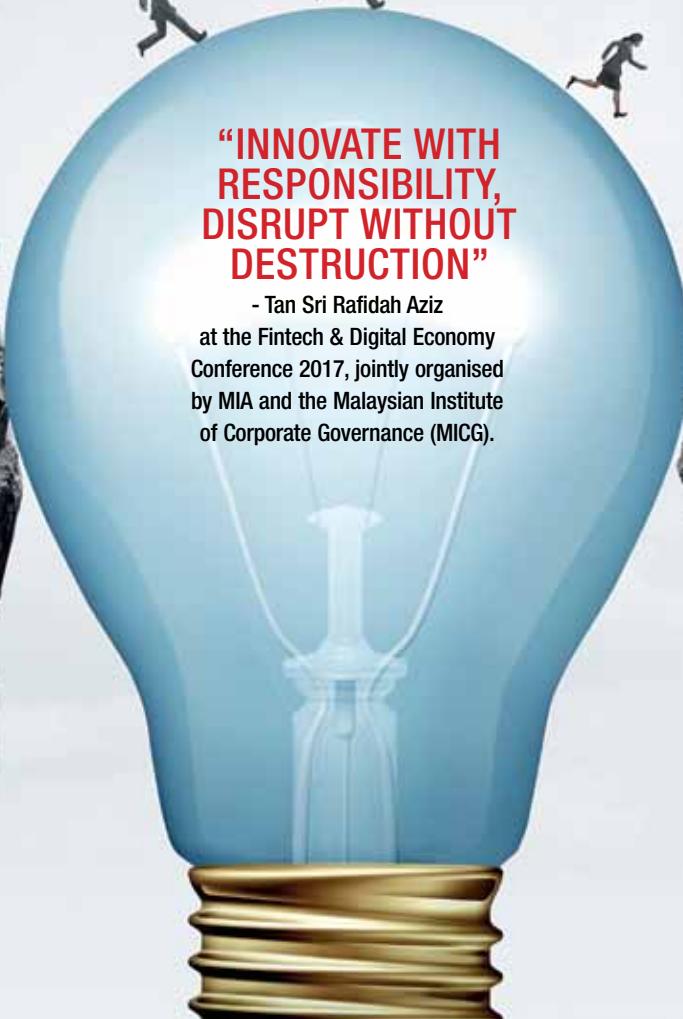


■ BY ABDUL RAZAK RAHMAN

# WE NEED RESPONSIBLE DISRUPTION



**"INNOVATE WITH  
RESPONSIBILITY,  
DISRUPT WITHOUT  
DESTRUCTION"**

- Tan Sri Rafidah Aziz

at the Fintech & Digital Economy Conference 2017, jointly organised by MIA and the Malaysian Institute of Corporate Governance (MICG).

IT'S human nature to fear disruption, and one of the biggest sources of disruption today is financial technology or fintech, which is catalysed by ICT innovations. Investments have poured into fintech, rising from USD1.8b in 2010 to almost USD20b in 2015 globally.

Fintech's impact beyond financial services is clearly visible, and has disrupted traditional business practices and changed lives. In the mobile payment space, service providers including Paypal, Square, Ripple and Apple Pay have transformed how retail and business customers pay for their purchases, facilitated by rapid development in mobile hardware and software technology. In the lending space, market players and peer-to-peer lenders such as SoFi, Lending Clock and Prosper are offering alternatives to traditional bank loans to increasing numbers of borrowers and entrepreneurs. In the market infrastructure sector, new service providers such as Digital Assets Holdings are using advances in distributed ledger technology or blockchain to provide market participants new methods of clearing and settling transactions. Indeed, blockchain's inherent security features are expected to have tremendous impact on accounting and assurance in future.

Tan Sri Rafidah Aziz, Chairman of AirAsia X and Malaysia's formidable ex-minister of international trade has made a career out of managing disruption and ushering in change. Bold and feisty as ever in her seventies, she frames fintech disruption as "positive and productive". Positive disruption is inescapable and will persist when the disruptive product addresses a new market unserved by current players, or where the disruptor offers simpler, cheaper and convenient alternative solutions to the existing products and services. Disruption will continue and the key is to manage the disruption.



