McKinsey & Company

Future of Asia

The future of financial services

Changes in Asia's consumer markets offer new and diverse opportunities for growth

October 2021

Asia is the world's consumption growth engine—miss Asia and you could miss half of the global picture, a $10 trillion consumption growth opportunity over the next decade. But Asia's consumer markets are changing dynamically with new growth angles that offer opportunities for financial services players and consumption curves that are shifting or mutating. Financial services players should consider how to redraw their Asian consumer maps.

New McKinsey Global Institute (MGI) research finds that three large shifts are playing out across the region.[1] First, as incomes rise across Asia, more consumers will reach the highest tiers of the income pyramid, and movement within the consuming class is likely to be a larger driver of consumption growth than movement into it. Second, cities will continue to drive consumption growth, but promising sources of growth are increasingly diverse cohorts within cities, such as Insta-grannies in Seoul, Generation Z gamers in Surabaya, career moms in Manila, and lifestyle-indulging digital natives in Chengdu. Third, as the relationship between income and consumption breaks down in some instances, new consumption curves are emerging in specific categories (Exhibit 1).

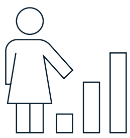
Asian consumers are likely to demand more financial services

Asian consumers are expected to account for half of global consumption growth in the next decade, equivalent to a $10 trillion growth opportunity. Globally, one of every two upper-middle-income and above households is expected to be in Asia, and one of every two completed consumer transactions in the world is likely to occur in the region.

An increasing number of people are projected to join the consuming class, defined as spending more than $11 a day in 2011 purchasing power parity (PPP) terms. In 2000, only 15 percent of Asia's population was part of the consuming class; the incomes of the remaining three billion people were still insufficient to support discretionary spending. However, over the next decade, a significant reversal is likely. By 2030, three billion people, or 70 percent of Asia's total population, may be part of the consuming class.

Exhibit 1

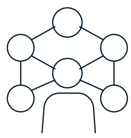
The next decade will unlock new opportunities for Financial Services players in Asia



Asia is the growth engine of the world

1.5x

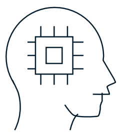
Banking value pools to increase 2020-25



But sources of growth are diversifying

8

New growth angles, including demographics and new behaviours



And consumption patterns are shifting

15-25%

Of value in the banking sector may shift to new consumption curves

[1] *Beyond income: Redrawing Asia's consumer map*, Future of Asia, McKinsey Global Institute, September 2021.

As more consumers experience rising incomes, their financial needs are likely to increase and become more sophisticated. McKinsey's Global Banking Pools project that total revenue pools in the region are likely to grow at around 7 to 8 percent per annum over the next five years, driven by an increased number of consumers accessing financial services and by existing consumers increasing their uptake of services. MGI research indicates that most consumption growth in the coming decade will be urban, and driven by higher-income consumers—85 percent of consumption growth is expected to originate in urban areas, and 80 percent is expected to be driven by the two top tiers of the consuming class.

However, more than ever, patterns of consumption and consumption growth are diversifying, reflecting demographic, social, and technological change.

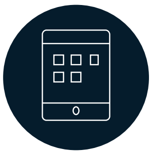
New growth angles are emerging in financial services

Amid significant shifts in consumer patterns and sources of growth, most sectors are likely to be disrupted in the next decade, financial services among them. What should financial services players look out for? MGI's research highlights eight growth angles that are particularly relevant to financial services and offer new opportunities to serve consumers in the region (Exhibit 2).

— **The big convergence could reshape the role of financial services players.** Digital ecosystems are prevalent in Asia. Many consumers take a "mobile-first" approach, fueling the rise of digital ecosystems, including highly integrated super apps that offer a one-stop-shop for a range of services. Although super apps emerged in China, Asian economies including India, Indonesia, Japan, South Korea, and Vietnam now have leading super app players.

