

ARE MALAYSIAN BANKS DOING OKAY WITH THE FINTECH WAVE?

THE latest technological revolution is almost here! Fintech companies are mushrooming and giving banks tough competition. Nevertheless, Malaysian banks have been trying to get ahead of the Fintech wave by digitalising their operations. Are they doing enough however to keep up with the pace of these technological changes? If not, how can they smoothen the process of adopting fintech solutions in their current business models?

LATEST HAPPENINGS IN FINTECH

A few weeks ago, sitting at this coffeehouse, I couldn't help but overhear two bankers talking. They seemed to be engaged in a deep discussion about how Fintech is revolutionising the world of banking, how unsure they are as to the changing functions of banks and other financial institutions as the competition toughens and the struggle banks seem to be facing in the adoption of Fintech solutions increases.

I couldn't agree more. Malaysia is seeing some major changes in the banking landscape as Bank Negara Malaysia, the Securities Commission and Malaysian Digital Economy

Corporation keep pushing to make place for Fintech start-ups in the midst of the financial sector.

One of the major changes in terms of regulations in late 2016, was the introduction of the Sandbox; a regulatory framework set up with the objective of encouraging innovation and improving the delivery of financial services. Companies under this regulatory Sandbox Framework are able to experiment with Fintech Solutions with a certain amount of flexibility.

Datuk Dr. Mohd. Daud Bakar, Chairman of Expert Analytics Centre (EAC) said, "The Framework reflects the Bank's long standing policy in striking an optimal balance between promoting innovations whilst preserving financial stability and protecting consumer interest..."

At the same time, the Securities Commission Malaysia has been approving a series of Crowd Funding Platforms and Peer to Peer Financing Operators in Malaysia since 2016; the first in ASEAN countries to take such a step, thus giving Malaysia a competitive edge over Singapore.

Hand in hand with that, this year, the Securities Commission has introduced

the Digital Investment Management Framework setting out the requirements and criteria for offering Robo Advisory services in portfolio management.

In keeping with that, MDEC, the lead agency in driving the digital economy in Malaysia, has identified Fintech as its core focus and announced the potential launch of the "Fintech Space" in early 2017.

According to MDEC, Malaysia is "an interesting test-bed for Fintech solutions."

Is it enough, however, to keep pace with our global competitors?

The Fintech wave is not only taking over the Malaysian financial landscape, as the US, Hong Kong and Singapore are also experiencing major changes in those terms. In the USA, Fintech trends are documented to be "red-hot", as more and more consumers are embracing the idea of on-demand finance and are less willing to put up with the bureaucracy and slower pace of traditional banks.

MAS (Monetary Authority of Singapore) has also been constantly updating the financial landscape in Singapore to stay relevant in a competitive environment by trying to make Singapore a leading international wealth management hub in Asia.

HOW MALAYSIAN BANKS HAVE REACTED TO THIS FINTECH WAVE?

Many popular banks in Malaysia have realised that Fintech is a huge wave and it's coming, irrespective of whether they are prepared for it or not. Hong Leong Bank, for instance, has launched

a programme called HLB Launchpad, in which it wants to collaborate with five Fintech start-ups.

The aim is to simplify banking by digitising customer experience and re-inventing banking for the future. In addition to the Maybank Fintech programme that it already has in place, Maybank has further launched “Maybank Sandbox”. The latter will provide dummy banking data in a secure sandbox for analytics & simulation and real banking APIs.

Following in the footsteps of Maybank, CIMB bank has also forged partnership with Samsung Pay and AliPay. Moreover, Public Bank has entered into a partnership with iSentric to jointly develop a mobile payment solution for the Malaysian market.

As depicted below, a survey conducted by Bank Tech Asia 17’ has shown that Malaysian banks are on track to adopting financial technology in their practices.

As can be seen from the above, a lot of banks in Malaysia are already running accelerators or plan to do so in the coming six months. However,

acceptance of Fintech is not as widespread as we’d like to believe. Many banks also view Fintech as a threat rather than an opportunity. According to a survey conducted by PWC, 20% of financial institutions are skittish on the adoption of Fintech. If this trend continues, will Malaysian Banks truly be able to keep ahead of the International Banks, which are not hesitating or faltering in the adoption of Fintech Solutions?

