

# WINNER-TAKES-ALL IN THE BATTLE FOR E-WALLET SUPREMACY





## INTRODUCING THE BATTLE FOR E-WALLET SUPREMACY

A fierce battle is raging to dominate e-Wallets<sup>1</sup> in Southeast Asia – a market of 600 million consumers who are increasingly using mobile Internet and becoming comfortable with digital financial services. In recent years, e-Wallets have been launched in the region by telecommunications providers, banks, merchants, device manufacturers, transportation providers, remittance players, and consumer tech firms. Now, they are competing aggressively to be adopted by both consumers and merchants. While e-Wallets still account for a small proportion of non-cash payments today, they are forecast to grow rapidly. Mobile payments in the ASEAN region are expected to reach \$30 Billion by 2021<sup>2</sup>, and e-Wallets will capture a significant part.

The battle is being waged across borders and there has been a flurry of recent activity. Tencent's WeChat Pay and Ant Financial's Alipay have expanded into Southeast Asia, initially targeting Chinese travellers and communities. Grab-Pay (Grab) is creating a regional payments platform, and Go-pay (Go-jek) might do so too. E-payment alliances are being formed, such as that between Singtel and Razer, which are aiming to create the largest e-payments network in Southeast Asia.

Despite the increasing investment flowing into these new e-Wallet businesses, not all will survive. To stand a chance of success, e-Wallet operators and their investors will need robust business models that can sustain competitive differentiation and scale rapidly. In markets such as Kenya and China that are well past the tipping point for mass adoption of e-Wallets, the evidence is clear: This is a winner-takes-all business, in which the top two players capture over 80 percent of the market. That means e-Wallet operators need to figure out how to emerge on top. And as e-Wallet adoption increases among the banked population, strategic questions arise for banks, which have much to lose. Payment flows may shift away from their credit and debit cards onto stored-value wallets. Even if cards are still the wallets' funding source banks still lose visibility of payments behaviour when an e-Wallet is used. Some banks may choose to compete directly with their own e-Wallets; others may stay away from this competition, but will still need a strategy to respond to the threat. Regardless of their approach, banks need to determine how to compete and collaborate with these new e-Wallet payment instruments and where to place their bets.

We have drawn a number of insights from our work in this area and identified some business models that may emerge as winners.

1. E-Wallets or digital or mobile wallets are types of payment instruments that can be used to transact at physical locations and online. These wallets can be linked to debit cards and credit cards or to a bank account, and can also be loaded with a sum of money, called "stored value". In some instances, e-Wallets can also store cryptocurrencies, however this paper focuses on non-cryptocurrency usage of e-wallets.

2. Euromonitor International

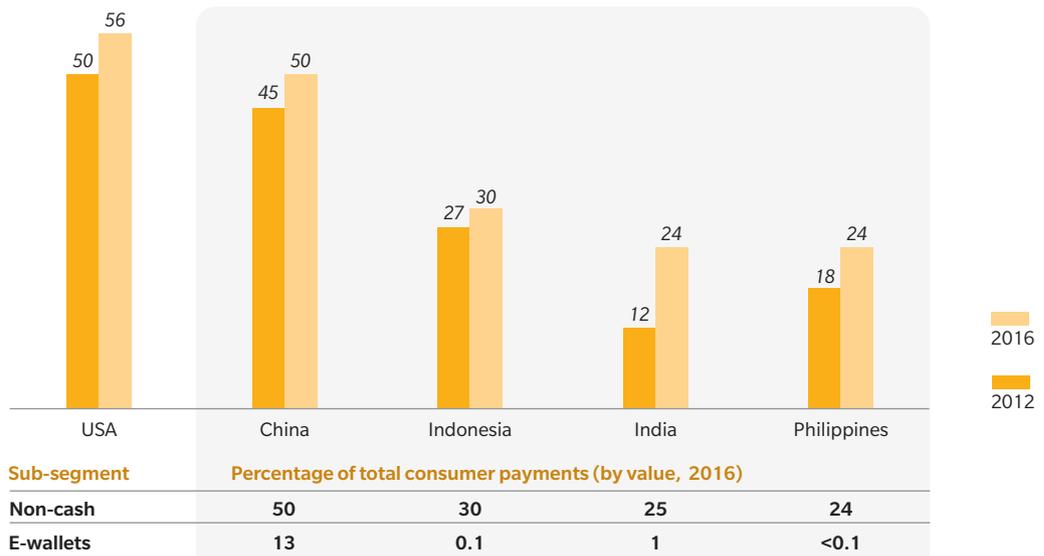
## MARKETS AT VERY DIFFERENT STAGES OF EVOLUTION

In China, e-Wallet adoption was driven by Alibaba and Tencent. It passed a tipping point early this decade, setting a precedent for evolution in Southeast Asia. Globally, MPesa in Kenya, launched by Safaricom from a pilot scheme in 2005, is considered the most successful example of an e-Wallet becoming a ubiquitous payment-and-remittance instrument for an underbanked population in a market with limited banking infrastructure.

