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# Large APAC banks upping fintech bets

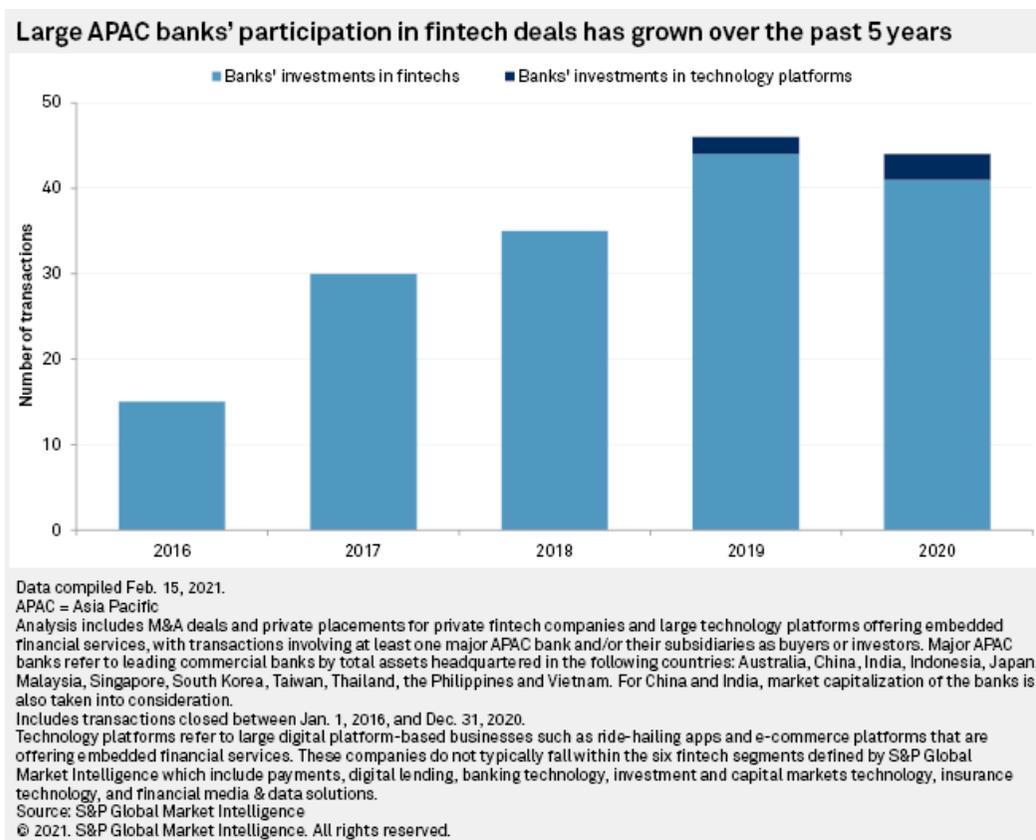


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Major banks in the Asia-Pacific region could grow to become a larger source of capital for financial technology startups as lenders seek to future-proof their business.

