and derivatives instruments, which do not holistically solve many small and medium corporate funding needs
- Lenders have been hesitant to extend credit due to poor consistency of financial/credit reporting standards, lack of credit ratings and concerns of cross border ownership rights
- Requires more sophisticated and innovative institutional arrangements in order to respond effectively to the real needs of this segment
WITHIN ASEAN, THE AEC HAS RECOGNIZED THE CHALLENGES OF SMES WITHIN THE REGION AND IMPLEMENTED INITIATIVES TO ADDRESS THEM

SMEs account for more than 96% of all enterprises and 50% to 85% of domestic employment. The contribution of SMEs to GDP is between 30% and 53% and the contribution of SMEs to exports is between 19% and 31%.

... and there has been significant investments and initiatives to ease SME’s access to finance and funding access to finance and funding.

- 2008-09 - Established a common curriculum for entrepreneurship in ASEAN
- 2010-11 - Established a comprehensive SME service centre with regional and subregional linkages in ASEAN
- 2010-11 - Established an SME financial facility in each ASEAN Member Country
- 2012-13 - Established a regional programme for the promotion of internship scheme for staff exchanges and visits for skills training
- 2014 -15 - Established a regional SME development fund that would be used as a financial source for SMEs that are undertaking business in the ASEAN region

Within the ASEAN Strategic Plan for SME Development (2010 – 2015), 5 key goals were identified...
THE LATEST RESEARCH INDICATES THAT THERE IS STILL SIGNIFICANT GAP IN SME’S ACCESS TO FINANCE IN EMERGING ASEAN COUNTRIES

Overall Scores for SME’s Access to Finance

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>SGP</td>
<td>5.6</td>
</tr>
<tr>
<td>MYS</td>
<td>4.6</td>
</tr>
<tr>
<td>THA</td>
<td>4.3</td>
</tr>
<tr>
<td>IND</td>
<td>4.3</td>
</tr>
<tr>
<td>PHL</td>
<td>3.6</td>
</tr>
<tr>
<td>VNM</td>
<td>3.4</td>
</tr>
<tr>
<td>BRN</td>
<td>3.0</td>
</tr>
<tr>
<td>LAO</td>
<td>2.5</td>
</tr>
<tr>
<td>CAM</td>
<td>2.5</td>
</tr>
<tr>
<td>MMR</td>
<td>2.1</td>
</tr>
</tbody>
</table>

ASEAN Average (3.6)

The main contributors to low scores within the emerging ASEAN countries are:

- Poor functioning cadaster system
- Stringent collateral requirements
- Inadequate protection of creditor’s rights
- Lack of credit risk guarantee schemes and central bureaus for credit information

One of the main recommendations of the report is for “promotion of innovative and alternative finances such as channeling through domestic and regional networks of equity fund, venture capital finance, angel capitalists, and crowdfunding platforms for SMEs.”

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

DIGITAL DISRUPTORS HAVE FUNDAMENTALLY CHANGED THE THINKING AROUND HOW TO MOST EFFECTIVELY MEET CUSTOMERS’ NEEDS

<table>
<thead>
<tr>
<th>Industry</th>
<th>Digital Disruptors</th>
<th>What has changed?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>Amazon.com</td>
<td>Mobile/Pinterest users purchase twice as much as online or in-store shoppers</td>
</tr>
<tr>
<td></td>
<td>Alibaba Group</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Nest</td>
<td>313M smart meters installed globally; 1.1B by 2020</td>
</tr>
<tr>
<td></td>
<td>OPOWER</td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td>Whatsapp</td>
<td>Whatsapp eating 50-90% of voice / SMS revenues</td>
</tr>
<tr>
<td>Hospitality</td>
<td>Airbnb</td>
<td>AirBnB valuation higher than most hotel chains, over 11mm stays and 750K listings</td>
</tr>
<tr>
<td></td>
<td>Lyft</td>
<td>Uber has &gt;8 million users with an average of 1 rides daily in 290 cities</td>
</tr>
<tr>
<td>Transportation</td>
<td>Uber</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lyft</td>
<td></td>
</tr>
</tbody>
</table>

