

## **Adnan Zaylani Mohamad Zahid: Next-generation fintech ecosystem - harnessing the full potential of innovation**

Keynote address by Mr Adnan Zaylani Mohamad Zahid, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at Money 20/20 Asia, Bangkok, 23 April 2025.

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It is a privilege to be here at Money 20/20 Asia, joining these conversations and discussing the evolving roles of fintech and financial innovation in redefining the future of finance. It also gives me the opportunity to share some perspectives from Malaysia as well as what we gathered from ASEAN meetings that took place in recent weeks. We have only just come out of a series of ASEAN Finance Ministers' and Central Bank Governors' meetings held in Kuala Lumpur that focused much on sustainability, climate, and inclusion or well-being, certainly areas of great interest for fintech and financial innovation.

Indeed, if we look at the past decade, the financial sector has experienced significant advancements in this space, and at the same time, the ASEAN region has emerged as a key player. Propelled by the digital revolution and evolving consumer expectations, technology has rapidly transformed financial services, unlocking new opportunities for inclusion, resilience and efficiency. Today, ASEAN stands as one of the world's most dynamic regions with a GDP size of US\$3.8 trillion<sup>1</sup> and a population of more than 650 million. It is also becoming a vibrant fintech landscape that fuels economic activity with improving financial access for millions. The region's fintech sector has demonstrated remarkable resilience in the face of uneven global funding trends, achieving a more than tenfold increase in fintech funding over the last decade.<sup>2</sup> This surge in fintech activity has not only spurred growth in sectors like payments and alternative lending, enhancing financial inclusion, but also played a pivotal role in facilitating regional trade and investment across ASEAN.

Progress does not come by chance. As a region, ASEAN has come together under the ASEAN Economic Community, aimed at fostering economic and financial advancements. Under Malaysia's chairmanship this year, for example, we have committed focus towards catalysing financing for climate resilient and a just transition, accelerating growth of our regional capital markets and fostering inclusive instant payment connectivity in ASEAN. We have also committed to greater collaboration and strengthening integration, as a key strategy and mitigation in dealing with rising geopolitical and economic uncertainties.

Looking ahead, the financial sector will need to play a critical role in supporting ASEAN's continued economic integration and social advancement. The region is projected to need over USD3 trillion in infrastructure investment by 2040<sup>3</sup> to sustain growth and improve living standards. Meeting these demands – while also addressing climate goals, demographic shifts, and the digital economy – would require ASEAN's financial ecosystem to be adaptive and future-ready. This means building a progressive

financial sector that is not only resilient and inclusive, but also capable of harnessing the full potential of emerging technologies such as artificial intelligence (AI), cloud, blockchain, and quantum computing, while managing attendant risks.

So, the question before us today is: how can we shape our financial ecosystem to further expand the frontiers of financing and meet our future needs as a region? Specifically, I believe this means strengthening the foundation for a collaborative environment that includes:

1. First, facilitative regulatory frameworks;
2. Second, fit-for-purpose ecosystem enablers; and
3. Third, responsible innovation by ecosystem players.

Allow me to share my reflections on these three aspects.

**Regulators play a vital role in enabling innovation** through safeguarding market integrity and public trust. A credible and trusted regulatory framework goes some way in supporting confidence in something new. And as technology rapidly evolves, regulatory approaches must be agile, forward-looking, and anchored on clear principles. To fully harness innovation, a balanced ecosystem with a blend of future-proof technologies, inclusive innovation pathways, and a thriving mix of players is essential. This will go beyond updating rules and regulations. It may even require more principle-based frameworks that can offer clarity and confidence to investors and consumers, a direction increasingly embraced by regulators across ASEAN.

In Malaysia, our regulatory philosophy is grounded by three key principles:

1. **Parity**, to ensure a level playing field for all market participants;
2. **Proportionality**, to calibrate regulatory rigour with the level of risk; and
3. **Neutrality**, to prioritise desirable outcomes while remaining agnostic to different technologies, systems and approaches.