Some banks may consider taking on Fintech half-heartedly, but if the way Fintech start-ups are revolutionising the financial services is considered, a back seat in the digital economy makes for a dangerous ride. Important industry players need to give their all in response to the digital disruption or risk becoming obsolete.

EAC LISTS DOWN CRITERIA TO SUCCESSFULLY ADOPTING THE FINTECH CULTURE:

Policies

Banks are not blind to the state of affairs in the financial sector. They are well aware of the danger Fintech poses

to their businesses if they do not adopt a more digitalised culture within their organisation.

The first step in adopting Fintech solutions is to have more flexible policies in place which promote innovation and change instead of resisting it.

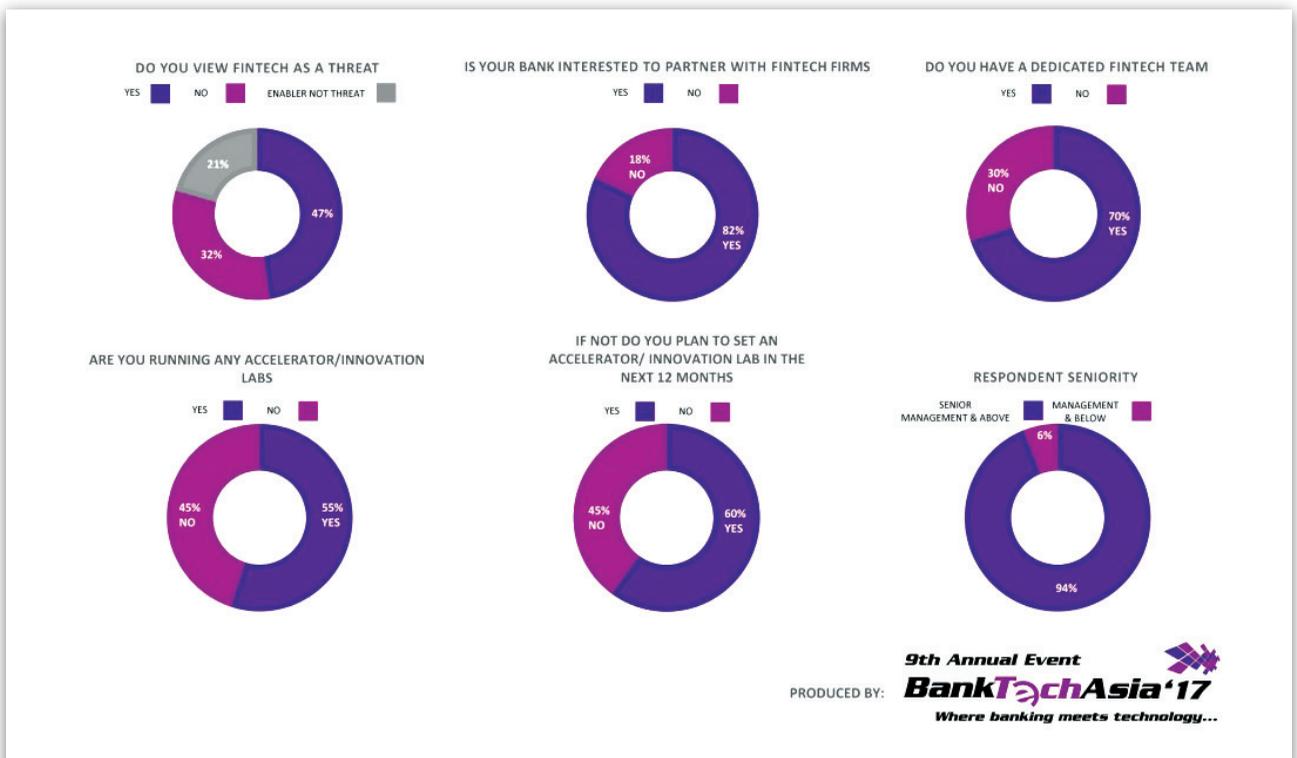
Expert Analytics Centre’s CEO, M Nazri goes on to highlight: “It is crucial to manage compliance in an era of change. Although regulators are becoming increasingly open to the industry’s need to digitalise, banks need to consider the potential for closer collaboration and policy alignment.”

