

# How Can Technology Leaders Accelerate Financial Ecosystems to Combat Digital Giants?

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Southeast Asia is now a digital financial services battleground for digital giants, emerging digital ecosystems and incumbents. CIOs must embed more of their financial products and services into customers' lives and commercial value chains in planning their digital acceleration strategy.



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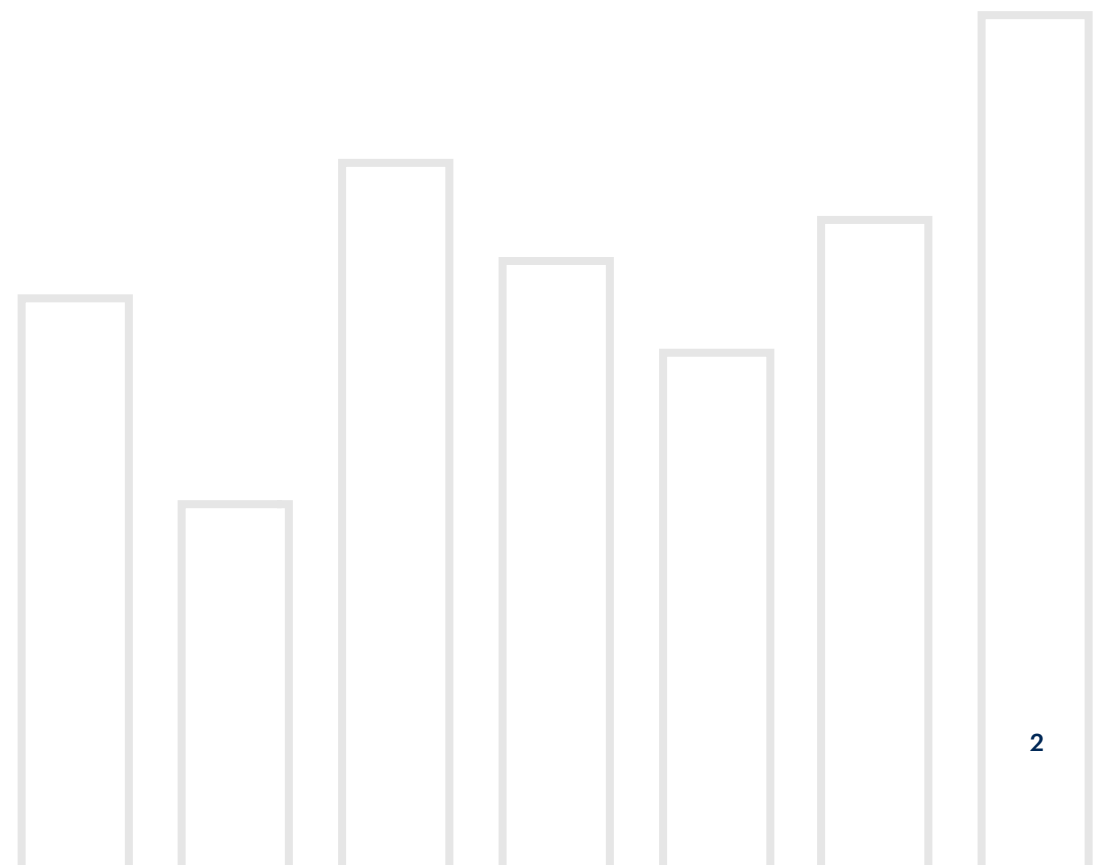
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## Overview

### Impacts

- Customer value (consumption) propositions are shifting from payments to digital financial services.
- Digital giants are transitioning from arm's length investors to the development of regional financial services champions.
- Maps of new digital ecosystems reveal a complex set of competitive market tensions but also new collaborative opportunities.

### Recommendations

Financial services CIOs developing digital business strategies for the future should:

- Accelerate collaboration with a focus on augmenting your digital banking/payment solutions and capturing new data flows via the digital financial ecosystem map.
- Accelerate your engagement with customers (SMBs and retail customers) by prioritizing partnerships and integration with digital giants that give you access to new data input to your credit management practices.
- Plan your competitive strategy by using the roadmap and business template that Southeast Asian digital giants have used. Such templates will be copied by new regional champions in your own market.
- Perform a risk analysis of the collaborative options. Prepare for new delivery models enabled by APIs to support new entrants in handling regulatory requirements.

