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# FINTECH TOOLS IN BUSINESS PRACTICES: EVIDENCE FROM ASEAN MICRO-, SMALL AND MEDIUM-SIZED ENTERPRISES

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***Abstract:*** The paper explores the way micro-, small and medium-sized enterprises (MSME) in ASEAN countries use financial technology (fintech) tools through the prism of global fintech trends and grass-root commercial practices across Southeast Asia. On tracing trends and dynamics of global fintech processes, the paper reveals salient features of fintech practices across Southeast Asia to finally turn to synergizing the global and regional fintech trends with the priorities of ASEAN MSME. The findings indicate that although some obstacles are in place, generally MSME actively use fintech tools with assistance from government authorities, private fintech platforms and ASEAN initiatives. The relevance of the research is clear, as it reveals salient features of ASEAN MSME as regional economic role players before the establishment of ASEAN Community 2025. As a focus on ASEAN MSME from the perspective of fintech tools has not been a special research direction, the paper has obvious academic novelty. Since the way MSME in ASEAN member states use fintech tools is a comprehensive and multidimensional topic, revealing its key characteristics is a timely exercise, as it allows detailing the digital transformation of regional economic and business practices, including trans-boundary ones, and, by extent, conceptualizing salient features of the ASEAN Economic Community. The latter point accounts for the theoretical significance of the study.

***Keywords:*** *Fintech, global trends, Southeast Asia, ASEAN multilateral initiatives, micro-, small and medium-sized enterprises, government programmes, business lending*

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Научная статья. Исторические науки

# ФИНТЕХ-ИНСТРУМЕНТЫ В ДЕЛОВЫХ ПРАКТИКАХ МИКРО-, МАЛЫХ И СРЕДНИХ ПРЕДПРИЯТИЙ СТРАН АСЕАН

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***Аннотация:*** Отталкиваясь от характера глобальных тенденций в сфере финансовых технологий (финтех) и деловых практик на пространстве Юго-Восточной Азии, в работе проанализирован характер использования финтех-инструментов микро-, малыми и средними предприятиями (ММСП) в странах АСЕАН. Проследив тенденции и динамику глобальных процессов в финтех-секторе, статья выявляет характерные особенности финтех-практик в Юго-Восточной Азии, переходя к увязке глобальных и региональных тенденций в финтех-секторе с приоритетами ММСП государств АСЕАН. Результаты исследования показывают, что, несмотря на наличие определенных препятствий, в целом, ММСП активно используют финтех-инструменты, пользуясь поддержкой со стороны государственных структур, частных финтех-платформ и инициатив АСЕАН. Актуальность исследования представляется очевидной, поскольку оно выявляет характерные черты МСМП государств АСЕАН как региональных экономических игроков накануне формирования Сообщества АСЕАН до 2025 года. Поскольку использование финтех-инструментов МСМП стран АСЕАН не являлось отдельным исследовательским направлением, статья обладает несомненной научной новизной. Учитывая, что использование финтех-инструментов является комплексной и многоаспектной темой, выявление ее ключевых характеристик является своевременным: это позволяет провести детальный анализ цифровой трансформации региональных экономических и деловых практик, в том числе трансграничных, и, в конечном итоге, более глубоко осмыслить наиболее значимые черты Экономического Сообщества АСЕАН. Последнее обуславливает теоретическую значимость проведенного исследования.

***Ключевые слова:*** *Финтех, глобальные тенденции, Юго-Восточная Азия, многосторонние инициативы АСЕАН, микро-, малые и средние предприятия, правительственные программы, кредитование бизнеса*

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The international milieu in and around Southeast Asia becomes increasingly volatile. The region is a focus of close attention of extra-regional powers. The Association of Southeast Asian Nations (ASEAN) is approaching the target date for the establishment of ASEAN Community 2025. ASEAN member states implement large-scale modernization programmes aimed at raising their competitiveness. As the digital transformation has become a trendy buzzword, it is a crucial component of the afore-mentioned developments.

To cope with multiplying challenges, as well as to grasp emerging opportunities, ASEAN and its member states attach profound significance to fintech tools synergized with the priorities of micro-, small and medium-sized enterprises (MSME). The reasons are numerous, but two appear to be most important. For ASEAN and its member states, broad digital support for trans-boundary economic initiatives, as well as integrating MSME into them, is of immense importance.

