FINTECH: FINANCE’S NEW FRONTIER

From e-wallets to insurance, wealth management to peer-to-peer lending, robotics and the Internet of things, technology firms’ shake-up of financial institutions is an exciting interplay between geeks in sneakers and Wall Street suits.
Over the past decade, many influential trends have been gaining mass and traction, such as economic decentralisation, anti-globalisation sentiment, geopolitical power shifts, environmental protectionism, pressures for responsible business and sustainability, and digital disruptions, to name just a few. These developments have had tremendous impacts on business across all sectors, and banking and finance too are being pressured to adapt in order to become more relevant and sustainable in a rapidly evolving landscape.

Financial technology or fintech is perhaps the trend with the largest impact and disruption on banking and finance. Interestingly, although the trend originated in the tech-heavy developed economies, Asian economies are catching up fast. According to a Forbes report in January 2017 which cited new Citibank research, the power shift to China is due to the rise of "Chinese dragons," an industry term for the biggest upstarts in Asia, such as Ant Financial, Lu.com, JD Finance, and Qufenqi. Citi found that China accounted for more than half of all fintech investments globally in the first nine months of last year, while US fintech investment dropped to 41% of the global total from 56% during the same period in 2015.

Meanwhile, around the region, fintech is taking off exponentially, judging by the wave of interest in fintech investment. In 2015 and the first half of 2016, investors channelled USD345 million representing 11% of total venture capital funding in Southeast Asia into fintech, as reported in the AICB-PwC Malaysia FinTech Report – ‘Catching the FinTech Wave’.

Since fintech is gaining critical mass, it is opportune that this issue of Banking Insight focuses very strongly on fintech. We revisit the subject within the context of developments which are especially pertinent to ASEAN and the local landscape, as well as the impact fintech will have on markets and stakeholders. Judiciously, Islamic finance has also begun incorporating fintech as a digital strategy, and in our article on Fintech in Islamic Finance: The Journey Begins, we canvassed some of Malaysia’s leading Islamic finance practitioners to get an idea of their strategies and movements.

This issue also highlights some of the key findings from the above-mentioned AICB-PwC joint survey. A key strategy within the fintech domain is that players must reframe their mindsets and embrace cooperation – a portmanteau of cooperation and competition – to succeed within an evolving digital economy. It’s hence timely for banks to take a step back, and relook at their business models and consumer profiles to understand the 21st century zeitgeist of decentralisation, innovation and collaboration and how these affect business as usual.

Another perennial theme that runs throughout the publication is governance given the ongoing debate in recent years regarding the obligations of bankers to their stakeholders. We are delighted to publish a special commentary by Governor Muhammad bin Ibrahim of Bank Negara Malaysia, whose appointment took effect on 1 May 2016. Governor Muhammad offers his personal take on being a Fellow Chartered Banker and shares his views on the importance of professionalising the Malaysian banking industry to further enhance the quality of talent and good governance.

As we forge ahead into the future, it is our hope that Banking Insight continues to provide meaningful coverage of the issues and developments that matter to banking practitioners in Malaysia and the region. We wish you all the best for a prosperous 2017.

Hope you have a fruitful read.

The Editor
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Two new Payment Services Directive (PSD2) requirements are poised to trigger market developments and disruptions in Europe. One, third parties, such as fintechs, telecom providers, tech and data companies, will fall under the scope of regulation and will hence be officially recognised as participants in the payment services market. Two, banks will have to provide these third parties with access to account and payment data, allowing them to leverage client data for value adding services or to execute payments on behalf of customers once they have given their consent. As a result, more than two-thirds of Europe’s banks fear losing the customer interface as a result of PSD2, according to PwC’s Strategy& report Catalyst or Threat.

**TOP FINTECH INNOVATORS**

Fintech Innovators, a collaboration between fintech investment firm, H2 Ventures and KPMG Fintech, recently announced its list of the world’s leading fintech innovators, the 2016 Fintech 100. The list shows that China fintech continues to dominate, with four of the top five companies on the list. Global competition is expanding, with 17 countries represented in the top 50 established companies, up from 13 last year, and 22 countries in the full Fintech 100. New fintech subsectors have emerged, including regtech (regulatory technology), with nine companies on the list. Insurtech (insurance technology) continues its ascent, with 12 companies, almost double last year’s total.

**ASIAN GROWTH STABLE**

Economic growth in developing Asia remains broadly stable, but a slight slowdown in India has trimmed the region’s growth outlook for 2016, says the Asian Development Bank (ADB). In a supplement to its Asian Development Outlook 2016 Update report, ADB has downgraded 2016 growth to 5.6%, below its previous projection of 5.7%. For 2017, growth remains unchanged at 5.7%.

In Southeast Asia, ADB growth forecasts remain unchanged at 4.5% in 2016 and 4.6% in 2017, with Malaysia and the Philippines expecting stronger growth due to a surge in domestic consumption and public and private investment, compared to lower growth forecasts in Brunei Darussalam, Myanmar, and Singapore.

**DRIVING Financial Literacy**

Bank Negara Malaysia has announced the establishment of a Financial Education Network (FE Network) to coordinate and drive a national financial education strategy in Malaysia. The FE Network serves as an inter-agency platform to increase the impact of financial education initiatives and identify new opportunities for improving financial literacy among the Malaysian public through greater alignment, closer collaboration and a strong focus on impact assessments. Its initial members are Bank Negara Malaysia, Agensi Kaunseling dan Pengurusan Kredit, Suruhanjaya Sekuriti Malaysia, Perbadanan Insurans Deposit Malaysia and Kumpulan Wang Simpanan Pekerja. The FE Network will work with relevant government ministries, industry associations, consumer groups and other key stakeholders to deliver, monitor and measure financial education initiatives under a coordinated national strategy.

**USD14.6 BILLION** - the level of funding attracted by 50 established companies in the Fintech 100 list, up 40% from 2015.

**500 (USD7) AND 1,000 (USD15) RUPEE notes** – the denominations withdrawn from circulation in India to tackle corruption and tax evasion, but caused banking chaos and badly affected many low-income Indians, traders and ordinary savers who rely on the cash economy. The two denominations accounted for about 85% of the cash in circulation.