## Analysis

Bank executive leaders have been nervously eyeing digital giants. Their influence on the creation of new ecosystems — business template, operations and structure as well as via funding — is getting closer to creating regional champions that challenge banks' operations. However, as they apply for digital banking licenses, the new entrants will need help, especially since they lack insight and experience in handling regulatory requirements. As a result, CIOs in partnership with business-side leadership should create a role to manage the different investments and collaborative models, and perform a risk analysis with a view to create a portfolio of collaborative models. This would also facilitate mapping integration needs and identifying potential technology bottlenecks.

### Driving to the core of financial services

Southeast Asia is experiencing a transformation of its financial services industry structure through adoption of digital commerce, mobile apps and regulators keen on promoting financial innovations, notably to support financial inclusion. This is both a result and cause of digital giants' involvement in the region. Ant Group, Tencent, Amazon, Google and Facebook are all very active in building market shares as well as developing new collaborative models and investing in local champions such as Gojek and Grab. The competition among those digital ecosystems generates friction and tension. And similarly to tectonic plate movements, this results in new landscapes. Financial services haven't been immune to those structural changes. In order to better understand the implications for the financial services industry — in a similar fashion as to understanding the movement of tectonic plates — we need to go below the surface, closer to the core. This approach also provides a way to grasp the nature and degree of new entrants' foray into financial services.

In order to create a mapping of Southeast Asia financial services ecosystems, take into account the following principles:

- Providing payment services is a powerful catalyst to demonstrate trust and build a financial services proposition (see Accelerate Your Banking Digital Transformation via Unconventional Payment Strategies). These are therefore positioned in the outer layer just below digital and proximity commerce.
- Becoming a provider of current account services and financial advice demands a higher level of customer trust. We also made an assumption that even if the investment services provided by the companies reviewed are relatively simple, they provide access to the delivery of financial advice.
- Regulation is an exogenous factor that defines the limit of this foray into financial services. However, our research shows a desire by regulators to favor innovations and drive financial inclusion. Thus, overall, regulatory frameworks are favorable to those new competitive dynamics as illustrated by open banking mandates such as the second Payment Services Directive (PSD2) in Europe, and the issuance of new digital banking licenses such as in Taiwan. Furthermore, strategic partnerships provide a way to maintain existing industry legal boundaries.

Taking the above principles into account, Figure 1 maps the activities of the key stakeholders in the region, indicating partnerships, investments, ownership and product relationships. In order to capture how far such digital ecosystems have entered (and are entering) the financial services industry, these activities are positioned across five domains:

- **Digital and proximity commerce** — providing the interface or app.
- **Payment products and services** — providing payment methods such as a digital wallet.
- **Financial products and services** — this could include savings, lending, insurance and investment products — and by definition there is a minimum level of financial advice provided.
- **Current or checking account.**
- **Financial advice** — ability to tailor recommendations to each client taking into account their financial situation and risk profile.
- And all five domains impact **Customer trust**. Positioned at the core of the model, it provides an ability to grow existing operations as well as the legitimacy to introduce new products and services.

