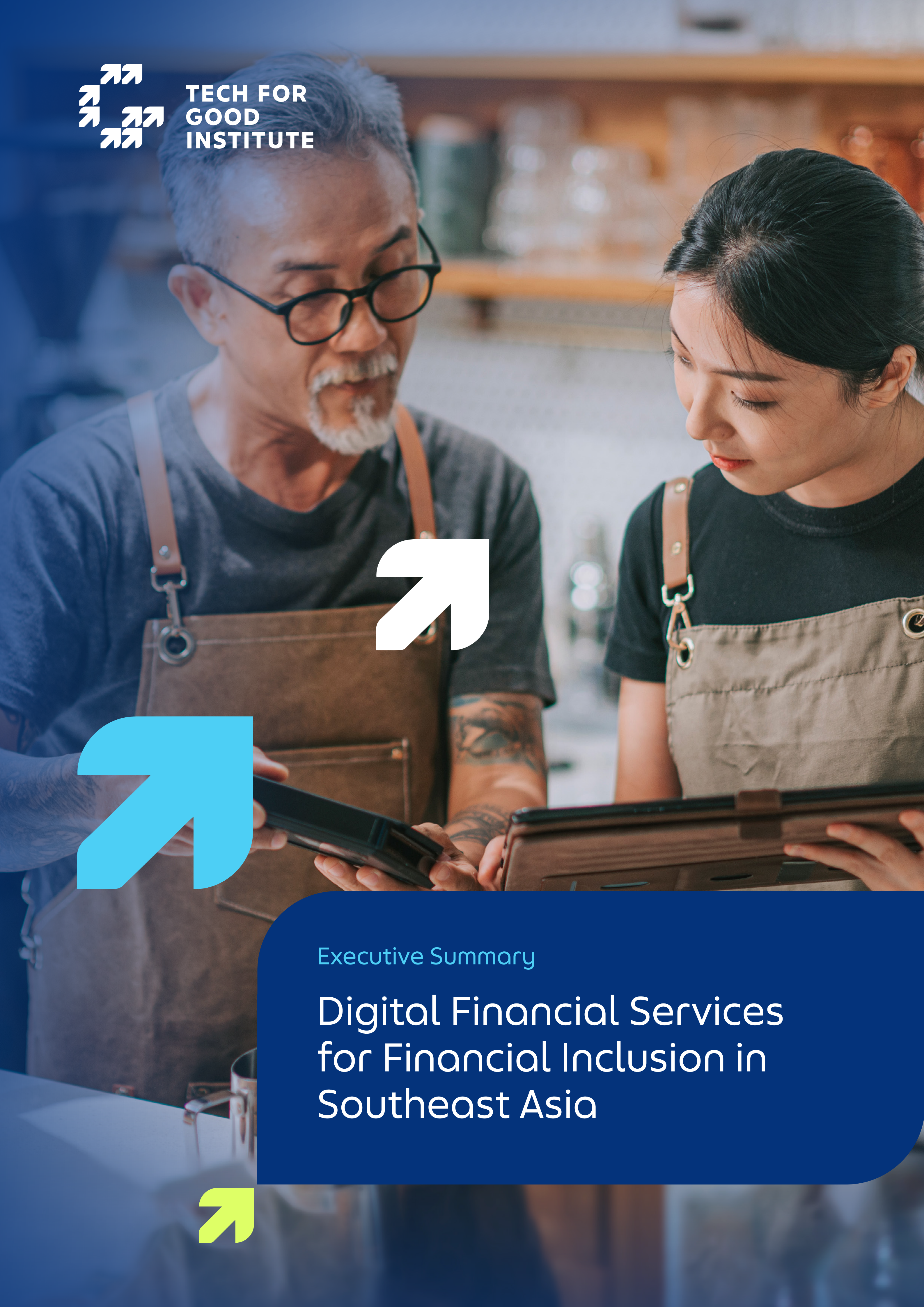

TECH FOR GOOD INSTITUTE

Executive Summary

Digital Financial Services for Financial Inclusion in Southeast Asia

About this Study

In October 2021, the Tech for Good Institute (TFGI) published **The Platform Economy: Southeast Asia's Digital Growth Catalyst**, which surveyed the state of the digital platform economy across SEA-6 countries: the Philippines, Malaysia, Indonesia, Vietnam, Singapore, and Thailand. Digital financial services (DFS) were found to be integral components of the platform economy, with the potential to address the challenge of financial inclusion. The interest to better understand DFS adoption across SEA-6 motivated this project.

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About the Tech for Good Institute

TFGI is a non-profit organisation on a mission to leverage the promise of technology and the digital economy for inclusive, equitable and sustainable growth in Southeast Asia.

With a population twice the size of the United States, Southeast Asia's digital economy is evolving rapidly. Technology has and will continue to have a tremendous impact in aiding the region's development. We are optimistic about technology's potential to advance growth, while recognising that innovation shapes, and is shaped by cultural, social, political, and economic contexts.