Exhibit 2

As Asia's consumption landscape diversifies, eight new angles of growth stand out



The big convergence
Super apps emerged in China but are now prevalent across Asia. Many digital ecosystems are embedding finance services

Segment of one
>45% of surveyed consumers in China, India, and Thailand say they share their data for personalization, compared with <30% of those surveyed in Europe

New notions of ownership
>60% of adults in Australia, China, and Japan with online access have at least 1 subscription service

Women's economic empowerment
30% additional consumption could be at stake

Rise of digital natives
May represent 40–50% of total consumption with greater willingness to take on consumer debt, but less prone to engage with conventional banking products

Aging
Seniors' consumption will grow 1.5–2x faster than the consumption growth of the general population

New channel mix
Asia's share of active digital banking users increased to 88%. However only 20-30% acquired banking products online

Eco-responsibility
>50% of surveyed consumers in Asia changed products or services they buy out of concern about climate change

Source: McKinsey Global Institute analysis

As digital ecosystems and super apps mediate relationships with an increasing number of customers, financial services players may consider how to define effective partnerships with those that orchestrate ecosystems. Fast-growing embedded finance is an example of how financial services players can take part in the new digital ecosystem. From 2020 to 2025, embedded finance—financial services distributed in an embedded way as part of a nonfinancial product or service—could grow by as much as 60 percent a year in products ranging from embedded payments to insurance and lending.[2]

Banks may consider embedded finance plays and banking-as-a-service platforms in order to become effective and innovative participants in ecosystems. ICICI Bank in India, for instance, embedded basic banking services on WhatsApp and scaled up to one million users in only three months from its launch. Banks and insurance companies with sufficient appetite and capabilities may create and orchestrate their own ecosystems, too. State Bank of India built YONO, an app with more than 100 partner-provided products and its own financial products, which dramatically increases customer engagement. DBS in Singapore is another example of pursuing ecosystem-linked opportunities. The bank runs marketplaces in travel, mobility, and property, and an application planning interface (API) developer platform. Slower respondents risk being disintermediated.

However, financial service players enjoy one starting point advantage: consumers still trust financial service players more than technology ones in being able to fulfill their financial needs. According to McKinsey's 2021 Personal Finance Survey,[3] Asian banks, card providers and e-wallet providers enjoy the highest levels of trust (70 to 75 percent), compared with technology players (65 percent) or social media companies (55 percent).

— **New notions of ownership may require financial services players to further review their product mix.** Economic pressures, changing consumer attitudes, and technology have prompted many Asian consumers to consider alternatives to traditional ownership. Sharing, rental, and subscription economies are gaining traction in, for instance, mobility, fashion, electronics, and housing. As Asian consumers consider new forms of ownership, some conventional financial products such as home insurance and car loans may start to become less relevant. In response, players may need to innovate to create new sources of growth, including, for instance, insurance products targeted at the sharing economy. In some cases, players may find opportunities by participating in other ecosystems. In Australia, for instance, ShareCover, which is part of Australia's largest general insurance group, IAG, offers home insurance for hosts renting out their property on platforms like AirBnb and car insurance for ride-share drivers, who typically have not been covered by personal home insurance or car insurance.[4]

2 Zac Townsend, What the embedded-finance and banking-as-a-service trends mean for financial services, March 2021, McKinsey.com; and Ron Shevlin, "Uber's departure from financial services: A speed bump on the path to embedded finance," Forbes, August 3, 2020.
3 Emerging markets leap forward in digital banking innovation and adoption, McKinsey, September, 2021
4 ShareCover, sharecover.com.

— **Digital natives are reshaping their relationship with financial institutions.** Digital natives (people born between 1980 and 2012) are expected to account for 40 to 50 percent of Asia's consumption by 2030. With variations within the region, Asia's digital generation tends to use non-Asian social media platforms, messaging apps, and digital payments providers and follow local social media influencers, but uses Asian e-commerce platforms. These younger generations are reshaping relationship with financial services players. They are more likely to explore alternative financial services. In China, for instance, the share of consumers aged 21 to 24 who hold credit cards is more than 20 percentage points lower than that of the older generation.[5] Opportunities to serve digital natives include point-of-sale financing with flexible maturities reflecting the fact that this cohort tends to take on more debt to finance consumption than others. In particular, digital natives have displayed that they are open to embedded finance propositions such as buy-now-pay-later services. The share of buy-now-pay-later transactions in Asia doubled from 2019 to 2020, according to WorldPay research.[6] In Australia alone, buy-now-pay-later services are expected to grow by more than 30 percent per year over the next three years. Local players such as Afterpay and Zip currently have the largest market share, but global players such as PayPal are also competing for the Australian market.[7]