In other words, regulators are not the biggest barriers to the digital transformation of banks, but the way policies and compliance to regulations are managed internally goes a long way to help.

Programmes

Banks need to start viewing Fintech companies as potential partners rather than threats. Fintech players are each focused on solving one interesting problem the way no one has before.

This makes the industry as a whole



Source: 9th Annual Event Bank Tech Asia 17'

The industry has to aim for a much deeper understanding of its customers' needs and expectations. Creating an environment that drives productivity, speed and innovation while keeping up with customers' expectations is critical.



better. Banks are burdened by a lot of regulatory frameworks and are thus, in a less flexible position. However, many banks have come to realise that by teaming up with certain Fintech start-ups, they are able to optimise their own operations without incurring major change.

One way to bring more Fintech start-ups in the fold is to organise programmes, such as the BBVA Open Talent, to encourage Fintech companies to share their solutions and potentially teaming up with the latter to offer more relevant and innovative solutions.

Maybank has its own Maybank Fintech Programme while Hong Leong is also on its way to partnering up with five Fintech start-ups through the Hong Leong Launchpad. Other banks need to follow closely so as not be left in the back seat once the digital revolution takes place.

Platform

One of the most important steps in adopting a more digitalised culture is the establishment and proper usage of certain platforms. Major Banks have already developed a series of elegant and more responsive solutions by

investing in the incubation of Fintech and adopting a collaborative API (application programming interfaces) approach.

Capitalising on the flexibility of this approach is perhaps the banks' best chance to keep pace with the rapidly evolving financial services industry and refine their service offerings to appeal to the more sophisticated needs of the modern banking customer.

Most Fintech companies concentrate on providing a better solution of a particular segment of the financial value chain such as online payments processing or greater accessibility to funds, rather than trying to simplify the entire value chain.

M Nazri goes on to suggest that, "By capitalising on the flexibility provided by the use of cloud computing and APIs, banks could combine and apply these simplified solutions in a way that optimises their ongoing operations without incurring expensive infrastructural make-overs."

People

It is crucial, at this point for banks to recognise that digitalisation is more a matter of cultural change than technological change. Staying connected and relevant to customers is a top challenge for banking institutions during these times of change. Modern banking customers expect a more relevant, personalised, interactive and immediate relationship with their banks.

The industry has to aim for a much deeper understanding of its customers' needs and expectations. Creating an environment that drives productivity, speed and innovation while keeping up with customers' expectations is critical.

M Nazri commented, "Banks which are somewhat still locked into aging legacy technology, complex processes and a culture of incremental change will face major difficulties in staying relevant to customers."

However, technology alone cannot bridge this gap. Banks need cultural change to become more agile. This is better achieved when the people in the organisation are innovative and

embrace technological change as an opportunity rather than as a threat to their jobs.

The support of senior management is essential in the success of digital transformation. Cultural change requires the will to break old traditions and explore new ideas. Unfortunately, this mindset is often rare with Asian banks, where management tends to be more conservative.

M Nazri insists, however, that, "To really succeed, change must cut deep into an organisation. Staff must be empowered to bring about changes and embrace challenges with new ideas and perspectives. A digital strategy needs to engulf the entire organisation."

CONCLUSION

Whichever way we look at it, Fintech is challenging the status quo of the financial industry. It is coming for the financial sector, whether we are prepared for it or not. New business models will emerge, new delivery channels will revolutionise existing norms and transaction costs will be reduced. Malaysian banks who are not ready will experience negative consequences on their bottom line and profitability.

With the increased adoption of biometric authentication and global mobile payment services, the way funds are transferred will be widely disrupted. Banks unwilling to change their traditional ways of making payments and transferring funds are likely to lose customers to the more willing banks.

By refusing to inculcate a fintech culture within their organisations, certain banks will not be able to offer innovative and customised services required by the modern banking customers, who value personalised services. A drop in profitability and surge in costs is expected for the banks which refuse to ride the Fintech wave.

EAC, on one hand is looking forward to partnering up with banks to digitise their front end and back end with big data and analytics. Therefore, instead of looking at the Fintech wave as a threat, banks and financial institutions should embrace it as an opportunity.

And the sooner, the better. **mb**