**Figure 1. Mapping Competitive and Collaborative Dynamics in Southeast Asia**

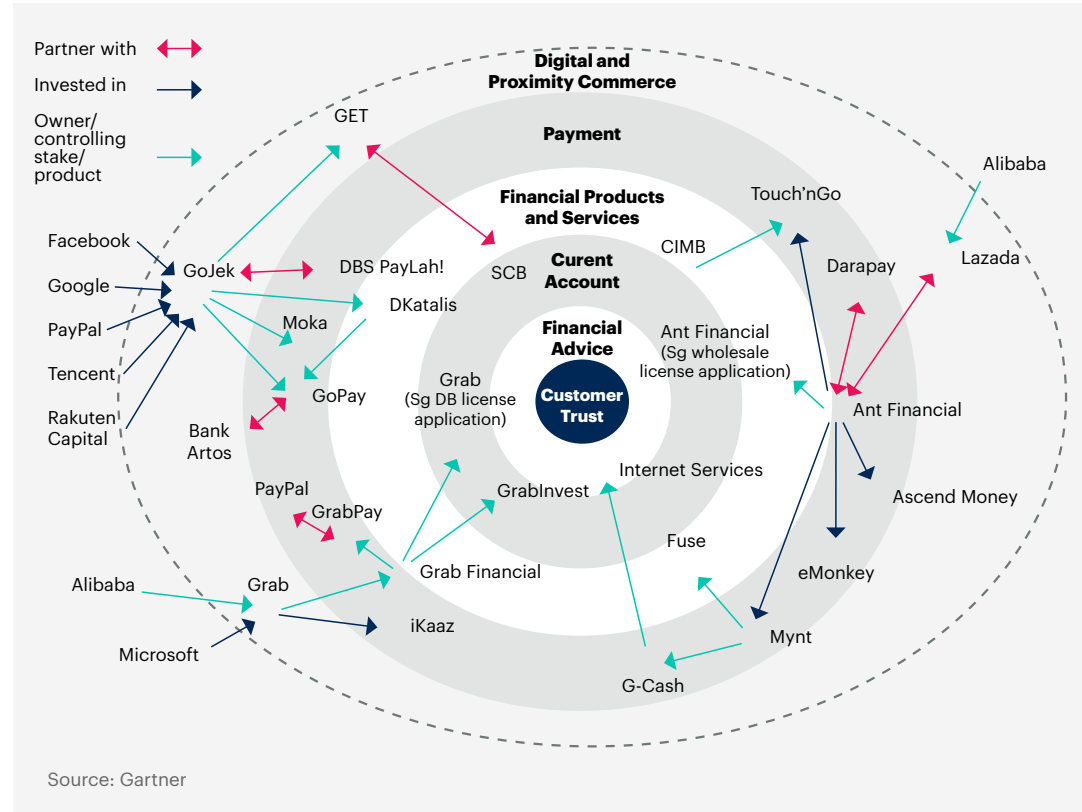


Figure 1 does not list all investors in a given venture, all subsidiaries of a given entity, or all ownership and product relationships. All such relationships were correct at the time of writing this report. See Note 1 for announcements related to Figure 1.

This mapping reveals the following dynamics:

- Payments activity has intensified and participants are taking multiple routes to maximize the transition from transactional services to the distribution of financial products and services such as by creating new credit decisioning tools fed by rich transactional datasets.
- The influence of digital giants is not limited to investments and product innovations. Some of them, such as Ant Group, also provided templates that led to the launch of regional financial services champions. And similar to Ant Group, they are setting entities dedicated to the creation and delivery of digital financial services (e.g., DKatalis). They also applied for digital banking licenses such as Grab in Singapore in collaboration with Singtel.
- There are multiple models of collaboration varying in intensity and demanding that bank CIOs and executive leaders take a granular approach when building their own digital ecosystems.
- As illustrated by Ant Group’s successful application for a wholesale banking license in Singapore, small and midsize businesses (SMBs) are also an important target segment for the new digital financial ecosystems.

We now explore those key dynamics in more detail while stressing the implications for CIOs. While Gartner recognizes that each market has its own demand and supply specificities, all of the above dynamics make the region fertile ground for understanding new competitive models.

Before defining their digital ecosystem and digital platform strategies, CIOs of financial services providers should work with other executive leaders, and review the Southeast Asian environment to understand the impact of digital acceleration on the financial services industry (see Table 1).

**Table 1. Impacts and Top Recommendations for Financial Services CIOs**

Impacts	Top recommendations
Customer value (consumption) propositions are shifting from payments to digital financial services	<ul style="list-style-type: none"> <li>Collaborate but with a focus on augmenting your digital banking/payment solutions as well as capturing new data flows.</li> <li>Build alternative credit profiles by accessing digital commerce transactions.</li> <li>Prioritize partnerships and integration with digital giants that give you access to new data input to your credit management practices.</li> </ul>
Collaborate but with a focus on augmenting your digital banking/ payment solutions as well as capturing new data flows.	<ul style="list-style-type: none"> <li>Prepare to engage with new financial services providers that are both competitors and important partners to support your digital acceleration.</li> <li>Plan your competitive strategy by using the roadmap and business template that Southeast Asian digital giants have used.</li> </ul>
Build alternative credit profiles by accessing digital commerce transactions.	<ul style="list-style-type: none"> <li>Create new roles to manage the different investments and collaborative models.</li> <li>Perform a risk analysis of the collaborative options. Prepare for new delivery models enabled by APIs to support new entrants in handling regulatory requirements.</li> </ul>

## Impacts and recommendations

### Customer value propositions are shifting from payments to digital financial services

New entrants into financial services built their brand and customer proposition on new consumption patterns, such as for Grab and Gojek through ride-hailing apps then digital commerce. In order to minimize friction at check-out, they developed digital wallets, hence entering the payment market. The importance of payment as a catalyst for providing financial services is reflected by the intense activity in controlling this outer layer of the model:

- Acquisition of payment capability such as Moka by Gojek, and iKaaz by Grab.
- Ant Group is very active in the region and has invested across Southeast Asia, for example, in eMonkey (Vietnam), Mynt (Philippines) and Ascend Money (Thailand).
- Investments and acquisitions are not just about building market shares, but controlling a larger portion of the payment value chain such as Ant Group with Ascend Money.

