REPORT ON CPA AUSTRALIA'S BUSINESS FINTECH USAGE SURVEY 2020

MAINLAND CHINA, HONG KONG, MALAYSIA, SINGAPORE

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CONTENT

ABOUT THE SURVEY

The survey was conducted by CPA Australia from 23 June to 14 July 2020. A total of 573 responses were received from accounting and finance professionals in Mainland China (158), Hong Kong (154), Malaysia (151), and Singapore (110).

ABOUT CPA AUSTRALIA

CPA Australia is one of the world's largest accounting bodies with more than 166,000 members working in 100 countries and regions around the world, and with more than 25,000 members working in senior leadership positions. It has established a strong membership base of more than 19,000 in the Greater China region and more than 20,000 in the ASEAN region.

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SUMMARY OF KEY FINDINGS

In the past decade, financial technology (FinTech) has generated significant attention for its potential to transform how businesses interact with finance and improve the delivery and reduce the cost of financial services and products. CPA Australia's Business FinTech Usage Survey 2020 received responses from 573 members in Mainland China, Hong Kong, Malaysia and Singapore. The survey collected data on the usage of FinTech in different businesses, the drivers of business adoption of FinTech and the barriers to adoption or greater adoption of FinTech.

FinTech usage in businesses

The findings show that a majority of respondents reported that their business had used at least one FinTech product or service in the past 12 months, with Mainland China reporting the highest percentage of businesses using FinTech (80.1 per cent), followed by Malaysia (75.7 per cent), Singapore (67 per cent), and Hong Kong (66.7 per cent).

Survey responses for FinTech use and changes in profitability were analysed. Businesses that registered an increase in profitability in 2019 had a higher FinTech usage rate in the past 12 months compared with usage by businesses that reported a decrease in profitability in 2019.

Mobile payments and digital wallets were the most widely adopted FinTech in all four markets in the past 12 months, with businesses from Mainland China having the highest usage of such FinTech (65.2 per cent), followed by Malaysia (62.9 per cent), Hong Kong (56.5 per cent), and Singapore (47.3 per cent).

Malaysia experienced the largest increase in the usage of mobile payments or digital wallets in the past 12 months (47.7 per cent), followed by Mainland China (46.2 per cent), Singapore (40.9 per cent) and Hong Kong (39.6 per cent).

55.1 per cent of businesses from Mainland China used robo-advisors or chatbots in the past 12 months, the highest result among the markets surveyed. This is 20.7 percentage points higher than second-placed Malaysia. 24.7 per cent of respondents in Mainland China said their business had increased their usage of robo-advisors or chatbots in the past 12 months, compared with 24.6 per cent in Singapore, 19.2 per cent in Malaysia and 18.2 per cent in Hong Kong.

More than four out of ten businesses in Mainland China (42.5 cent) have used WealthTech, the highest among the four surveyed markets, followed by Hong Kong (31.1 per cent), Malaysia (21.9 per cent) and Singapore (14.6 per cent).

Malaysian businesses lead the way in open banking application programming interface (API) usage (39.1 per cent), followed by Singapore (30 per cent), Hong Kong (28.6 per cent) and Mainland China (18.3 per cent).

Usage of blockchain technology remains low, with Singapore reporting the highest increase in usage (11.8 per cent), followed by Hong Kong (9.1 per cent) and Mainland China (6.3 per cent). Malaysia reported the lowest increase in usage (4.6 per cent). This is not surprising given there are only a few possible examples of commercial scale applications of blockchain.

Future business FinTech usage

This strong uptake of FinTech by businesses looks set to continue. Mainland China reported the highest percentage of respondents (83.9 per cent) expecting their business to use at least one FinTech product or service in the next 12 months, followed closely by Hong Kong (83.8 per cent), Malaysia (73.9 per cent) and Singapore (72.7 per cent).

Respondents in all four markets were most likely to nominate mobile payments or digital wallets as the FinTech their business will be using in the next 12 months. Hong Kong had the highest percentage of respondents who chose mobile payments and digital wallets (59.1 per cent), with Malaysia coming a close second (55.6 per cent).

Mainland China had the highest percentage of respondents who chose robo-advisors or chatbots (32.3 per cent) and WealthTech (17.1 per cent), while more Hong Kong respondents chose virtual banks or digital banks (26 per cent) compared with respondents from the other markets.

However, almost one in four businesses surveyed in Malaysia and Singapore (both with 24.5 per cent) do not expect to use FinTech in the next 12 months, with the majority of these being businesses with 50 or fewer employees.

Drivers of FinTech adoption

Businesses that have embraced FinTech are reaping the benefits with improved efficiency, higher cost savings and enhanced customer experience. Enhancing operational processes is the major driver for businesses to adopt FinTech, with 'improve efficiency' being the most likely driver of FinTech adoption in all four markets. This driver was highest in Hong Kong (63.6 per cent), followed by Mainland China (62.7 per cent).

To 'better understand and improve the customer experience', 'cost savings', and 'a new way of operating due to COVID-19' were the other key drivers of business FinTech adoption identified by respondents in the four markets.

Hong Kong respondents were more likely to nominate cost savings as a driver to FinTech adoption (47 per cent) compared with respondents from other markets.

Respondents in Malaysia (40.4 per cent) and Singapore (36.4 per cent) were significantly more likely to state that their adoption of FinTech was driven by the need to find a new way of operating due to COVID-19, compared with respondents in Mainland China (20.3 per cent) and Hong Kong (19.5 per cent).

Barriers to FinTech adoption

Adoption of FinTech is not without its challenges. Respondents from all four markets chose cybersecurity concerns as the most likely challenge or barrier to business FinTech adoption. This concern was highest among Hong Kong respondents (44 per cent) and lowest in Singapore (33.6 per cent).

Concerns with data privacy were also identified as a major challenge or barrier in the four markets, with Hong Kong businesses most likely to choose this as barrier to FinTech adoption (39 per cent) and Singapore the least likely (23.6 per cent).

Nearly a third of respondents in Singapore (30 per cent) picked a lack of FinTech understanding and knowledge within board / senior management as a challenge or barrier, the highest among the four markets, with Malaysia coming in a close second (27.8 per cent).

Reflecting a strong demand for FinTech, respondents in Mainland China were significantly more likely to cite a shortage of FinTech talent as a challenge to FinTech adoption than respondents in other markets (36.7 per cent).

FinTech and its impact on the Greater Bay Area Initiative

Hong Kong respondents were also asked about the expected impacts of FinTech in the Greater Bay Area (GBA).[1] Respondents were most likely to nominate that FinTech will create more business opportunities for the financial services and technology sectors (26.6 per cent), improve capital flows (22.7 per cent), improve data flows (13.6 per cent, and enhance Hong Kong's competitiveness as an international financial centre (13.6 per cent).

Key lessons for businesses

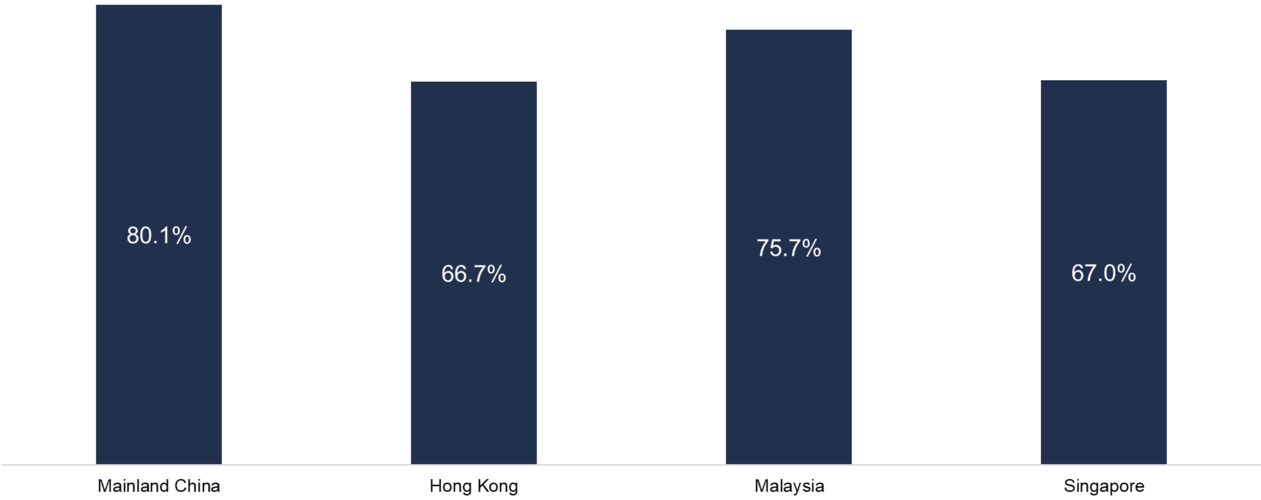
The key lessons for business to be drawn from these survey results are:

- If you are not already using FinTech in your business, you should start to learn more about it. Choosing the right FinTech can potentially improve your efficiency, cut costs and improve the experience of your customers.
- Consider using mobile payment technology to improve your customers' experiences and to meet changing consumer behaviour.
- Consider establishing a board-level technology committee to improve senior-level understanding of the trends, potential and risks associated with FinTech.
- Enhance your in-house FinTech capability through training programs and by adopting innovative methods to secure top FinTech talent.
- Ensure that the FinTech products or services you use have strong cybersecurity protections and appropriate tools and solutions to protect your customers' data.

[1] The GBA is an initiative of China's Government to build a city cluster in the Pearl River Delta in South China connecting Hong Kong and Macau with nine cities in Guangdong province to better leverage their competitive advantages in the global economy.

FINTECH USAGE IN BUSINESSES

Figure 1. Percentage of respondents who reported that their business had used at least one FinTech product or service in the past 12 months



In recent years, Mainland China has emerged as a key player in the global FinTech ecosystem and is leading the way in business FinTech usage. Figure 1 shows that 80.1 per cent of respondents based in Mainland China reported that their businesses had used at least one FinTech product or service in the past 12 months, which is the highest result of the surveyed markets.