3
THE FINANCIAL SERVICES INDUSTRY IS ALSO EXPERIENCING DISRUPTION FROM NEW DIGITAL PLAYERS

<table>
<thead>
<tr>
<th>Deposit and Current Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Banking, alternative deposit products and mobile money accounts compete for market share and compress margins</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payment and Credit Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shift of payments’ market share to alternative providers and merchants, with interchange fee reduction</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition from direct/peer-to-peer mortgage providers and asset owners</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asset Management Bancassurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct competition due to price comparison portals and fee reduction from direct trades</td>
</tr>
</tbody>
</table>

AS A RESULT THESE DIGITAL DISRUPTORS HAVE CHANGED THE BEHAVIOURS OF CONSUMERS GLOBALLY AND IN ASEAN

- 96% of consumers in ASEAN are using online channels to learn about products & services; More than half of them consider expert review sites, social media sites and corporate websites as important as word of mouth
- 77% say online channels offer more convenience and choice and 65% of them access these sites at least half of the time, through their mobile phone or tablet device
- 64% read online reviews and comments from other consumers and more than a third say they get influenced by them
- 43% are more likely to do business with a company that they know they can interact with in a social media environment
- 46% of ASEAN consumers share experiences and write comments about brands online regularly
- 41% would post negative comments online after a negative experience
- 86% of consumers in ASEAN use at least one online channel for service requests – website, mobile, online forum and text chat and two-thirds tend to access these sites at least half of the time, through their mobile phone or tablet device

Source: Accenture Engaging the Nonstop-Customer Study, 1,859 consumers in ASEAN were surveyed via the Internet in July 2013
ASEAN CONSUMERS ARE TURNING MORE TOWARDS GLOBAL AND LOCAL DIGITAL PLATFORMS TO MEET THEIR EVERYDAY NEEDS

Source: Accenture Analysis of Alexa website; Company websites

IN MEETING THE NEEDS OF SMES, P2P PLATFORMS HAVE SHOWN SOME INITIAL SUCCESSES IN THE US, EUROPE AND CHINA

<table>
<thead>
<tr>
<th>Examples</th>
<th>Target SME segments</th>
<th>Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending Club</td>
<td>Micro, Small and Medium Enterprises in the US</td>
<td>• World’s largest P2P lending platform with US$7.6 billion loans funded by end-2014</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Recent partnerships with Google and Alibaba to provide loans to their partners and merchants</td>
</tr>
<tr>
<td>陆金所 Lfex</td>
<td>Micro, Small and Medium Enterprises in China</td>
<td>• Total transaction value of over USD$ 6.4 billion in 2014</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Highest Alexa ranked Internet Banking type website in China</td>
</tr>
<tr>
<td>Funding Circle</td>
<td>Small and Medium Enterprises in the UK and US</td>
<td>• £603,539,340 lent to British businesses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Referral partnerships with RBS and Santander UK for smaller businesses the bank is unable to lend to</td>
</tr>
<tr>
<td>zidisha</td>
<td>Micro Companies in Developing Countries</td>
<td>• US$ 3 million raised to fund ~13,000 projects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Only charges a 5% fee on each loan compared</td>
</tr>
</tbody>
</table>
LIFTING-THE-BARRIERS ROUNDTABLE: FINANCIAL SERVICES & CAPITAL MARKETS

THESE PLATFORMS OFTEN OFFER A SUPERIOR CUSTOMER EXPERIENCE IN ORIGINATION AND FULFILMENT COMPARED TO TRADITIONAL BANKS...

