'Suitable environment important for fintech to thrive'

Governments must help set up safe space to enable innovation, says PwC

BY AHMAD NAQIB IDRIS

KUALA LUMPUR: With the growing focus on the disruptive financial technology (fintech) segment in Malaysia, PricewaterhouseCoopers (PwC) says both the public and private sectors play increasingly important roles in providing a suitable environment for start-ups to thrive.

PwC's Asia Pacific Technology Consulting practice senior leader Pierre Legrand said the government plays a key role in setting up this safe space — with clear regulatory boundaries — enabling fintech to innovate.

"What each of the local markets in Asia can do is help create a secure environment for start-ups to operate in. That's what the regulatory bodies want to do. They want to protect the end consumer in an environment where disruptions happen so quickly, but still need to be cognisant of security and compliance," he said.

Bank Negara Malaysia (BNM) recognises the potential of the fintech segment and is currently working on a regulatory framework — also known as the regulatory sandbox — which it deemed as a key initiative to provide a conducive regulatory environment for the adoption of innovative fintech solutions.

The central bank's governor Datuk Muhammad Ibrahim has voiced his support for the growth of the industry.

"Given the imminent expansion of fintech innovation, central banks all over the world have embarked on developing regulatory mechanisms that balance the risks and opportunities posed by the fintech phenomenon.

"In fact, BNM is one of several central banks to introduce a regulatory sandbox to allow experimentation of genuinely innovative ideas while preserving consumer protection.

"It is clear that the rules have changed and regulatory authorities are striving to cope with this new environment," he said at the 31st Annual G30 International Banking Seminar in Washington, the US, two weeks ago.

Other regulators in the region have also recognised the potential that fintech has, noting that Singapore, Hong Kong, Indonesia, Australia and Thailand are in the midst of assessing and setting up their own regulatory sandboxes.

As at end-September, BNM said the concept paper for the regulatory framework was almost finalised, with the framework to be implemented towards the end of 2016.

Legrand said while all consumers want security and compliance, at the same time they also want to experience new technology.

"So, the question is how can regulators help enable the consumption of modern technologies in a highly disruptive market — without knowing what new thing is going to come up tomorrow — while at the same time not be an inhibitor to achieve that outcome?

"This is where the regulators can work collectively with fintech. Dialogue is a good start. Speaking and conversing with banks, discussions with start-ups, getting ideas of what's happening in the market, but being very clear that there are important regulatory and compliance aspects that have to be baked into that innovation.

"Regulations are not always a constraint if they're planned," he said.

While the public sector plays a role in terms of regulatory needs, Legrand also pointed out that corporates play an increasingly important role in supporting the start-up fintech scene.

He noted that there had been a growing trend of collaboration between banks and fintech, in which financial institutions invest in these new start-ups.

"Table stakes. I think that's relevant in the market now," he said, referring to how companies make minimum bets on or investments in start-ups, amid uncertainty about how the relatively young industry will develop going forward.

"If a bank's not doing it (investing in start-ups), it may miss out on a competitive advantage, but no one knows for sure," said Legrand, adding that an effective compliance and regulatory framework would encourage corporates to invest in fintech.

The partnering and collaboration between banks and start-ups, he said, would be a strong driver of innovation in the fintech space, as both parties can symbiotically gain and leverage each side's strengths.

"The start-up is quick and lean. We know that major enterprises struggle with that sometimes. On the other hand, start-ups don't have the scale which they need to be able to understand how far their products can go.

"Working with start-ups allow banks to create an adjunct IT capability that's removed from the legacy constraints of the big banks and try something new. So there's this symbiotic outcome for both banks and start-ups," he said.

Going forward, he said this collaborative trend will be the main driver of innovation in the developing industry.

"I'm fairly comfortable with the things I'm seeing in Asia. The Asian market is not lacking, but it does not have to be out in front either. We don't know yet what the price is for being the first to go. We haven't seen enough maturity yet in the market to understand.

"These partnerships between start-ups and larger institutions are where the market should head going forward. There will be a lot more trial and failure — as there should be in an agile development environment — but the one or two successes that we get can transform either the way a bank operates, change the fintech segment or affect a major change in terms of customer interaction. That's the sweet spot, when we get all three," he said.