Marzunisham Omar: Fintech & entrepreneurship

Opening remarks by Mr Marzunisham Omar, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Islamic Fintech Dialogue 2017 "Fintech & Entrepreneurship, Kuala Lumpur, 11 October 2017.

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The financial industry today is confronted with a new normal – rapid advances in technology and an increasingly tech-savvy demographic are presenting both opportunities and challenges to the industry. Indeed, as financial technology or fintech is disrupting the industry, it is also emerging as a major game changer with unique value propositions. The nascent yet growing fintech space has large ambitions. At the fore is its aim to revolutionise the entire value chain of financing. Globally, fintech start-ups are making large inroads and openly challenging the traditional financial players in their own space. Significantly, fintech is reshaping consumers' expectations of financial services. And yet, fintech does offer tremendous opportunities to financial institutions. There is no doubt in my mind that the financial institutions that fully embrace the advancements in technology will be the future winners. What is required is for us to face up to the reality of fintech – what it is, how it works and how to benefit from it.

I am pleased to be here with you today and to speak at this inaugural Islamic Fintech Dialogue. The theme of the dialogue opens up an avenue for interesting discussions to take place on two key emerging trends – the expansion of fintech and the rise of entrepreneurship. In fact, I see fintech as the nexus between finance and entrepreneurship. Finance is essential in helping start-ups and entrepreneurs get off the ground and scale up. Likewise, entrepreneurs can help to reinvent finance by providing ideas to develop innovative financial solutions.

This morning, I would like to share some of my thoughts on fintech and on how the finance industry, especially Islamic finance can gain from technology-driven solutions. I will also elaborate on how multisided platforms are facilitating the interaction between investors and ventures. I will then briefly touch on the efforts that Bank Negara Malaysia is taking in promoting fintech.

While Islamic finance has made significant progress domestically and globally, the next growth phase requires the industry to ride the fintech wave. At present, Islamic finance fintech is still in its infancy and growing. Encouragingly, we are seeing increasing number of fintech start-ups, innovation labs and incubators that are based on the values and principles of Islamic finance. However, they are not as visible and omnipresent as their conventional peers.

The case is compelling for Islamic finance to take on a more prominent role in the fintech ecosystem. The technology is ripe, with higher penetration of mobile and internet across markets. Consumers are also becoming more and more tech-savvy. Digital-banking consumers stand at an estimated 670 million in Asia alone and are expected to reach 1.7 billion by 2020. In Malaysia, within a population of 31 million, there is high mobile and internet penetration rate at about 141% and 81% respectively. With a diverse population and a growing middle class, Malaysia is an ideal test bed for developing and commercialising fintech solutions.

The emergence of fintech has opened up new opportunities which can greatly benefit the financial industry. At its core, fintech has led to the creation of various business models that help improve and simplify financial transactions, which 10 or 20 years ago seemed impossible. Here, I would like to highlight three key areas that Islamic finance stand to gain from fintech.

Entrepreneurs too stand to gain from fintech. **First**, fintech provides the technological underpinnings to realise the goal of Islamic finance in creating a risk sharing economy. This will in turn benefit entrepreneurs who will gain wider access to bank-intermediated credit. An example is the Investment Account Platform (IAP). IAP is Malaysia's first multi-bank online platform that combines the credit evaluation expertise of Islamic banks and the power of technology to channel funds from investors to economic ventures. This virtual "multisided" platform facilitates a collection of interesting investment ventures and projects, with transparent risk-return rewards for investors.

Second, fintech has opened up new sources of funding to entrepreneurs, in what is increasingly being referred to as the alternative financing space. Crowdfunding and peer-to-peer (P2P) funding platforms have emerged as highly efficient "matchmakers" between entrepreneurs and investors. From the USD10 million raised globally in 2009 through nine major platforms, crowdfunding platforms mobilised over USD767 million in 2016 with backers from over 200 countries. This has facilitated the growth of entrepreneurs by providing finance to about 1.3 million crowdfunding projects. Crowdfunding platforms also allow entrepreneurs to closely engage with their customers – themselves investors – to shape and refine product ideas.

A good example is the role played by crowdfunding in the rise of virtual reality (VR), which was largely ignored by traditional funders after its disappointing performance in the 1990s. Oculus Rift or the VR technology as we know would never have happened without crowdfunding. Such success stories can be an inspiration for our SMEs. With SMEs in Malaysia facing difficulty in obtaining capital and mezzanine financing, crowdfunding and P2P platforms can be further explored to meet such funding needs.