As a result, they built customer trust through their ability to frequently handle sensitive customer data during a transactional service (payment). This generated both a platform for, and the legitimacy to accelerate, their foray into financial services. It's also important to stress that there is a sense of urgency for Grab and Gojek in driving their financial services revenue, since the health crisis hit their core business of ride hailing and food delivery.

- **Grab** built its payment legitimacy via its digital wallet supporting its ride-hailing app. GrabPay now provides payment services to consumers and merchants.
  - Thanks to the transactional data generated by GrabPay, GrabFinance provides financing to Grab drivers as well as affiliated merchants. This activity is supported by its proprietary credit system which, similarly to Zhima Credit from Ant Group, is based on the transaction activity generated via GrabPay.
  - GrabInsure provides travel and ride covers to consumers as well as accident and medical insurance coverage for its drivers.
  - GrabInvest provides an autoinvest service to transfer a customer-defined GrabPay balance to an investment account. The approach to investment is very similar to Yu'e Bao from Ant Group and Lingqiantong from WeChat. The main drivers for customers are the ability to make small value investments and the flexibility to deposit/transfer the funds from/to their digital wallet.
- **Gojek** also developed its payment proposition on the adoption of its ride-hailing app. GoPay provides digital wallet services and GoBills further increases customers' reliance on the wallet for day-to-day transactions. Gojek PayLater provides a delayed payment functionality and GoSure includes life, motorbike and travel insurance.
- **Mynt** is the umbrella organization for GCash and Fuse Lending. GCash is a digital wallet and provides a large portfolio of payment, billing services and financing options. It includes GCredit which, similarly to Zhima Credit from Ant Group, bases its credit score on the transaction activity via GCash. Fuse Lending is the company managing the loan book generated by GCredit and also provides loans to SMBs. GCash also provides an Invest Money service similar to GrabInvest, with a similar level of flexibility in moving money to and from the digital wallet.
- **Ant Group** is keen to build a Southeast Asian digital financial services ecosystem in order to compensate for the pressures they are facing in their home market, China, and the consequences of geopolitical tensions that limit growth prospects. For example, its support of, influence on and investment in Mynt are creating new nodes to its network. But they are also creating new entry points such as via their wholesale banking license in Singapore. This would create a new SMB banking offering that would extend via the existing partnerships and collaborative models illustrated in Figure 1. And connecting such ecosystem dots would drive digital acceleration.

While the provision of a current/checking account provides banks with the main payment funding account, a larger number of transactions are now handled via digital wallets and therefore through nonbank interfaces (accelerated by the health crisis as discussed in Accelerate Your Banking Digital Transformation via Unconventional Payment Strategies). As a result, some banks understand well the benefits of early participation to this new payment value chain. Examples of early participation include via app integration, such as between Siam Commercial Bank (SCB) with Gojek operations in Thailand or via a joint venture, such as CIMB and Ant Group via Touch 'n Go, as well as Bank Artos with GoPay.

## Recommendations:

- Create your digital financial ecosystem map by visualizing the connections across digital commerce and digital financial ecosystems as illustrated in Figure 1, stressing the collaborative models that digital giants have adopted with the financial services industry. New cross-digital connections are emerging and your organization will not be able to handle (nor detect in the first place) the next dots of those new digital financial services ecosystems without first mapping those new cross-industry relationships.
- Augment your digital banking platform by capturing new data flows thanks to the new collaborative models identified via the digital financial ecosystem map.
- Prioritize partnerships and integration with digital giants that give you access to new data input to your credit decisioning platforms or an ability to create new alternative credit scores based on the contextual data from digital commerce.
  - From a retail banking perspective, the opportunity to access or build alternative credit profiles is stronger in markets such as the Philippines and Indonesia with a larger unbanked population (and other countries outside of Southeast Asia advancing financial inclusion).
  - However from a SMB banking perspective, whatever the maturity of the banking market, the ability to better understand digital commerce transaction flow provides banks with new credit risk management capabilities.

## Digital giants are transitioning from arm's length investors to the development of regional financial services champions

Southeast Asia is experiencing a proxy war among digital giants. Grab and Gojek are competing across the region and are respectively backed by SoftBank/Microsoft (Alibaba is exploring such an investment) and Tencent/Google/JD.com/Facebook/Rakuten Capital. And this is not just financial backing. The investors have directly influenced the structure and approach of the local champions.

While there are variations, Ant Group and WeChat have acted as templates for the development of the new digital financial services ecosystems. As mentioned above, they built legitimacy and an understanding of customers' interest and risk profiles via their payment operations. This provided an ability to expand into lending and insurance brokerage. They also built partnerships with fund managers to enable low-value investments from digital wallet balances.