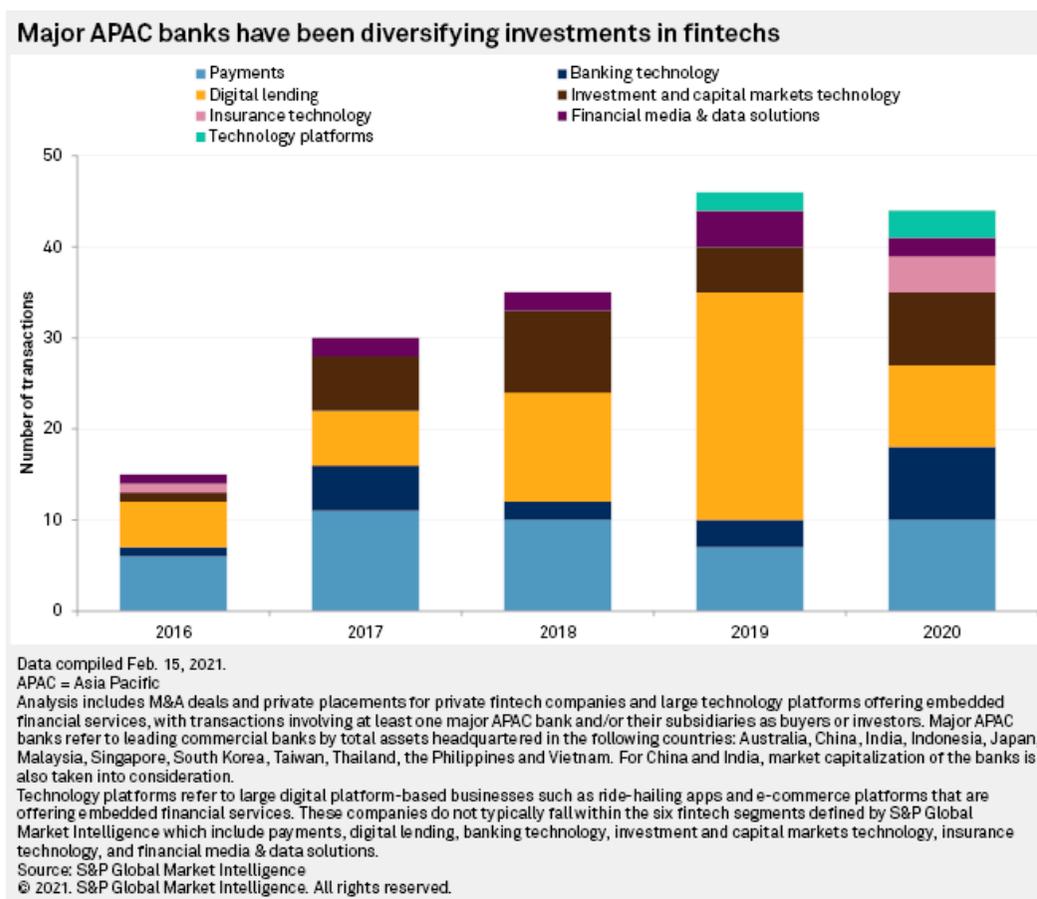
Large APAC banks have been ramping up participation in fintech deals over the past five years. Despite the pandemic taking a toll on banks' profits, lenders have maintained a consistent involvement in fintech transactions. Including technology platforms with embedded financial services, major APAC banks took part in 44 fintech equity rounds in 2020, just two fewer than the prior year. That said, fintech acquisitions have not gained much traction among APAC banks. In the last five years, M&A transactions only accounted for four deals, all of which took place between 2016 and 2018.

Platform businesses with embedded financial services do not typically fall within the fintech segments defined by S&P Global Market Intelligence as the categories are determined by the company's core business. However, we have included them in this report as these platforms have a burgeoning fintech presence in the region.



## Banks want in on embedded finance play

APAC banks' investments in fintechs have grown more varied over the years as new trends emerge. Cognizant of the proliferation of embedded finance, a trend where financial services are integrated in platforms of nonfinancial companies, major lenders have been acquiring strategic stakes in Southeast Asia-based ride-hailing apps and e-commerce firms in the past two years.



Big banks in Thailand have picked up stakes in ride-hailers as these platforms expand into the country. [Kasikornbank PCL](#) and [Bank of Ayudhya PCL](#) have invested in [GrabTaxi Holdings Pte. Ltd.](#), while [Siam Commercial Bank PCL](#) has forged a strategic alliance with [PT Aplikasi Karya Anak Bangsa](#), otherwise known as Gojek.

The banks primarily assume a supporting role in the platforms' financial offerings by jointly underwriting loans and providing the payment infrastructure and capital for lending. Distribution of financial products, on the other hand, is largely done via the ride-hailing apps with the platforms retaining control of the customer relationship.

For banks, the value of working with these platforms lies in the potential to unlock a new customer segment. Ride-hailers serve a large user base of gig workers and small-and-medium enterprises that are typically underserved by banks. Tapping on the extensive reach of these platforms presents a cost-efficient way for lenders to acquire new customers.

APAC banks also appear to be investing in technology platforms as a strategy to drive customer acquisition in their cross-border expansion plans.

Kasikornbank, which sees Vietnam as a **growth** market, acquired an equity interest in **Sendo JSC**, a large Vietnamese e-commerce firm that also offers loans to users. **Mitsubishi UFJ Financial Group Inc.**, which holds stakes in a network of banks in Southeast Asia, has also made a strategic investment in Grab, which has a large fintech business in the region.

#### Large APAC banks setting up fintech-focused venture funds

The recent establishment of bank-backed corporate venture units has contributed to incumbents' growing participation in fintech deals. These bank-owned venture funds typically invest in early-stage startups, with most focusing on fintechs based in Southeast Asia. Of the 46 large APAC banks we reviewed, at least 18 have launched their own venture funds, most of which were set up in 2016 or later.

