"Suitable environment important for fintech to thrive""}

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

BY AHMAD RAKIS IDRIS

KUALA LUMPUR: With the growing focus on the disruptive financial technology (fintech) segment in Malaysia, PwC Asia Pacific Technology Consulting practice senior leader Pierre Legrand said the government play a key role in 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 provide the necessary environment in which disruptions happen so quickly, but still need to be regulated, that’s what will sustain the business," 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," he said at the 31st Annual CGI 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 sandbox.

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 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 new technology. And this is where the regulators can work collectively with fintech, and this is also about starting from scratch, speaking and conversing with banks, discussing with start-ups, getting ideas on what is 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 made minimum bets on 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 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 adjacent 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 the said 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 backing, 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 just haven’t seen enough maturity yet in the market to understand."

"The 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 with any agile digital environment — but the one or two successes that we get will transform the way a bank operates, change the fintech segment or affect a major change in terms of financial inclusion, it’s that’s the space where, when we all get there," he said.

Most disputes involve insurance claims — OFS

BY SANGEETHA AMARTHILINGAM

KUALA LUMPUR: Insurance-based claims are not more than half of the disputes brought to the Ombudsman for Financial Services (OFS), the body approved by Bank Negara Malaysia to resolve disputes between consumers and financial service providers (FSPs).

The OFS said 10,323 complaints were received in 2015, of which 6,035 (58.2%) were related to insurance claims and the remaining 4,284 (41.8%) were banking claims.

Motor insurance and life insurance make up the highest number of cases because in essence they touch on the lives of people, said OFS chief executive officer Jeremy Lee.

"Everyone has a car or motorcycle that he or she has bought a loan for. So look at the analogy, things that affect lives in many respects [could result in disputes]," he told The Edge Financial Daily.

Lee said consumers and FSPs must play their roles responsibly in order to avoid disputes. Many people, he said, fail to understand insurance policies, and problems arise when incidents happen.

"So, I am sure many of you are supposed to do [and the insurance company repudiate the claim, whose fault is that?]" he said.

The OFS, previously known as the Financial Mediation Bureau, is an approved operator of the financial ombudsman scheme under the financial Services Act 2013 and Islamic Financial Services Act 2013.

The body has resolved 22,763 cases since its inception in 2005, with 25% of the cases settled through mediation. Another 19% were adjudicated while 8% of the cases were withdrawn.

At the June 30, conventional motor insurance claims made up 96% of 265 outstanding insurance and takful cases, followed by life insurance claims (21%), takful motor (14%), general insurance (13%), and general (medical) and family takful (5% each), and general takful, third-party property damage (5%) and third-party property damage (2% each).

In the case of banking claims, out of 163 outstanding cases, credit/charge and debit card claims made up 64%, followed by Internet banking (17%), dispensation (14%), unauthorised automated teller machine (14%), loan extract issue (7%), operational issues (5%), and cash and deposit machine (3%).

At 515 overall insurance disputes recorded, 368 were general motor insurance claims, while 398 cases out of 693 banking cases featured credit/charge and debit card claims.

The OFS has 126 FSPs, including commercial and Islamic banks, domestic and international institutions, insurance companies, takful operators, insurance/takful brokers and financial advisers that fully fund it via a levy contribution and payment of case fees.

The OFS board is chaired by former Federal Court judge Tan Sri James Foo Ew Woon while two ombudsmen preside over cases.

Beginning Oct 1, the OFS can handle disputes for banking and insurance claims up to RM250,000, motor third-party property damage insurance/takful (RM10,000), and unauthorised transactions through Internet banking, mobile banking or automated teller machine, or unauthorised use of a cheque (RM25,000).

"The two proposed resolution method features the meeting with a case manager, failing which the dispute resolution process by an ombudsman takes place."

Service is provided free of charge to financial complainants, but from Oct 1 next year a one-off fee of RM1,500 (licensed person) would be charged.

In addition, the OFS will charge RM1,000 for stage one (mediation by a case manager) and RM500 for stage two (adjudication by an ombudsman).

Complainants must refer their disputes to the ombudsman within six months of the final decision by the FSP or after 60 days from the date of dispute referred to the FSP.

The OFS is an alternative to legal action, thus complainants are not entitled to lodge a claim on such disputes with other tribunals.

Decisions made by the OFS are based on contract terms, the rule of law, judicial authority, statutory provision, and are binding on the FSP.

"We cannot make a decision just because insurance companies pay us; then we might as well not exist. We exist because of the [strict] terms of reference," he said.

"We are not here to be the champion of the consumer or the FSP, but a provider of financial services. We are in the middle; we work based on documents and evidence," he added.