The high rate of FinTech usage among Mainland Chinese businesses is driven by a combination of factors conducive to the adoption of such technology. This includes strong government support to the development of FinTech such as the 175 per cent super deduction for eligible research and development (R&D) expenditure, greater funding for artificial intelligence (AI) development by local governments, and the release of a three-year FinTech development plan by the People's Bank of China in August 2019. [2]

Another factor that has led to a boost in business FinTech usage in China is changing consumer behaviour. Chinese millennials, who are digital natives, are a major force in the consumer market. Data shows that the number of Chinese consumers who were born in the 1980s and in the 1990s surpassed 423 million by the end of 2019[3] - and this has further spurred Chinese businesses to adopt FinTech.

Over three-quarters of respondents in Malaysia indicated that their businesses had used at least one FinTech product or service in the past 12 months, making it the market with the second-highest business usage of FinTech. The International Monetary Fund noted Malaysia's growing middle class, high mobile phone penetration rates and strong government support for the digital economy as key factors fuelling FinTech innovation.[4] With

[2] People's Bank of China. (2019). *PBC Releases FinTech Development Plan (2019-2020)*
[3] Yicai. (2020). *“00 后+10 后”比“80 后+90 后”少了1 亿多*
[4] International Monetary Fund. (2020). *Malaysia: A Flourishing Fintech Ecosystem*

data from Bank Negara Malaysia showing that the internet banking penetration rate has increased from 72 per cent in 2016 to 97.6 per cent in 2019,[5] Malaysia is well placed to expand FinTech usage in the future.

About two-thirds of respondents in Hong Kong and Singapore indicated that their businesses had used at least one FinTech product or service in the past 12 months, a proportion slightly lower than in Mainland China and Malaysia. One likely explanation is that although both Hong Kong and Singapore are consistently placed among the top ten in a number of different FinTech hub rankings,[6] their more mature financial services sectors, including payment systems, mean that businesses in the two markets are more inclined than businesses in developing markets to maintain relationships and usage of services from traditional financial institutions and less likely to adopt FinTech into their business operations. This result parallels the findings from CPA Australia's annual *Asia-Pacific Small Business Survey* which show that small businesses in developed markets generally have a lower usage of technology – such as mobile payments – than small businesses in developing markets.[7]

However, despite the comparatively lower usage rates, a majority of businesses in Hong Kong and Singapore used FinTech in the past 12 months. This strong usage rate is driven by a number of factors including strong government support of technology adoption in businesses such as Hong Kong's HK$1.5 billion (USD$192 million) Distance Business Programme, which provides funding support to transition business and operations online by adopting IT solutions,[8] and Singapore's SG$250 million (USD$183 million) Financial Sector Technology and Innovation Scheme 2.0, designed to speed up technology adoption and innovation-driven growth in the local financial sector.[9]

Moreover, Hong Kong and Singapore benefit from a well-connected information and communication technology (ICT) infrastructure, a key facilitator for the adoption of online or digital technologies. According to the Global Innovation Index 2020, Hong Kong and Singapore are ranked 17th and 7th respectively in the 'information and communication technologies' (ICT) sub-pillar, higher than Mainland China (45th) and Malaysia (35th).[10] An efficient and robust ICT infrastructure means that both markets possess the competitive advantage to continue to play a leading role in the development of FinTech and to further encourage companies and consumers to embrace FinTech.

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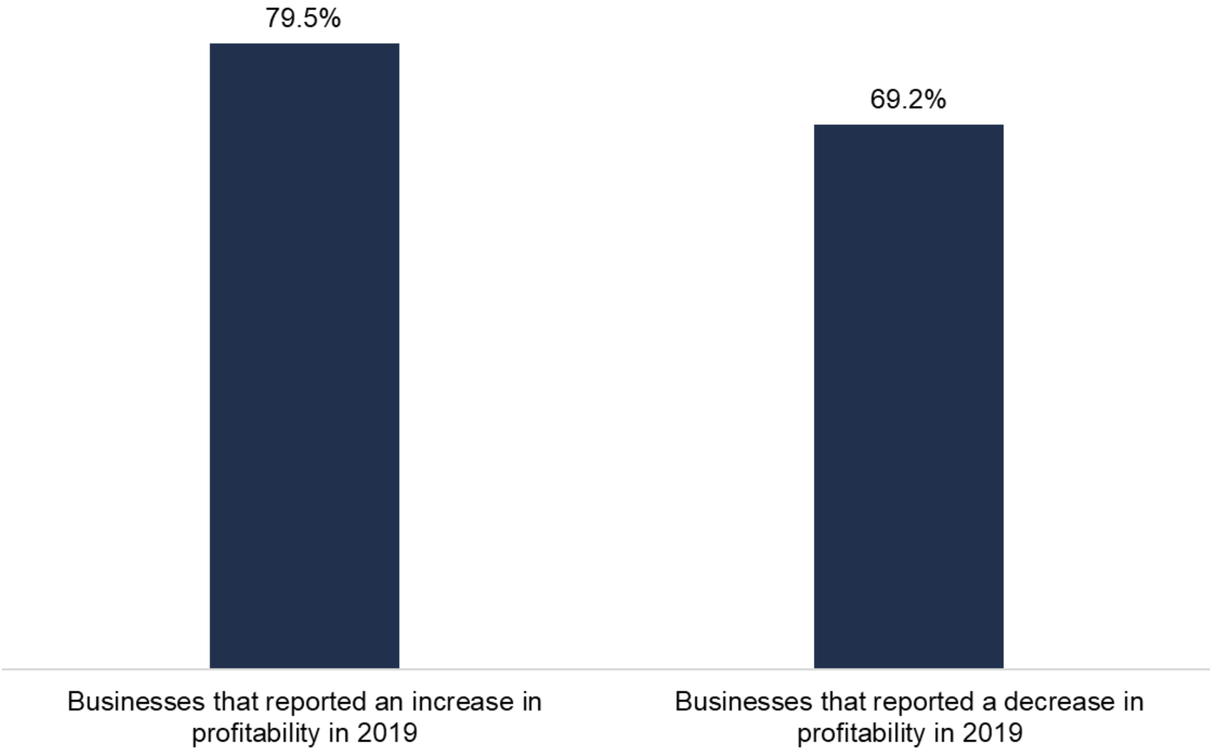
[5] Bank Negara Malaysia. (2020). *Internet Banking and Mobile Banking Subscribers*
[6] According to the *2018 Global FinTech Hub Report* Singapore and Hong Kong are ranked 9th and 10th respectively. In *the 2018 IFZ Global FinTech Rankings* Singapore and Hong Kong are ranked 1st and 10th respectively.
[7] CPA Australia. (2020). *Asia-Pacific Small Business Survey 2019-20*
[8] Hong Kong Productivity Council. (2020). *Distance Business Programme ("D-Biz Programme")*
[9] Monetary Authority of Singapore. (2020). *MAS Commits S$250 Million to Accelerate Innovation and Technology Adoption in Financial Sector*
[10] Cornell University, INSEAD, WIPO. (2020). *Global Innovation Index 2020.*

Figure 2. Increase and decrease in profitability among businesses that used FinTech in the past 12 months



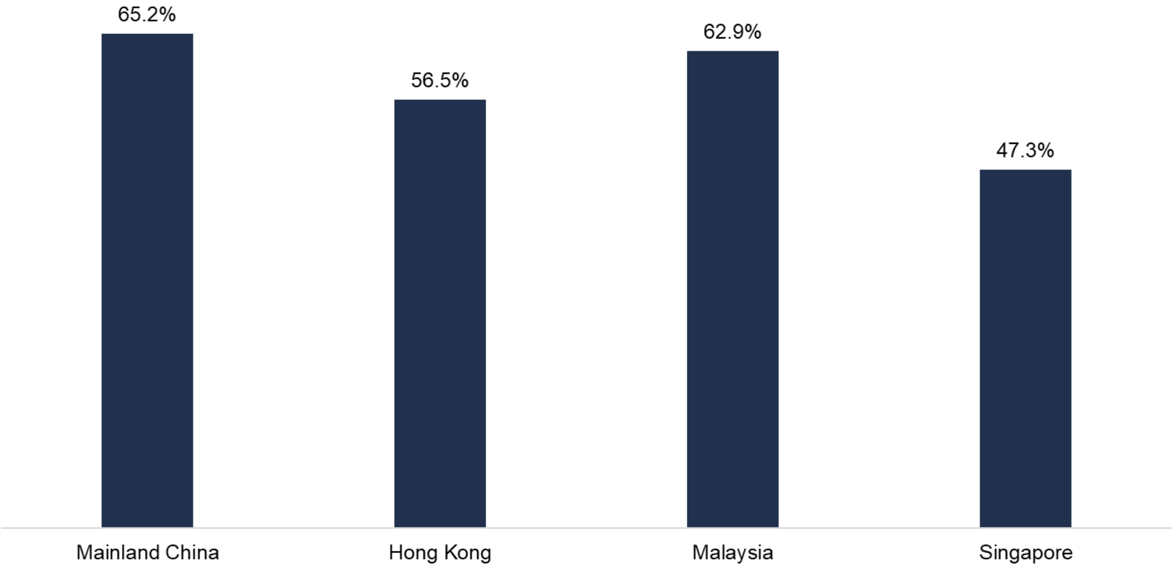
In a fast-moving and increasingly digitalised world, embracing innovative technology solutions has become a significant determinant of the success of businesses. Figure 2 illustrates the use of FinTech and changes in profitability. On aggregate, businesses that registered an increase in profitability in 2019 had a higher FinTech usage rate in the past 12 months compared with usage by businesses that reported a decrease in profitability in 2019.

The results suggest that FinTech usage has a favourable impact of on business profit. This finding echoes the findings from CPA Australia's *Asia Pacific Small Business Survey 2019-20* which showed that businesses that reported strong growth in 2019 were much more likely to have invested in technology and were significantly more likely to have found their investment was already profitable (70.8 per cent), than those that did not grow or shrank (22.8 per cent).[11]

FinTech will continue to be a new engine of business growth. Given the potential link between FinTech and business profit, it would be prudent for businesses to build their knowledge of this technology and how best to incorporate it into their operations.

