The winners and losers in Asia's payments scene

Banks battle telcos in payments

ASIA

Telcos and independent platforms are steadily posing a major challenge to banks in Asia as they barge their way into the payments space. According to a shocking report from Morgan Stanley, banks across Asia could easily lose around $13.1b to $15.5b in value to these upstarts by 2022.

Morgan Stanley warns that payments is a trojan horse, allowing rival upstarts to get into deposits and steal away more value. Telcos could gain up to $2.9b and independents $9.3b at the expense of laggard lenders by 2022. Although banks may be able to offset some of the bleeding with digitisation initiatives, not all of them could be winners.

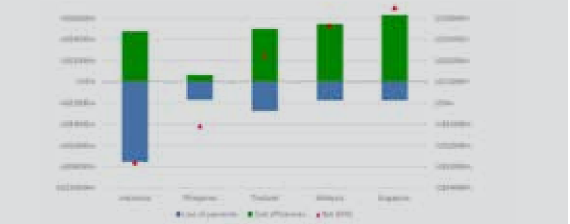
Singapore banks are coming out on top as they reap the rewards of their proactive investments in digital payment technologies with the banks best poised being DBS and OCBC. They are joined by lenders in Thailand and Malaysia where there is less risk of disruption from non-bank players. "Our view is that MAS, Bank of Thailand, and Bank Negara Malaysia have quickly moved to create a level playing field for payments," the report noted.

> **Telco operator Globe is poised to be the market leader in the Philippines' payment space, whilst Indonesia's Telkomsel capitalises on the sluggish response of Indonesian banks.**

The same cannot be said for Indonesia's Bank Mandiri and Bank Rakyat Indonesia, and the Philippines' BDO as they rank amongst the biggest losers from the growing role of non-bank payment players for they still have to make significant headway with their digitisation efforts.

Battling the banks in the Philippines is telco operator Globe who is widely poised to be the market leader in the payment space as it takes advantage of the country's less developed financial infrastructure and large distribution network to cement its dominance. Meanwhile, Indonesia's Telkomsel and independents like ride hailing platform Go-Jek's Go-Pay are another key beneficiary to this scenario capitalising on the sluggish response of Indonesian banks.

After including cost efficiencies, banks are likely to create value in Singapore and Malaysia



Source: Morgan Stanley research estimates

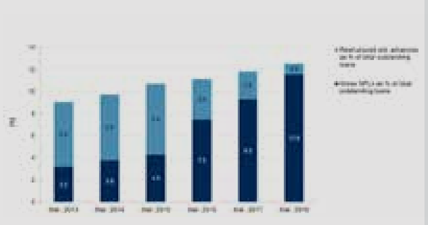
THE CHARTIST: INDIAN BANKS TO COME OUT STRONGER AS NPL RECOGNITION IMPROVES

After the Reserve Bank of India withdrew its forbearance on restructured loans in February, it led to a sharp rise in reported non-performing loans. S&P Global Ratings estimated that Indian banks' recognised NPLs now cover a substantial portion of weak loans of the system, and expects the weakened banking system to become stronger over the next couple of years.

S&P noted NPLs surged to 11.6% as of the end of March, and believes that the central bank's strengthening norms and more stringent timelines will force banks to become more transparent about the level of weak assets.

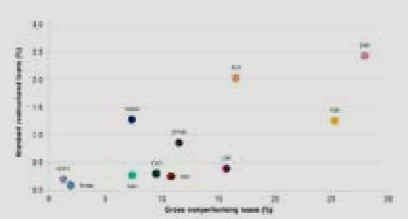
"This more realistic recognition, coupled with rebounding corporate profits, and quicker resolution of non-performing assets under the new bankruptcy law, will help banks gradually recover from a protracted bad-debt cycle."

NPLs recognition is improving for Indian banks



Sources: Reserve Bank of India, Standard & Poor's Financial Services

Stressed assets are highest at India's public sector banks



Sources: Banks' financial reports, Standard & Poor's Financial Services