Markets in Southeast Asia are at different stages of evolution, and different e-Wallet business models are emerging. For instance, the Philippines is on the cusp of a digital payments revolution, and non-cash payment methods – particularly e-Wallets – are expected to surge to Six percent of payments by 2022. The two leading players in that market, Globe’s GCash and Voyager’s PayMaya, are concurrently building user bases and use cases for the underbanked, who are rapidly adopting smartphones.

Exhibit 1: Share of non-cash payments (of consumer payments) and penetration of e-wallet payments within non-cash payments

VALUE OF NON-CASH TRANSACTIONS  
AS PERCENT OF TOTAL CONSUMER PAYMENTS

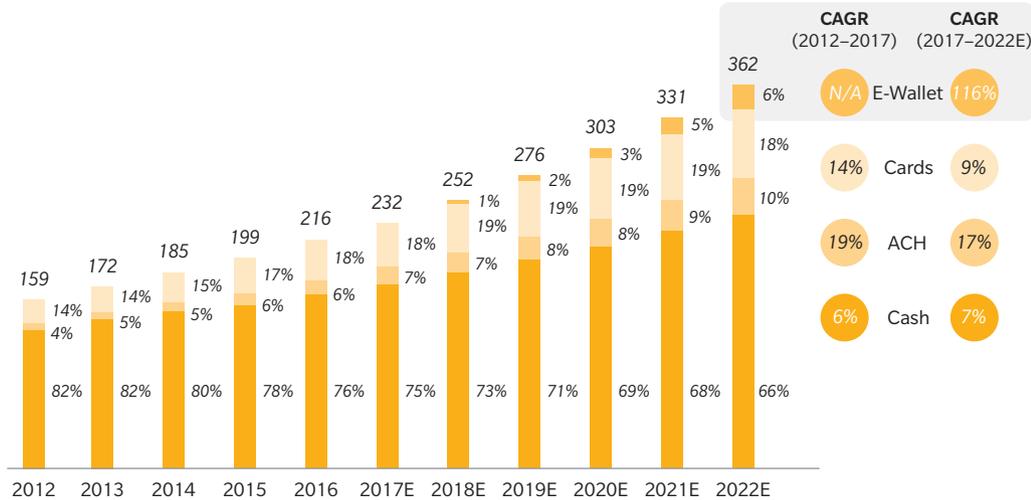


Source: International, eMarketer, Oxford Economics, Reserve Bank of India

However, e-Wallets are not just about serving the underbanked. Successful models are emerging globally both in developed and developing markets. In the United States, for example, Walmart Pay – the retail chain’s closed-loop mobile wallet – is one of the most widely used e-Wallets in the country. Device wallets such as Apple Pay and Samsung Pay are also gaining traction.

## Exhibit 2: Estimated growth of consumer payments by value (in US\$ Billion) in the Philippines

PROPORTION OF CONSUMER PAYMENT INSTRUMENTS BY TOTAL PAYMENTS  
(BY VALUE) 2012-2022E, US\$ BILLION



Euromonitor International

## WINNING E-WALLET BUSINESS MODELS

Not all e-Wallets are equal: A variety of models could prove winners, depending on the market context, the behaviour of the target consumers, and regulations. As e-Wallets proliferate in the region, it is imperative to understand which players and business models will win the battle for supremacy. We analysed the underlying business models and economic drivers of success for the most prominent e-Wallet archetypes. We then categorized them according to type – whether the e-Wallet is standalone or part of an ecosystem; and to target customer – whether they are banked or underbanked/unbanked.