[11] CPA Australia. (2020). *Asia-Pacific Small Business Survey 2019-20*

Figure 3. Percentage of respondents who reported that their business had used mobile payments or digital wallets in the past 12 months



Among the variety of FinTech sub-types, mobile payment technology is the most mature and readily available technology for use by businesses and consumers, and is the most popular FinTech for businesses in all four markets. The advantages to businesses, especially smaller businesses, of using mobile payments and digital wallets include providing a more convenient and easy-to-access experience to consumers and better transaction efficiency for business.

With the world's largest mobile payment market, overall usage of this FinTech was, unsurprisingly, highest in Mainland China with 65.2 per cent of respondents stating that their business had used this technology (see Figure 3). According to data from the People's Bank of China, mobile payment transactions reached 101.4 billion in 2019, up 67.6 per cent year-on-year, while the total value reached 347.1 trillion yuan (around US$51 trillion),[12] up 25.1 per cent compared with 2018.[13] Key players such as Alipay and WeChat Pay continue to fuel the growth of mobile payment and digital wallet usage in the e-commerce market, and the use of this FinTech is expected to expand at a compound annual growth rate of 34 per cent to 2021.[14]

Of the four markets, Malaysia experienced the largest increase in the usage of mobile payments or digital wallets in the past 12 months (47.7 per cent). The increased popularity of mobile payments and digital wallets goes hand in glove with the Malaysian Government's efforts to increase the use of e-wallets and digital payments among the population through cash transfer programs, such as the e-Tunai Rakyat initiative,[15] as part of its transition to a high value-added, high-income economy.

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[12] 1 US dollar = 6.8 yuan (as at mid-September 2020)
[13] People's Bank of China. (2020). *2019 年支付体系运行总体情况*
[14] JP Morgan. (2019). *E-commerce payments trends: China*
[15] The e-Tunai Rakyat initiative is a Malaysian Government initiative to encourage Malaysians to increase the usage of e-wallets. Eligible recipients will receive a one-off RM30 worth of e-wallet credit.

In Singapore, mobile payments or digital wallets were also the FinTech that experienced the highest increase in business usage in the past 12 months, with 40.9 per cent of respondents stating that their businesses had expanded its usage. Factors driving the growth of mobile payment technology usage in Singapore include strong government support, such as the launch of the peer-to-peer funds transfer service, PayNow, in 2017, and the acceleration of mobile payment technology usage due to the impacts of the COVID-19 pandemic. This is illustrated at the start of movement restrictions in April 2020, when the Monetary Authority of Singapore urged individuals and businesses to use digital finance services and e-payments as part of safe distancing measures.[16]

Both Malaysia and Singapore stand to benefit from the growth of digital payments in Southeast Asia. According to a 2019 report by Google, Temasek and Bain & Company, digital payments are expected to reach US$1 trillion by 2025 in Southeast Asia, accounting for almost one in every two dollars spent in the region. Adoption of e-wallets is also expected to surge. Accounting for just over $22 billion in 2019, e-wallets are forecast to grow more than fivefold and to exceed US$114 billion by 2025.[17]

39.6 per cent of Hong Kong respondents indicated that their business had increased the usage of mobile payment technology in the past 12 months. According to research conducted by JP Morgan, digital wallet transactions in Hong Kong are expected to grow faster than card transactions to 2021, expanding at a compound annual rate of 32 per cent. By 2021 they are projected to overtake credit cards as the primary e-commerce payment method in the city.[18]

An example of the growth in mobile payment or digital wallets adoption in Hong Kong is the usage of the Faster Payment System (FPS), a contactless real-time payment service platform, which increased significantly since its introduction in 2018. According to the Hong Kong Monetary Authority, average daily transactions in March 2020 reached 267,000 transactions, an increase of 60 per cent compared with December 2019. Meanwhile, new user registrations in the first quarter of 2020 recorded a 30 per cent increase compared with the fourth quarter of 2019.[19] It is likely that the penetration rate of the FPS is among the highest in the world.[20]

The growth in mobile or online payment technologies in the four markets is set to accelerate with the COVID-19 pandemic driving the adoption of such technology by businesses in response to the accelerated shift by consumers to a digital experience.

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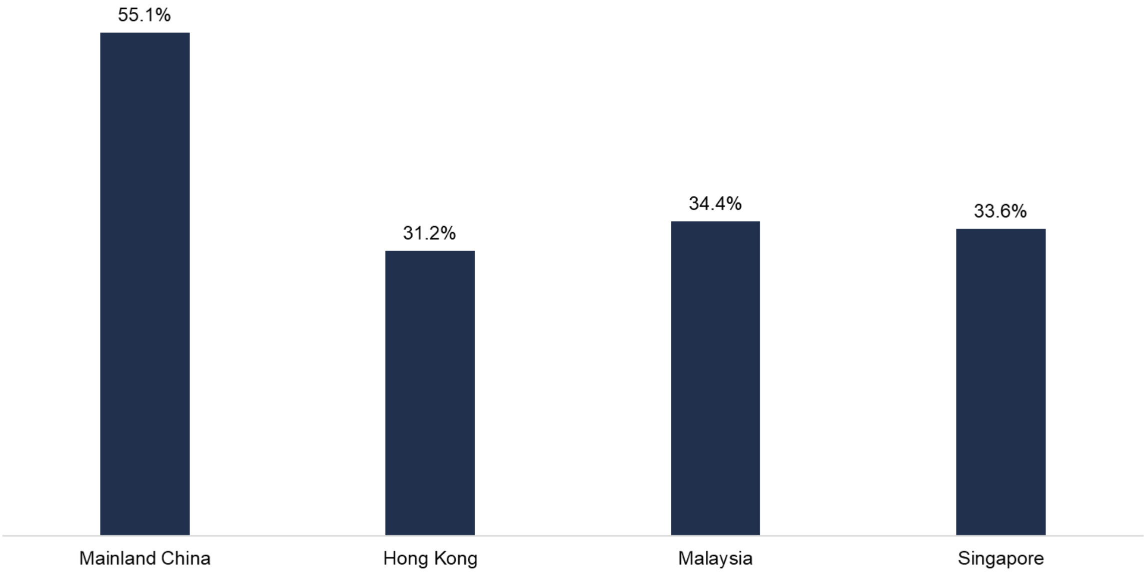
[16] Monetary Authority of Singapore. (2020). *MAS Urges Use of Digital Finance and E-Payments to Support COVID-19 Safe Distancing Measures*
[17] Google, Temasek, Bain & Company. (2019). *e-Conomy SEA 2019 report*
[18] JP Morgan (2019) *E-commerce Payments Trends: Hong Kong*
[19] Hong Kong Monetary Authority (2020) *FPS Fights the Epidemic With You*
[20] Hong Kong Monetary Authority (2019) *Keynote Speech at Hong Kong Fintech Week 2019*

Figure 4. Percentage of respondents who reported that their business had used robo-advisors or chatbots in the past 12 months



Powered by the pervasive availability of data and increased computational processing power, the rapid development of AI and machine learning in recent years has led to the proliferation of robo-advisors and chatbots in the FinTech sector. Analysing vast quantities of financial data, robo-advisors can provide financial advice to customers with little or no human involvement. Chatbots in FinTech can be used for customer inquiries and support, to handle financial services applications and to offer investment advice. The biggest benefit of this type of FinTech is the ability to save time and complete mundane tasks more quickly, thereby reducing costs.

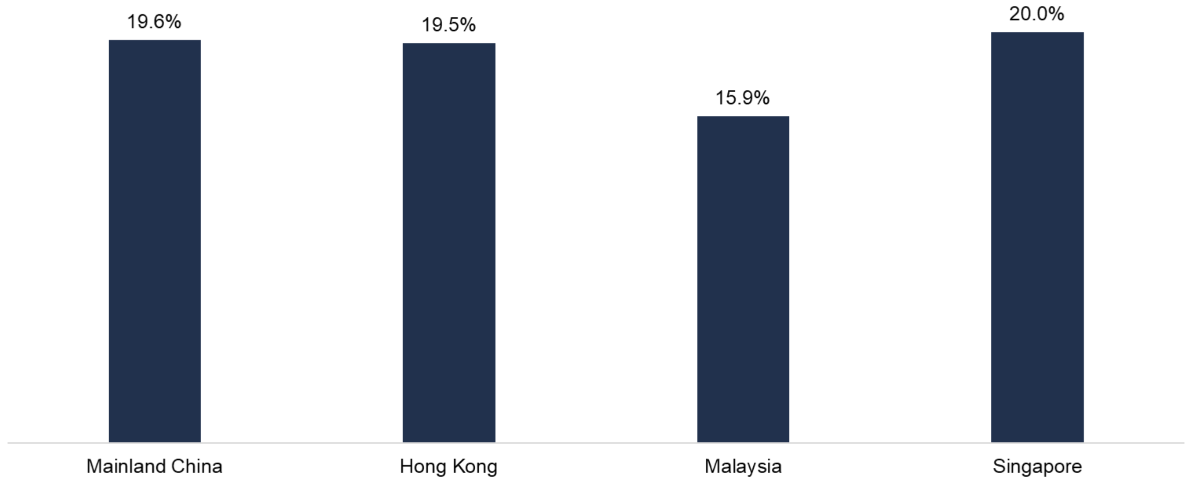
In Mainland China, 55.1 per cent of businesses used robo-advisors or chatbots in the past 12 months, the highest among the markets surveyed and 20.7 percentage points higher than second-placed Malaysia (see Figure 4). More than 47.5 per cent of respondents in Mainland China said their business had either maintained or increased their usage of robo-advisors or chatbots in the past 12 months, compared with 33.7 per cent in Singapore, 33.1 per cent in Malaysia, and 28.6 per cent in Hong Kong. This is indicative of the tremendous growth and opportunities for the AI industry in Mainland China. The AI software and application market within this market is expected to reach US$12.75 billion by 2024 from US$2.89 billion in 2019,[21] and the robo-advisory market is expected to reach 737.05 billion yuan (around US$108.4 billion)[22] by 2022,[23] demonstrating that usage of this FinTech in businesses is set to continue expanding in the future.