— **The new channel mix will likely require financial services players to change how they interact with customers.** As consumers' uptake of digital channels increases, their expectations of customer experience are also rising. Digital technologies raise the bar in that respect because they are enabling easy-to-use and personalized services. The COVID-19 pandemic has accelerated this shift. Although consumer adoption of digital channels was initially strongest for transactional services, in 2020 even conventionally "high-touch" products such as mortgages have started to migrate to online channels. In McKinsey's 2021 Personal Finance Survey, Asia's share of active digital banking users increased to 88 percent, up from 65 percent four years before. Furthermore, more than 60 percent of consumers are open to switching to a direct bank. However, while approximately 70 percent of consumers in Asia are open to purchase new products digitally, only 20 to 30 percent have done so thus far; investments stand out for adoption. In light of these shifts, financial service players are innovating to drive additional online sales. Singapore's Overseas-Chinese Banking Corporation launched a 60-minute mortgage approval service for Singaporeans in May 2020 by leveraging automation and straight-through processing of mortgages originated online. In 2020, 30 percent of loans were applied for and executed through this platform.[8]

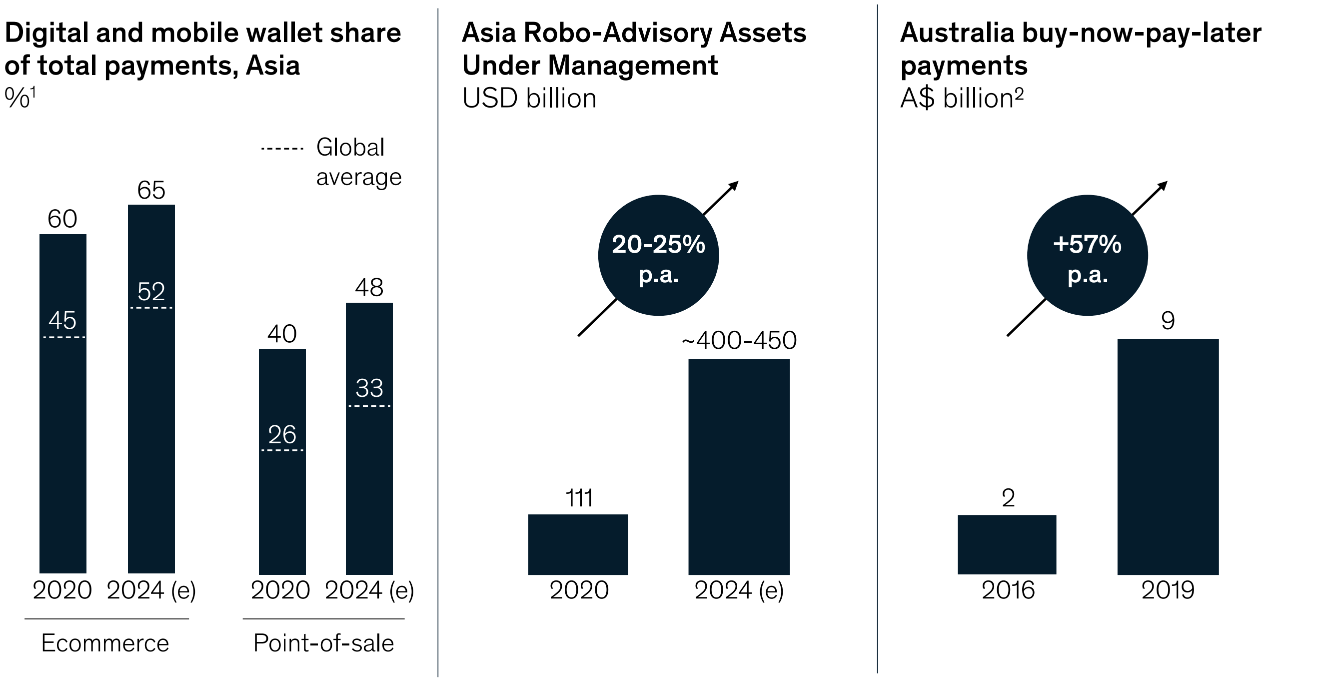
5 *Consumer finance whitepaper*, McKinsey China, June 2021.
6 *The global payments report: Rebuilding payments for a smarter world*, FIS and Worldpay from FIS, 2021.
7 Sarah Sharples, "PayPal takes on Afterpay with 'pay in 4' option," news.com.au.
8 *Singapore's OCBC Bank approves mortgages in 60 minutes using FICO technology*, FICO, February 8, 2021.

