

BREAK OUT SESSION – FinTech: Preparing for our Digital Future	
Date:	Day 1 - 4th April 2018
Time:	15.15 - 16.05
Moderator:	Dr. Sukudhew (Sukhdave) Singh, former senior official at Bank Negara
Panel Members:	Gopi Ganesalingam, Vice President – Enterprise Development, Malaysia Digital Economy Corporation (MDEC) Global Acceleration & Innovation Network (GAIN) Jeroen Kok, Executive Director, Head of Treasury Services Malaysia and Vietnam, JPMorgan

Topic Overview: Disruptive innovation is impacting the financial industry value chain from payments and billing technology, retail and consumer banking, insurance, money transfer and remittance, blockchain, artificial intelligence and banking infrastructure, not to mention cyber security, the list goes on. China, India and many players are making their presence known in what was a traditional arena. What lies ahead and what pathways are countries, companies and entrepreneurs laying down.

SUMMARY OF DISCUSSION:

MODERATOR'S INTRODUCTION: The three specific points to set context for the discussion are:

1. FinTech is technology in the financial innovation impacting every sector in the economy. Financial sector is one of the most regulated.

Policy makers are quite sceptical about crypto currencies but are positive about the underlying technology, blockchain technology, and the ability to apply it in various areas of finance for beneficial means. Regulators are cautious because a disruption in the financial sector affects not just the

financial sector but also the economy. When you talk about an economy the size of China and the US, you are talking about the global economy. While financial institutions or FinTech innovators are enthusiastic about innovation, regulators are concern with fraud, scam, data security, money laundering, tax evasion. The other concern is related to how innovation can introduce vulnerability to the financial infrastructure. **It is Important for FinTech innovators to that realise that when it comes to the financial systems, the pillar supporting the financial system is public confidence. Without that it is very difficult to have a sustainable, viable financial system.** Maintain the confidence is key concern for financial regulators. So while the bank industry like to talk about disruption, financial regulators are not fond of disruption. There is a tension between the regulators' desire to promote financial innovation while at the same time ensuring nothing compromises financial stability.

2. Financial regulations are still very much national. A FinTech innovator who want to apply innovation in the different markets, it will face different environment in each country.

3.Scope of FinTech is very wide and includes digital currency, blockchain, retail payment technology, data analytics, peer-to-peer network, AI machine learning, etc.

GOPI: MDEC champions digital economy in Malaysia. The digital economy contributes 18.2 percent of Malaysia's GDP. MDEC's role:

1. We run the national programmes e-rezeki and e-usahawan.
2. We have a team who goes out to bring in FDI into the country. We look for the latest sexy tech companies to come and invest and last year we had record breaking FDI number that came from us.
3. My division is task to build global companies from Malaysia where we look for very good companies and try to bring them to the global arena through programmes.
4. We are looking at six technologies – big data, Internet of Things, e-commerce, security, Cloud and FinTech.

FinTech is here to stay and disrupt. FinTech has a good chance of putting Malaysia on the map for Islamic finance. One of the things we want to do this year is to open a FinTech Centre in Kuala Lumpur where we want to have specialised accelerators, we want to invite mentors, entrepreneurs on board. We want to ideate together and to create a sand box environment. We are working closely with Bank Negara here and will make an announcement soon. We also want the centre to possibly produce FinTech expertise. These are the things we are doing to create environment for FinTech.

Malaysia is now recognised as a place to have your start-ups and a lot of them are coming into Malaysia. Start-ups understand Malaysia has a lot to offer in terms of cost and talents. My division is the entrepreneurial division in MDEC. When you speak to the entrepreneurs who are in investing in FinTech, who are talking to the young start-ups, we realise .. suddenly they are using digital technology which is able to reach the unbanked accounts. In Asean alone there are 400 million unbanked accounts and there is big opportunity. Suddenly there is a race towards FinTech and we encourage this race.

KOK: JPMorgan is present in 14 countries. We spend about USD9.6 billion a year on technology. Two-third of that is to keep the bank running and one-third is going into new investments. In new investments into transaction banking, we are in largely in larger corporate products and a little bit to consumer products and predominantly serving financial institutions. We are conscious that a lot of the FinTech investments are around the retail area and not necessary immediately impacting corporate or financial institutions in what they are doing with us. The innovation in this area, there is nothing new about financial technology but the pace of that innovation has rapidly increased. We see a lot of these retail components bubbling up in essentially in corporate requirements. So a lot of our investments are geared towards optimising transaction banking for corporate customers and financial institutions.