About a third of respondents in Hong Kong, Malaysia and Singapore reported that their businesses had used robo-advisors or chatbots. Although lower than in Mainland China, all three markets recorded double-digit percentage growth in usage, suggesting an increasing trend in the application of this type of FinTech as business continue to adopt technology solutions with an aim to increase profit. Another growing FinTech sub-sector that uses AI,

[21] China Daily. (2020). *China's AI software and application market hit $2.89b in 2019*
[22] 1 US dollar = 6.8 yuan (as at mid-September 2020)
[23] iResearch, Lufax. (2019). *智能理财 4.0: 2019 全球智能理财服务分级白皮书*

machine learning, as well as big data analytics, is WealthTech, which generally refers to technology that aims to deliver more efficient and automated wealth management and investment services. WealthTech includes, but is not limited to, usage of robo-advisors for financial and investment advice. More than four out of ten businesses in Mainland China (42.5 cent) have used WealthTech, the highest among the four survey markets, with Hong Kong second (31.1 per cent), Malaysia third (21.9 per cent) and Singapore fourth (14.6 per cent). One benefit of the technology is that it enables more individuals, particularly younger people, to access wealth management services without having to meet high qualifying thresholds.

Figure 5. Percentage of respondents who reported that their business had used blockchain technology in the past 12 months



Blockchain technology, also known as distributed ledger technology, and the technology behind cryptocurrencies such as Bitcoin and Ether, is one of the most hyped technologies of the last decade. According to CPA Australia's *Technology and the Future of the Profession* report, blockchain technology is fundamentally about providing a secure, unalterable recording of digital data.[24] Although there has been sizeable investment in blockchain, with the deal value of global private investment in blockchain and cryptocurrency rising from US$700 million in 2014 to US$4.7 billion in 2019,[25] recently there has been increasing speculation about whether blockchain will live up to its publicity.

Figure 5 above demonstrates that the hype around blockchain technology is not translating into significant business usage. Singapore reported the highest usage (20 per cent), while Malaysia reported the lowest usage (15.9 per cent). Given the few commercial scale applications of blockchain technology at the present time, this result is not unexpected, and it remains to be seen whether businesses will widely use blockchain technology in the future. However, this may change in the coming years as blockchain technology and applications such as smart contracts continue to evolve. One of the major developments in the FinTech space that could potentially affect business adoption of blockchain technology is the exploration of central bank digital currencies (CBDC) by a number of central banks around the world, including the People's Bank of China, the Monetary Authority of Singapore, and the Hong Kong Monetary Authority. It remains to be seen whether central banks would ultimately launch a CBDC that is blockchain-based.

[24] CPA Australia. (2019). *Technology and the Future of the Profession*
[25] KPMG. (2020). *Pulse of FinTech H2 2019*

Usage of other FinTech products or services in the past 12 months

Open banking APIs

Open banking refers to the sharing of banking data from financial institutions to third-party service providers through the use of application programming interfaces (APIs). Effective use of open banking APIs could help compare different banks' products and services and financial planning, as well as offering opportunities for new products and services. With proactive government support such as the release of a Policy Document on publishing Open Data using Open API by the Bank Negara Malaysia in January 2019,[26] Malaysian businesses lead the way in open banking API usage (39.1 per cent). Also driven by supportive regulatory initiatives, including the publication of an API playbook by the Monetary Authority of Singapore in collaboration with the Association of Banks in Singapore,[27] and the publication of the *Open API Framework for the Hong Kong Banking Sector* by the Hong Kong Monetary Authority,[28] more than a quarter of businesses in Singapore (30 per cent) and Hong Kong (28.6 per cent) had used open banking APIs. The percentage usage was lowest in Mainland China (18.3 per cent) where there is relatively less government and regulatory support for open banking APIs compared with the other three markets.

FinTech lending

FinTech lending generally refers to FinTech companies or start-ups that use online or digital technology to provide financing services to businesses and individuals. Businesses in Mainland China were most likely to have used FinTech lending (31.6 per cent) and Singapore the least likely (17.3 per cent). 15.8 per cent of businesses in Mainland China increased the usage of FinTech lending, compared to 13.9 per cent in Malaysia, 13.6 per cent in Hong Kong, and 8.2 per cent in Singapore.

RegTech

According to the UK's Financial Conduct Authority who first coined the term, regulatory technology or RegTech is a FinTech sub-set that focuses on technologies that may facilitate the delivery of regulatory requirements more efficiently and effectively than existing capabilities.[29] While usage of RegTech was generally low across the four markets, Hong Kong (27.3 per cent) and Singapore (24.5 per cent) reported relatively higher levels of business usage of this type of technology. 14.3 per cent of Hong Kong businesses had increased their usage of RegTech compared with 12.7 per cent in Singapore. In Mainland China and Malaysia, the percentages of respondents that reported their business had used RegTech were 17.1 per cent and 19.9 per cent respectively.

InsurTech

Insurance technology or InsurTech refers to the use of technology to improve the performance of the insurance industry. Usage of InsurTech was generally low across the four markets. At this stage InsurTech is aimed at the consumer market rather than for business usage. Mainland China (25.3 per cent) reported the highest level of usage, followed by Hong Kong (24.7 per cent), Malaysia (17.2 per cent), and Singapore (14.6 per cent). Hong Kong

[26] Bank Negara Malaysia. (2019). *Publishing Open Data using Open API*
[27] Monetary Authority of Singapore, The Association of Banks in Singapore. (2016). *Finance-as-a-Service: API Playbook*
[28] Hong Kong Monetary Authority. (2018). *Open API Framework for the Hong Kong Banking Sector*
[29] Financial Conduct Authority. (2016). *Call for input on supporting the development and adopters of RegTech*

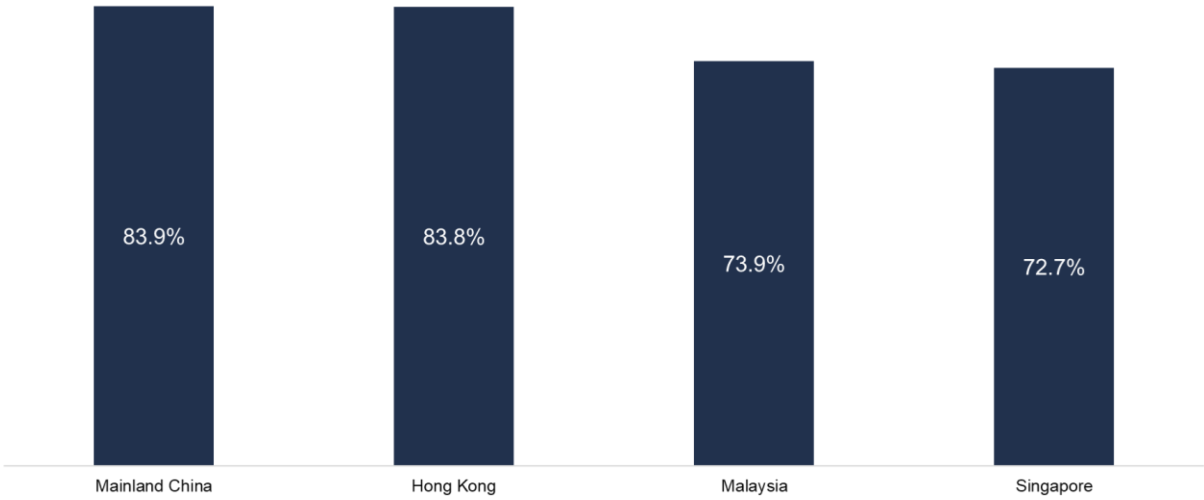
was most likely to report an increase of InsurTech usage (11 per cent) with Singapore the least likely (5.5 per cent).

Islamic FinTech

Islamic FinTech is FinTech products and services that are shariah compliant. While Islamic Fintech appears to be in its infancy in Malaysia (18.6 per cent of businesses had used Islamic FinTech), with Bank Negara Malaysia's support such as the launch of the Investment Account Platform (an Islamic crowdfunding platform for small and medium-sized enterprises in 2016), there is potential for growth both locally and regionally. With the right skills, support and infrastructure, Malaysia is positioned to take Islamic FinTech to mainstream acceptance among ASEAN markets and beyond.

FUTURE USAGE OF FINTECH IN BUSINESSES

Figure 6. Percentage of respondents who reported that their business will use at least one FinTech product or service in the next 12 months



In difficult economic conditions the pace of digital transformation has quickened. As a consequence, businesses are exploring appropriate responses to overcome challenges, including smart and forward-looking investment in technology such as FinTech. According to Figure 6, uptake of FinTech by businesses looks set to continue, with most respondents in the four markets expecting their business to use at least one FinTech product or service in the next 12 months.

Mainland China reported the highest percentage of future FinTech usage (83.9 per cent) followed closely by Hong Kong (83.8 per cent). Mainland China's pole position in both past and future usage is not unexpected. Bolstered by the three-year FinTech development plan released by the People's Bank of China in 2019, as well as various other local government plans such as the five-years FinTech action plan announced by the Shanghai municipal government in January 2020 to promote Shanghai as a global FinTech hub, this result indicates that many Mainland Chinese businesses are optimistic about the future prospects of FinTech and will continue to invest and adopt FinTech solutions into their business processes.

In Hong Kong, the 17 percentage point increase in expected FinTech usage in the next 12 months is the highest among the four surveyed markets and indicates a healthy and growing awareness among Hong Kong companies of the impact of FinTech on business performance. Singapore had the second highest increase in percentage points (5.7 per cent).

