



Strengthening Asia's Financial Safety Nets and Resolution Mechanisms

7th IPAF Summit and International Conference

Session 3 Panellist

Chinang Kong FCA

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Who is Pepper

Pepper has built, scaled, acquired and managed Lending and Servicing businesses across Asia-Pacific and Europe to help underserved and undervalued segments. Our proprietary technology infrastructure advances the scale of our platforms and provides us with a unique opportunity to continue our growth story in new and existing markets.

Product & Service Offering

LENDING

We help **consumers, SMEs and small corporates** who fall outside of the credit criteria or banks

We offer **flexible credit solutions** based on customer circumstances and flexible yet affordable loan options across the **full credit spectrum**

Our customers count on us to get a loan when they otherwise couldn't and to help reach their goals of financial freedom, security & stability

SERVICING

We **help investors, financial institutions, fintech's & Neo banks** to serve their customers and administer loan books when they don't have capacity or need specialist support

We provide **loan servicing expertise, technology and data-insight systems for end-to-end solutions** with a deep understanding of credit risk and borrower behaviour

Our clients receive the best recovery and the best outcomes for their customers. They count of us for our flexible approach, analytic skills and global platform capabilities

Key Operating Metrics¹

23+

years of operation

~\$821mn

FY22 revenue

\$28bn+

capital markets funding since inception

2.5m+

customers across the World

\$75bn

in total AUM
\$21bn Lending
\$54bn Servicing

100+

institutional relationships

3,600+

employees across **14** countries

\$49bn+

loans originated in the last five years

15+

asset classes

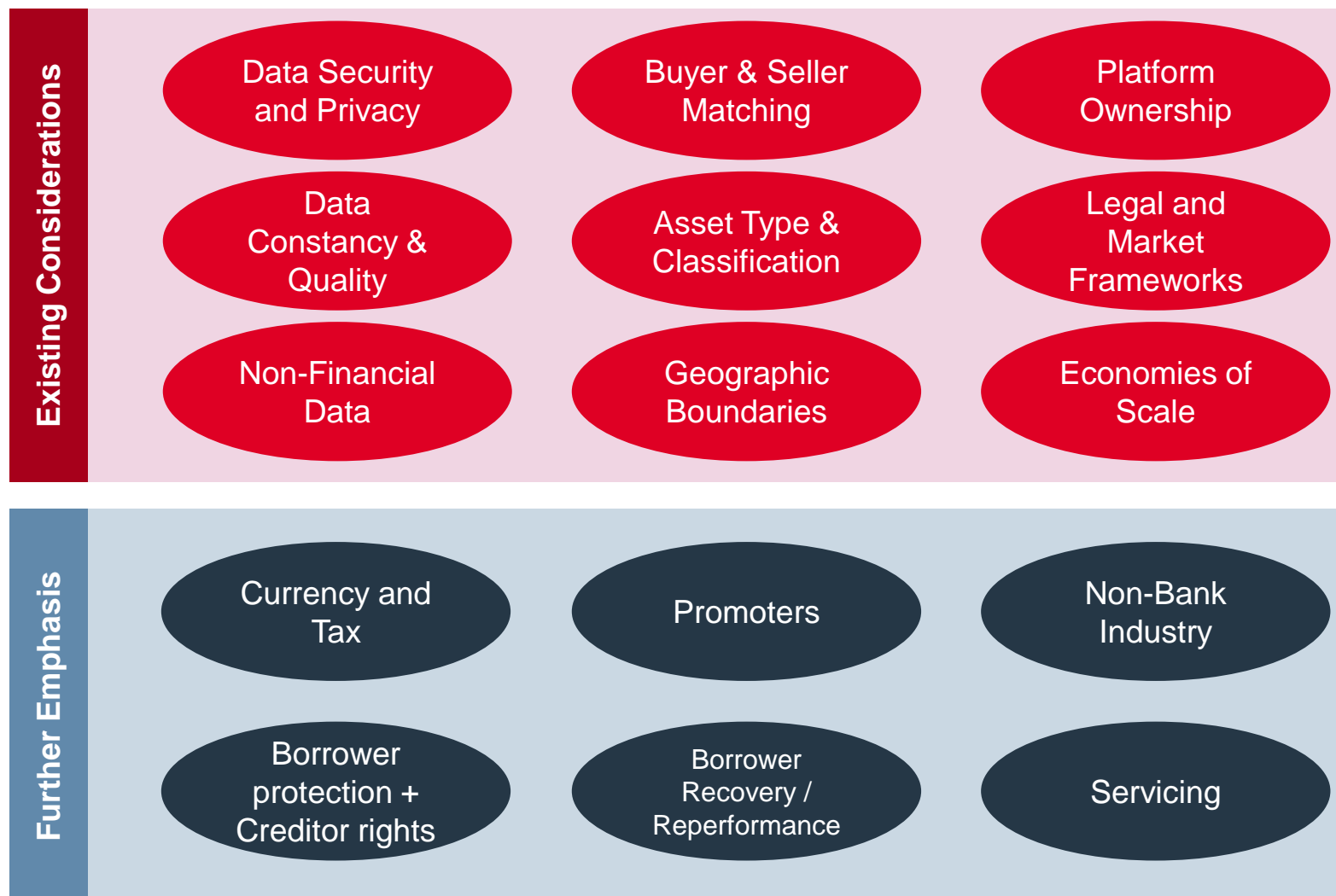
Global Footprint Across Lending and Servicing Verticals