Wealth management is another area in which financial services players can reshape their customer relationships through new channels. In the wake of the pandemic, many consumers recognized the need for stronger financial planning, and have shown willingness to explore new solutions. The number of people using robo-advisory services in Asia–Pacific is projected to grow from around 110 million in 2019 to over 400 million in 2024. In China, US-based Vanguard and Ant Group formed a joint venture to offer investment advisory services. In 2020, they launched BangNiTou, a robo-advisory service with a deliberately low minimum investment requirement of 800 renminbi ($120 in August 2021) in an effort to democratize the availability of high-quality financial advice, which previously had been accessible to only a smaller number of wealthy investors.[9] Within a year of its launch, the service had acquired one million users, half of them aged below 40.[10] Financial services players are responding to this changing consumer landscape by innovating in product areas ranging from payments to wealth management to financing (Exhibit 3).

— **The segment of one is emerging as personalization spreads, and some financial services players are well positioned to tap into it.** Asia has the right attributes to propel the spread of personalization, including explosive growth in data creation, capture, and

Exhibit 3

New growth angles are changing Asia financial sector in areas like wealth management, payment and financing



[1]Digital and mobile wallets include different types of electronic payment mechanisms through a computer or smartphone, which do not rely on a physical debit or credit card.
[2]Select providers as reported by the Reserve Bank of Australia – Afterpay, Openpay, Zipco, FlexiGroup.
Source: Statista, Reserve Bank of Australia, FIS Global, McKinsey Global Institute analysis

[9] Chris Flood, "Vanguard venture with Ant Group lures 200,000 Chinese clients," *Financial Times*, July 19, 2020.
[10] Lulu Yilun Chen, "Ant, Vanguard-backed robo adviser hits 1 million users in China," *Bloomberg*, March 18, 2021.

replication that IDC expects to triple between 2020 and 2025 in the region. Asian consumers appear relatively willing to share their data. A 2021 Euromonitor survey found that in China, India, and Thailand, more than 45 percent of respondents said that they share their data for personalized offers and deals, compared with less than 30 percent in France, Germany, and the United Kingdom. Personalization of both marketing communications and services is becoming an increasingly important competitive differentiator. Public policy is likely to play a big role in shaping the playing field. South Korea considered launching a government-led MyData project in 2021 to enable licensed service providers, including both incumbent and fintech players, to collect and analyze personal data scattered across the financial sector, subject to consumers' consent.[11] Such an approach can enable further personalization, creating opportunities for players with superior analytics capabilities.

