The next 600 million

A guide to reaching Southeast Asian shoppers with payments

adyen

Introduction

When planning for global expansion, many businesses focus on areas such as website localization, logistics, hiring local teams, setting up operations on the ground, and so on. However, there is another key area in which you can make rapid progress in terms of localization – by offering local consumers the methods to pay that they know and trust.

That is because in many major markets, including in Southeast Asia, credit and debit card penetration is low, and they are far from the most popular way to make an online purchase. Instead, there is a dizzying array of online banking, e-wallet, ATM, and cash-based payment methods, which will enable you to reach potentially hundreds of millions of new customers in some of the most dynamic and fastest growing markets in the world.

This guide will walk you through the key features of major Southeast Asian markets, including Indonesia, Malaysia, the Philippines, Thailand, and Singapore, touching on major payment methods, and how Adyen can enable you to offer these payment methods to your shoppers.

The Southeast Asian opportunity

Home to over 600 million people, Southeast Asia is on the verge of an ecommerce boom.

Key payment methods

Significantly, the region is experiencing a high rate of digital adoption, with 250 million smartphone users, and an estimated 142 million mobile broadband subscriptions at year-end 2015. This number is expected to grow at a compound annual growth rate (CAGR) of over 14% to 292 million in 2020, driven mainly by smartphone adoption and 3G and 4G network expansion.

In addition, the ecommerce market is still small. It accounts for less than 3% or US$6 billion of the total retail sales, compared with 14% penetration in both China and the US, with online sales of $293 billion and $270 billion, respectively.

But while the ecommerce market is still relatively small, the growth potential is enormous. Online retail sales in

the region are projected to grow by as much as 25% annually in the coming years. For ecommerce businesses looking for the next source of growth, this presents a compelling opportunity.

However, there are still challenges for ecommerce in Southeast Asia. The hurdles include the low level of technology adoption and the highly fragmented nature of the region with country-specific cultures, regulations, infrastructures, and customer payment preferences.

Enabling local payment methods

Even as ecommerce is on a growth path in Southeast Asia, the payments market is hardly homogeneous as the vast majority of payments are still conducted offline and in cash.

In developing markets such as Indonesia and Thailand, shoppers still mainly pay by cash, and due to a perceived lack of security online, even shoppers who have cards are more reluctant to give out their card information when compared to the global average.

Therefore, online banking methods, or offline methods such as payments via an automated teller machine (ATM) or convenience stores remain the most popular payment options, and should be considered of primary interest by companies expanding in the region. Mobile payment methods, including prepaid cards and e-wallets are also quickly growing, particularly as a majority of the population go online either primarily or only on mobile.

However, while card penetration is relatively low (apart from Singapore), it should be kept in mind that shoppers using cards to pay online generally have a higher level of discretionary spending than the local averages. These shoppers are also likely to be familiar with international brands.

Finally, businesses planning to enter these growing markets are advised to consider Singapore as a gateway to the region, due to its openness to cross-border payments, and the Singapore dollar being accessible from outside the market for processing and settlement.

Indonesia

Indonesia is the largest economy in the region, and is poised for enormous growth for years to come.

The country has the fourth biggest population in the world, yet the least-developed ecommerce market in Southeast Asia, representing just 1% of all retail sales in Indonesia in 2015. Underscoring the size of the opportunity, the market size is expected to rise dramatically from just over $3 billion today to $11 billion in 2019.

The bright outlook is driven by demographic trends. Less than 40% of the population is currently online, bank penetration is under a quarter, and the number of debit and credit cards issued is at only 15%. As with many developing economies, the shift online is happening through mobile, with over 90% of online users in Indonesia going online via their phone.

Key payment methods

Cash-based payment methods are currently predominant. When implementing a payments strategy, merchants should keep in mind that the majority of transactions are made with local payment methods, with smartphones as the preferred way to go online and mobile payments to grow in coming years.