This approach allows us to foster a regulatory environment that encourages responsible experimentation and healthy competition. At the same time, we remain alert to new and emerging risks – such as cyber threats, digital fraud, and data privacy concerns – which must be managed to ensure long-term resilience in the financial sector.

To support innovation while managing the associated risks, an effective tool that has been widely adopted by regulators globally and regionally is the Regulatory Sandbox. The Sandbox model helps innovators refine their solutions while regulators assess its potential risks. **Malaysia was among the early adopters of the Regulatory Sandbox globally.** Since its inception in 2016, the Sandbox has played a pivotal role in shaping Malaysia's fintech ecosystem by facilitating innovations such as fully digital account openings, digital insurance and takaful models as well as cross-border remittance solutions. These experiments have informed the development of new frameworks, including the newly launched licensing application for Digital Insurers and Takaful Operators (DITO) aimed at promoting greater inclusion, competition, and efficiency in the insurance and takaful sectors.

Recognising the growing diversity of innovation, we recently refreshed the Sandbox initiative to introduce two distinct tracks:

1. A Standard Sandbox with a simplified eligibility assessment process to encourage broader participation; and
2. A Green Lane with an accelerated pathway for financial institutions with strong risk management capabilities, allowing them to test innovations more swiftly.

This was followed by a significant increase in the volume and diversity of innovations submitted, with a total of 11 Standard Sandbox and three Green Lane applications received in 2024. Certainly, affirming our perspective that regulators and regulations also need to be agile.

Looking ahead, we must also be prepared for transformative technologies on the horizon. These include not only AI and digital assets, but also more recent developments such as quantum computing. While at various stages of maturity, these technologies have the potential to further reshape the financial landscape and may require proportionate and appropriate regulatory responses that keep evolving alongside them.

But none of us can do this alone. The pervasive reach and global nature of these transformative technologies necessitate cross-border approaches. For example, further exploration of joint innovation use cases through cross-border sandboxes can facilitate collaborative experimentation and mutual learning, while a coordinated approach to supervisory oversight is important to ensure a more holistic understanding of risk and collective resilience across economies.

At the same time, the role of regulators needs to keep evolving. While mandates may remain, the delivery of such mandates in many cases now require whole-of-ecosystem approach, as regulators may need to collaborate more closely with other sectoral regulators or consider expanding the remit of its regulation when other parts in the supply chain can affect the performance of the mandates. A strong collaboration between regulators, industry players, and key stakeholders is also vital to fostering an ecosystem that is innovative and robust. By working together, we can build financial systems that not only embrace technology well but can channel it towards strengthening economic resilience and promoting long-term financial well-being.

The second pillar underpinning a future-ready financial system is the digital infrastructure. As digital finance becomes increasingly embedded in our everyday life, we must ensure that the right foundational enablers are in place. These include robust digital identity systems that facilitate secured access to financial services, interoperable payment networks that expand inclusion and reduce costs, and real-time fraud prevention capabilities that sustain public trust. Together, I believe these elements lay the foundation for innovative growth.

Across the globe, countries are at varying stages of developing capabilities for digital financial infrastructure. ASEAN is an active voice and proponent on this pursuit. In 2024, the region made notable strides in strengthening its digital financial infrastructure, focusing particularly on the payments sector. Efforts to enhance cross-border payments

connectivity have gained significant momentum across the region, with many countries exploring real-time linkages and multi-currency settlements. Malaysia has been a contributor to this progress, establishing real-time QR payment linkages with Thailand, Indonesia, Singapore and Cambodia, alongside peer-to-peer (P2P) fund transfer capabilities with Singapore and Cambodia. Through these linkages, alongside other bilateral linkages within ASEAN and Asia, customers and businesses benefit from faster, cheaper and more seamless cross-border payments. Looking ahead, Project Nexus – a collaboration with the BIS Innovation Hub and central banks from Singapore, Thailand, the Philippines, and India, aims to create a multi-country instant payment network. This will allow users to send cross-border payments using proxies such as mobile phone numbers, reducing costs and promoting regional financial and economic integration.