— **Women's economic empowerment is creating new financial opportunities, and financial needs for women.** Five types of women's economic empowerment—increased labor participation, rising income opportunities, increased financial and digital inclusion, changing family structure, and a larger role in purchasing decisions—could boost Asia's consumption growth. Based on the GDP growth potential from narrowing gender gaps estimated in previous MGI research, women's empowerment could add 30 percent to Asia's consumption growth in the period to 2030, or $3 trillion. As women become more economically empowered, they are likely to develop additional financial needs. There are still significant gender gaps in Asia in access to financial services. However, many players have developed products tailored for women. In the Philippines, Insular Life achieved a 57 percent increase in female policyholders from 2017 to 2020. In 2019, the company launched a program called InLife Sheroes in collaboration with the Women Entrepreneurs Finance Initiative and the International Finance Corporation to provide the relatively untapped women's market with lifetime risk mitigation solutions and inform women about financial management, health, and well-being.[12]

— **Senior segment is growing faster than the rest of the population, and presenting unique needs.** The population of Asian seniors, defined as individuals 60 and over, is expected to grow by around 40 percent over the next decade, and seniors' consumption may grow twice as fast as that of the rest of the population in many Asian countries. Financial institutions have conventionally had close relationships with seniors, but many players are exploring ways to expand their offerings to this demographic. For example, MetLife in Japan provides value-added services such as free reservation services for medical checkups and consulting services for cancer treatment.[13] In China, Taikang Life Insurance runs a resort-like retirement home exclusively for its life insurance policyholders; the home has a hospital, places of worship, cinema, gym, and buffet.[14]

— **Eco-responsibility is rising as Asian consumers are increasingly concerned about sustainability.** In an Ipsos poll conducted in late 2019, more than 80 percent of respondents in China, India, and emerging Asian economies said that they had made changes to the products and services they buy because they were concerned about climate change. Financial Service players may consider new products to support consumers in acting on their concerns. DBS in Singapore and the Commonwealth Bank of Australia for example have both launched "green loans", specific lending products dedicated to supporting consumers investing in green technologies, such as installing solar panels, battery packs or electric vehicles. Insurance companies in particular are likely to be at the forefront of protecting their consumers. Previous MGI research estimated that In Asia, by 2050, $2.8 trillion to $4.7 trillion of GDP could be at risk annually due to labor productivity affected by extreme heat and humidity, and $1.2 trillion of physical capital stock could be damaged by riverine flooding

[11] Jung Min-yung, "S. Korea delays launch of comprehensive data service," *Korea Herald*, July 8, 2021.
[12] *Insular Life, Philippines—The case for insuring women for a better tomorrow*, International Finance Corporation, www.ifc.org.
[13] *Health-related value-added services for products to be significantly expanded for policyholders*, MetLife, October 16, 2019, metlife.co.jp.
[14] Chuin-Wei Yap, "China's insurers try novel approach to elderly care: Building retirement homes," *Wall Street Journal*, February 14, 2018.