To what extent ASEAN will succeed in performing this task remains an open-ended question. Nevertheless, to trace major fintech-related developments linking them to the priorities of regional MSME ahead of the target date of the ASEAN Community 2025 is a timely and relevant exercise.

## A Look at Global Fintech Trends

Fintech is a relatively new phenomenon that needs further conceptualization and operationalization. Nevertheless, for the sake of convenience, a definition offered by the World Bank may be taken as a basis. Specifically, fintech is referred to as "The advances in technology that have the potential to transform the provision of financial services spurring the development of new business models, applications, processes, and products"[1]. More specifically, fintech covers credits, payments and money transfers, insurance, personal wealth management, etc.

As fintech is constantly evolving, it is problematic to make a comprehensive assessment of its trends and dynamics. Nevertheless, the following points warrant consideration.

Fintech as a phenomenon marks a significant milestone in the evolution of the financial sector. In fact, banks and other financial organizations lost monopoly and exclusivity over financial services, while miscellaneous aggregators of customer-focusing information are actively exploring this niche[2]. In their turn, financial organizations prefer to cooperate with fintech companies, as it brings considerable advantages. Banks obtain consumer-relating information, mostly, behavioral and attitudinal data, which allows measuring customer experience and brand loyalty, as well as offering personalized products and developing customer retention decisions. Efficiently targeted financial services and diversified marketing channels for attracting customers are other distinct advantages.

Logically, aggregators of consumer-related information are increasing in significance for financial organizations. These aggregators are expanding the spectrum of their services and customer reach practices. In these circumstances, various forms of cooperation and integration between financial organizations and social media aimed at decreasing transaction costs are widespread.

Simultaneously, financial organizations increasingly count upon digital technologies. Take, for instance, RegTech that allows enhancing the efficiency of reporting, client identification, transactions, risk control etc. As a result, many globally renowned banks, among which Nationwide (the US), and Hong Kong and Shanghai Banking Corporation (China), use open Application Programming Interface (API). Such ecosystems are premised upon a horizontal structure that embraces partnerships between banks, fintech companies and non-financial organizations. As a result, banks sell a wide range of supplementary products like insurance, discretionary management instruments, etc. Since small banks can neither develop nor implement comprehensive IT solutions, they join ecosystem created by large banks.

Although banks and fintech companies share partnerships, they differ along multiple criteria. Banks offer a full spectrum of financial services like credit cards, vehicle and mortgage loans, business and institutional banking solutions etc., while fintech companies are mostly credit lenders and intermediaries in financial transactions. Banks do not rely on big data to the extent fintech companies do. Banks are not exposed to risks that relate to infrastructure failure or mismanagement to the extent fintech companies are. Most importantly, banks, compared with fintech companies, face much more strict regulatory oversight. Financial companies offer high-risk loans, which, coupled with consumers' financial illiteracy or irresponsible behavior, carries negative implications for financial stability.

In a short-term perspective, fintech instruments are likely to increase in demand across the world. In 2023, according to available estimates, the global fintech market stood at 226 billion US dollars. Between 2024 and 2032, it is expected to reach 917 billion dollars[3]. This growth is the result of many parallel developments.

First, a rising demand for embedded finance matters. As defined by PwC, "Embedded finance is the seamless integration of digital banking, along with other financial products and services, into nonfinancial companies' platforms or applications. It enables these nonbanking businesses to offer their customers—and additional stakeholders, such as suppliers, partners, and employees—a wide range of financial services, including lending, insurance, and payments, without having to build the underlying financial infrastructure or hold the relevant regulatory approvals themselves"[4]. Experts argue that embedded finance synergized with Banking-as-a-Service (BaaS) may make traditional financial intermediaries redundant[5]. Arguably, prospects for embedded finance instruments are bright, as they raise the level of customer loyalty and, by extension, customer retention.

Second, from a consumer perspective, fintech is a tool of financial maneuvering at times of economic uncertainty. Specifically, economic instability actualizes expenses control and management mechanisms. More specifically, new instruments of managing subscriptions and choosing service suppliers appear. For instance, the fintech startup Better Compare established a service for comparing prices for medical services. A user specifies what kind of assistance he or she needs, and the app offers several options. In other words, people tend to explore possibilities to increase their financial resilience and create additional safety mechanisms, including by means of fintech tools.