Our analysis covers the top three to five commercial banks by total assets headquartered in the following markets: Australia, China, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. For China and India, we also take into consideration the banks' market capitalization as leading banks by total assets tend to be state-owned and have an obligation to support their government's financial inclusion agenda. This may depress the banks' capitalization levels, leaving little room for technology investments.

APAC lenders have been actively refilling the coffers of their investment units, which likely gave them sufficient dry powder to push ahead with fintech investments last year even as COVID-19 weighed down the banks' profitability.

Since its initial A\$50 million capital commitment to **Reinventure Group Pty. Ltd.** in 2014, **Westpac Banking Corp.** made two other top-ups in 2016 and 2018, tripling its original capital contribution. **National Australia Bank Ltd.** doubled its venture fund size with a A\$50

million cash infusion in 2018. PT Bank Central Asia Tbk also added another \$14 million to Central Capital Ventura in 2019, just two years after its establishment.

But subdued earnings have not deterred large Thai banks from allocating more cash to their venture funds either. Earlier this year, Kasikornbank added another \$50 million to Beacon VC despite 2020 net profits declining by 23.9% on a year-over-year basis. In February, SCB 10X announced the launch of a new \$50 million fund dedicated to investing in blockchain, decentralized finance and digital assets even as SCB, its fund sponsor, recorded a 32.7% drop in net profits for full-year 2020.

Large APAC banks with corporate venture capital business									
Banking group	CVC unit (fund name) <sup>1</sup>	CVC/ fund launch year <sup>1</sup>	Country	Fund mandate				Latest fund size (\$M) <sup>2</sup>	
				Investment interest	Geography	Deal size (\$M)	Investment stage		
Australia and New Zealand Banking Group Ltd.	ANZiVentures	2015	Australia	Housing solutions, trade and capital flows, small and medium businesses, and open data	NA	NA	Series A to C	NA	
Commonwealth Bank of Australia	X15 ventures	2020	Australia	Housing solutions, digital & data enabled businesses, platforms and modern living solutions	Australia	NA	Early-stage	NA	
Westpac Banking Corp.	Reinventure Group Pty. Ltd	2014	Australia	Fintechs and technology platforms with embedded financial services	APAC	NA	Early-stage	116 <sup>3</sup>	
National Australia Bank Ltd.	NAB Ventures	2015	Australia	Housing solutions, cashless payments, wealth management technology and technology solutions for SMEs	Global	NA	Early-stage	72	
PT Bank Rakyat Indonesia (Persero) Tbk	BRI Ventures	2019	Indonesia	Technology companies with a focus on fintechs.		NA	Growth	250	
PT Bank Mandiri (Persero) Tbk	Mandiri Capital	2015	Indonesia	Fintech	SEA	2-5	Early to growth-stage	100	
PT Bank Central Asia Tbk	Central Capital Ventura	2017	Indonesia	Fintech	Global	0.5-2	Early-stage	29	
Mitsubishi UFJ Financial Group Inc.	MUFG Innovation Partners	2019	Japan	Fintech	Global	NA	Early-stage	191 <sup>3</sup>	
Mizuho Financial Group Inc.	Mizuho Capital (Mizuho FinTech Fund Ltd. Partnership)	2016	Japan	Fintech	NA	NA	NA	10	
Sumitomo Mitsui Financial Group Inc.	SMBC Venture Capital (Core fund)	2020	Japan	Sector agnostic	NA	NA	Focuses on early-stage startups but invests in late-stage companies as well	NA	
United Overseas Bank Ltd.	UOB Venture Management (ASEAN China Investment Fund IV)	2019	Singapore	Consumer goods, consumer and services, healthcare, environmental technology, energy, logistics and transportation, industrials and technology	ASEAN and China	10-50	Early-stage to pre-IPO	300	
KB Financial Group Inc.	KB Investment Co. (KB Global Platform Fund)	2019	South Korea	Fintech, biotech	India, SEA, South Korea	NA	Early to late-stage	190	
Shinhan Financial Group Co. Ltd.	Shinhan Venture Investment	2020 <sup>4</sup>	South Korea	ICT, healthcare, gaming, industrials, alternative energy, consumer/retail		NA	Early to late-stage	NA	
Hana Financial	Hana Ventures	2018	South Korea	Fintech, information	Global	NA	NA	90.5 <sup>3</sup>	