Third, the matching of funds enabled by fintech also has great application within the social financing space. In particular, we see the potential of digitising the collection and utilisation of zakat, waqaf and sadaqah as holding great promise. The efficiency and transparency enabled by technology not only provides greater convenience to customers, but more importantly, builds public trust and confidence in the system. In turn, this will see wider participation and greater contributions towards social impact initiatives such as those to improve education, widen access to healthcare and extend humanitarian relief.

We are already seeing encouraging developments in this space. For example, SkolaFund raised over RM200,000 in 2016 to fund 25 students from less-privileged families studying in universities and colleges in Malaysia. Meanwhile, LaunchGood, has raised USD9 million in over 20 countries and funded 1,300 social impact projects, ranging from disaster relief and humanitarian aid, to water and housing infrastructure in developing countries.

In Malaysia, our Islamic financial institutions are in a good position to benefit from the growth multipliers that fintech offers. What is required is for the industry to invest in technology and talent to accelerate the adoption of technology. Key to making this a success is for the industry leaders and practitioners to transform their fears into familiarity; to embrace the digital transformation to re-engineer the entire organisation. In reimagining their businesses and viewing disruptive technologies not as a threat, but as an enabler, industry players can make the necessary operational, structural and cultural shifts. The tone has to be set from the top. The innovation agenda must be a boardroom priority, and Islamic financial institutions must be willing to allocate capital and resources to make this work. A further imperative to this is to inculcate and infuse a culture of innovation permeating throughout the organisation.

The Islamic finance industry should adopt the motto of "dare to ideate" – to become founders and leaders of big ideas; to be able to synthesise the needs of customers; and to develop products to respond to those needs. Customised financial solutions can be achieved through fintech, with Shariah contracts as building blocks for innovation. We can start small and simple, with a view to iteratively improve and fine-tune to meet evolving needs of customers.

Of importance, Islamic financial institutions must be open to rethinking their traditional business models and approach to doing business. In particular, the openness to forge digital partnerships and strategic alliances has the potential for the co-creation of innovative solutions. Globally, 82% of incumbents are expected to increase fintech partnerships in the next three to five years.

Collaboration with the fintech community should therefore become the norm. For example, collaboration with crowdfunding and peer-to-peer financing startups can be a win-win growth opportunity. Through such partnerships, banks would be better able to service smaller businesses by referring potential borrowers not meeting their targeted credit profiles to these lending platforms. In return, these platforms can refer its borrowers that have gained scale to the banks for larger financing.

Bank Negara Malaysia is supportive of the growth of fintech, including Islamic fintech. At the same time, as a regulatory body with a mandate for financial stability, we need to ensure that risks to the financial system and customers arising from innovations are properly managed. This is why we have developed the Regulatory Sandbox which allows new fintech solutions to be introduced in a live and controlled environment. It provides a “safe” environment where any risks and failures can be better managed. The time to market for new innovative products can also be reduced, which would otherwise be a hurdle under the traditional regulatory process. Its flexibility is also expected to better improve accessibility, affordability and attractiveness of financial products and services.

The Bank has also introduced regulatory bootcamp sessions that are held every quarter. These sessions provide an opportunity for fintech companies to gain deeper knowledge and understanding before entering the Regulatory Sandbox. I hope that more fintech startups and companies, Islamic financial institutions and technology providers would take part in this key and exciting development – to contribute towards the creation of value-added and meaningful innovations that can greatly benefit the Islamic finance industry and the public at large.

Conclusion

Technology has indeed reshaped various aspects of our personal and business lives. Virtually every sector, in each and every country, is being transformed by this digital revolution. Fintech is unlocking tremendous opportunities that will bring significant benefits to consumers and the industry. Islamic finance, in embracing what technology offers, would be able to better meet the ever-changing needs of customers and the real economy. The incumbents have no choice but to quickly learn to adapt, invest and innovate to deploy new technologies. At the same time, technology and fintech in particular, offer significant opportunities for entrepreneurs to scale up and succeed.

In closing, I wish you all an insightful and engaging Dialogue ahead.

- **First**, by leveraging on technology, industry players are able to create more value and customer focused services. This can be achieved through the delivery of customised solutions using for example biometric technologies, big data and analytics. Technologies such as Application Programme Interfaces (or APIs) could bring substantial benefits to customers, by making banking transactions simpler, quicker and more convenient.
  - **Second**, the adoption of technology can help Islamic finance reach out to market segments which would not otherwise be cost-effective. This means a great opportunity to serve untapped markets.
  - **Third**, in terms of processes, fintech can assist to improve the efficiency of back-end systems and operations, including through the use of predictive analytics to undertake real time risk management.