ATM payments

The first type of key cash-based payment methods is ATM transfers, which is basically a cash transfer from one account to another. With this method, the customer receives a voucher code as part of their online transaction, and then completes the transaction at an ATM via cash or card payment by entering the code into the ATM. Indonesia's key ATM networks are Bersama, Primo, and Alto, and customers can pay at the ATMs of any Indonesian bank.

Convenience store payments

With in-store cash payments, the shopper orders goods and services online, and completes the transaction offline by printing a receipt or taking a reference number to a convenience store to make a cash payment. Convenience stores that support these transactions include Alfamart, Alfamidi, Alfa Express, Lawson and DAN+DAN, making it a convenient way to pay for many Indonesian shoppers.

Online bank transfers

This form of cash transfer from one account to another is offered by large Indonesian and multinational banks, which have built their own payment services. Key among these are Mandiri Clickpay, CIMB Clicks/OctoPay, e-pay BRI, KlikBCA and BNI.

In order to make online purchases, shoppers need to first register and are then either issued a physical security token to authenticate the transactions, or are redirected to a third party website to authenticate their purchase.

Inside tips

Indonesia is a highly regulated market, where a local entity is typically required to process locally. Furthermore, the Indonesia rupiah (IDR) cannot be repatriated. However, Adyen has made it possible for merchants to offer domestic payment methods in Indonesia with settlement in US dollars.

What Adyen offers

Through a single integration Adyen enables merchants to offer all of these local payment methods, while providing consolidated reporting and transaction level reconciliation. In addition, Adyen provides the ability to settle funds outside Indonesia.

Malaysia

Like Indonesia, Malaysia is in the midst of accelerated ecommerce growth, driven largely by mobile.

Yet there are some significant differences between the two markets. Malaysian shoppers are comparatively open to cross-border shopping, with 40% of online transactions cross-border, and among Southeast Asian markets Malaysians are second only to Singapore in terms of credit card penetration and usage.

The growing use of mobile devices may herald an acceleration in ecommerce growth in the near term future, as mobile payments can be made from a mobile account instead of a bank account, which is particularly interesting considering that up to a third of the population does not have a bank account.

Key payment methods

Although credit card usage is somewhat higher in Malaysia than in most Southeast Asian markets, cash and online bank transfers are still considered preferable by most shoppers in the market.

Online bank transfers

Online bank transfer is the primary method of payment for ecommerce, accounting for 50% of online purchases. This payment method is offered by many Malaysian banks, including Maybank2U, CIMB Clicks, Hong Leong Connect, RHB Now, Affin Online, AmOnline, PBe and Bank Islam.

Cash-based payments

A popular method of paying for online goods and services is through convenience store chains such as 7-Eleven, or at petrol stations supporting ePay for bill payments.

Inside tips

Malaysia has strong financial regulatory controls. Due to this, the Malaysian Ringgit is a non-tradable currency, which cannot be settled outside the country. However, processing cross-border payments through an international acquirer does not trigger any International Issuing fee for the shopper. Therefore, merchants who take this approach are not impacted when processing Malaysian Ringgit cross border.

Finally, it is worth noting that in order to help clamp down on online fraud, local acquirers mandate 3D Secure as an additional layer of authentication of the customer.

What Adyen offers

For credit and debit card payments, Adyen can support merchants who prefer not to have domestic settlement, and enable access to one-click payment facilities without having to set up a domestic merchant account in Malaysia. While a domestic entity is not required for international credit cards, it is important to note that it is normally required in order to access domestic payment methods, which account for a significant percentage of online transactions. Adyen provides a unique offering that allows international merchants the option of domestic payment methods without having to be a local entity.

For local payment methods, Adyen offers a single integration that enables merchants to offer all major online bank transfer and cash-based methods. In addition, merchants receive consolidated reporting and transaction level reconciliation, as well as the ability to settle funds outside of Malaysia in US Dollars (USD) while still allowing customers to pay in Malaysian Ringgit (MYR).

Thailand

Another market with huge ecommerce growth potential, online retail transactions currently account for as little as 0.5% of the Thai retail industry overall, but is growing by an estimated 30-35% annually.