This is all the more significant since the COVID-19 pandemic stimulated mutual penetration of industries and, by extension, applications. In order to decrease transaction costs, "finance plus", "health plus", entertainment plus" and "devices plus" apps appear. "Shared accounts" aimed at collectively saving and managing money by small groups are another example. Integration of fintech services and e-commerce platforms, exemplified by BNPL (buy now, pay later) further evidences this practice.

Third, as the Artificial Intelligence (AI) penetrates all the spheres of human activity, increasingly influences on the fintech sector. Examples include an upgrade of risk management systems, personalized offerings, combatting fraud, etc. Investment and insurance are of special importance, as AI can choose an individual investment plan according to risk and profitability criteria, make a reliable market forecast and manage insurance risks by big data instruments. Although many obstacles are in place, mostly, concerning regulation, ethic and responsibility issues, cyber threats, rising inequality, etc., nevertheless, AI prospects are bright. AI tools increase accuracy in financial forecasting by identifying different regulatory frameworks, create personalized banking services, including money transfers and remittances, upgrade the corporate finance structure. This evidences that AI in fintech is a revolutionary factor that radically transforms financial products and interactions.

In sum, fintech tools become increasingly complicated, and the sector enters bigger digital ecosystems. As large-scale economic projects need firm digital support, fintech instruments will be part of the integration agenda developed by multilateral organizations. Among them, ASEAN that is on the eve of the establishment of ASEAN Community 2025 is of special relevance.

## Fintech Developments across Southeast Asia

Various forms of fintech practices are widespread across Southeast Asia, which is an outcome of several factors. Southeast Asia is a region with booming e-commerce market, massive cross-border remittance flows, thriving travel industries, multiple outsourcing spheres, as well as many other fields with big money. A considerable share of unbanked population (according to available data, over 60% in 2022) and informal labor practices stimulate demand for fintech[6]. As a result, it is hardly surprising that in 2022 FY fintech funding in ASEAN-6 (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) stood at 5,18 billion dollars, although the funding dynamics and the number of deals are uneven[7].

In Southeast Asia, fintech is in growing demand. It is exemplified by, for instance, growth of cross-border payments. Selected examples include Singapore's PayNow and Malaysia's DuitNow that develop P2P cross-border money transfers[8], Thailand strengthens cross-border payment ties with its ASEAN neighbors[9]. A proliferation of account-to-account (A2A) transactions is noticeable, as exemplified by 42% of Thailand's PromptPay and 37% of Malaysia's DuitNow online purchases in 2022. Another conspicuous trend is demonstrated by growing popularity of digital wallets and BNPL (buy now, pay later) practices. To illustrate both cases, Indonesia is a relevant example. While the usage of digital wallets accounted for 6% of POS (points of sale) transactions in 2019, it rose to 28% in 2022. Concerning BNPL, Indonesia's crowded market represented by Akulaku, GoPayLater, Kredivo, Traveloka PayLater and other players that develop BNPL tools is of special note[10].

Last but not least, the establishment of digital banks and neo-banks matters (the former are regulated entities, while the latter are not licensed and prefer to enter into partnerships with commercial banks). Although progress is uneven, across Southeast Asia interest in digital banks is growing[11]. According to available estimates, 22,63 million clients will use regional neobank services by 2028[12].

Concerning fintech, Singapore is rightfully considered to be ahead of its ASEAN partners. Although Singapore has a small population and market size compared with the majority of other Southeast Asian countries, it accounted for 53% of Fintech investment and 60% of deals in ASEAN-6 in 2022[13]. The reasons are as follows.

Most importantly, Singapore is considered as a kind of "springboard" to the ASEAN market. According to an opinion popular in the Asia-Pacific business community, "expansion into Singapore is a strategic decision to serve as a bridge into the rest of Southeast Asia"[14]. Moreover, Singapore has a large expatriate community, including Chinese nationals, which contributes to disseminating fintech practices. Specifically, Panda Remit and other fintech firms conduct Chinese money transactions. In addition, there are many financially solvent people in Singapore (so-called high net worth individuals – HNWI), which offers WealthTech companies a significant scope of activity with an expansion to neighboring countries. Lastly, Singapore's business-friendly regulation and considerable support that the Singaporean leadership gives its fintech sector – exemplified, for instance, by S$ six million grant given by the Monetary Authority of Singapore (MAS), Singapore FinTech Association (SFA) and AMTD Foundation (MAS-SFA-AMTD) Fintech Solidarity Grant in 2020 (plus to Singapore's earlier initiatives)[15] – plays a significant role.