<table>
<thead>
<tr>
<th>Selected Credit &amp; Lending Metrics</th>
<th>Poor Performers</th>
<th>Average Performers</th>
<th>Good Performers</th>
<th>Digital Disruptors</th>
<th>Category Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origination Rework Rates</td>
<td>30% - 50%</td>
<td>15% - 30%</td>
<td>5% - 14%</td>
<td>&lt;1%</td>
<td>Proportion of lending applications that are handled more than once by sales / credit to correct errors or clarify customer data prior to disbursement</td>
</tr>
<tr>
<td>Average Lending Turnaround (Days)*</td>
<td>20 - 40+</td>
<td>5 - 30</td>
<td>1 - 15</td>
<td>Real time</td>
<td>Average time taken to process an application from start to finish, including idle time but excluding time waiting for customer response</td>
</tr>
<tr>
<td>Average Doc Preparation Times (Mins)*</td>
<td>80 - 100+</td>
<td>30 - 100</td>
<td>5 - 30</td>
<td>Real time</td>
<td>Average time taken to generate loan documents and proceed to disbursement activities</td>
</tr>
<tr>
<td>Customer Touch Points in Origination (#)</td>
<td>10+</td>
<td>5 - 10</td>
<td>2 - 5</td>
<td>1</td>
<td>Number of unique customer touch points / enquiries for a customer applying for business loan</td>
</tr>
<tr>
<td>Data Capture (Mins)*</td>
<td>180 - 240+</td>
<td>100 - 200</td>
<td>30 - 180</td>
<td>10-15</td>
<td>Time taken to capture and document all relevant application-specific information for a business loan directly into the origination system</td>
</tr>
</tbody>
</table>

Note: (*) Range represents the difference in types/complexity of deals
Source: Accenture experience

...AND ALSO HAS SPECIFIC CAPABILITIES WHICH ENABLE THEM TO DIFFERENTIATE FROM TRADITIONAL BANKS

- **PayPal**: Big data & credit analytics
- **Amazon Lending**: Social platform
- **Everline**: 100% Paperless application process
- **Zest Finance**: Real time decision
- **Kabbage**: Online advisors & virtual relationship
- **TradeShift**: Seamless customer services
- **iwoca**: Direct funding on bank accounts
- **Funding Circle**: Funding
- **ezbob**: 
- **yes-secure**: 
- **FLINQER**: 

[Images of platforms and labels]
IN ASEAAN, WE ARE ALREADY SEEING EMERGENCE OF NEW P2P PLATFORMS ALONG WITH THE UPCOMING ASSOCIATED REGULATORY RULES

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).

There are a few P2P Financing platforms which have announced their launch in Singapore in anticipation of MAS finalising its regulations:

- FundedHere
- CapitalMatch
- Assets

The Securities Commission Malaysia has opened the application process for prospective investment crowdfunding platforms

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.

Source: Various news reports

LENDING CLUB IS THE WORLD’S LARGEST P2P PLATFORM, WITH US$7.6 BILLION LOANS FUNDED BY END-2014

- Established in 2007 in the US, Lending Club has facilitated over USD7.6b in financing to both individual consumers and businesses
- Leveraged technology to operate a financing marketplace at a lower cost than traditional bank loan programs, passing the savings on to borrowers in the form of lower rates and to investors in the form of solid returns
- Charges borrowers an risk-tiered origination fee and financing rates, late payment fees.
- Offers solid return Notes as fixed income investment generating monthly cash flows, 4.7% -8% returns p.a. (based on credit quality)
- Provides both a DIY and automated investment option for investors
- Charges investors an account service fee (1% of payments received within 15 days of due date. If a borrower misses a payment, investors do not pay a service fee) and collection fee for late payments
- Provides secondary market trading systems ‘Note Trading Platform’ to trade notes with other Lending Club investors. Sellers are charged a transaction fee equal to 1% of the purchase price
- IPO in Dec 2014 raised nearly USD 870mil
LENDING CLUB EVOLVED ITS BUSINESS MODEL THROUGH PARTNERSHIPS WITH FIS TO GAIN INVESTOR CONFIDENCE AND COMPLY WITH INCREASING REGULATORY REQUIREMENTS