With internet penetration estimated at 60% and mobile being the primary access device for most new shoppers, mobile commerce is of key interest to merchants expanding in the market.

One interesting point of differentiation in the Thai market is Thai consumers' preference for making purchases on social media. In fact, over half of online shoppers in Thailand said they bought products by interacting with merchants on social media, well ahead of other Asian markets including India (32%), Malaysia (31%) and China (27%).

Key payment methods

Due to low card penetration, in Thailand payment methods including online bank transfers and cash-based payment methods are predominant.

Online bank transfers

Online bank transfer is the primary method of payment for ecommerce transactions in Thailand. In order to make the payment, shoppers are redirected from the merchant's website to their online banking environment to complete the transfer.

Cash-based payments

Consumers can make over-the-counter payments using a voucher. The shopper will be redirected to an on-screen voucher with a barcode which can be printed and taken to a nearby bank, post office or convenience store such as Family Mart, Tesco Lotus, SCB, Family Mart, BigC, Pay@ Post, JustPay and mPay terminals.

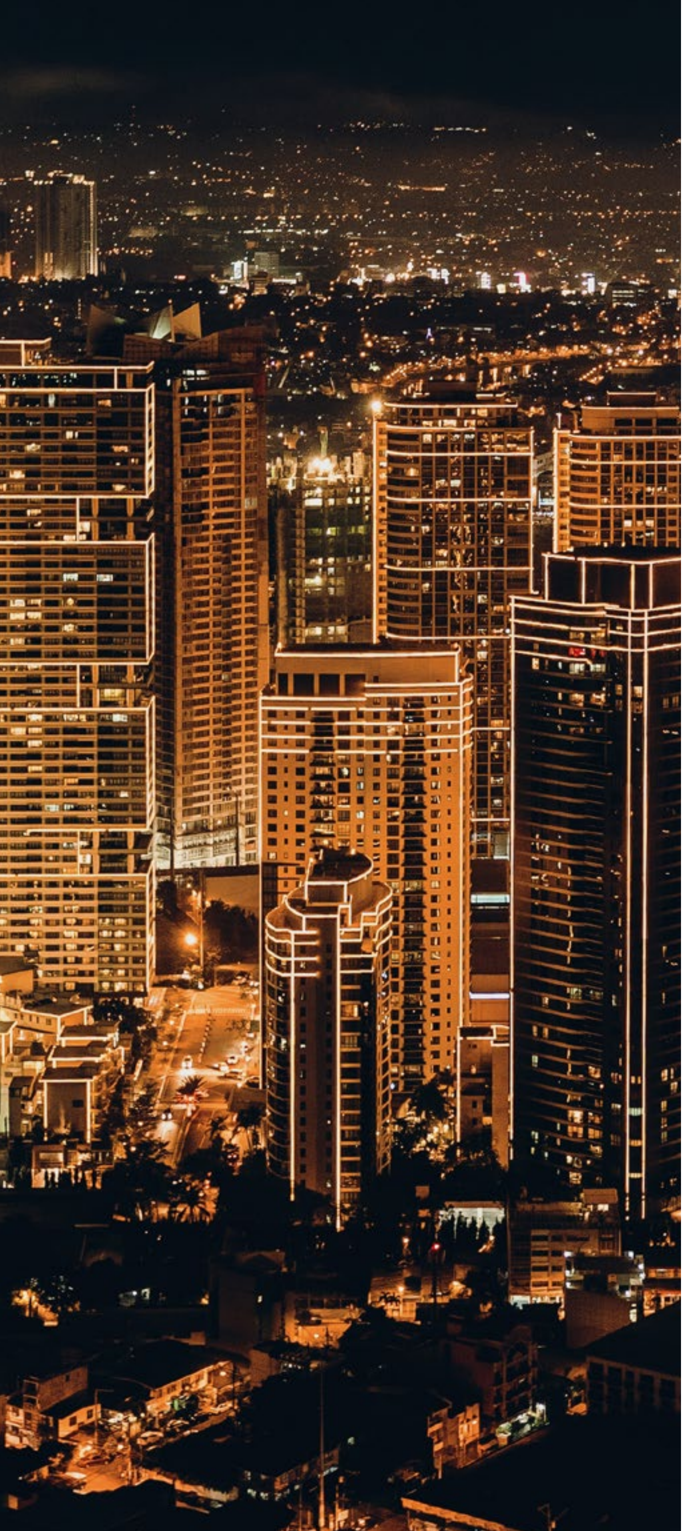
Inside tips

Thailand has fewer regulatory restrictions than some Southeast Asian countries, which makes it easier to go domestic or enable cross-border payments. In cross-border payments, cross-border fees do not impact shoppers, as there are no monetary restrictions on funds being settled outside the country.

Merchants should consider offering local payment methods like in-store payments, where the shopper receives a barcode via email and pays in a physical location. on online fraud, local acquirers mandate 3D Secure as an additional layer of authentication of the customer.

What Adyen offers

Adyen enables merchants to offer all of these alternative payment methods through a single integration to the Thai banks, including Siam Commercial Bank, Krung Thai Bank, Bangkok Bank & Krungsri Bank. The merchant also receives consolidated reporting and transaction level reconciliation as well as the ability to settle funds outside of Thailand in US Dollars (USD), while still allowing customers to pay in Thai Baht (THB).



The Philippines

The Philippines is one of the most mobile — and arguably most under-estimated — ecommerce markets in Southeast Asia.

As the second most populous country after Indonesia in the Southeast Asia region, the Philippines' ecommerce market can expect an annual growth rate of 101.4% from 2013 until 2018, driven mainly by heavy internet usage and high mobile penetration.