In the years to come, Southeast Asia is likely to loom large in the priorities of both global and regional fintech players. Remittances that come from both within and outside the region is likely to remain at current levels. According to the World Bank, the Philippines, Vietnam, Indonesia, Thailand, Cambodia, Myanmar and Malaysia were among top remittance recipients in the Asia-Pacific region in 2022[16]. Furthermore, the intra-country market scale factor matters. As Gita Prihanto, Chief Operating Officer of Indonesia P2P payments platform Flip, pointed out, "The international remittance business is something that is big in Indonesia. It's an 8.5 billion market with approximately 25% year-on-year growth"[17]. A large number of financially-savvy consumers, including micro-entrepreneurs, who aim to increase their incomes and diversify their shopping options, is another growth factor. Lastly, the afore-discussed link between fintech and AI plays an important role due to the development of micro-investment platforms, smart investment tools, smart portfolios, etc.

ASEAN has ambitious fintech-relating plans, the more so since digital support is among major factors behind the successful implementation of ASEAN prospective plans. Without mentioning all ASEAN initiatives with a fintech component, suffice it to say that this topic is included in ASEAN Digital Masterplan. Besides that, prominent examples include ASEAN launched Working Committee on Financial Inclusion, ASEAN Bankers

Association, ASEAN Financial Integration Network and ASEAN Inclusive Financial Index that pointedly focus on fintech issues. Lastly, ASEAN Business Advisory Council pays close attention to this topic and develops ties with influential players[18]. Sufficient evidence suggests that these steps are part of an active strategy rather than a political slogan.

Notwithstanding these factors, there are important obstacles that undermine ASEAN's efforts. In Southeast Asia, there are inter-country and intra-country infrastructure gaps. The former is presented by the internet coverage. According to the latest statistics provided by the ASEAN Secretariat, access to internet services in ASEAN countries (per 100 persons) ranged from 98,1 in Brunei, 97,4 in Malaysia and 96,0 in Singapore respectively in 2022. In Myanmar and the Philippines, the indicator stood at 44,0 and 52,7 respectively. Although progress is evident – for instance, the average ASEAN indicator rose from 26,1 to 72,0 from 2013 to 2022[19], inter-country gaps remain significant.

The latter relates to central and rural, remote, ultra-remote or outermost areas in countries like Indonesia, the Philippines or Myanmar. This is due to the share of rural population in ASEAN countries. In 2023, in Singapore, Brunei and Malaysia the figures accounted for 0%, 20,85% and 21,28% respectively. In their turn, the indicator for Cambodia, Laos, Vietnam and the Philippines stood at 74,43%, 61,75% and 60,52% respectively[20]. To extend internet to rural areas, much time, effort and investment are necessary. Specifically, building and maintaining internet infrastructure in rural areas inevitably encounter cost barriers, miscellaneous physical and regulation obstacles, tough technical restrictions, etc. As a result, progress in performing this task will inevitably be slow.

There is a clear parallel with the 5G internet adoption, as average and peak download speed indicators in the 5G format in ASEAN countries differ significantly[21]. As the digital transformation of society goes on, the 5G internet becomes indispensable for collecting, transferring and analyzing big data and developing data-driven products and applications. Lack of 5G internet undermines prospects for performing industrial automation, immersive remote operations, digital twins and simulations, etc., to the detriment of ASEAN prospective plans. This scenario is especially worrying given that ASEAN neighbors, most importantly, China and India, implement ambitious plans focusing on the 5G internet infrastructure.

Nevertheless, even if all ASEAN countries adopt the 5G internet more or less simultaneously, problems will not disappear. Owing to huge income gaps between and within these states, the cost of the 5G internet may be prohibitive for the majority of citizens. Although governments introduced subsidies for facilitating the implementation of the 5G internet, progress has not been impressive to date. More than that, 5G subscription fees are too high for the majority of uses in ASEAN countries[22].