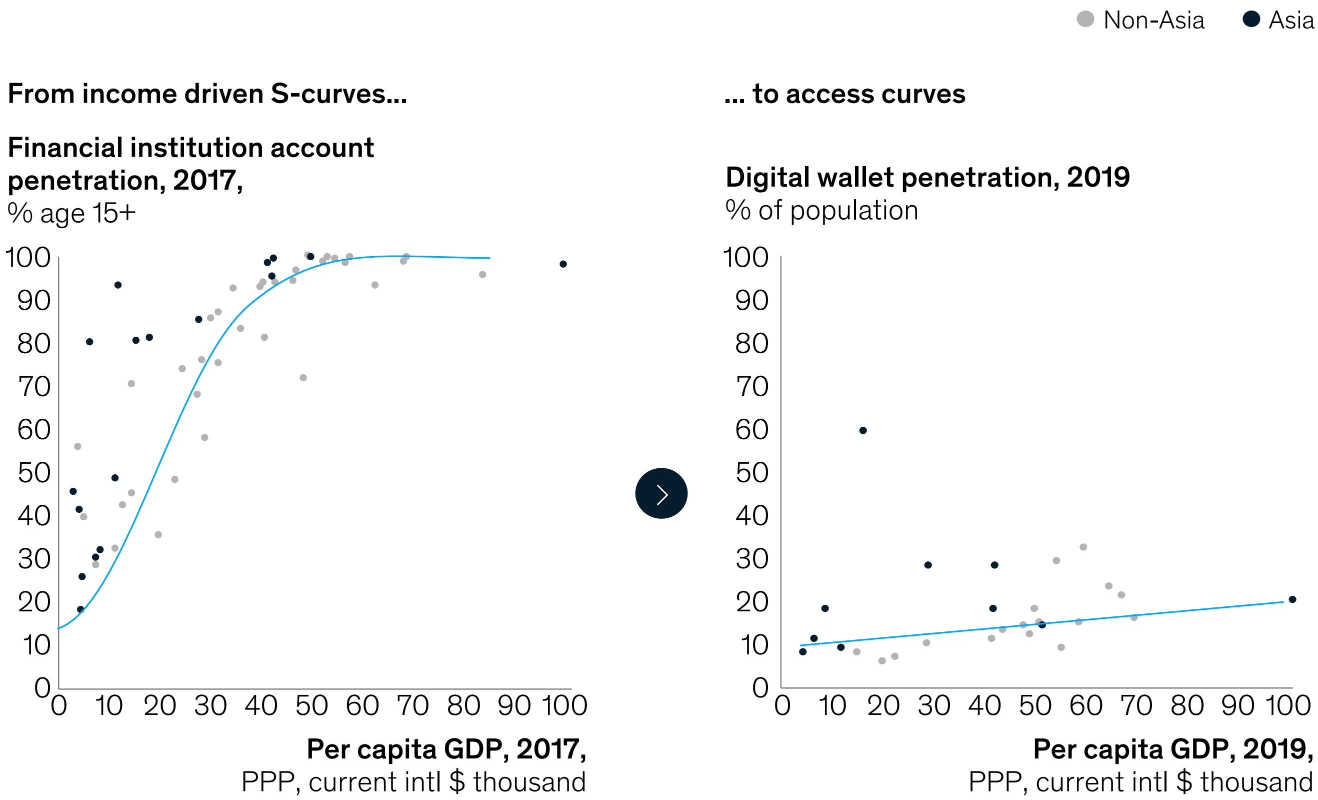
in a given year. Insurance players in Asia have stepped up offerings to protect their customers. Ping An, for example, launched a Digital Risk System, an AI-driven platform for physical risk identification, analysis and management which pre-emptively warns customers of potential risks, and has tailored multiple insurance products for specific climate related risks.

Consumption patterns are transforming, potentially shifting 15 to 25 percent of financial services revenue pools

MGI's new research explores how new forms of business model and technology innovation are democratizing consumption, and leading to the emergence of "market-specific" consumption curves. The relationship between income and consumption is breaking down in some instances in financial services and other sectors. Conventionally, many products followed income-driven S-curves. Lower-income economies experienced lower penetration. As incomes rose, penetration hit a tipping point where it exploded upward. Some of the largest banking value pools, including mortgages and credit cards, are likely to continue to follow income-driven S-curves despite disruption introduced by fintech and new technology players. Nevertheless, innovation in other products such as payments, consumer lending, and wealth management may generate new opportunities to create consumer value through new forms of access (Exhibit 4).

Exhibit 4

The income-consumption relationship is being reshaped



Note: Each dot represents one country.

[1]% of population who have made at least 1 proximity mobile payment transaction in the past 6 months (includes point-of-sale transactions made using a mobile device as payment method; excludes transactions made via tablet).
Source: Statista; Strategy Analytics; United Nations, World Bank; McKinsey Global Institute analysis

— **Between 5 and 10 percent of value may follow a new "access curve".** The emergence of digital wallets is helping to increase financial inclusion at all income levels. While traditional accounts follow an income-driven S-curve, the penetration of digital wallets is much less driven by income. In China, eight out of every ten smartphone users have digital wallets. Alipay and TenPay, which emerged from Alibaba and Tencent, together account for 35 percent of the value of C2B payments in China. There are clearly significant opportunities to serve classically underbanked consumers, offering them new financial products as they access financial services. In Cambodia, the number of digital wallets doubled in 2020 to almost ten million accounts.[15]

— **Up to 15 percent of value may follow a "shifting S-curve".** Digital innovation in consumer lending and wealth management is democratizing access to these financial products, decreasing the cost of intermediation and minimum amounts to borrow or to invest. In India, HDFC bank has broadened services for small farmers with its "Milk-to-Money" program, which has digitized payments to more than 450,000 dairy farmers, enabling them to create credit histories that can mean that they can access lending more easily in the future. HDFC bank also offers wealth-management services, and this has been effective in attracting first-time investors. Other players are also innovating the way they serve lower income consumers.