The internet penetration is under 50%, and the majority of the population is still under-banked, or even unbanked. Conversely, Filipinos have long been among the most prolific mobile users in the world, where smartphone penetration in the Philippines is expected to reach up to 40% by the end of 2015.

These market and demographic factors have a number of implications for how Filipinos prefer to pay online. The majority of ecommerce transactions are made with cash-on-delivery and bank transfers (estimated at 30-70% depending on business and vertical) and the market is also notable for its low level of credit card use and rapid growth in mobile as a payments channel.

Both the current size and growth potential of the ecommerce market are impressive. Because cash transactions cannot be easily tracked, analysts often under-estimate the size of the current Topportunity. Looking to the future, internet use is growing at some of the fastest rates in the world and 70% of Filipino internet users are 15- 34 years old.

Key payment methods

The Philippines has one of the region's lowest card penetration rates. Consumers typically make their purchases online through alternative online payment methods.

E-wallets

GCash and SmartMoney are two popular e-wallet services that are used by shoppers for online purchases. GCash is a reloadable prepaid card co-branded with MasterCard that enables shoppers to pay by text message, or on their mobile or desktop, much in the same way they would with a credit card.

Online bank transfers

This is a popular payment option in the Philippines, with some of the banks being Banco De Oro (BDO), Metrobank, and Bank of Philippine Islands (BPI), Rizal Commercial Banking Corp (RCBC), Chinabank, EastWest Bank (EWB), Landbank, Maybank, Philippine National Bank (PNB), RobinsonsBank, Security Bank, Sterling Bank of Asia, United Coconut Planters Bank (UCPB) and Unionbank. The shopper can make payment through their own online banking website.

Over-the-counter (OTC) transfers

This is a cash transfer where the shopper makes an "over the counter" bank transfer, by depositing the money in person at their chosen bank branch or through ATM transfers with banks like Metrobank, UnionBank and BDO.

Convenience stores

Consumers can make over-the-counter payments for online purchases at designated outlets. Some outlets include convenience stores like: Ever Superstores, Gaisano, NCCC, Via Express, ExpressPay, Tambunting and Cignal.

Inside tips

A local entity is not required and cards can be processed crossborder without international fees for the Philippines. It is recommended that international merchants keep cards cross-border and enable local payment methods as well.