TFGI serves as a platform for research, conversations, and collaborations focused on Southeast Asia but connected to the rest of the world. Its work focuses on topics at the intersection of technology, society, and economy, and that are intrinsically linked to the development in Southeast Asia. We seek to understand and inform policy with rigour, balance and perspective, through research, effective outreach, and evidence-based recommendations.

The Institute was founded by Grab, Southeast Asia's leading superapp, to advance the vision of a thriving and innovative Southeast Asia for all. We welcome opportunities for partnership and support, financial or in-kind, from organisations and individuals committed to fostering responsible innovation and digital progress for sustainable growth in the region.

Executive Summary

Digital financial services (DFS) underpin Southeast Asia's economic progress and has the potential to further advance financial inclusion in the region. DFS are growing in the region in terms of revenue, firms, and investments, but there is still headroom for growth in the adoption and usage of DFS.

Frequently cited barriers affecting the uptake of DFS in the region include gaps in physical infrastructure, digital infrastructure, and pervasive cash cultures. Consumers' backgrounds — such as their levels of education, employment status, and gender — have also been cited as factors in the adoption and usage of DFS. This research complements existing studies by examining digital literacy, financial literacy, and consumer trust in DFS providers as predictors of usage of DFS.

Trust is high in both banks and DFS providers in SEA-6.

Overall levels of trust in both banks and digital financial service providers are high across SEA-6 countries: the Philippines, Malaysia, Indonesia, Vietnam, Singapore, and Thailand. Trust in DFS providers is slightly lower than trust in banks in all the countries surveyed. This finding echoes a recent study in Southeast Asia showing that new entrants in the financial technology (fintech) space are catching up with established financial service players in gaining consumer trust.

Digital literacy is important when it comes to accessing and using DFS.

Digital literacy is the most consistent predictor of both e-wallet and non-e-wallet DFS usage in all six countries surveyed. This finding is unsurprising as a minimum familiarity with digital technologies is needed to access and use all DFS. For unbanked and underbanked individuals who had been excluded from the formal economy, basic digital literacy skills are crucial for them to access and use financial services on their mobile devices.

Financial literacy is needed to move adoption beyond payments.

E-wallets services that facilitate payments and transactions are designed to have a low barrier to adoption, which explains their popularity and rapid adoption among consumers. On the other hand, non-e-wallet services like insurance, investment, and loans are more complex and either necessitate a minimum level of familiarity or appeal to certain types of users only. Financial literacy is a significant predictor of non-e-wallet usage in all countries.

Financial literacy is a common predictor of trust in DFS providers in all six countries. Other demographic factors are less consistent predictors of trust in DFS providers.

Financial literacy predicts trust in DFS providers in all six countries while digital literacy predicts trust in DFS providers in the Philippines, Thailand, and Vietnam. Other demographic and socioeconomic factors — such as income, employment, education, gender, and age — predict trust less consistently across countries.

Trust predicts DFS usage differently across SEA-6.

Trust levels are significantly different between users and non-users of DFS. Trust in providers positively predicts e-wallet usage in the Philippines, Singapore, and Thailand but not in Indonesia, Malaysia, and Vietnam. When it comes to non-e-wallet products, trust in DFS providers positively predicts usage in Malaysia and Singapore only.

Integrity and communication are important predictors of trust in DFS providers; propensity to trust technology is not.

Integrity and communication are important predictors of trust in DFS providers in all countries. When it comes to banks, integrity is a significant predictor of trust in all countries while communication is a predictor in Malaysia, the Philippines, Singapore, and Vietnam. Propensity to trust technology — one's relationship to and perception of technology in general — does not predict trust in any of the six surveyed countries when accounting for the other antecedents of trust, comprising communication, competence, integrity, and reputation. These findings suggest three key recommendations for governments and providers, as they work together to realise the potential of DFS to accelerate financial inclusion.

1. Build on existing trust and reframe the understanding of trust

High levels of trust in financial service providers across SEA-6 is a solid foundation for the region's financial inclusion agenda. For governments, trust can act as a ballast when balancing the dual needs of encouraging innovation and ensuring stability in the financial system. For incumbent banks, trustworthiness is important but insufficient to keep customers. DFS providers, on their own or in partnership with a bank, have the potential to earn the trust as they embed their services into the lives of their consumers.

2. Invest in digital and financial literacy first

Digital literacy and financial literacy are important when it comes to predicting usage of DFS and trust in providers. Initiatives to improve financial literacy and digital literacy are especially important to further encourage confident usage and, by extension, financial inclusion, especially among more marginalised and vulnerable populations.

3. Consider trust alongside demographic and socioeconomic factors for financial inclusion

Policies to improve financial inclusion should be comprehensive and encompass a variety of demographic and socioeconomic factors because they affect and interact with each other. While our study found that trust in providers does not necessarily convert to actual usage of DFS in all countries — Indonesia and Vietnam in particular — it would still be useful to include trust in the equation for encouraging DFS usage and advancing financial inclusion. This will enable policymakers and providers in the region to assess the efficacy of their trust-building initiatives, and gain insights on gaps and opportunities available to better leverage trust for DFS adoption.

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