A contributing factor for the upward trend in FinTech usage in Hong Kong and Singapore is the near ubiquitous penetration and usage of internet among businesses. According to the latest data from the Hong Kong Census and Statistics Department, the internet usage rate for businesses of all sizes in 2019 was 90.3 per cent.[30] Similarly in

[30] Office of the Government Chief Information Officer (2020) *Survey on IT Usage and Penetration*

Singapore, 95 per cent of businesses used the internet in 2019.[31] The high rate of internet usage in Hong Kong and Singapore companies acts as a fundamental enabler for FinTech adoption in businesses should they wish to start investing and using such technology.

Future usage of FinTech products and services

Unsurprisingly, respondents from all four markets chose mobile payments and digital wallets as the FinTech their business will be most likely to use in the following 12 months, with more Hong Kong respondents (59.1 per cent) nominating mobile payments and digital wallets as their first choice than those from the other three markets.

A key explanation for the expected increase in popularity of mobile payment and digital wallet usage in Hong Kong is a conducive regulatory environment for payment innovation. Aside from the introduction of the Faster Payment System in 2018, the Hong Kong Monetary Authority started granting stored value facilities (SVFs) licenses in 2016, and there are currently a total of 18 licensees in operation.[32] The adoption of SVFs has been on the rise and in the first quarter of 2020, there was a total of 63.6 million SVF accounts in use, up 7.2 per cent year-on-year, while the total value of transactions grew to HK$49 billion (around US$6.3 billion), up 62 per cent compared with the last quarter of 2016.[33]

Another up-and-coming FinTech is virtual or digital banks, defined by the Hong Kong Monetary Authority as a bank that delivers banking services primarily through the internet or other forms of electronic channels instead of through physical branches.[34] Hong Kong has the highest percentage of respondents who identified virtual banks or digital banks as one of the most likely FinTechs their business will use in the next 12 months (26 per cent). With the Hong Kong Monetary Authority having approved eight virtual banks to operate in the city and virtual bank licensees expected to gradually increase their offering of financial services and products, more businesses, especially small and medium-sized businesses, may be tempted to use virtual banks due to the expected ease of opening an account and obtaining loans.

The development of virtual banks or digital banks in Singapore and Malaysia is arguably a positive outcome. The Monetary Authority of Singapore is expected to grant two digital retail bank licences and three digital wholesale bank licences in the future,[35] while the Bank Negara Malaysia has completed a consultation on an Exposure Draft on the Licensing Framework for Digital Banks in June 2020, and up to five digital bank licences may be issued to conduct either secular or Islamic banking business in Malaysia.[36]

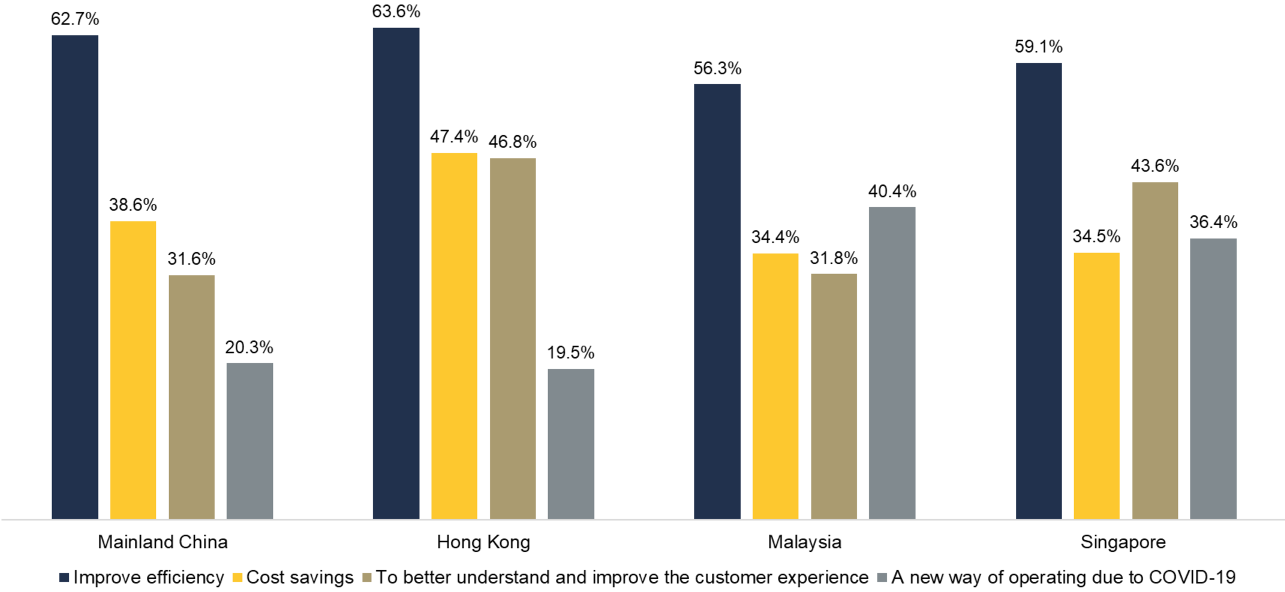
More Mainland China respondents chose robo-advisors and chatbots (32.3 per cent) and WealthTech (17.1 per cent) than respondents from the other markets. This illustrates that the commercial application of these two technologies is proliferating as Mainland China's Government increases its efforts to support R&D in AI and machine learning.

[31] Infocomm Media Development Authority. (2020). *Infocomm Usage - Business*
[32] Legislative Council Secretariat. (2020). *Emergence of new electronic payment services*
[33] Hong Kong Monetary Authority. (2020). *Statistics of SVF Schemes Issued by SVF Licensees for First Quarter 2020*
[34] Hong Kong Monetary Authority. (2018). *Guideline on Authorization of Virtual Banks*
[35] Monetary Authority of Singapore. (2019). *Digital Bank Licence*
[36] Bank Negara Malaysia. (2019). *Exposure Draft on Licensing Framework for Digital Banks*

Almost one in four businesses surveyed in Malaysia and Singapore (both with 24.5 per cent) do not expect to use FinTech in the next 12 months, with the majority of these being businesses with 50 or fewer employees. This might be due to small businesses not having a sound understanding of the benefits of FinTech to their organisations. Education and proactive measures may be needed for this sector to facilitate greater adoption of FinTech.

DRIVERS AND CHALLENGES TO FINTECH ADOPTION

Figure 7. Key drivers to business FinTech adoption



The top four drivers of FinTech adoption in business according to respondents in all four markets are: to improve efficiency, costs savings, to better understand and improve the customer experience, and a new way of operating due to COVID-19 (see Figure 7).

Enhancing operational processes is the major motivator for businesses to adopt FinTech, with improving efficiency being the most likely driver of FinTech adoption in all four markets. With the global pandemic and more challenging business environment, improving efficiency and enhancing the customer experience are essential elements for businesses to sustain themselves and to thrive. More widespread adoption of FinTech products and services will help in this respect as consumers become increasingly comfortable with digital financial transactions.

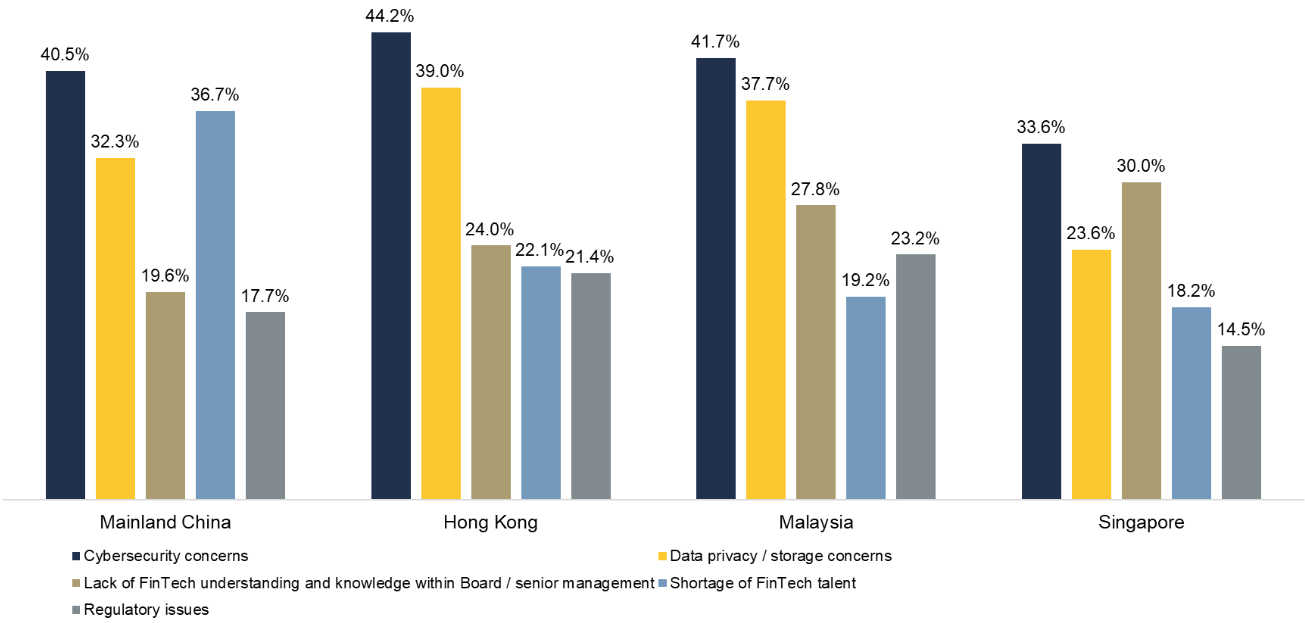
A claimed advantage of FinTech is that it can save time and costs for businesses by automating and simplifying certain tasks that were previously conducted by staff. An example would be a chatbot's ability to help automate account management and customer services. Hong Kong respondents were more likely to nominate cost savings as a driver to FinTech adoption (47.4 per cent) compared with respondents from other markets. With the findings of CPA Australia's *Asia-Pacific Small Business Survey 2019/20* showing that staff costs had overtaken rent as the most detrimental cost in small businesses in Hong Kong,[37] it suggests that Hong Kong businesses may be exploring ways to reduce staff costs, such as employing automated FinTech solutions.