Notably, the fintech industry relates mostly to ASEAN-6 countries with workable financial systems, as well as regulatory and supervisory bodies. This factor further aggravates intra-ASEAN imbalances. Among ASEAN-6 states, Singapore and Indonesia are ahead of their partners[23]. At the same time, all ASEAN states must resolve serious regulatory issues ranging from consumer protection to data governance and cybersecurity. Needless to say that digital support, including its fintech component, is a fundamental tool for undertaking ASEAN multilateral initiatives. At the same time, it requires an effective pan-regional coordination and oversight mechanism that is unlikely to be established in the near future.

The developments discussed above suggest that fintech practices will increase their rank in the order of priority of ASEAN and its member states. Nevertheless, due to intra-ASEAN imbalances, to level the ASEAN fintech playing field is an extraordinarily difficult task.

## The ASEAN MSME Dimension

As of today, strategic flexibility, understood as a firm's readiness to use market opportunities faster than competitors do, becomes a fundamental advantage for companies. The network effect generates a constantly expanding ecosystem and a network rent. These advantages cannot be created by any company, regardless its size. As a consequence of the network effect, inter-firm information exchanges intensify, the client base grows, possibilities for formal and informal fund-raising increase.  In sum, as the business environment becomes increasingly assertive, companies have to take additional steps to raise their competitiveness. Expanding access to finance is part of this task.

In Southeast Asia, MSME are a crucial factor behind successful economic development. They account for 97,2% – 99,9% of all establishments and contribute to 85% of employment in ASEAN countries[24]. Outlining major features of regional MSME, the following points are worthy of note.

MSME are very diverse and include entities with radically different characteristics. MSME include companies with one or two employees, firms operating in traditional craft sectors in rural areas and in technologically advanced sectors in big cities. MSME owned or operated by ethnic Chinese entrepreneurs actively join BRI projects in ASEAN countries. Despite profound differences, the majority of MSME encounters a chronic shortage of finding and aims to expand their fund-raising opportunities.

ASEAN MSME are undergoing digital transformation, although its scale and tempo vary. Mostly, they aim to increase the quality of customer service, as regional consumers demand convenience and speed. Using digital instruments, MSME can optimize their product offerings. Moreover, MSME understand the importance of the afore-discussed rent effect and aim to develop ecosystem partnerships to expand their customer reach. To capture a range of options presented by the digital transformation, ASEAN MSME create digital networks with other businesses in order to get involved in a broad ecosystem. Overall, the digital transformation allows MSME to cut operating costs by means of establishing cross-partnerships for advertising, raising back-office processes automation, etc.

Along the process of digital transformation, MSME in ASEAN countries encounter serious difficulties. Owing to money shortage, they are often unable to upskill talent. As a rule, to hire a qualified IT specialist, even on part-time employment, is problematic. Tellingly, the issue goes beyond addressing individual tasks. It means a shift to the corporate culture that fosters innovations, which MSME do not consider as a pressing priority. In fact, MSME find digitalization too expensive and far from their real needs. There is a limited range of possibilities at their disposal to respond to digital security risks, again, owing to skill shortage. Besides, MSME encounter problems with selling online relating to high costs of return, quick responses to complaints, etc. Finally, many MSME prefer a conservative approach to doing business and are generally unaware of policy programmes aimed at providing digital training and upskilling.

The overwhelming majority of ASEAN MSME is underrepresented in international markets and trans-boundary global value chains (GVC) across Southeast Asia. As a result, according to the ASEAN Secretariat, “Regionally, the MSMEs contribute 85% to employment, 44.8% to GDP and 18% to national exports”[25]. In fact, MSME focus mostly on their respective local markets, while to operate in GVC, it is obligatory to act as subcontractors for big companies operating in several ASEAN states. As there are no GVC established by ASEAN countries, MSME can integrate mostly into chains developed by extra-regional powers, among which China raises to prominence. This is especially relevant to MSME owned and managed by ethnic Chinese entrepreneurs. Joining the BRI, these firms can expand their possibilities from a buying perspective (they get new attractive supply and distribution options) and a selling perspective (they significantly expand their target audience).

