

Fintech to benefit consumers and SMEs

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Emergence of the revolution expected to provide consumers easier access to banking services and share trading



by Dinesh Immanuel

FINANCIAL technology (fintech) is expected to make a major impact on global markets worldwide in the near future. According to industry experts, fintech will largely benefit small and medium enterprises (SMEs) and consumers the most. SMEs are said to benefit from fintech as it will give them more options to raise capital.

Although fintech is attracting great attention, it is, however, in its infancy. According to market observers, fintech's broader ecosystem, such as peer-to-peer lending and real-time investment advice, are still being developed. This, they say, will slowly grow into widespread usage of fintech in the future.

According to Securities Commission (SC) chairman Datuk Ranjit Ajit Singh, fintech is growing rapidly. "By improving the customer service experience while broadening access and reducing costs, technology may potentially result in significantly more efficient and inclusive markets. Fintech is not only a growing trend but [also] one which is here to stay," says Ranjit in his opening speech at the World Capital Markets Symposium (WCMS) 2015 held in Kuala Lumpur from Sept 3-4.

WCMS 2015 was officiated by Prime Minister Datuk Seri Najib Razak. Held annually, this year's symposium focuses on the transformative powers of technology on financial markets.

In March, US-based Goldman Sachs estimated that fintech will grab at least US\$4.7 tril (RM20.45 tril) in revenues in years to come in the US alone. Globally, fintech's potential to grow is immense. The emergence of the fintech revolution is expected to provide consumers easier access to banking services and share trading. Fintech is said to have helped bank customers get easier access to the various financial services and change the face of banking completely. Fintech is also said to be able to provide better access to online investment advice, e-payment systems and peer-to-peer lending.

In Malaysia, elements of fintech are already present with the likes of online banking, smartphone banking applications, and online share trading - all of these which are part of the fintech ecosystem. Fintech has so far managed to bring more access and bring every user "closer" to financial services.

"Online e-trading and smartphone applications have made it easier for people to start trading shares and bank online. However, there is much room to grow [locally]," a market observer tells *FocusM*.

Also present at the symposium were the UK's House of Lords member Paddy Ashdown, who spoke on the changing



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face of globalisation. Ashdown also spoke on new power structures that are currently defining the global geopolitical landscape.

International Trade and Industry (Miti) Minister Datuk Seri Mustapa Mohamed was also present. Mustapa was a member of a panel discussion on the challenges facing the formation of the Asean Economic Community (AEC). Other panel members included regional luminaries such as Dr Raden Mohammad Marty Muliana Natalegawa (former Indonesian foreign minister), and Korn Chatikavanji (former finance minister of Thailand).

Prominent fund manager Marc Faber, the founder and owner of Hong Kong-based Marc Faber Ltd, delivered a talk on current global investment climate.

At the symposium, *FocusM* spoke to self-proclaimed fintech evangelist Camille Blackburn, a regulatory expert with broad experience in regulation and financial systems. She was formerly the head of investment banking at the Australian Securities and Investments Commission. According to Blackburn, fintech needs more regulatory "oversight" and less regulatory "intervention" to ensure it works well in its infancy.

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'the latest fad'. Regulators need to stay ahead and understand what the broader policy issues are," she says. Below are excerpts of the interview.

FocusM: What do regulators need to do to embrace fintech revolution?

Blackburn: Fintech is providing the exact same banking services as a traditional bank would but via a different delivery mechanism. So the traditional issues that regulators are concerned about haven't changed.

However, the harms that exist as part of this fintech revolution are new. Regulators are generally worried about the stability of the banking system and whether the bank can repay your money. They don't think about issues such as if your data will be sent to someone in error, for example.

If we accept that financial services are now purely a data-driven industry, to have confident investors and participants in that industry, we have to look at the other harms that are present in our system because of fintech. Traditionally we did not have to worry about them as much (as now).

In the traditional form of banking, the bank has your required information. They lent you money. That was the end of it. Whereas in current environment, your (personal) information is going across the Internet. The use and transfer of cross-border data is something that regulators have to think about. They need to understand what the broader consequences are.

What sort of regulation is needed?

Regulators are risk-averse. So they have to be careful. The way banking services are provided by fintech is different to what regulators are generally used to. Regulators should only use "light-touch" regulation since everything is in its infancy.

Now is the time for a really informed discussion about what are the harms (of fintech) that are going to emerge going

forward. And these are not harms that we have traditionally had to think about.

How would fintech empower the everyday consumer?

It is the retail consumers that are driving the growth of fintech. Fintech really is making financial services more accessible. The only reason fintech exists is because consumers are demanding it. From a consumer's perspective, fintech is a positive thing.

So the types of innovations that are growing are the innovations that make the delivery of financial services more immediate and more transparent. For example, phone banking is fintech and the benefits therein are obvious. People don't even need to go to the ATM anymore. We can do our banking in the bus or on the way to work.

There are real benefits that you will see in the next ten years. If you consider fintech as the first phase as to why you can do online banking, you can then recognise what the benefits that are to come.

Small business lending, for instance, is a very information intensive business at the moment. If you are a small business owner seeking a loan from a bank, that process is long and hard. Fintech will offer better services to people who have been quite marginalised in terms of access to financial services.

Give us an example.

Take the manufacturer of a card-reader dongle attached to smartphones. They are designed for small merchants to allow them to accept electronics payments. The real game behind this is actually having access to all that payment data in real time. The service provider will be able to view all those payments being received by the merchant and determine the revenue recorded.

In the future, the service provider has the option of offering credit to these small merchants. The lender will be using an enhanced form of revenue and sales data, that isn't available to the banks, to make informed credit decisions.

One can look at possible innovations like this and think what's there not to love about fintech. Fintech allows for, in this case, credit lending with enhanced information about a business. *FocusM*