Companies need to prepare for the next decade of competition as Asia's consumer landscape is reshaped

The Asian consumer landscape is being reshaped by rising incomes, diversifying and new sources of growth, and the mutating consumption curves, and companies need to rethink how to serve consumers and compete in these changing markets effectively over the next decade and beyond. MGI's new research identifies three key actions companies may need to consider:

1. **Redraw your growth map.** Each company has a map of growth, but this can all too easily become outdated without a concerted effort to understand and track dynamically changing markets. Companies may need to rethink how demand for their products and services is likely to evolve and to look carefully at which of the growth angles are relevant to their businesses. Some financial service players may find success by leveraging the big convergence through an embedded finance play while others may locate promising growth opportunities in Asia's demographic transformation with some players opting for a full-service offering to boost access to specific underserved demographics. For instance, SBI launched YONO Krishi in 2019, a digital platform to serve farmers that offers specialized loans (such as crop loans), insurance and investment opportunities, as well as a universal platform where farmers can see live prices of crops and buy inputs and make sales directly.[16] New consumption curves may significantly shift consumption patterns. Previously unbanked customers may leapfrog directly to digital wallets, and players may use this as a launching pad to expand and offer other products. Many fintechs have acted to capture the potential of this new access curve. Paytm already serves many new customers with digital wallets, and it is now expanding into other services such as deposits, micro investment, digital loans, and insurance.[17]

2. **Increase your agility.** With a refreshed growth map, companies may then consider adopting a more agile operating model, increasing the speed of innovation in order to get to market more quickly; empowering local decision makers, given that centralized decision making and execution are not likely to be sufficient to capture the nuances of local markets; and ensuring that the company board is digitally savvy. Resource reallocation in particular may be crucial as financial service players may need to substantially reallocate capital to areas of growth and opportunity.

[15] Shaun Turton and Bopha Phorn, "Cambodia's COVID lockdown put delivery drivers on the front line," *Nikkei Asia*, May 4, 2021.
[16] SBI annual report 2019-20.
[17] Paytm, paytm.com.

3. **Open up.** Companies not only need to be agile but also need to take an open, networked approach. In increasingly diverse and dynamic markets, it is likely to be hard for any company to be all things to all consumers, and for many, a promising way forward may be in partnerships and ecosystems. Companies need to decide whether to lead their own ecosystem or participate in an existing one, depending on which role they could fulfil most effectively. Players such as Ping An have illustrated how ecosystem leadership may provide a large prize for the companies with the appetite and resources to pursue it. Other players may choose to participate in other ecosystems through embedded finance plays. Regardless of their option, players may need to be able to navigate new digital ecosystems and handle much larger amounts of data, and often the most effective way to do this is within partnerships. For example, Kasikorn Bank (K Bank) in Thailand has developed its loyalty program and a new customer network through its banking app K Plus, Thailand's most popular mobile banking app. In the app, users can make payments, request loans, and even store other loyalty cards such as AirAsia BIG point and PTT Blue Card, which are compatible with the K Bank reward program.[18]

Asia's dynamic consumer markets require financial service companies to increasingly understand, and learn how to serve markets that are changing radically—socially, demographically, and technologically. The next decade will present countless opportunities to the players that find the right ways to serve the new Asian consumers.

Jonathan Woetzel is a McKinsey & Company senior partner and a director of the McKinsey Global Institute based in Shanghai. **Renny Thomas** is a McKinsey senior partner in Mumbai. **Sonia Barquin** is a McKinsey partner in Jakarta. **Tiago Devesa** is a McKinsey consultant in Sydney.

Designed by Sydney Design Studio

[18] K Bank, kasikornbank.com.