Introduction

- I am delighted and honoured to be invited by ADB to IPAF again, and it is nice to see many old friends here today in this lovely setting.
- I have been an invitational speaker at IPAF for quite a few years now and hope to continue to provide valuable insights.
- The last report produced by ADB was impressive and insightful. Compliments to contributors and my ex-colleagues from Deloitte who had carried on from my work.
- It forms a good foundational study and guidance for which further efforts can be built off on.
- I am now in Pepper Global. A KKR portfolio company that specialises in alternative lending and loan servicing including managing and supporting investors to acquire NPLs with >USD80bn under management. So still in the same space but with a different and wider lens to the subject of Financial Stability and development of NPL markets.
- In my short presentation today, and having reviewed the last report, and reflecting on my previous work around NPL market ecosystems, I would like to provide some additional considerations around key challenges I see in the markets
- Provide some “food for thought” around how online debt trading platforms and markets could be made successful
- A potential framework to encourage the development of markets - embracing best practise and innovation, and yet taking into account the bespoke nature of each market
- The following slides represents my personal views and my personal recommendations

Key Challenges & What is Needed



- The report identifies a number of considerations and challenges deploying an online trading platform
- These not only address the necessary features of a trading platform but also underlying elements of the market that might affect trading
- **Importantly, an online npl trading platform is useful tool** not unlike the other trading platforms used trade equity, currency, crypto, carbon credits, etc
- **But what is equally important** and closely aligned to the application of digital platforms **is the parallel development of a Co-ordinated Marketplace**
- Given the differences in maturity and developments of each market, this should be initiated at a country level as a local led initiative BUT supported by a regional

Examples of Co-Ordinated Marketplaces ...

1 “Mature” exchanges / associations 1) can help create local markets 2) are not controlled by buyers / sellers; 3) supported by regulation; 4) have online trading features