### ARCHETYPE A: FINANCIAL INCLUSION

This e-Wallet targets the unbanked and underbanked and provides a digital alternative to physical cash. It is likely to be one of its customers' first experiences with formal financial services. For the unbanked, it is the closest substitute to a bank account and its main use cases will be cash in/cash out, domestic and cross-border remittances, and limited payments such as prepaid mobile top-ups. The primary revenue drivers are fees charged for these use cases. We see opportunities for e-Wallet providers to make this model profitable at scale, especially when they have pricing power due to limited alternatives. A wide network

of agents for last-mile distribution is a key factor for success, though the network needs to be efficiently managed so as to reduce costs and operational risk. Trust and security are also critical, as fraud can be a risk when agents provide transaction support to first-time users of formal financial services (agents may take a certain sum of money in cash from the customer, but deposit a lower sum in the e-Wallet)

This archetype is relevant to countries in the region that have low banking penetration but high – and rising – mobile internet penetration. E-Wallets led by telecommunications companies can be successful thanks to their broad networks of agents. For example, Wave Money in Myanmar has 1.3 million customers and access to a network of more than 20,000 agents through its partners Telenor and Yoma Bank. In contrast, Myanmar's largest privately-owned bank has just 500 branches.

The challenge for these players is to scale rapidly while sustaining revenue margins. Cash-in fees decline over time and remittance corridors attract significant competition both from traditional incumbents turning to digital services and from new digital businesses. TNG in Hong Kong, for example, offers an e-Wallet that caters predominantly to domestic workers from the Philippines and Indonesia who remit income back home.

## ARCHETYPE B: DIGITALLY ENABLING THE UNDERBANKED

Leading players provide a fuller suite of quasi-banking services to the unbanked and underbanked. The e-Wallet becomes the critical instrument for increasing the number of payment use cases, and winners may be those that provide value-added solutions that go beyond payments. For example, they might offer credit or provide simple advice on spending and budgeting. Agent networks will still be needed to address the cash-in challenge to encourage adoption and usage. We observe providers increasingly absorbing the costs of cash in and instead deriving revenues from merchant transactions. They could also potentially obtain revenues from the float as digital money is retained in the ecosystem. Low-cost payment infrastructure, such as QR codes, could attract smaller offline merchants. In markets that receive large numbers of overseas remittances, there are opportunities to drive cash flow into the system by positioning the e-Wallet to “catch” money remitted from overseas wallets.

This archetype is currently most relevant in markets such as Indonesia, the Philippines, and Vietnam, where consumer platforms are rapidly expanding in scale. For example, Go-pay in Indonesia started with digital payments for rides hailed on Go-jek but has expanded to include food delivery and offline retail payments. Moreover, Go-jek drivers act as agents, accepting cash for top-ups as well as Alfamart counters.

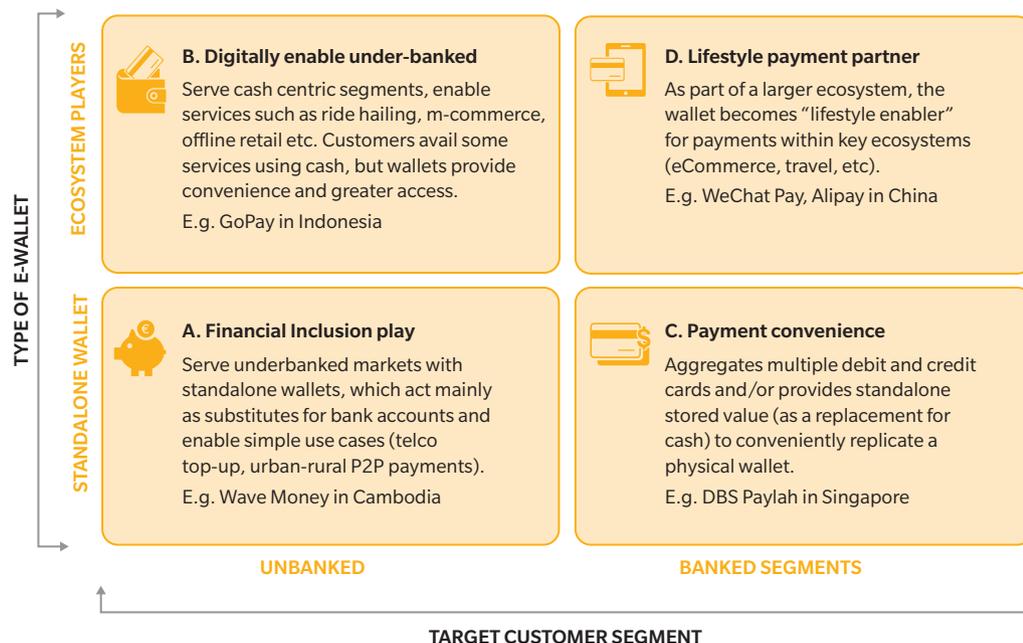
The challenge for participants in this space is to become useful enough in daily life that customers adopt their e-Wallets, use them regularly, and therefore retain funds in them. As the underbanked increasingly use new consumer platforms, they will come to expect more than basic e-payment capabilities. Then, what worked for a financial-inclusion player may no longer be compelling enough to be competitive. This can be seen in Indonesia, where e-Wallets led by telecommunications companies are battling Go-pay.

