Malaysia: Driving Islamic finance inclusion agenda with fintech

Financial technology (fintech) is fast gaining recognition — and Malaysia is at the forefront in spurring the rise of these disruptive players in a bid to democratize the financial market and ultimately, drive the financial inclusion agenda of Islamic finance.

Realizing the importance of retail participation in the capital markets, Malaysia has taken the charge to encourage individual participation, leveraging on fintech by rolling out a number of pioneering and accommodative measures.

In 2015, Malaysia became the first country in ASEAN to introduce a regulatory framework to facilitate equity crowdfunding (ECF), which then saw the entrance of six ECF operators in the market. The Securities Commission Malaysia (SC) has also taken the lead in encouraging the adoption of market-based financings such as ECF and will soon introduce a framework for peer-to-peer financing. Equally instrumental to the fintech development is Bank Negara Malaysia, which recently issued details of the fintech regulatory sandbox framework, following a one-month consultation with the industry on the proposed framework. These initiatives are part of the government's ambition of elevating Islamic finance adoption to 40% by 2020 by leveling the playing fields in terms of tax incentives and regulations.

"Malaysia is well positioned to take advantage of the opportunities," says Othman Abdullah, the managing director of Islamic banking at Silverlake, a global IT solutions provider. "[The] Islamic fintech movement could leverage on Malaysia's vibrant Islamic finance industry which is attributed to strong government and regulatory support."

Kyri Andreou, the director and co-founder of Ata Plus, one of the six ECF operators registered by the SC, agrees: "When you look at what fintech is trying to do, or should be doing, there's a lot of opportunities for Islamic banks."

And while the strong regulatory support is indeed welcome, Othman cautions that: "Fintech is all about innovations [hence] there should not be too many or too detailed guidelines. Nevertheless, regulations addressing cybersecurity threats will definitely help protect fintech consumers."

Concurring with Othman and Andreou, Raja Teh Maimunah, CEO of Hong Leong Islamic Bank, adds that while the Islamic finance industry is well poised to take advantage of this fact, few have yet to do so as fintech and digital development are often driven at the group level.

Like its conventional counterparts, the stages of digital adoption by Islamic financial institutions differ from bank to bank. "Institutional leadership dictates the speed of adoption, and not an industry-wide push," Raja Teh explains. "Having said that, it is crucial that Islamic financial institutions adopt digitization because it would be the most cost and time-efficient route to acquire market share given that Islamic financial institutions are generally small with limited branch footprint."

Initially wary of the rise of fintech, the financial institutions are, however, beginning to embrace this wave of change as a new opportunity for growth.

This news report is in support of The Royal Award for Islamic Finance 2016 organized by Bank Negara Malaysia and Securities Commission Malaysia. For more information, visit www.theroyalaward.com.