Authorization rates tend to be lower in the Philippines than other markets, mainly due to the young generation being less willing to pay for content. We see lower conversion rates especially for digital content like games and music downloads.

What Adyen offers

For e-wallets, Adyen offers payment pre-selection for GCash, which the shopper can select to make payment on the GCash merchant page without an intermediary page. For online bank transfers, Adyen supports a total of 11 local online banking services and 16 banks for over the counter and ATM payments.

Adyen works with five international over-the-counter providers, namely CashU, I-remit, Cash Pinas, PNB rapid remit and Ventaja-payremit. Through a single integration, Adyen enables merchants to offer all of these payment methods, while providing consolidated reporting, transaction level reconciliation as well as the ability to settle funds outside of the Philippines.

Singapore

It is often said that shopping is a national pastime in Singapore and its shopping malls are the stuff of legend. The good news for ecommerce businesses is that this enthusiasm extends online as well.

Singapore is the most active ecommerce market in Southeast Asia. 40% of its population is made up of permanent foreign residents, and 23% of Singaporean citizens were born abroad. With so many international ties, it comes as little surprise that 55% of ecommerce in Singapore is cross-border.

So despite its small size (population 5.6 million) Singapore represents an attractive prospect for businesses looking to expand internationally. It is a mature market with English as the main language and offers an extremely business-friendly environment. It is therefore a good point of entry into the rest of Southeast Asia.

Smartphone penetration is nearly 90% and tablets nearly 50%. They are avid online shoppers and ecommerce is booming. This burgeoning ecommerce market can be partly attributed to smartphone usage. 30% of online shoppers use their mobiles to make purchases at least once a week.

Key payment methods

In Singapore, credit card is the undisputed king. Singaporeans tend to have multiple cards and the high card penetration drives much of the online shopping experience. All the new ecommerce credit card payments that are processed through bank accounts in Singapore should be 3DS enabled, where shoppers will receive one-time-passwords on their phones which they need to authorize the transaction on their web browser or smartphones.

eNETS

eNETS is a Singapore-based consortium that offers electronic payment services to merchants, institutions and consumers. Services include online credit card payment and debit card payment via internet banking for shoppers. eNETS is rarely used for ecommerce transactions for which it is not optimized, and it does not offer a mobile option.

Inside tips

For merchants, entering the Singapore market through international acquiring is a sound first step, due to its openness to cross-border payments. The Singapore dollar (SGD) is accessible from outside Singapore for processing and settlement. However shoppers will face additional charges from their issuing bank due to payments being made with a non-domiciled merchant.

Merchants can consider using Adyen's domestic solution to get lower interchange. Due to the maturity of the cards business in Singapore, the authorization rate will not be significantly improved compared to other markets but there might be a slight improvement.

What Adyen offers

Singapore is a great strategic center for businesses expanding their presence in Asia. Adyen's direct acquiring license in Singapore allows merchants to leverage our direct connection to Visa and Mastercard, taking full advantage of Adyen's single payment platform. This also gives businesses benefits like higher card authorization rates, richer data insights and greater business resilience via local processing.

With Adyen's single payment platform, businesses can truly optimize payments across point-of-sale (POS), ecommerce, mobile and in-app. While helping businesses meet their omnichannel objectives, seamless payments on these fronts help create great shopping experiences – enabling greater conversions and revenue.

Reach the next 600 million shoppers with Adyen

With its single platform to accept payments from anywhere in the world, Adyen helps businesses quickly roll out into new markets and scale internationally.

As ecommerce continues its rapid growth in Southeast Asia, Adyen is helping some of the world's smartest companies to drive frictionless sales with new customers in the region.

In Asia-Pacific, Adyen is headquartered in Singapore, with local staff who have extensive knowledge of payment methods, regulatory environments, and best practices across all key markets in the region.

Want to speak to a local payments expert?

We would love to set up a call to discuss further how we can help accelerate your expansion into Southeast Asia. Call our Singapore office on +65 3158 5188 or email asia@adyen.com.

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