**Phase 1**
**Jun – Dec 2007**

- All investors of Lending Club deposit their funds in Wells Fargo ITF (in trust for) accounts which are FDIC-insured
- Lending Club quickly transitioned from issuing loan promissory notes from its lenders (Phase 1) to partnering with Utah-based WebBank (Phase 2) where the bank would take over the funding of the loan and issuance of loan promissory notes. Ownership of the notes will then be transferred to Lending Club at cost. The enabled Lending Club to:
  - Avoid having to apply for individual lending licenses in each State it wanted to operate in
  - Offer an uncapped, variable interest rate on each loan which was key to building a nationwide marketplace model

**Phase 2**
**Jan – Mar 2008**

- Lending Club further changed its model to selling Member Dependent Notes (Phase 3), which is a type of bond to investors in order to comply with SEC regulations. The change meant that:
  - Investors became creditors of Lending Club instead, and
  - Investors and borrowers no longer have any direct legal obligations with each other

**Phase 3**
**Apr 2008 – Present**

**LENDING CLUB LAUNCHES BUSINESS LOANS**

- Business owners can borrow up to US$300,000 with terms ranging from 1-5 years
- Loan application can be completed and quotes received in 5 minutes
- In the first 9 months, Lending Club has lent out USD$120 million to small businesses

**GOOGLE – LENDING CLUB ALLIANCE TAKES CAPTIVE FINANCE INTO DIGITAL AGE**

- Lending Club will facilitate loans to Google partners including resellers, consultants and system integrators which help the tech group distribute its applications and services
- Google partners will be able to borrow up to USD$600,000 for 2 years

**ALIBABA TAPS LENDING CLUB TO AID US EXPANSION**

- Lending Club will provide financing for small US businesses seeking to buy inventory from the Alibaba’s Chinese-based suppliers
- Businesses can borrow up to USD$300,000 with an application process that takes fewer than five minutes
As part of the loan application process, Lending Club assigns a loan grade for each loan in order to determine the interest rate

Lending Club determines the interest rate for a loan through a simple formula:

“Lending Club Base Rate” + “Adjustment for Risk & Volatility”

- Base rate determined by Lending Club (currently at 5.05%)
- The adjustment is determined based on the Loan Grade assigned by Lending Club to a particular loan.
- Currently adjustments range from 0.88% (for grade A1) to 21.01% (for grade G5).

How does Lending Club assign a Loan Grade?

1. Lending Club uses an applicant’s FICO score to determine the base loan grade from A1 – C5, e.g. applicants with FICO score of 770 and above are A1, 660 – 663 are C3, etc

2. From an applicant’s base loan grade, Lending Club can then downgrade the loan based on certain criteria:
   - Requested loan amount: There is a maximum loan amount based on the base loan grade. If an applicant wishes to borrow an amount above the maximum, his loan will be downgraded
   - Loan term: Loans with terms beyond 36 months are downgraded to reflect higher risk
   - Other risk modifiers: Number of recent credit enquiries, length of credit history, number of open accounts, revolving credit utilisation etc.

In Asia, P2P platforms have also found success with variations in the B2B space

Lufax/Lfex is leading P2P financial services provider in China, whose business model is adapted from LendingClub in the US. It is the internet FS arm of Ping An group entering into the OTC capital markets to address two untapped and under-served demands in China:

- Difficulties for consumer and corporates to source funding from traditional financial institutions
- Unlock and release dormant assets of financial institutions. The Lufax and Lfex platforms created opportunities for
### Possible Trading Partners on Lufax & Lfex Platforms

<table>
<thead>
<tr>
<th>Financial Institutions (F)</th>
<th>Businesses (B)</th>
<th>Consumers (C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ping An &amp; Lufax (PL)</td>
<td>PL2F</td>
<td>PL2C</td>
</tr>
<tr>
<td>Financial Institutions (F)</td>
<td>F2F</td>
<td>F2C</td>
</tr>
<tr>
<td>Businesses (B)</td>
<td>B2F</td>
<td>B2C</td>
</tr>
<tr>
<td>Consumers (C)</td>
<td></td>
<td>C2C</td>
</tr>
</tbody>
</table>