Grab and Gojek have further modeled themselves on Ant Group by launching a dedicated financial services company and applied for digital banking licenses.

- Gojek is creating a new business unit, DKatalis, to manage its portfolio of financial products and services — similar to how Alibaba created Ant Group — and drive creation of a digital financial service benefiting and benefiting from Gojek digital commerce and apps.
- Grab Financial Group is responsible for Grab's payment operations (GrabPay), SMB financial services (GrabFinance), insurance (GrabInsure) and investment services (GrabInvest).



By adopting this approach, and as illustrated by the relationships expressed by Figure 1, they are turning into business hubs — a real digital ecosystem feature — borrowing from the airline industry concept of alliances and collaborating with distinct partners from their competitors.

**Recommendations:**

- Ensure that your digital banking platform is modular enough — more composable — to respond to changes in the conditions and terms of the new collaborative models.
  - Your open banking strategy needs to be ready to accommodate an engagement model with providers that are both competitors and important partners to support your digital acceleration — such as by adopting a platform business model transformation (see Platform Business Models That Adapt and Disrupt).
  - While bank executive leaders have been eyeing fintech startups, the influence of digital giants on the creation of new ecosystems — business template, operations and structure as well as via funding — is getting closer to creating regional champions.
- Understand the roadmap and business template that Southeast Asian digital giants have used. Not only will they mirror Ant Group but they will be increasingly copied by new regional champions in your own market.

**Maps of new digital ecosystems reveal a complex set of competitive market tensions**

This mapping reveals the tensions across digital ecosystems and infrastructures, and the urgency of going beyond the usual approaches of collaborating with versus investing in versus defending your operations. The new competitors simultaneously do all of the above. The competition that financial services incumbents are facing therefore demands new approaches.

New collaborative models provide banks with opportunities to sell transaction services to new entrants such as Bank Artos with GoPay, or to integrate their financial products and services as part of the entrants’ digital interfaces such as SCB with Gojek.

However, as illustrated by Grab and Ant Group’s successful applications for banking licenses in Singapore, banks cannot expect to become exclusive partners. Using that mapping, they can decompose the approach of these emerging digital financial services ecosystems, and design a portfolio of collaborative models. For example, they can deal with multiple domains, such as transaction services, loan origination, custody and fund management services, by defining both the type (co-branding, embedding a financial services product in an app) and the degree of collaboration.

The creation of, and primary access to, new digital and proximity commerce contexts gave those regional champions an opportunity to enter the payment and then financial services market. For banks, collaborative models should aim at accessing such a context with the objective of accessing new data flows to support both their retail and SMB banking operations.

## Recommendations:

- Support your digital acceleration by creating a new role across business and IT in order to manage the different investments and collaborative models. Such business development functions typically stand outside IT, but as the CIO, you will need to consider your involvement to manage risks and opportunities, and beyond technology risks. This is also very different from building a “vendor ecosystem” and will demand an understanding of the commercial relationships mapped in Figure 1. One of the priorities for this new role will be to perform a business risk analysis of the new collaborative options. For example, weigh whether to partner to bid for a digital banking license (high risk) versus data analytics (medium risk) versus cloud computing (low risk). This would then provide more clarity for CIOs to define the technology risks associated with each partnership option and communicate those risks.
- Prepare for new delivery models enabled by APIs. As they apply to digital banking licenses, the new entrants will need help, especially since they lack insight and experience in handling regulatory requirements. They will also need input on how to position financial products and services, also creating advisory opportunities for banks.

## Note 1: Announcements related to Figure 1

Ant Group and Grab Win Singapore Digital Banking Licenses, Nikkei Asia.

Gojek Acquires mPOS Startup Moka for a Reported \$120m to Boost Its Food Merchant Platform, AgFunderNews (AFN).

Grab Acquires Wealth Tech Start-Up Bento to Bring Retail Wealth Solutions to Millions Across Southeast Asia, Grab.

Facebook and Paypal Join Google, Tencent to Back Indonesian Food and Payments Giant Gojek, AFN.

Who We Are, DKatalis.

Gojek Integrates With DBS PayLah! Platform to Expand Access to Ride-Hailing Service, DBS.

GrabPay Wallet, Meet GrabPay Card, Grab.

Ant Financial Buys Stake in Vietnamese eWallet eMonkey, PYMNTS.com.

Alibaba’s Entry Might Affect Grab-Gojek Merger Talks, The Business Times.

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