The adoption of digital payments – particularly QR-based payments – has also grown significantly in ASEAN. With over 80 e-wallets in ASEAN linking 205 million users and 25 million merchants<sup>4</sup>, the region is experiencing a transformative shift towards a more digital economy. Malaysia is no exception. Our interoperable QR payment standard, DuitNow QR, has seen widespread adoption, with a 30% increase of QR acceptance points across Malaysia that has contributed to more than two-fold increase in QR transactions in 2024. This success reflects a concerted effort to build an open and efficient payment ecosystem. At the same time, safeguarding public trust remains a top priority. The launch of the National Fraud Portal – a collaboration between Bank Negara Malaysia and Payments Network Malaysia (PayNet), the country's retail payment system operator – has equipped financial institutions with tools to detect, trace, and freeze suspicious transactions instantaneously. Such initiatives have empowered financial institutions, including our Islamic finance players, to develop more digital and innovative solutions, ensuring the financial sector remains secure.

Digital transformation is also unlocking unique opportunities to advance innovation in Islamic finance through value-based solutions. Globally, impact-driven finance is gaining traction as investors and institutions seek to better align financial activities with social and environmental outcomes. Islamic finance plays a crucial role in this shift, offering ethical and inclusive financial solutions grounded in principles of sustainability and social responsibility. In Southeast Asia, Islamic finance assets reached USD 859 billion or 17% of the global market in 2023, a growth of 11% from the previous year.<sup>5</sup> Building on this momentum and leveraging on the Value-Based Intermediation (VBI) framework, Malaysia continues to support financial intermediation that promotes long-term positive impact. Since its inception in 2017, VBI-aligned initiatives have mobilised nearly RM650 billion (or USD140 billion) through various channels including social finance, impact-based lending, and sustainability-focused sukuk.

Complementing these efforts, the Islamic fintech sector in ASEAN has experienced rapid growth in recent years, driven by strong demand for Shariah-compliant financial solutions. As of 2024, Southeast Asia is home to 145 Islamic fintech startups, with Malaysia and Indonesia emerging as key hubs. The region accounted for approximately 13.7% of the global Islamic fintech market size in 2024. This growth is now evolving with the entry and expansion of full-fledged Islamic digital banks. In Malaysia, an Islamic digital bank launched its operations last year and another has been approved to commence operations earlier this year, offering Shariah-compliant savings, financing, and lifestyle services entirely via mobile. Similarly in Indonesia, digital Islamic banking is

featured to serve the underserved and promote financial inclusion. This trend signals a broader transformation of the Islamic finance landscape in ASEAN – blending tradition with innovation to meet the evolving needs of Muslim consumers.

Ultimately, stronger regional integration will be a key to unlocking future growth, particularly within the ASEAN region. A well-developed financial ecosystem – comprising both conventional and Islamic finance, supported by digital readiness and progressive regulations – provides fertile ground for competition and innovation. Malaysia's experience highlights how the right infrastructure and policy environment can empower institutions to build solutions that are not only technologically advanced but also socially meaningful. As we look to the future, the priority for regulators and industry alike is clear: to create a dynamic and inclusive financial sector – one that leverages innovation to strengthen resilience, promote prosperity, and leaves no one behind.

Innovation flourishes in a collaborative environment where creativity is encouraged, risks are well-managed, and failures are seen as learning opportunities. While regulators establish the foundation for a stable and well-functioning financial system, **industry players** – including incumbent financial institutions, technology firms, and agile startups – **are the true driving force behind financial innovation**. Across ASEAN, several financial providers have successfully expanded into areas such as digital payments, micro-lending, and insurance, leveraging their extensive customer networks to enhance financial access for the unserved and underserved such as gig economy workers and small businesses.

At the same time, growing collaborations between traditional financial institutions and fintech startups have led to innovative product offerings that blend conventional risk management expertise with the speed and adaptability of startups. However, as financial services evolve, these advancements have also introduced new challenges that must be carefully managed to ensure **responsible and sustainable innovation**.

Responsible innovation, the third aspect in strengthening our foundations, requires strong governance, sound risk management, and an unwavering commitment to market integrity. Industry leaders must ensure that technological advancements are supported by robust safeguards while continuously strengthening talent and technological capabilities. By doing so, we can welcome new ideas responsibly, challenge the status quo, and continuously seek better ways to serve our customers and communities.