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Disruption often causes difficulty for the existing players to respond, due to product and service innovation. "AirAsia is a good example of a disruptor whose business model as a low-cost carrier targets customers that previously could not afford to fly... AirAsia is creating a new market for people that were previously unserved," she said. Positives resulting from disruption include enhancement and improvement in delivery of service, efficiency in market outreach and delivery, and development of customer-oriented service provision models which focus on the needs and requirements of the new demographic profile which have different and changing lifestyles.

## **INTEGRATE, DON'T ISOLATE**

She believes that markets and economies will continue to be liberalised due to the various bilateral, regional and multilateral arrangements undertaken between and amongst sovereign nations and economies. Hence, Malaysia must be ready to integrate into the global digital and fintech infrastructure to facilitate cross-border transactions, especially in the financial services sector.

## WE NEED RESPONSIBLE DISRUPTION

Tan Sri Rafidah urged Malaysian entrepreneurs and businesses including financial service incumbents to tap the vast potentials arising from underserved gaps in financial services.

"Fintech is not merely a buzzword but in fact conveys a new dimension in the marketplace and will have positive impact on the business and economy, if managed well. They (fintech players) can improve the level of efficiency, potentially lower costs and through innovation and solutions customisation, increase customers' satisfaction, both in domestic and cross-border markets. Being agile and innovative will enable the fintech companies to expand and remain competitive." In Malaysia, the transaction value of the financial technology market for 2016 was estimated at USD6.2b and it is expected to grow 23% annually to reach USD14.4b by 2020, with most of the growth coming from digital payments.

Currently, major fintech segments are digital payments, digital financing, digital insurance (insurtech) and digital investment; fintech is also disrupting compliance, governance and regulation

(regtech). Malaysia holds the advantage in a new emerging area which has strong potential for growth - Islamic or *Syariah*-compliant fintech. "As a leader in Islamic finance and its product offerings, there is strong potential to develop service providers that offer *Syariah*-compliant solutions."

### **KEEPING FINTECH SECURE**

As fintech involves ICT and cyberspace, digital security is a major concern. Hackers, malwares and viruses can cripple systems and erode consumers' confidence.

Regulators need to balance policy to stimulate fintech innovation while protecting markets. Good governance is pivotal to protect all stakeholders in fintech. Innovation must be underlaid with a tremendous sense of responsibility and integrity to ensure that consumers are not short-changed and that there is no avenue for corruption of services and technology-based solutions and systems.

Like its peers in the developed

markets of UK, Australia and Singapore, Bank Negara Malaysia (BNM) has opted for a controlled experimental approach before permitting fintech applications in the broader market. On 18 October 2016, BNM introduced the self-regulatory Financial Technology Regulatory Sandbox Framework which allows fintech players to test their application solutions in a controlled environment while providing regulatory flexibility and appropriate safeguards. BNM's role is to provide guidance and advice on modification to fintech solutions in order to comply with the existing laws. Fintech providers must ensure that their business practices are sound and ethical, and the solutions and applications are reliable, safe, relevant and useful to ensure the overall integrity of the applications and solutions offered. There must be assurance to consumers that the applications and solutions meet their requirements and do not compromise the confidentiality of information and safety of the transactions involved.

Evidently, teamwork is key to fintech success. "The main stakeholders which include regulators, market players and consumer advocates need to collaborate and strategise in order to create a conducive controlled environment for fintech to succeed."

The ultimate aim is to create widespread acceptance and a soft landing for the changes wrought by fintech in an already challenging social and economic landscape. Malaysia's policy should be to "innovate with responsibility, disrupt without destruction," to ensure that the rights and interests of all stakeholders are respected and protected.

Tan Sri Rafidah Aziz spoke at the inaugural Fintech & Digital Economy Conference 2017, jointly organised by MIA and MICG. ■