Asset Class	Equity	Commodities	Cryptocurrency
Regulated / Private (OTC)	Mostly regulated by local government (with specific legal / regulation docs)	Regulated by local government or self-regulated (with specific legal / regulation docs)	Mostly private (license required in some countries; legal / regulation docs mostly under developing / refining)
Single / Multiple trading platforms	1-2 exchanges in one country, but with multiple trading platforms (brokers)	1-10 exchanges in one country (related to commodity size / types, e.g., ~9 in India, ~6 in China)	Dozens of exchanges / trading platforms in one country; Largest ones operate globally (<i>always choose “friendly” country to register</i>)
Example of Mature Exchange	HKEX (Hong Kong) <ul style="list-style-type: none"> Listed (~65% by public, ~6% state owned, others by institutions) Registered broker connected to HKEX system can transmit and receive orders / transactions electronically 	TOCOM (Japan) <ul style="list-style-type: none"> Owned by Japan Exchange Group (listed; holds TSE) Operate electronic markets; Offer futures & options, also swaps contracts via OTC platforms Self-regulated under Commodity Derivatives Act etc. 	Bybit (Dubai) <ul style="list-style-type: none"> Serving 180+ countries, including all Asian nations (if allowed) 400+ crypto assets Not regulated by any governments Binance (Malta) <ul style="list-style-type: none"> One of the largest and most popular worldwide 350+ crypto assets Unregulated in Asia

2 There are regional exchanges existing, e.g., Linkage Stock Exchange in Africa

The African Exchanges Linkage Project (AELP)

was launched on 18 Nov 2022, allowing interconnexion between the 7 participating African stock exchanges in South Africa, Nigeria, Morocco, Egypt, Kenya, Côte d'Ivoire, and Mauritius, for **cross-border trading**:

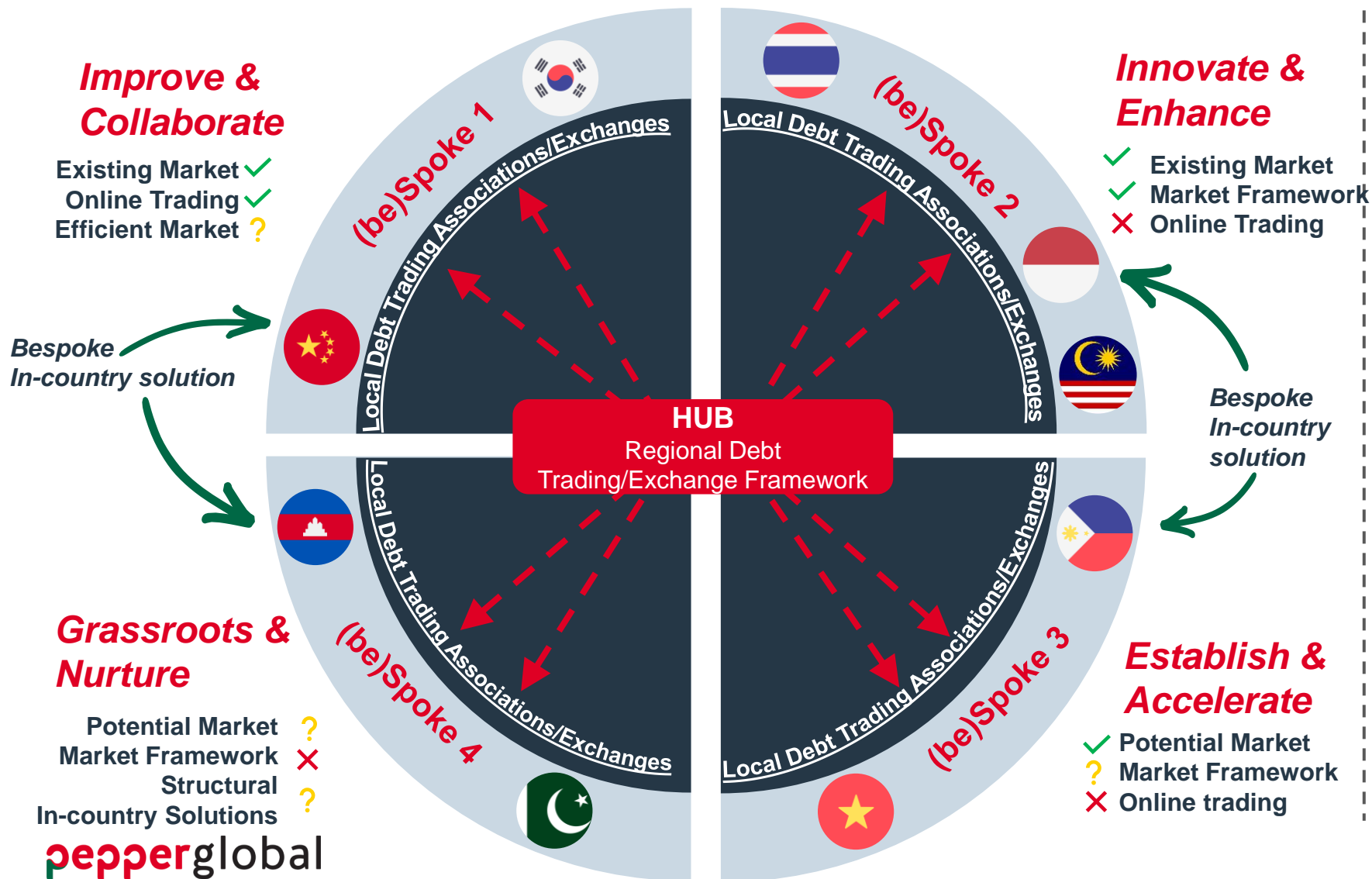
- Conceptualized by the African Securities Exchanges Association (ASEA) and the African Development Bank (AfDB)
- E-platform, The AELP Trading Link, ensures unimpaired cross-border trading between participating stock exchanges
- Framework called Sponsored Access: a registered stockbroker in one participating securities exchange takes an order from a domestic client and then requests a registered stockbroker on another exchange to execute the trade in that market