Bank	Investor	Year	Region	Investment focus	Region	NA	NA	Value
Shinhan Financial Group Inc.				Fintech, information and communication technology, biotech and digital content				
Bangkok Bank PCL	Bualuang Ventures Ltd.	2016	Thailand	SMEs with established businesses, fintech	Thailand	NA	NA	60
KASIKORNBANK PCL	Beacon Venture Capital Co. Ltd.	2017	Thailand	Fintech, consumer internet, enterprise technology, ecosystem orchestrator, and emerging technology	SEA	0.5-3	Early (post-revenue) to growth stage	185
Siam Commercial Bank PCL	SCB 10X (SCB 10X VC fund)	2016	Thailand	Fintech, blockchain, digital work and lifestyle, digital health, IoT and deeptech	Global but focuses on startups based in SEA, China, US and Israel.	NA	Early-stage	150
Bank of Ayudhya PCL <sup>5</sup>	Krungsri Finnovate	2017	Thailand	Fintech	ASEAN	NA	Series A and later	30

Data compiled March 4, 2021.

NA = not available; CVC = corporate venture capital; ASEAN = Association of Southeast Asian Nations; APAC = Asia-Pacific; SEA = Southeast Asia

<sup>1</sup> The most relevant fund is specified for corporate venture capital units running multiple strategies. Fund launch year, fund mandate and fund size correspond to the respective fund.

<sup>2</sup> Fund size refers to the total amount of capital committed to the corporate venture capital unit or fund, if specified.

<sup>3</sup> Figures are converted to U.S. dollars based on average exchange rates between Jan. 1, 2021, and Feb. 27, 2021.

<sup>4</sup> Shinhan Financial Group acquired Neoptux from Doosan Group in 2020 and subsequently renamed the company to Shinhan Venture Management.

<sup>5</sup> Bank of Ayudhya is a subsidiary of MUFG Group.

Analysis includes major banks headquartered in Australia, China, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand, the Philippines and Vietnam.

Sources: S&P Global Market Intelligence; company disclosures; Asia Tech Daily; Crunchbase; Finextra; Jakarta Post; KrAsia; Pitchbook; The Korea Herald

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To be clear, venture funds are not the only means for banks to invest in technology companies. MUFG, for instance, has been picking up strategic stakes in fintechs through various subsidiaries prior to the launch of **MUFG Innovation Partners Co. Ltd.** However, the Japanese banking group noted in a press release that having a separate corporate venture unit will allow it to adopt a more sophisticated framework toward strategic investments that are necessary to hasten the pace of innovation.

But while some banks look externally for technology enhancement, Chinese banks seem to prefer bolstering their digital capabilities organically. According to a report by *China Banking News* dated July 29, 2020, five of China's largest state-owned banks — **Agricultural Bank of China Ltd.**, **China Construction Bank Corp.**, **Bank of China Ltd.**, **Industrial & Commercial Bank of China Ltd.** and **Bank of Communications Co. Ltd.** — have set up dedicated fintech units to carry out their own research and development projects.

Japanese banks making fintech bets to grow revenue

APAC banks with venture funds are generally more active fintech investors than their counterparts without one. Across the region, the three mega Japanese banking groups, MUFG, **Sumitomo Mitsui Financial Group Inc.** and

**Mizuho Financial Group Inc.**, backed the largest number of fintechs between 2016 and 2020. For these banks, growing noninterest income to boost profitability is likely to be at the forefront of their fintech investment decisions.

Years of aggressive monetary policy by Japan's central bank have led to razor-thin margins on loans, crimping the earnings of the nation's banks. Across developed markets in APAC, Japanese banks registered the lowest net interest margin and profitability ratios.

#### Japanese banks are least profitable among developed APAC economies

	NIM (%)	ROAA (%)	ROAE (%)
Australia	1.8	0.4	5.9
<b>Japan</b>	<b>0.6</b>	<b>0.2</b>	<b>3.8</b>
Singapore	1.6	0.7	7.8
South Korea	1.7	0.6	7.9

Data compiled March 4, 2021.

APAC = Asia Pacific; NIM = net interest margin; ROAA = return on average assets; ROAE = return on average equity

For Australia, Japan and South Korea, figures reflect the average profitability ratios of the major banks in the respective countries over the last 12 months ending Sep.30, 2020. For Singapore, the numbers reflect the major banks' performance over the last 12 months ending Dec. 31, 2020.