### Product Categories

<table>
<thead>
<tr>
<th>Illustrative</th>
<th>F2F</th>
<th>P2P</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loans</td>
<td>Unsecured (Near Prime, Prime)</td>
</tr>
<tr>
<td></td>
<td>Bank notes</td>
<td>Secured (Mortgages, Vehicles, PF, Investments)</td>
</tr>
<tr>
<td></td>
<td>Receivables</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurance assets, …</td>
<td></td>
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<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Securities</th>
<th>F2F</th>
<th>P2P</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Credit cards</td>
<td>Trusts</td>
</tr>
<tr>
<td></td>
<td>Loans</td>
<td>Money Market</td>
</tr>
<tr>
<td></td>
<td>Mortgages</td>
<td>Public funds</td>
</tr>
<tr>
<td></td>
<td>Commercial properties</td>
<td>Private Placement funds</td>
</tr>
<tr>
<td></td>
<td>Public utilities, …</td>
<td>Wealth mgmt. products, …</td>
</tr>
</tbody>
</table>

### Real Estate / Notes

<table>
<thead>
<tr>
<th>Real Estate / Notes</th>
<th>F2F</th>
<th>P2P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project financing</td>
<td></td>
<td></td>
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<tr>
<td>Notes</td>
<td></td>
<td></td>
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<tr>
<td>Project interests</td>
<td></td>
<td></td>
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<tr>
<td>Government financing</td>
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</tr>
</tbody>
</table>

### Securitisation

- Credit cards
- Loans
- Mortgages
- Commercial properties
- Public utilities, …

### Secondary Market Financial Products

- Trusts
- Money Market
- Public funds
- Private Placement funds
- Wealth mgmt. products, …

### Equity

- Unlisted equities
- Angel financing
- Margin financing
- Share financing

### Factoring / Leasing

### Lufax’s Key Differentiators in the Market

- **Low Trading Costs**
  Absence of physical branches and digitization of trading processes on the online platform.

- **Superior Asset Liquidity**
  Builds secondary market for non-standard assets through trust plans, WM products, PE etc.

- **Diversified Products**
  Ability to securitize a wide-range of non-standard assets from financial institutions, businesses and individuals.

- **Superior User Experience**
  Next-generation digital platform allows customers to trade online and via mobile.

- **Strong Parent Company Backing**
  Part of Ping An Group, which holds a full range of financial licenses and an 80million customer base.

### Lufax’s Revenue Streams and Key Successes

- **Asset Underwriting**
  Underwriting fee of 5% - 20% for standardized packaging, pricing and underwriting services.
  *Principal source of income at the initial development stage*

- **Platform Trading**
  Trading fees of 0.5% - 5.0% for each transaction performed on its platform.

- **Product Distribution**
  Distribution commission of 5% - 20% for each product listed on its platform.

- **Advertising**
  Advertising income through targeted ads for specific customers based on behavioral patterns.

- 3rd largest P2P Lending platform in the world
- Largest securitization platform in China
- >5 million registered users, with RMB 3.3 billion in transactions in Q3 2014 alone.
FUNDING CIRCLE HAS WORKED WITH THE GOVERNMENT AND LOCAL COUNCILS TO PROVIDE FUNDING DIRECTLY TO SMES IN THE UK

Description
- Funding Circle was founded in 2010 in the UK. It is a peer-to-peer financing platform for small and medium businesses.
- In 2013 it extended its operations into the US, headquartered in San Francisco.

How Does It Work?
- In the UK, businesses on Funding Circle can borrow between £5,000 - £1 million over a maximum period of 5 years.
- Funding Circle conducts a credit assessment on all prospective borrowers and rank them in one of five risk bands.
- Approved borrowers can advertise their loan request on the platform. This will then enter into a 7-day auction process where investors will bid the amount which they wish to lend and the interest rate they wish to earn.
- Funding Circle advises investors to spread its investments across at least 100 businesses equally. It has an auto-bid function to automatically place bids based on certain criteria.

Key Facts & Figures
- Since launch, Funding Circle has lent ~£600 million to British businesses.
- The platform has also attracted the attention from the UK government and local city councils as a platform to provide government funding directly to small and medium businesses in the UK.
- Funding Circle has also announced partnerships with RBS and Santander UK where the banks will refer some smaller businesses that it is unable to finance to the platform.