3 NPL platform in Guangzhou city of China (state-owned, local regulated)

Opportunity to establish a regional self-regulated (under some laws) NPL exchange in Asia, which will be owned and managed by large market stakeholders, like ADB

Hub & (be)Spoke Model – An Online Marketplace Concept

The creation of a “Go-To” point/s for investors and sellers both regionally and locally.



- The concept is to **develop or improve a marketplace through the establishment of local associations or exchanges organised collaboratively around a regional “Hub”**
- These local entities should play the **essential role of facilitating the market, resolving issues, improving market efficiency and liquidity, establishing rules and market trading norms, market co-ordination, marketing, information and knowledge sharing, etc.** And importantly, provides the industry with **at least one main online trading platform.**
- They may or may not be regulated formally.
- They should **not be owned by a buyer or a seller but should represent both.** But should have **representative stakeholders from the ecosystem.**
- Potential tax benefits from bad debt sales would incentivise sellers or buyers
- **The regional Hub (maybe founded by ADB and IPAF members), can potentially provide the framework, guidance, funding and regional collaboration (given the elements of the Framework already in place), and in future developing a cross-border market.**

Takeaways

- I believe that the development of such markets is critical to supporting the financial stability and growth in the region, that now goes beyond the banking sector as we see fintechs and alternative lenders take a larger share of the lending market encouraging financial inclusion
- Each market is nuanced and “bespoke” thus any organised development needs to take that into account.
- We have seen from the examples that other markets have successfully used exchanges more formally or industry associations to encourage and organise market activity ... which would also facilitate the use of online trading the platforms as an essential part of the eco-system. These associations should be independent of sellers and buyers but should be inclusive and supported by important stakeholders eg Regulators, Public AMCs, Banks, Judiciary, etc.
- Importantly Investors would know where to turn to in the first port of call when considering trades regionally or locally. Introduction of promoters would also facilitate market development.
- China has developed more that 70 of such exchanges, albeit not exclusively for NPLs.
- Guidance, Financial Support and Framework from the HUB would help steer local development and regional collaboration further. Some examples of exchanges and associations in the region:
- I can see this idea as part of the next phase of ADB’s good work on developing NPL trading markets and digitalisation, which would act as a proactive mechanism to support resolution of distressed debt in the region, thereby strengthening financial stability.



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