

■ BY ABDUL RAZAK RAHMAN

HOW CAN FINTECHS IN
MALAYSIA PLAY TO WIN?

RACE TO THE TOP

FINTECH is picking up steam in Malaysia, with the number of fintech companies in Malaysia jumping from just four in 2004 to over 100 by 2016. Fintech fillips include information and communication technology (ICT), millennial behaviour, erosion of credibility in the traditional banking space particularly in developed markets, as well as job creation.

The Malaysian Digital Economy Corporation is the primary agency driving the digital economy – including fintech innovation - and focuses on four important pillars, said Dato' Ng Wan Peng, Chief Operating Officer, MDEC. The first which is also MDEC's core business is to attract investments from traditional ICT players like IBM as well as venture capitalists. The second is to create local champions and promote them to the outside world. The third is to create a conducive

Fintech

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digital ecosystem to promote the digital economy, which involves close liaison with regulators and authorities such as Bank Negara Malaysia (BNM) on policies and regulations in the areas of data economy, e-commerce and fintech. Fourth is to ensure digital inclusivity, which is to leverage on digital technology and create opportunities for the general public to grow their income through initiatives such as *e-usahawan* and *e-rezeki*.

Meanwhile, BNM has to strike a delicate balance between stimulus and regulation. “In driving the digital economy, BNM is in a tough position whereby its feet are on both the accelerator and the brake,” quipped Aznan Abdul Aziz, Director, Financial Sector Development Department of BNM. ‘Brakes’ are financial stability and the consumers’ protection, and ‘accelerators’ include promoting innovation in delivering financial services and tailoring legislation which

supports fintech innovation while protecting consumers and market stability, such as the introduction of the experimental Regulatory Sandbox in October 2016.

“The sandbox is a controlled environment which provides a safe place for fintech companies to innovate and test their products within a defined boundary. This encourages and promotes innovation but at the same time provides the mechanism to contain any negative impacts,” said Aznan. At the time of writing, BNM had received 22 applications of which five would be admitted into the sandbox in the areas of product applications, e-KYC (Know Your Customer) and peer-to-peer currency exchange.

THE CHALLENGES

Right now, Malaysia is still grappling with growing pains. “The fintech space in Malaysia is rather fragmented. Even though the subject is highly publicised, there is no clear channel for new start-ups and venture capitalists to approach,” noted Dato’ Ng. There is a clear need to organise platforms to tap pent-up hunger for investment opportunities – the recent Fintech Bootcamp organised by MDEC unearthed 20 innovative solutions and received positive responses from banks and venture capitalists.

While Malaysia has been very supportive of fintech, building start-up accelerators and incubators and even facilitating bank investment, fintech start-ups require continuous and long-term support to succeed and sustain themselves over the longer term. “Hence, there is the need to establish a sound ecosystem to enable investors or venture capitalists to provide deal flow investments,” said Dato’ Ng. The fintech talent pool is also shallow and needs beefing up to successfully promote fintech and attract the right investors.

Given that Malaysia is a nascent fintech



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space and start-ups in Malaysia are late to the race, they lag behind global players. However, local fintechs are comparable to their ASEAN peers. “The fintech companies in Malaysia are venturing into areas which are more or less similar to their global counterparts, but more on the application of the existing technologies. We have seen ventures in applications such as e-KYC which adds value to the existing financial system,” remarked Aznan.

Commenting on the perception that regulators favour incumbents by protecting banks and traditional financial institutions in the fintech space, Aznan clarified that BNM’s role is to protect consumers and maintain financial systemic integrity and stability. “In the financial services sector, trust from customers is very important. For that reason, banks will continue to exist and therefore the best approach for the fintech start-ups is to collaborate with the banks.”

Agreeing, Dato’ Ng observed that fintech is not meant to replace the banks or the financial institutions but to complement their roles and stimulate innovation. “The presence of fintech companies is welcomed since the use of digital technology will democratise the

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banking services. Consumers will have more options and better services from this sector.” To stay relevant and sustainable, she advised start-ups to focus on the products and services required by their customers and to explore the collaboration and financing options available to them in the emerging digital ecosystem.

THE OUTLOOK

While fintech start-ups in Malaysia might be targeting the local market, globalisation opens the doors to outside competition. As of May 2016, there were more than 100 fintech start-ups in Malaysia. While they’re competing with incumbents in the financial space, they’re equally vulnerable to the threats posed by the Big 4 - Amazon, Apple, Facebook and Google - as well as China’s behemoths Alibaba and Tencent as markets liberalise. “The industry is very much data-driven and therefore the Big 4 has an added advantage with their vast customer information. They are already dominating the financial sector. The concern is that they will be the dominant players and kill off the competitors, including the start-ups,” suggested Aznan.

Although these goliaths are currently dominating unserved or underserved segments outside of the banks’ radar, they might eventually besiege incumbents’ markets due to their data dominance. “The advantage for the Big 4 is that they own more information than the banks... If the banks are not careful, they will inch their way into the banks’ traditional businesses. Leveraging on their e-commerce platform and availability of vast customers’ data on their platform, they will be able to perform data analysis to operate e-KYC effectively. Once they have perfected this, they can eventually venture into other traditional areas that are currently served by the banks,” warned Dato’ Ng.

Dato’ Ng Wan Peng and Aznan Abdul Aziz, were speaking on fintech policy and prospects at the MIA-MICG Fintech & Digital Economy Conference 2017. ■