We are investing a lot in not only core platforms to optimise core process of payments in the 14 countries but more and more on top of that on how do we turn all the big data into valuable information for corporate clients.

How do we embrace new technologies like blockchain distributed ledger and how to embrace new communication ways. I do believe it has turned us into a financial technology company with a banking licence. We employ 15,000 technology people globally and a large part of the thought leadership is needed in this region.

MODERATOR: So you don't you believe that the traditional financial institution will go the way some of the retail are going because of online competition.

KOK: If I look at the traditional way of banking, banks bringing in new product features to the market and if they continue to do that.. It's not the extreme of disrupting ourselves otherwise we are disrupted by other players. But we are very conscious that the speed that we need to innovate either to do thing cheaper, faster or better to customers, that need to change. I believe that institutions acknowledge that and are embracing the way of bringing things to market and changing that, certainly there is a great future ahead. Especially as we see our clients value direct relationship with us as a bank rather than having unknown smaller FinTech company in between. **It is generally acknowledged in industry and you see much more a way of collaboration rather than competing between the traditional banks and the new start-ups in the FinTech field.** We are embracing this in several ways by having our own incubation programme by allowing new FinTech to be tested within our banking environment to help the companies as they are also helping us.

JPMorgan is open to collaboration of much more different parties. We believe that is going to create more success than competing. Open mind and open way of developing.

MODERATOR: In pharmaceuticals the start-ups with technologies get gobbled up by bigger companies. Why is it not happening in financial sector. Potentially the reason why it is not happening is there is a regulatory pressure that FinTech need to transcend. There is less incentive for you to gobble up a FinTech company but grab more collaborators.

GOPI: We find that whenever they have an event where we are promoting Finecth the number one participants are banks. Banks are trying either to

learn, or want to invest or want a partner . The digital technology has taken away the middleman, in aviation, Uber and grab, retail shops are closing down. The banks are there because they are holding cash. The question is if the cash is digital currency? I think the banks are nervous.

KOK: We are conscious of the core functions of the bank especially in retail segment being replaced by players with all kinds of ecosystem. I think regulation will prohibit to do that in certain areas. Banks are very conscious of the changing way of allowing technology to work in favour of clients. I have to admit bank have not been leading in that area, probably late to the FinTech game. But if I look at what is happening now of picking up and working with FinTech players with less and less direct distribution model and more and more in partner with banks. I agree that the pace of innovation need to change rapidly.

QUESTION FROM THE FLOOR: What is the application of FinTech in crowd financing?

GOPI: We have similarly equity crowd funding which is doing very well and using technology and able to invest money in projects. We had very good traction in that with six issuers and all are very full now. I think the trend is there. Sophisticated investors and retailers are going into crowd financing.

QUESTION FROM THE FLOOR: (On regulatory sandbox) In your opinion for Asia Pacific in the next 5 to 10 years for FinTech, whether traditional banks increasing developing internal ecosystem or maybe MDEC helping FinTech start-ups the number of companies that we have in the regulatory sandbox. What's next for countries like Malaysia and Singapore and around the region?

MODERATOR: Regulatory sandbox is a national response. Not all jurisdiction has because they are not convinced of the value of it. We are learning from experience to see whether it actually adds up. I myself have a question how successful has it been in actually nurturing and making FinTech innovation viable in our ecosystem. My sense is that has FinTech players , financial institution and regulators learn that mechanism of integrating FinTech into the financial sector will also evolve.

The value of the sandbox is it not only allows FinTech companies to test their innovation in a controlled environment. On the regulatory side they are looking at the acceleration and say how can the regulation impede, or how will it impact the regulation and what are potential changes that need to be made to the regulation.

GOPI: The new generation is very good in technology. That is a game changer itself and that will change the way we are doing to do business in the future. When you look at the start-up ecosystem, we know companies that are already generating revenue swing of tens of millions of ringgit using FinTech apps. But which one will become Unicorn, which will become Grab, yet to tell but we know the wheel is ready to move.