Respondents in Malaysia (40.4 per cent) and Singapore (36.4 per cent) were significantly more likely to choose a new way of operating due to COVID-19 than respondents in Mainland China (20.3 per cent) and Hong Kong (19.5 per cent). This is likely because businesses in both Malaysia and Singapore were less likely to have adopted

[37] CPA Australia. (2020). *Asia-Pacific Small Business Survey 2019-20*

FinTech prior to COVID-19, thus compelling them to make greater use of FinTech in order to adapt to changing consumer preferences, new working arrangements, and to reduce disruptions to business operations.

Figure 8. Key challenges to business FinTech adoption



Respondents in all four markets were most concerned about cybersecurity (see Figure 8). More than four in ten respondents in Mainland China, Hong Kong and Malaysia selected cybersecurity as a major challenge or barrier to FinTech adoption in their business, while over one-third of respondents in Hong Kong and Malaysia nominated data privacy as a key challenge. Respondents from Singapore were comparatively less concerned about cybersecurity and data privacy issues, although they were still among the top-three concerns to FinTech adoption. One reason behind Singapore's lower percentage could be due to their higher level of commitment to cybersecurity already in place. According to the *Global Cybersecurity Index 2018* created by the International Telecommunication Union, Singapore was ranked first in the Asia-Pacific region in terms of commitment to cybersecurity and sixth worldwide.[38]

Another key challenge or barrier is a lack of FinTech understanding and knowledge within the board / senior management, with 30 per cent of Singapore respondents and 27.8 per cent of Malaysia respondents choosing this as a challenge. This result parallels the findings of CPA Australia's *Banking on Governance, Insuring Sustainability* report, which found that most major banks and insurance companies in the Asia-Pacific region do not have a board-level technology committee, nor have they appointed directors with technological expertise or working background in this area.[39]

[38] International Telecommunication Union. (2019). *Global Cybersecurity Index (GCI) 2018*
[39] CPA Australia. (2020). *Banking on Governance, Insuring Sustainability*

It is important for companies to acknowledge these challenges when planning to use FinTech or expanding their usage of FinTech. For cybersecurity and data protection measures to be effective, such concerns should be elevated to the boardroom, with clear responsibility given for cybersecurity, especially in the event of a cyberattack.

It is also important for FinTech companies or start-ups to reduce the risk that their customers fall prey to cyber-attacks. This could include disclosing measures, such as a privacy or data protection policy, to increase customer awareness.

While investment in cybersecurity measures may be costly, businesses and FinTech providers should also consider the benefits. A major cybersecurity breach could be very expensive and may damage the reputation of the company. It is therefore essential for businesses and FinTech providers to establish and maintain robust cybersecurity practices.

According to a report by Deloitte, there are three main characteristics that differentiated companies that have a successful cybersecurity program from the rest.[40] They are:

- securing the involvement of senior leadership and the board
- raising cybersecurity's profile within the organisation beyond the IT department
- aligning cybersecurity efforts more closely with the business strategy.

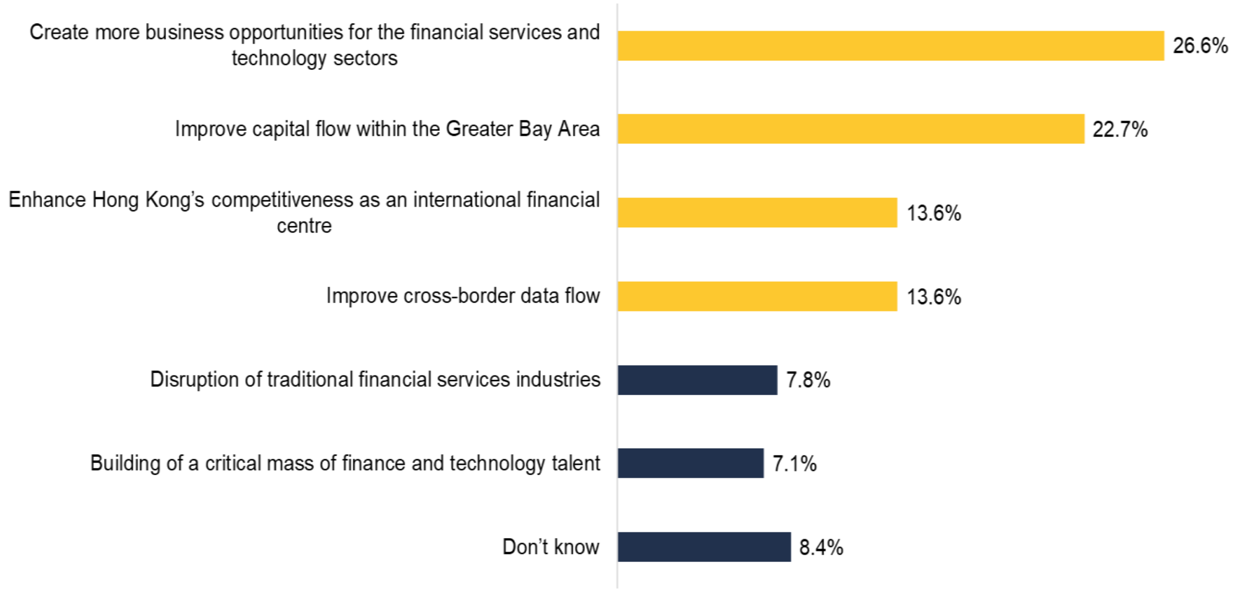
Businesses that can successfully emulate these three crucial characteristics may be better placed to improve their cybersecurity and protect sensitive data, and hence be better placed to implement new technology such as FinTech.

Reflecting the strong demand for FinTech and the consequence of growing business usage of FinTech, more than one-third of respondents (36.7 per cent) in Mainland China cited a shortage of FinTech talent as a challenge to business FinTech adoption, which was significantly more than Hong Kong in second place (22.1 per cent). To meet the shortfall in FinTech talent, businesses in Mainland China should consider developing new talent development plans to cultivate, recruit and retain FinTech talent.

[40] Deloitte. (2019). *Pursuing cybersecurity maturity at financial institutions*

FINTECH AND THE GREATER BAY AREA

Figure 9. Key impacts of FinTech on the Greater Bay Area Initiative



Respondents from Hong Kong were asked about the key impacts of FinTech on doing business in the Greater Bay Area (GBA).

Over a quarter of respondents (26.6 per cent) indicated that FinTech would create more business opportunities for the financial services and technology sectors, while 22.7 per cent believe that FinTech will improve capital flow within the region (see Figure. 9). This supports the notion that there are significant opportunities for the development of FinTech.

This is evidenced by the large number of high-net-worth families in the region. According to the *Hurun Wealth Report 2019*, 25 per cent of China's high-net-worth families – defined as families with assets of over RMB six million – are located in Hong Kong, Macau, and in Guangdong province.[41] This suggests that there is tremendous business potential for the provision of financial services using innovative technology across the GBA. Initiatives such as the announcement of the Wealth Management Connect Scheme in June 2020, are likely to enhance cross-border investments across the GBA and open the door for the development of more FinTech firms focusing on WealthTech and other robo-advisors services.

Moreover, the generally positive assessment of the impact of FinTech on the GBA among respondents is indicative of the expanding business and economic integration in the GBA. According to a survey conducted by InvestHK, a government department responsible for attracting foreign direct investment, 51 per cent of Hong Kong FinTech firms are operating or are planning to expand in the GBA.[42] This positive sentiment also means that

[41] Hurun Report. (2019). *Hurun Wealth Report 2019*
[42] Financial Services and the Treasury Bureau. (2020). *Development of Financial Technologies*

the development of the GBA into a world-class financial and technology hub could capture opportunities from the Belt and Road Initiative, and provide growth opportunities for FinTech firms to expand and develop their products and services overseas.

RECOMMENDATIONS FOR BUSINESSES

CPA Australia recommends that businesses undertake a review of their FinTech adoption across three dimensions – business strategy level, business operational level and risk management level – and consider:

Business strategy level

- Make use of mobile payment technology to improve the customer experience and meet changing consumer behaviour.
- Identify and implement appropriate FinTech products and services that improve efficiency and reduce cost in your business.

Business operational level

- Establish a board-level technology committee to stay actively informed of new trends and potential technologies – including FinTech and cybersecurity issues.
- Encourage a corporate-wide innovative culture through developing a FinTech talent pool, such as by providing FinTech training programs to all employees in the business and adopting innovative approaches to secure top FinTech talent.

Risk management level

- Commit appropriate levels of expenditure to maintaining and upgrading IT systems to protect the business from malicious cyber-attacks.
- Identify business sensitive data and ensure that appropriate tools and solutions are in place to help protect that data.

In addition, for businesses and FinTech start-ups based in Hong Kong, it would also be advantageous to:

- Exploit opportunities from the Greater Bay Area initiative such as the upcoming Wealth Management Connect Scheme.
- Increase cross-border collaboration between the Greater Bay Area and ASEAN to create more opportunities for the financial services and technology sectors.

