Moving beyond the fintech hype

Country should buck up or run risk of foreign competition in fintech sphere

by Behonce Beh

"WE need banking services but do we need the bank?"

This question is often shared within the financial technology (fintech) fraternity, and it is easy to see the implication.

A number of fintech firms, be they established companies or start-ups serving the needs of online financial transactions, have enjoyed fame and business success of late.

Yet, it is no surprise that fintech has become such a buzzword. Author Malik Khan Kotadia says the main driver behind fintech's global thrust is the banking collapse of 2008.

US-based Lehman Brothers went bankrupt, and Merrill Lynch, Royal Bank of Scotland, and AIG were among those that had to be rescued.

This caused a frantic search for new avenues to manage the people's wealth. "The public no longer trusts banks and are looking for alternatives," he says.

Kotadia's views come from his experience as a mentor to many fintech start-ups and his over 18 years background in banking and digital business.

Closer home, a report on fintech developments in the country by PwC Malaysia and the Asian Institute of Chartered Bankers entitled, *Catching the FinTech wave* showed that 82% of financial institutions (FIs) perceive it as a threat to their business, compared to 73% of Singaporean FIs or even their global counterparts (67%).

However, a battle between fintech start-ups and FIs may not materialise domestically as the former are actually working with FIs to grow the business.

The fintech industry in the country has been around for a long time – possibly since the IT boom where software developers created solutions catering to financial institutions.

Fintech Association of Malaysia (FAOM) president David Fong says it has over 60 members, including private companies, government agencies and stakeholders that influence the development of fintech.

It is estimated that the domestic scene has about 80 fintech companies, and that Softspace, RinggitPlus, FundbyMe Malaysia and Moneymatch could be among them, though Fong says the figure could be higher.

The number of fintech companies in regional financial centres such as Singapore and Hong Kong tends to be higher owing to a larger concentration of FIs in those markets that have a higher number of financial activities.

Fong is also a senior director of GHL Systems Bhd. The business revolves around offline and online payment services.

PwC Malaysia financial services leader and assurance partner Ong Ching Chuan says there are two types of fintech companies – those that complement the business of financial institutions, and those that compete with them.

"The former are most likely already working with financial institutions, while the latter prefer to work on their own.

"I believe this second group of fintech start-ups can survive without integration with financial institutions. However, it would be challenging given their limited resources and funds," he says.

Going at it solo

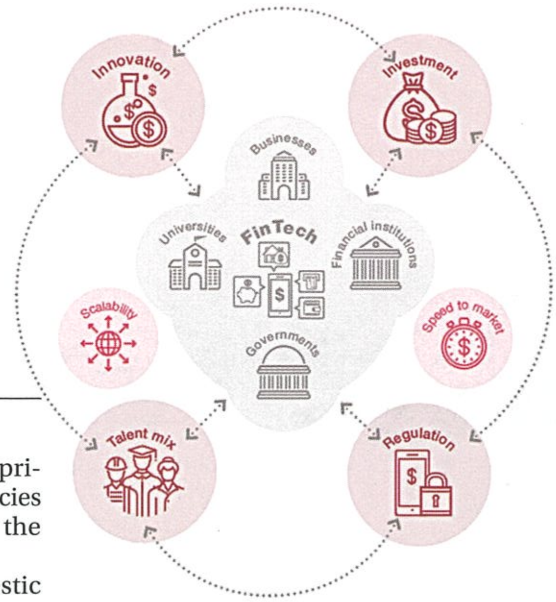
Peer-to-peer (P2P) lending is one avenue of fintech that not only does away with FIs but competes directly with bank services.

P2P platforms match borrowers to lenders and include Ethis Kapital and Modalku Ventures, which have Securities Commission licences to operate.

They allow SMEs to tap into alternative forms of financing, such as equity crowdfunding.

In November, ice cream start-up Fruiti King announced it had raised RM5 mil through CrowdPlus.asia.

Their (P2P platforms) solo endeavours, which follow a consumer-to-consumer approach, open the possibility of fintech start-ups eventually eating into banks' profits and market share.



This *PricewaterhouseCoopers* graph summarises the fintech ecosystem and how a collaboraitve effort between mutiple stakeholders is important for the sector's development

GHL SYSTEMS

Fong estimates there are about 80 fintech companies in the country

That said, regulatory and compliance know-how remains one of the weakest links among fintech firms. Most fintech start-ups, especially those dealing with financial transactions, fall under the regulation of Bank Negara Malaysia.

The role of regulators is not to curb innovation but ensure compliance and avoid fraud issues or potential money laundering activities.

In October, the central bank issued a detailed fintech regulatory sandbox framework which enables the experimentation of fintech solutions in a live environment, subject to appropriate safeguards and regulatory requirements.

"This allows start-ups to test their concepts live within the confines of the law.

"Some start-ups have grown beyond

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Various ways to deal with fintech companies

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the sandbox stage, such as those which do not operate in the existing banking framework," says Fong.

Based on the AICB PwC FinTech Survey, 59% of FIs say they are dealing with fintech companies in various ways.

This includes engaging in joint partnerships, acquiring fintech companies, setting up venture funds or start-up programmes, launching their own fintech subsidiaries or rebranding purchased services.

"The form of collaboration that will work best for financial institutions would depend on the level of digital disruption the financial institutions choose to focus on.

"Digital disruption can be from relatively low impact changes from third party aggregators such as CompareHero, an online financial comparison site,

"It can also involve more fundamental changes in business model and core systems such as P2P lending and blockchain technology *(see Blockchain technology set to challenge financial institutions, on page 28)*," says PwC's Ong.

He says start-ups which collaborate with FIs tend to have an upper hand as they have the ability to scale up rapidly and leverage on FIs' large customer base.

They also have access to customer data to help with rapid prototyping of new applications.

"The processes that financial institutions have are naturally complex. They can also be lengthy due to risk and quality checks, governance, and integration with existing systems.

"Technology adoption must be done in a timely fashion, otherwise there is the risk of becoming irrelevant. Hence financial institutions must meet fintechs halfway in this regard," he says.

The threat of regional solutions encroaching onto our shores is real. Ong cautions that the country should buck up or run the risk of foreign competitors such as China's Alipay or Wechat Pay bringing their proven fintech offerings to the country. FocusM

PWC

Ong says foreign competitors may introduce their fintech solutions domestically if Malaysian companies don't buck up