KOK: I see the sandbox concept as willingness of the regulator in particular country to learn because when you look at speed to innovation it not only actual start-up that is learning new technologies and disrupting the business model but all the wider stakeholders are eagerly learning. Pace is changing faster than a lot of stakeholders including regulators can keep up with. So the concept of sandbox works well. **In the end it is really around the collaboration that is required and no longer only between FinTech and traditional banks but also between those stakeholders and the regulators and innovating together.** That is starting to happen in most of the countries in Asia.

MODERATION: (On competition) I read an article on Brexit and its says London enjoys some competitive advantages that the European countries do not have and one of it was in FinTech. What do you think is happening today in the region in terms of competition and when national authorities look at FinTech, how much of competition is going in?

GOPI: We want the talent, start-ups and disrupters to come here because of competition. We don't have the same advantage as London (of enjoying competitive advantage in FinTech against other EU countries) has but we have other advantages that are picking up.

MODERATOR: For us probably, it is Singapore that has a regional FinTech ambition and they are very aggressive about it. Competition can either lead to regulatory arbitral which means FinTech companies are attracted to

jurisdiction with lowest regulatory hurdles. But there are other ways to deal with competition which is through collaboration. One way to build competition is to build alliances. Singapore is building alliance across the region like with MIT. For all of us there is an issue of scale. Is scale important to the success of FinTech. How do we compete with the likes of Alibaba, I think we can't. I think it is through collaboration.

KOK: I agree it is all about collaboration. The winners will be those who are leading the collaborative efforts. I see Singapore is doing very well in application of distributed ledgers blockchain technology where MAS (Monetary Authority of Singapore) is leading a huge initiative to see if there is better way to settle payment and securities transactions, Project Ubin it is called. And invited banks as well as technology companies to partner with them in that network. We in JPMorgan have developed our own distributed blockchain platform that is open source platform which is one the key platforms being considered by MAS as platform of choice. Very important is that it is open source platform. We are leading that effort in the banking perspective but it is open to multiple players in the market.

MODERATOR: The resources that is required to make blockchain-based system operational and viable. The resources that are devoted to verify and recording transaction has to be borne by somebody. Is JPMorgan footing all the cost for the open source platform?

KOK: The distributed ledger platform that is being developed. To rolling that out and actually proof of concept requires multiple stakeholders. Another example we are doing is applying the same blockchain platform around cross border payments. Not necessarily encourage actual settle of payment but sometimes information around it and what is required to make this payments this requires multiple banks in the settlement of payments. We are now currently invested in the development of that platforms that is being worked out with other banks.

MODERATOR: When you say platform you mean model of block-chain that can be used for particular purpose?

KOK: Elements around the way blockchain is being developed like bitcoin.. in terms of identifying the settlement party. Point are being addressed and

coded against. The source, the coding of that is open source meaning that source can be used by other parties to build their own applications on top of that.

MODERATOR: To carry it one step further, so when FinTech companies are developing blockchain- based application, presumably the fundamental difference between blockchain technology and bitcoin technology is bitcoin technology is anonymous . Because bitcoin is anonymous when you have all this big scale theft from bitcoin exchanges, you cannot identify who. But blockchain application in the financial sector, nobody will be anonymous and there will be names attached to each transaction.

KOK: Visible to those parties that need to know yes.

Key Points of Discussion:

1. Against the backdrop of a rapidly evolving FinTech and its disruption to the financial services industry, banks and financial institutions are conscious of the need to innovate and do things faster, cheaper and better for customers.
2. Collaboration between financial institutions/banks and FinTech start-ups rather than competition is the way to succeed.
3. Regulators are cautious because a disruption in the financial sector affects not just the financial sector but also the economy.
4. The regulatory sandbox concept demonstrates the willingness of regulators to learn about FinTech. The sandbox allows FinTech companies to test their innovation in a controlled environment. It allows regulators to see how FinTech innovations, the financial institution and regulations can impact each other.
5. Malaysia wants to use FinTech to put the country on the map for Islamic finance. The Malaysia Digital Economy Corporation is embarking on programmes to get FinTech talents, start-ups and disrupters to innovate in Malaysia. A FinTech Centre will be established in Kuala Lumpur.