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**Japanese banks are the most active fintech investors in APAC, by number of companies backed**  
Includes transactions closed from Jan.1, 2016, through Dec. 31, 2020

□ = 0    ■ = 1-5    ■ = 6-10    ■ = 11-15    ■ = above 15

Bank	Country	Payments	Banking technology	Digital lending	Investment and capital markets technology	Insurance technology	Financial media and data solutions	Technology platforms	Total
Sumitomo Mitsui Financial Group, Inc.(TSE:8316)	Japan	6	6	2	8	0	1	0	23
Mizuho Financial Group, Inc.(TSE:8411)	Japan	3	2	4	6	0	2	0	17
Mitsubishi UFJ Financial Group, Inc.(TSE:8306)	Japan	2	1	6	6	0	0	1	16
Westpac Banking Corp.(ASX:WBC)	Australia	4	3	5	0	0	1	0	13
National Australia Bank Ltd.(ASX:NAB)	Australia	2	3	3	0	0	2	0	10
PT Bank Mandiri (Persero) Tbk(IDX:BMRI)	Indonesia	3	0	4	1	0	0	1	9
KB Financial Group Inc.(KOSE:A105560)	South Korea	1	0	4	0	1	2	0	8
Australia and New Zealand Banking Group Ltd.(ASX:ANZ)	Australia	2	1	3	0	0	1	0	7
PT Bank Rakyat Indonesia (Persero) Tbk(IDX:BBRI)	Indonesia	4	0	2	0	0	0	0	6
Siam Commercial Bank PCL(SET:SCB)	Thailand	2	0	0	2	1	0	1	6

Data compiled Feb. 15, 2021.  
Table features the top 10 fintech investors among major banks in Australia, China, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand, the Philippines and Vietnam. Analysis includes the number of distinct fintechs in which banks have taken an equity stake with transaction completion date ranging between Jan.1, 2016, and Dec. 31, 2020.  
Technology platforms refer to large digital platform-based businesses such as ride-hailing apps and e-commerce platforms that are offering embedded financial services. These companies do not typically fall within the six fintech segments defined by S&P Global Market Intelligence which include payments, digital lending, banking technology, investment and capital markets technology, insurance technology, and financial media & data solutions.  
Source: S&P Global Market Intelligence  
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The Japanese megabanks seem to have identified wealth management and retail trading as key growth areas with fintech investments skewed toward the investment and capital market technology sector. The three banks have made common investments in startups that demonstrate potential in improving their bank's investment advisory capabilities and brokerage services.

One of these companies is **Robot Fund Co. Ltd.**, which provides software that automates investment monitoring and reporting. MUFG had subsequently integrated the startup's fund analytics model in their offerings to enhance the analysis of customers' investment status to improve advisory services to clients.

Another company that saw investments from the three Japanese banks is **Xenodata Lab. Co. Ltd.**, a data analytics company that leverages natural language processing to analyze financial and economic reports to predict

corporate performance. Following the strategic investment, [au Kabucom Securities Co. Ltd.](#), the online brokerage subsidiary of MUFG, introduced the startup's technology as a premium service to clients.

## Deregulation

Japanese banks could take an even more active interest in fintechs in the coming years as the government seeks to [ease investment rules](#). A drafted proposal sought to remove the need for banks to get prior approval from the Financial Services Agency to acquire more than a 15% stake in fintechs, making it more convenient for lenders to invest in the startups.

Besides Japan, South Korea has also revamped regulations to promote fintech investments. In October 2019, the Financial Services Commission issued a set of revised guidelines that broadened the scope of fintechs that financial institutions can invest in.

## Banks' case for more fintech bets

APAC banks' growing interest in fintech deals seems to suggest that the expected value of revenue growth and technology gains from backing fintechs outweighs the associated costs and risks. As such, we think lenders will likely accelerate fintech investments, particularly as they face further competition and earning headwinds.

Banks' profits will likely remain under pressure as Asian central banks are [expected](#) to keep interest rates low, depressing net interest income. Fee income may also be threatened by the [growing popularity](#) of nonbank e-wallets, which could eat into banks' card interchange fees.

The APAC region has also been seeing an influx of digital banking upstarts as central banks open the banking sector to technology players. While the newly minted virtual banks are unlikely to chip away at the incumbents' dominance, at least in the near term, it reinforces the need for banks to innovate and double down on their digital capabilities.

Although investing in fintechs would require banks to set aside additional capital, it may be a cost-efficient hedge against budding competition while also offering the potential of new revenue streams.

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