Regulatory change may also facilitate the development of new e-Wallet services. The Hong Kong Monetary Authority (HKMA), for example, has announced that it will issue virtual money licenses, enabling an e-Wallet player under a Stored Value Facility License to start offering deposit and credit-related services for those currently excluded from mainstream banking services.

## ARCHETYPE C: PAYMENT CONVENIENCE

E-Wallet operators target banked segments of the population, positioning their e-Wallets as a convenient payment instrument to drive loyalty and usage. Various models exist. The e-Wallet can store credit and debit card data so that those cards can be used for mobile payments – for example in a device wallet such as Apple Pay. Or the e-Wallet draws funds into a stored-value facility that is used to make mobile payments – such as DBS’s PayLah. Revenue is derived from the interchange fees when the e-Wallet is used to make a mobile payment at a merchant and from monetising the rich transaction data gathered when the e-Wallets are used. In the device wallet model, card issuers compete to be selected by consumers as the primary card stored in the e-Wallet, just as they compete to be the card of choice in consumers’ physical wallets. Some merchants, too, have launched their own e-Wallets: These are typically closed-loop and can only be used to make purchases at that merchant. A leading example is the Starbucks mobile app in the US, but this model has been less prevalent in Asia. For the merchant, a closed-loop e-Wallet reduces payment processing costs and provides more control over the customer buying process. Merchants can then use the rich transaction data to make targeted offers that foster loyalty.

Exhibit 3: Prominent e-Wallet archetypes



We see this archetype emerging in more-developed markets such as Singapore, Malaysia, and Thailand. DBS PayLah has had considerable success in Singapore thanks to its ease of use and a growing base of merchants. It is particularly convenient for small food-and-beverage payments at food courts in Singapore.

The main challenge is to monetise the wallet itself, as the banked user base is less willing to pay for the convenience of an e-Wallet. Driving loyalty and visibility into daily spend behaviours are typical motivations for customers. Successful players are the ones that deliver a superior customer experience compared with other forms of payment. They sign up merchants in a cost-effective manner and offer value-added features such as spend tracking and budget analysis. Neat in Hong Kong provides a prepaid account along with value-added services such as the categorisation of expenses to provide a clear analysis of spending patterns.

## ARCHETYPE D: LIFESTYLE PAYMENT PARTNER

This is the target end-state for many e-Wallet providers, but few have achieved it, especially those led by banks. While banks might aspire to dominate in this area, the emerging leaders are instead large, frequently-used consumer tech platforms, such as messaging platforms and e-commerce companies. They merge e-Wallet capabilities into their core offerings, encouraging captive users to adopt their e-Wallets for payments on their platforms. The monetisation of these e-Wallets does not have to come directly from payments but can instead be the result of increased average revenue per user. Transaction data can be leveraged to offer services that go beyond payments, such as micro-credit and credit ratings. To drive rapid adoption and frequent use, these players are often among the most aggressive in their pricing of payment services.

The greatest success cases for this archetype are in China, where Alipay and WeChat Pay have become indispensable in the daily lives of millions of consumers. For example, Ant Financial uses Alipay transaction data to build a credit score for users, which it can then monetise either by offering credit directly to users or by providing the score to other financial institutions.

The challenge is to deliver business returns that justify the substantial investments required to become one of the favoured e-Wallets. Regular engagement may need high marketing costs and the funding of loyalty programs, so it is critical to be able to generate profitability in areas beyond payments. While the leading Chinese players are actively expanding beyond their national borders, other platform players are emerging in Southeast Asia too. One example is Grab, which offers its GrabPay wallet and credit solutions alongside its core ride-hailing services. With seamless local and cross-border payment functionality and rapidly scaling merchant acceptance, GrabPay already has a large, loyal customer base in multiple markets as it competes for dominance in e-Wallets.

Meanwhile, other players, such as Singtel, are aiming to achieve scale and relevance by connecting multiple e-Wallets in different markets to create an interoperable pan-Southeast Asian e-Wallet payment network. Singtel has already announced its intention to connect

its Dash wallet with other telco-led wallets in the region – for example, AIS’s mPay wallet in Thailand and Globe’s GCash in the Philippines.