In Southeast Asia, demand for fintech instruments is high among MSME. Not many of them have access to deposits, loans, money transfers etc. Additionally, few MSME possess assets sufficient for using as collateral, as well as have a favorable credit history. Banks consider MSME as unreliable or even potentially risky clients. In these circumstances, MSME turn to fintech companies, as their loan requirements are usually less demanding than those offered by conventional banks.

In the practical realm, ASEAN MSME access to digital finance is presented by P2P (peer-to-peer) marketplace lending, invoice trading and equity crowdfunding. As a field study conducted by Cambridge Centre for Alternative Finance and Asia Development Bank Institute in 2022 demonstrates, P2P marketplace business lending is the most popular alternative finance tool for obtaining credit. Mostly, credits go to retail and wholesale (24%), food and drink (22%) and fashion and apparel (9%) sectors. Revealingly, few MSME reported using personal credit cards and business credit cards (18% and 7% respectively). Prime purposes of borrowing include working capital (38%) and expansion/growth (25%), while the median amount borrowed at P2P marketplaces account for 700 US dollars[26].

Fortunately, MSME enjoy support, although still limited, from both private sector and government agencies in ASEAN countries. This is exemplified by, for instance, First Circle in the Philippines, a platform that offers MSME accessible financial products[27]. Besides that, the example of Kredit Usaha Rakyat (People's Business Credit), a government-subsidized programme in Indonesia aimed at providing MSME with expanded financial possibilities[28], merits attention. Other MSME-focusing government programmes, credit schemes and platforms in the Republic of Indonesia include, but are not limited to, ALAMI, Amartha, Ultra Macro, DigiPay etc. Although trans-boundary initiatives are fraught with numerous difficulties, an emphasis on increasing access to finance is present in ASEAN Strategic Action Plan for SME Development 2016-2025, as "measures to foster alternative and non-traditional financing" are mentioned as a priority[29]. It must be seen in synergy with ASEAN Digital Masterplan 2025 in which the task "To unlock the full benefit of digital services, citizens and businesses especially MSMEs…" is part of the Desired Outcome Eight (DO8)[30].

In sum, both ASEAN strategic documents and grass-root commercial practices across Southeast Asia evidence the importance of fintech tools as a strategically important asset. This reveals a convergence of bottom-up and top-down processes. If so, current trends towards deepening and diversifying fintech tools in the corporate sector, the interaction between government agencies and the business community in ASEAN countries and in

ASEAN strategic vision, with positive implications for MSME, are likely to continue and gain momentum.

## Conclusion

The analysis of global fintech trends synergized with its grass-root practices in Southeast Asia and seen from the perspective of regional MSME presents a complex picture, as the situation has been and will probably remain increasingly volatile. Nevertheless, several broad assessments are relevant.

Across the world, fintech instruments and practices will inevitably become more sophisticated and diversified. Rising influence of Artificial Intelligence, including generative AI, in fintech is of special note. Besides that, raising the quality of financial advice, control and compliance will be a steady trend. As the digital transformation is reshaping the financial world, cost-effective market innovations, intra-industry and inter-industry collaborations, as well as breakthrough fintech-based commercial practices will be widespread. Nevertheless, expanding regulatory divergence, both within and between regions, is a likely scenario.

The significance of fintech for ASEAN countries, as well as for ASEAN as an international actor, will be increasing. As fintech tools strongly support MSME, more initiatives from the corporate sector and government-led programmes can be expected to appear. Simultaneously, the trans-boundary component of fintech will grow in significance. To a considerable extent, this is predetermined by the factor of the ASEAN Economic Community, as fintech responds to the task to make Southeast Asia a unified economic and business area. Notwithstanding the AEC factor, however, effective fintech regulation will demand a great deal of extra effort from ASEAN and its member states.

Looking forward, ASEAN MSME are likely to follow global fintech trends, but simultaneously have their specific regional character. Most importantly, their objective to develop partnership ecosystems as an essential prerequisite for scaling up commercial opportunities will remain in place. Besides, the trans-national component as a response to the AEC factor will rise to great prominence. At the intra-country level, new MSME-oriented programmes, including by developing and implementing fintech tools, are likely to appear and be synergized with ASEAN digital initiatives. In sum, regional practices in equipping MSME with fintech tools will grow quantitatively and qualitatively, although expectations must be kept low in a short-term perspective.

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