One key area of focus is Open Finance, which aims to empower consumers by giving them greater control over their personal financial data in an increasingly interconnected financial ecosystem. The success of Open Finance relies on industry leadership in developing safe, responsible, and innovative products that maximise the benefits of data sharing while safeguarding consumer interests. By proactively shaping secure standards and building public confidence in an open ecosystem, financial players can unlock new opportunities for financial inclusion, efficiency and competition.

Beyond Open Finance, emerging technologies such as alternative credit scoring models and AI-driven lending solutions present significant potential to address longstanding challenges, particularly in bridging financing and protection gaps for underserved communities. Thoughtful product design, strategic partnerships, and

improved accessibility will be key to ensuring that these innovations reach those who need them most while maintaining financial system integrity.

Ultimately, innovation should drive meaningful impact by fostering efficiency, financial inclusion, and economic resilience. However, success depends on two fundamental factors: accessibility and trust. It is crucial to bridge geographical, economic, and digital divides by integrating financial literacy into digital solutions to bring about real, positive change. While regulators will continue to promote financial literacy initiatives, it is equally important for innovators to embed educational elements into everyday financial interactions. Leveraging digital platforms, AI-driven advisory tools, and personalised financial solutions can empower individuals and businesses to navigate an increasingly digital economy – ensuring that innovation remains a force for good, benefiting society as a whole.

Let me conclude. As we navigate this era of rapid technological transformation, innovation must be both inclusive and purposeful. The advancements we witness today – whether in AI, digital assets, or payments – underscore the importance of a collective commitment to shaping a fintech ecosystem that is dynamic, resilient, and responsive to the real needs of businesses and communities.

At Bank Negara Malaysia, we believe that responsible innovation is best achieved through collaboration and co-creation – where key stakeholders are brought to the table early to jointly navigate trade-offs and shape practical solutions. Platforms such as the Regulatory Sandbox provide space for innovators to engage with regulators, test emerging technologies, and develop solutions that improve financial access and efficiency. On this, we actively support the exploration of innovative solutions that expand the frontiers of traditional finance in our Sandbox, including in the areas of AI, asset tokenisation, digital insurance, electronic Know-Your-Customer solutions and advanced income estimation models.

Key global gatherings such as this demonstrate the promise of collaboration in driving progress and innovation. Similarly, throughout this year, events across ASEAN will serve as important platforms for effective dialogue and partnership. In Malaysia, we seek to contribute to this exchange at the MyFintech Week 2025, happening on 4–7 August in Kuala Lumpur. This event, which we organise alongside other regulators and industry players, will bring together thought leaders, innovators, and policymakers in conversation to collectively shape the future of finance.

We will also have the 9th edition of the Global Islamic Finance Forum and the 2nd Impact Challenge Prize on 6–8 October 2025, aimed to sustain the momentum in advancing financial inclusion and impact-driven solutions by showcasing how Islamic finance can drive business progression while empowering societies. By blending ethical foundations with cutting-edge advancements, the event provides insight into the pathways to sustainable growth, fostering inclusivity, innovation and resilience.

Finally, as the ASEAN chairman this year, Malaysia looks forward to further advancing ASEAN's aspirations in deepening regional financial integration and advancing a more connected, sustainable, and inclusive ASEAN financial ecosystem. We all here today have an invaluable role to play in seizing these opportunities, embracing partnerships and ensuring that innovation is grounded in trust, security, and inclusivity.

Together, we can shape a financial future that is progressive, resilient and forward-looking. Thank you.

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[<sup>1</sup> ASEAN Key Figures 2024](#)

[<sup>2</sup> FinTech in ASEAN 2024: A Decade of Innovation](#)

[<sup>3</sup> ASEAN needs \\$3.7 trillion to sustain growth and fight climate change: ADB](#)

[<sup>4</sup> Interoperable QR Code Payment Ecosystem in ASEAN: What it Means for the World](#)

[<sup>5</sup> Islamic finance expands beyond Malaysia in Southeast Asia](#)