The table below summarise the business model characteristics and economics models for successful plays in each of the archetypes.

Table 1: Comparison of e-wallet archetypes

	FINANCIAL INCLUSION PLAY	DIGITALLY ENABLE UNDERBANKED	PAYMENT CONVENIENCE	LIFESTYLE PAYMENT PARTNER
<b>KEY SUCCESS FACTORS</b> 	<ul style="list-style-type: none"> <li>Widespread agent network and user base for network effect</li> <li>Trust and brand recognition</li> </ul>	<ul style="list-style-type: none"> <li>Simplified and low-cost cash-in to incentivize loading</li> <li>Multiple use cases to keep customers engaged and wallets funded</li> <li>Merchant/agent network (often merchants double as agents) to drive adoption</li> </ul>	<ul style="list-style-type: none"> <li>Wide merchant acceptance network</li> <li>Superior customer service and experience with added functionality e.g. spend tracking &amp; analysis</li> </ul>	<ul style="list-style-type: none"> <li>Conversion of customers in the core ecosystem to e-wallet users</li> <li>Focus on “beyond payment” opportunities</li> <li>Monetize e-wallet data to provide adjacent services</li> </ul>
<b>REVENUE DRIVERS</b> 	<ul style="list-style-type: none"> <li>Fees and commissions from cash ins/cash outs, remittances and airtime top-ups</li> </ul>	<ul style="list-style-type: none"> <li>Merchant interchange and float income</li> <li>Limited micro-credit referrals/ credit scores</li> </ul>	<ul style="list-style-type: none"> <li>Merchant interchange and float income</li> <li>Achieving “top-of-wallet” status for credit/debit cards stored in the e-Wallet</li> </ul>	<ul style="list-style-type: none"> <li>Higher engagement/ loyalty to core ecosystem solution</li> <li>Merchant interchange and fees for beyond payment services (e.g. credit)</li> </ul>
<b>COST DRIVERS</b> 	<ul style="list-style-type: none"> <li>Agent fees and cash management costs</li> </ul>	<ul style="list-style-type: none"> <li>Merchant acquisition costs, agent fees and cash management costs</li> </ul>	<ul style="list-style-type: none"> <li>Merchant acquisition costs (e.g. for QR code enablement)</li> </ul>	<ul style="list-style-type: none"> <li>Merchant acquisition costs</li> <li>Marketing spend to support acquisition/ engagement</li> <li>Funding of loyalty programs</li> </ul>

## THE TIME FOR ACTION

The tipping point for the mass adoption of e-Wallets in Southeast Asia is hard to predict. However, trends in consumer behaviour and technology, as well as the evolution of ecosystem-based financial services, all point to rapid acceleration in the next three to five years. Adoption will be affected by developments such as real-time payments infrastructure, the low-cost acquisition of merchants, regulations for e-Wallet onboarding, and transaction value thresholds. These could fundamentally change the shape of the retail payments landscape.

The battle for supremacy in e-Wallets will be fierce and a few large-scale players are likely to become dominant in the banked and unbanked segments. E-Wallet investors and operators need to develop business models that they can scale successfully; otherwise they risk becoming irrelevant to their target audiences and falling by the wayside.

Viral adoption by users – as well as merchants and agents – will be needed to generate network effects for the four archetypes identified. For the financial-inclusion and digitally-enabled-underbanked archetypes, cash-in and cash-out services are key to usage and can be monetised by the e-Wallet provider together with other simple payment activities. These revenues will be needed to support the costs of building and managing an expansive agent network. But in the banked segment, monetising payments will be difficult. Success in the payment-convenience and lifestyle-payment-partner archetypes will result from generating engagement and loyalty for the core offering from the banking or consumer tech platforms. More engagement will produce more transaction data, which will form the basis for analytical insights. These will support sales of other services to the client base, such as credit-related products and financial advice.

Success will require investors and operators with deep pockets. It will be expensive to develop large networks, create ubiquitous payment use cases, attract users and motivate frequent usage. Monetisation will be hard and take a long time, but there are huge potential rewards for becoming the payment instrument of choice for a target segment. Meanwhile, banks and other existing payments players cannot just sit on the side-lines. If e-Wallets become the instrument of choice for small-ticket payments, incumbents will have to defend their turf in other retail payments. So, banks need to make important strategic choices about where and how to compete. That means deciding whether to participate directly with their own e-Wallets – or else ensuring that their own payment solutions are seamlessly integrated into the wallet platforms of the future winners.



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