KEY LESSONS FOR FINTECH START-UPS

A 2020 survey conducted by DBS Bank found that 80 per cent of Singapore businesses prefer FinTech companies as digitalisation partners. This preference was also observed in Hong Kong (73 per cent) and China (69 per cent).[43]

FinTech start-ups can therefore draw lessons from these survey results to help develop products or services more likely to meet business needs and to address concerns. These include demonstrating how their product or service**:**

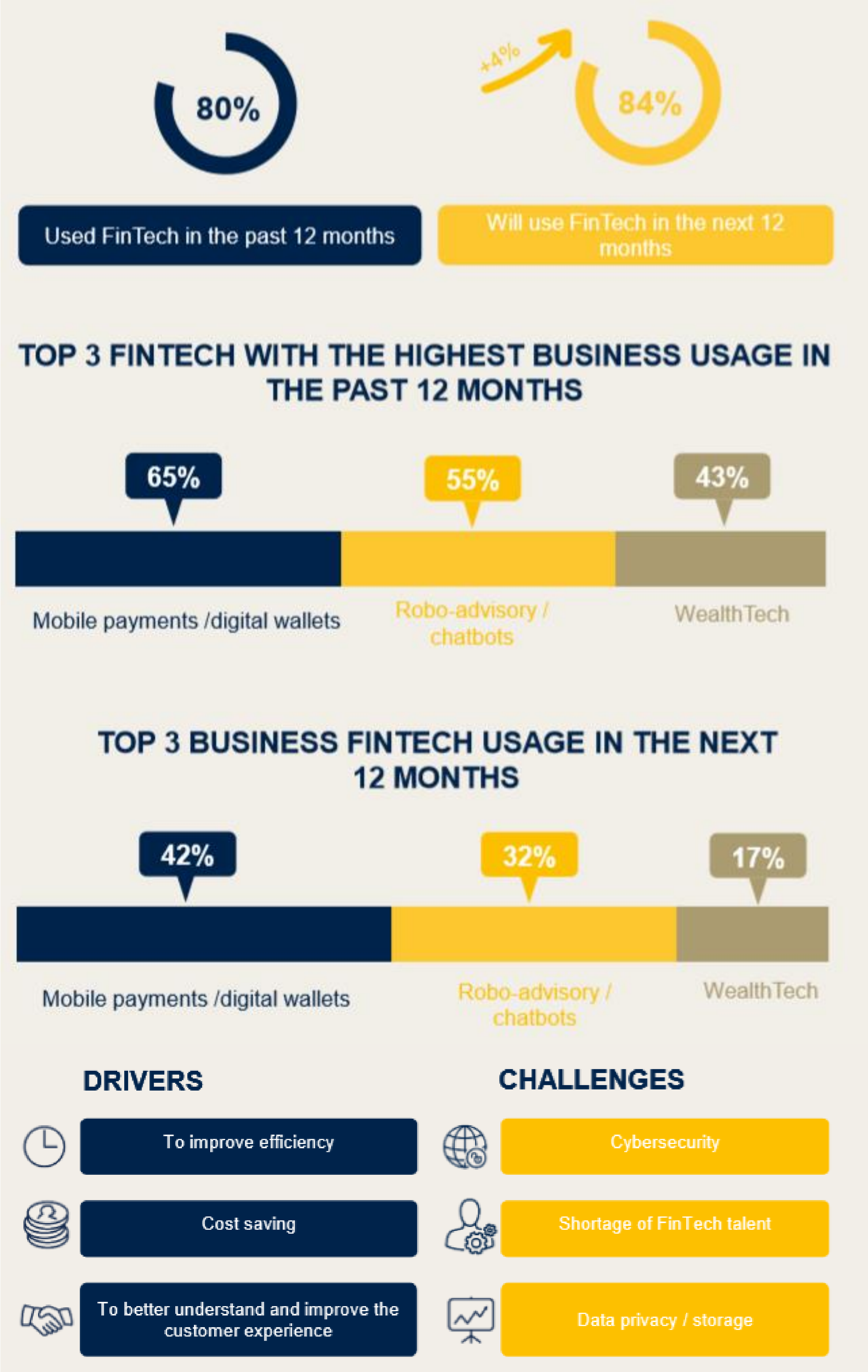
- improves the efficiency of a potential client
- leads to cost savings
- gives the business a better understanding of their customers and improve the customer experience.

They should also focus on:

- the cybersecurity features of their products or services, and how they will assist the business to protect its cybersecurity into the future
- how customer and business data will be protected
- how the FinTech will assist the business implement, support and enhance the technology.

[43] DBS Bank. (2020). *DBS survey finds Singapore businesses to be most digitally-ready in Asia-Pacific*

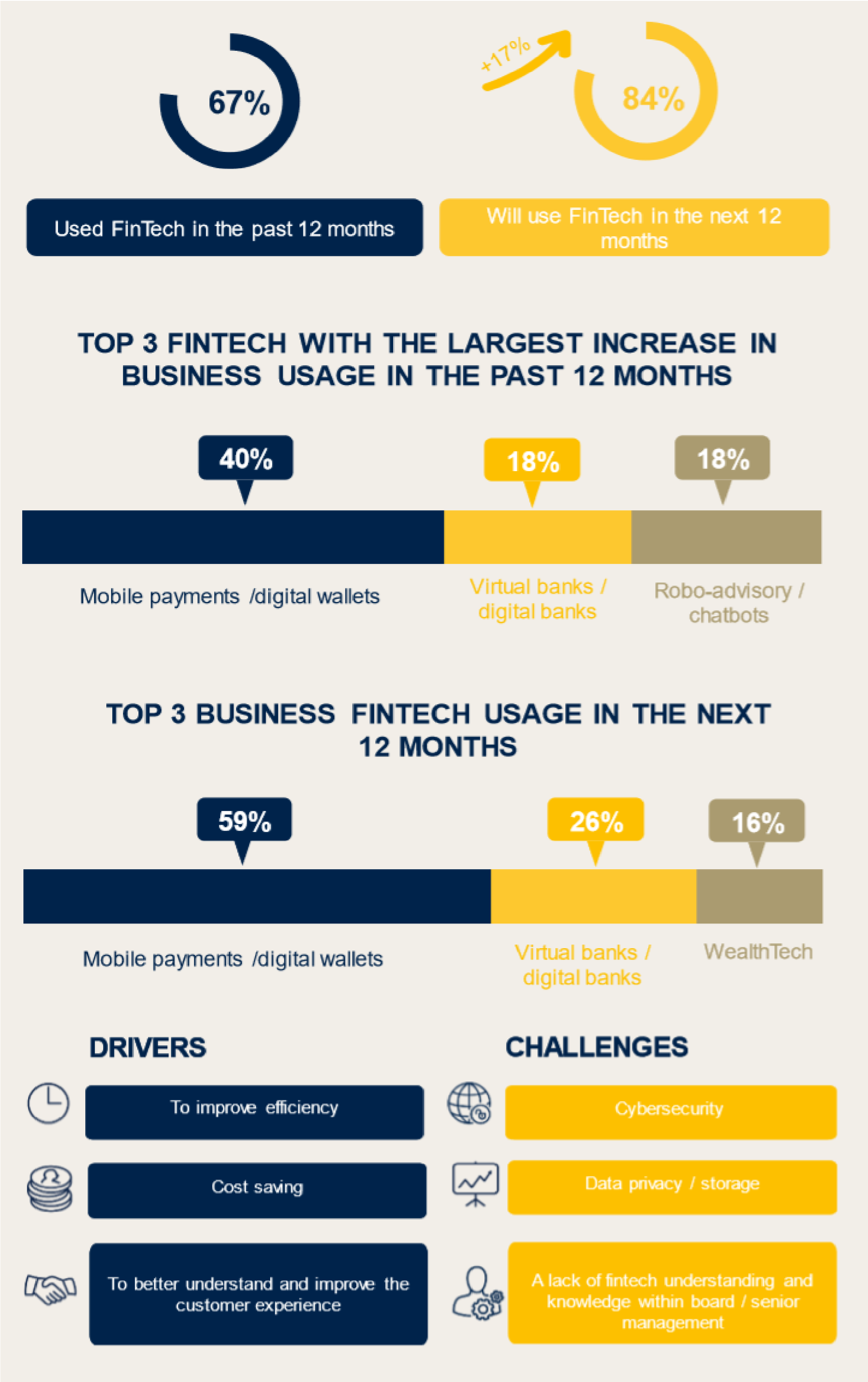
MAINLAND CHINA MARKET SUMMARY



Key findings for Mainland China

- 80 per cent of surveyed Mainland Chinese accounting and finance professionals stated that their business had used at least one FinTech product or service in the past 12 months, the highest result of the surveyed markets.
- 84 per cent stated that their business will use a FinTech product or service in the next 12 months.
- Mobile payments / digital wallets, robo-advisors / chatbots and WealthTech are the top three FinTech products or services that Mainland Chinese businesses expect to use in the next 12 months.
- 74 per cent of businesses that increased their profitability in 2019 either maintained or increased usage of mobile payments or digital wallets in the past 12 months, compared to 58 per cent of businesses that did not increase their profitability in 2019.
- In the past 12 months, mobile payments / digital wallets experienced the highest increase in usage among Mainland Chinese businesses.
- Improved efficiency (63 per cent), cost savings (39 per cent) and to better understand and improve the customer experience (32 per cent) were the most popular drivers of FinTech adoption in Mainland Chinese businesses.
- Cybersecurity (41 per cent), shortage of FinTech talent (37 per cent) and data privacy (32 per cent) were the top-three barriers or challenges to FinTech adoption in Mainland Chinese businesses.