ZIDISHA PROVIDES AFFORDABLE MICRO-FINANCING TO ENTREPRENEURS IN EMERGING MARKETS THROUGH ITS ONLINE-ONLY P2P PLATFORM

Description
- Zidisha is a nonprofit, fully online peer-to-peer platform for entrepreneurs available in 9* developing countries.
- Zidisha only charges a 5% fee on each loan successfully disbursed and a one-time membership fee compared to microfinance loans which charge 40 – 50% interest.

How Does It Work?
- Zidisha does not provide any formal credit rating for entrepreneurs. It relies on social-network verification by getting entrepreneurs to link their active personal Facebook account to their Zidisha account.
- Zidisha chose to partnered with mobile payments firms such as M-PESA, MTN Mobile Money and Indosat Dompetku to disburse loans to investors. Funds from investors are accepted through PayPal.
- Zidisha incentivizes timely and responsible repayments by limiting new entrepreneurs to small loan amounts and progressively increasing limits if they maintain timely payments. Payment records are also published on the platform for full disclosure.
- In order to keep operating costs low, Zidisha relies on a network of volunteers and fellow nonprofit organisations to provide services, e.g. Sift Science provides machine-learning algorithms to identify fraudulent loan applications.
Key Facts & Figures

- Since its 2009 launch, Zidisha has managed to raise ~USD$ 3 million in loans and fund ~13,000 projects.
- Zidisha lenders have achieved an ~88% on-time repayment rate. Thus far only 4.5% of loan amount disbursed had to be written off.

Note: Burkina Faso, Ghana, Guinea, Haiti, Indonesia, Kenya, Niger, Senegal, Zambia

GLOBAL BANKS IN THE US AND EUROPE HAVE FOUND INNOVATIVE WAYS TO TAP ON TO THE SUCCESSES OF LENDING CLUB AND OTHER P2P PLATFORMS

- The goal is to capitalise on the fast-growing industry through a **bond deal comprised of P2P consumer loans** that would carry an **official stamp of approval from a credit-rating agency**
- A credit rating would **open the sector up to a wider array of investors**, including insurers and pension funds
- This is the latest sign of the nascent “P2P” industry’s **growing acceptance on Wall Street**
- **Other small securitizations have already been completed**
  - The hedge fund Eaglewood Capital was first to securitise P2P loans with a $53m unrated deal sold last year
  - In July, SoFi, a P2P lender that specialises in student loans received an investment grade rating from S&P

Source: Financial Times, November, 2014

THERE ARE DIFFERENT ROLES IN WHICH EXISTING FINANCIAL INSTITUTIONS CAN ALSO PARTICIPATE IN A P2P FINANCING PLATFORM
POSSIBLE OUTCOME: TO CREATE A PAN-ASEAN REGIONAL P2P FINANCING PLATFORM TO MEET THE FINANCING NEEDS OF ASEAN SMES

- Provide access to a larger, regional community of investors for ASEAN SMEs
- Offer cheaper source of funds through the use of digital platforms for origination and fulfillment of loans
- Faster time to obtain funding as digitization of loan processes would minimise manual intervention and mistakes when processing applications
- Provide an effective, direct channel for government funding to ASEAN SMEs in order to stimulate growth
- Encourage innovation and incubation of new business ideas

A Pan-ASEAN Regional P2P Financing Platform would be able to harness the collective investment strength of the region to meet the funding needs of ASEAN SMEs and stimulate further growth within the region

KEY DISCUSSION POINTS

- Is there a market across ASEAN which would benefit from a regional P2P financing platform?
- What would be the most cost-efficient and effective mechanism to facilitate P2P investments, fund disbursement and collection across the region?
- What are the possible inputs into a credit rating framework which would represent the credit worthiness of lenders on the platform?
- How can traditional financial institutions contribute to the start up and eventual operations of this platform?
- What are the regulatory frameworks required in order to make this work regionally?