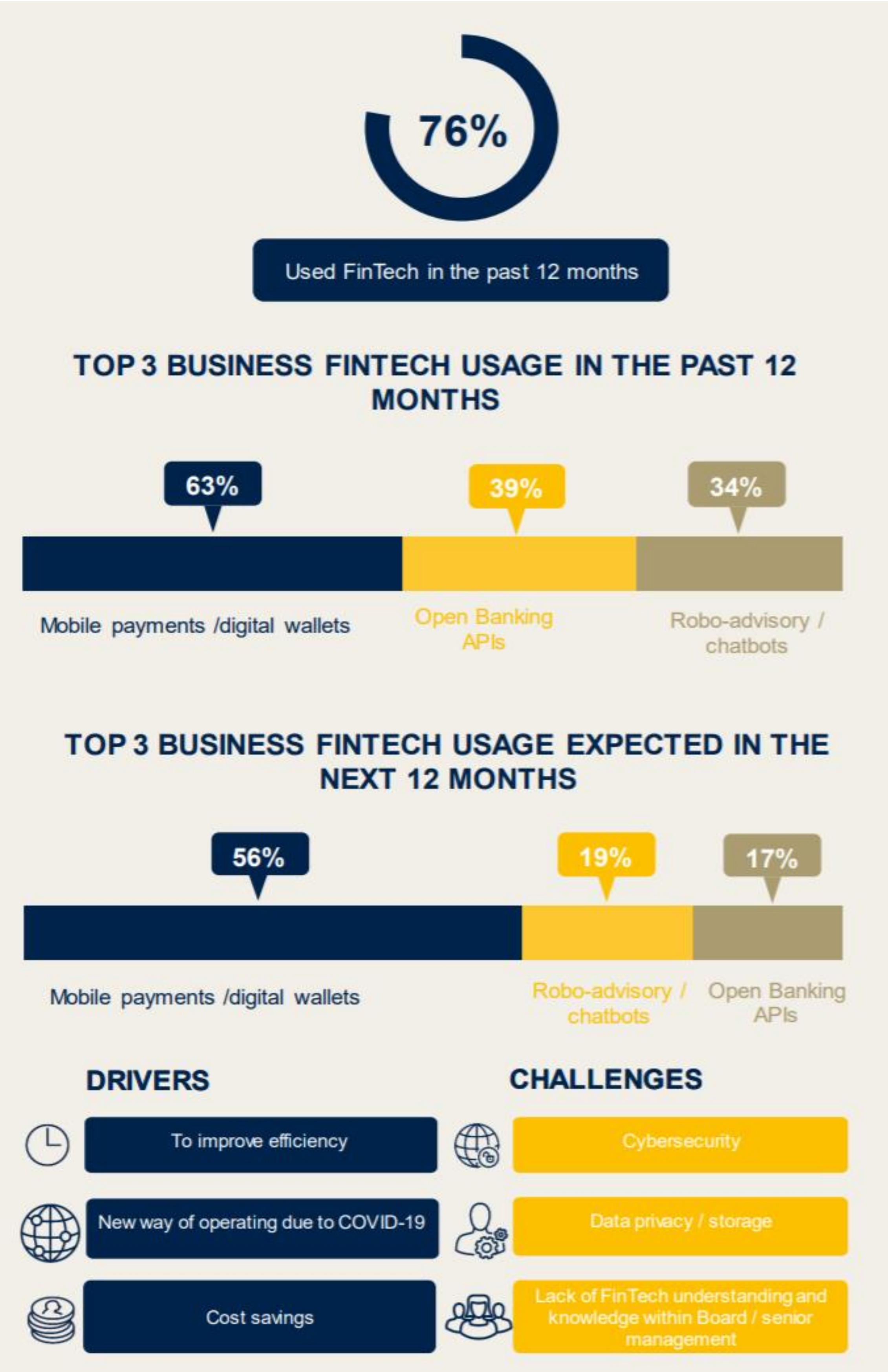
HONG KONG MARKET SUMMARY



Key findings for Hong Kong

- 84 per cent of surveyed Hong Kong accounting and finance professionals stated that their business will use a FinTech product or service in the next 12 months, on par with Mainland China, and up from 67 per cent in the past 12 months.
- In the past 12 months, mobile payments / digital wallets proved the most popular FinTech product or service for businesses in Hong Kong, with 40 per cent of businesses surveyed reporting increased usage of this technology, followed by virtual banks (18 per cent) and robo-advisors / chatbots (also 18 per cent).
- In the coming 12 months, 59 per cent of Hong Kong businesses expect to use mobile payments / digital wallets, followed by virtual banks (26 per cent) and wealth management technology (16 per cent).
- 63 per cent of Hong Kong businesses that increased their profitability in 2019 either maintained or increased usage of mobile payments or digital wallets in the past 12 months, compared to 48 per cent of businesses that did not increase their profitability in 2019.
- Improved efficiency (64 per cent), cost savings (47 per cent) and to better understand and improve the customer experience (47 per cent) were the most popular drivers of FinTech adoption in Hong Kong businesses.
- Cybersecurity (44 per cent), data privacy / storage concerns (39 per cent) and a lack of FinTech understanding and knowledge within board / senior management (24 per cent) were the common barriers or challenges to FinTech adoption in Hong Kong businesses.
- The most likely impacts of FinTech on the GBA were ‘create more business opportunities for the financial services and technology sectors’ (27 per cent) and ‘improve capital flow within the GBA’ (23 per cent).

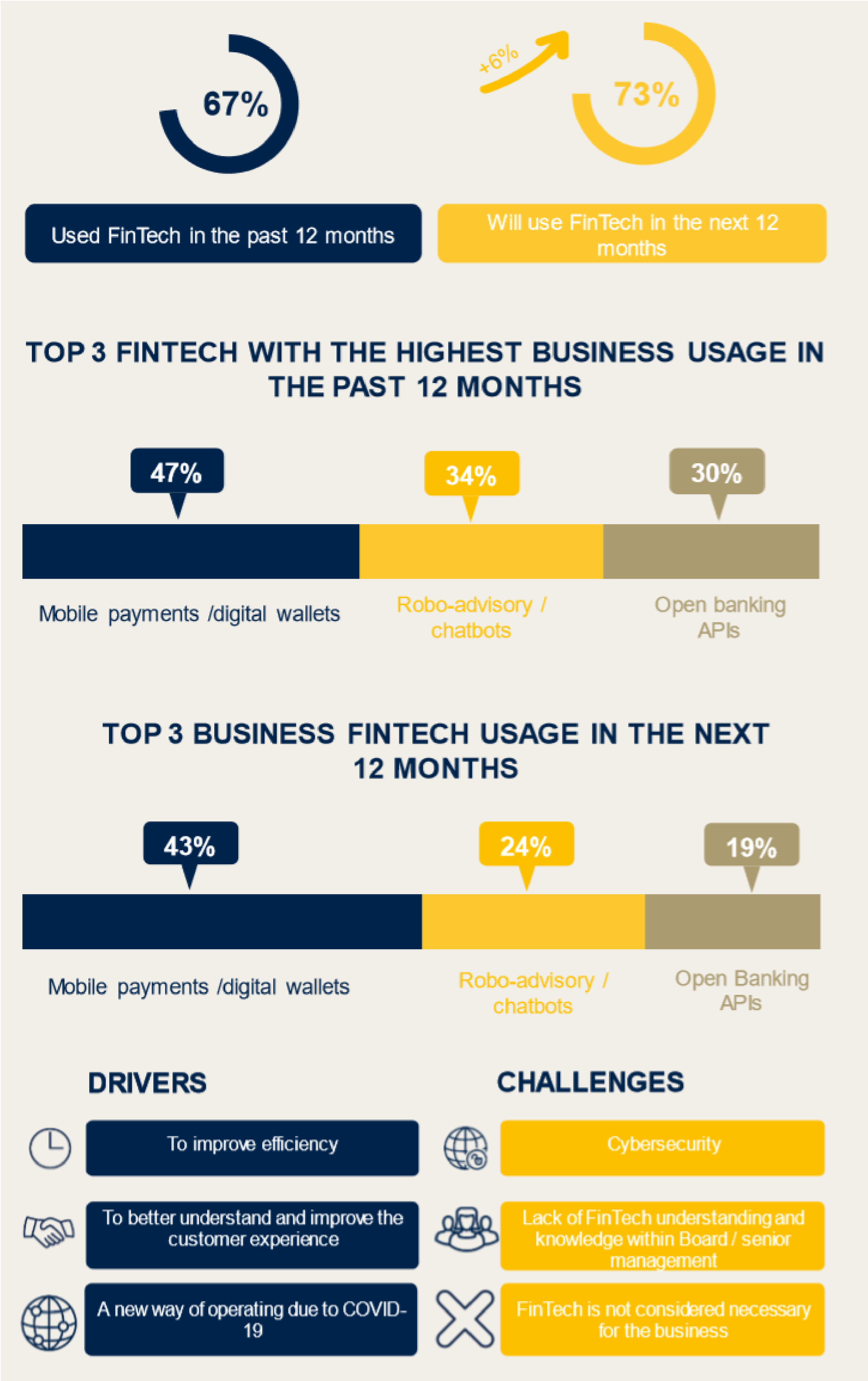
MALAYSIA MARKET SUMMARY



Key findings for Malaysia

- Over 75 per cent of Malaysian businesses have embraced at least one FinTech product or service over the past 12 months.
- Mobile payments / digital wallets, open banking APIs, and robo-advisors / chatbots are the top three FinTech products or services that experienced the highest usage among Malaysian businesses in the past 12 months.
- 67 per cent of businesses that increased their profitability in 2019 had used mobile payments / digital wallets in the past 12 months, compared to 63 per cent of overall businesses.
- Improved efficiency (56 per cent), a new way of operating due to COVID-19 (40 per cent) and cost savings (34 per cent) were the most popular drivers of FinTech adoption in Malaysian businesses.
- Cybersecurity (42 per cent), data privacy / storage (38 per cent), and a lack of FinTech understanding and knowledge within board / senior management (28 per cent) were the most likely choices for barriers or challenges to FinTech adoption in Malaysian businesses.
- One in four businesses surveyed do not expect to use FinTech in the next 12 months with the majority of these being businesses with 50 or fewer employees.

SINGAPORE MARKET SUMMARY



Key findings for Singapore

- 73 per cent of surveyed Singapore accounting and finance professionals stated that their business will use a FinTech product or service in the next 12 months, compared with 67 per cent of businesses in the past 12 months.
- Mobile payments / digital wallets, robo-advisors / chatbots, and open banking APIs are the top three FinTech products or services that experienced the highest usage among Singapore businesses in the past 12 months.
- Mobile payments / digital wallets, robo-advisors / chatbots, and open banking APIs are also the top three FinTech products or services that Singapore businesses expect to use in the next 12 months.
- 50 per cent of businesses that increased their profitability in 2019 used mobile payments / digital wallets in the past 12 months, compared to 47 per cent of overall businesses.
- Improved efficiency (59 per cent), cost savings (44 per cent) and a new way of operating due to COVID-19 (36 per cent) were the most popular drivers of FinTech adoption in Singapore businesses.
- Cybersecurity (34 per cent), a lack of FinTech understanding and knowledge within board / senior management (30 per cent) and ‘not considered necessary for the business’ (26 per cent) were the most likely perceived barriers or challenges to FinTech adoption in Singapore businesses.