



FINTECH REIMAGINED:

Fintech Roundtable Report 2021

POWERED BY:



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FOREWORD BY MaGIC



DZULEIRA ABU BAKAR
GROUP CEO OF TECHNOLOGY PARK
MALAYSIA

Developments in Malaysian Fintech are altering the country's financial landscape. It is rapidly becoming a central part of the country's financial sector, with considerable promise for expansion. For years, Fintech has helped countries overcome development challenges by improving financial inclusion and lifting people out of poverty, empowering vulnerable communities, while also boosting jobs, businesses and ultimately, economic growth.

Digital technologies are reshaping payments, lending, insurance and wealth management – a process that the COVID-19 pandemic has accelerated. Many Fintech companies have enjoyed significant growth; and businesses and consumers alike are reaping the benefits of improved global money transfers through Fintech innovations.

There are 440,000 more businesses registered for QR code payments in 2020 - a hike of 164%; and 131% growth in the number of e-wallet transactions in Malaysia in the same year, amounting to a record US\$600 million. Also 106% growth in the value of e-remittance transactions in 2020. Throughout the same calendar year, Malaysia alone recorded 2.5 billion online banking transactions representing a 50% jump on a base of about 20 million consumers.

The MaGIC Fintech Roundtable report aims to give an overview of the Malaysian Fintech ecosystem, diving into the adoption across various Fintech verticals, looking at some key movements and updates within the local Fintech space.

The MyDigital initiatives blueprint launched by the government in late February 2021 is indeed vital to propel Fintech and bridging the gap to place Malaysia as the leading regional digital economy by 2030. This is imperative especially in the space of electronic payments and ecommerce.

While Fintech is pervasive and omnipresent, there are barriers that we need to break. The report raised regulatory matters, low financial literacy, low potential and lack of incumbent support as among the obstacles impacting the industry.

FOREWORD BY MaGIC

Nonetheless, the worldwide Fintech sector is predicted to develop strongly in the future years, thanks to the expansion of digital payments and growing investments in tech-based financial solutions. Along that line, we see a positive upward trend in the following key areas - the value of internet banking transactions in Malaysia, the internet banking penetration rate and the value of mobile banking transactions.

Visualising the nation's future Fintech growth, among the recommended actions are synchronizing the evolution of our regulatory and supervisory policy instruments along with trends, enhancing local talent base and forming industry-wide partnership.

Also explored are the business models of some remarkable Fintech startups, the numerous problem statements they are ambitiously tackling, the creative solutions and their collective effort of making Fintech a success in Malaysia. Budding agri-Fintech startup, Kapitani's noble vision of success for Malaysia is empowering the financial literacy of our smallholder farmers by way of open access to knowledge, capital and resources to unlock greater market and investment opportunities. Pod, in the meantime is offering solutions by way of enabling microfinancing opportunities to be accessible, encouraging saving behaviour with direct debit. Their app allows users to track their expenses and transfer their leftover change into savings to progress towards their saving goals. While the more-established MoneyMatch provides low cost, simple and transparent international money transfer services, and is redefining the way people send money abroad by eliminating hidden fees and vague processes

We seek to establish a pool of companies that allow us to draw greater socioeconomic value, which is sustainable and offers shared success for the public, business, and government, by accelerating the journey from innovation to commercialisation. We believe that commercialisation will increase the availability, affordability, and accessibility of inventions.

To achieve this purpose, the Malaysian Research Accelerator for Technology and Innovation (MRANTI) is established to generate higher Return on Ideas (ROI). MRANTI a consolidation of MaGIC and Technology Park Malaysia, two strong agencies under MOSTI, and will operationalise in 2022.

Moving forward, we anticipate a rise of interconnected, inclusive and sustainable platforms offering a variety of solutions catering to different needs, providing a one-stop, integrated experience. We are optimistic Fintech is poised for further growth, and we hope to grow alongside it.

We are also thankful for the support of 1337 Ventures for helping us make this possible.

FOREWORD BY 1337 VENTURES



BIKESH LAKHMICHAND
FOUNDER AND CEO OF 1337
VENTURES

Fintech has long disrupted traditional financial systems, with innovative services benefiting customers, end users and investors across different business sectors and value chains. Amidst the COVID-19 pandemic, we have also witnessed great resilience and growth in Fintech, both globally and within the ASEAN region.

Yet, the financial reality is that the pandemic has been a great challenge for many Malaysian SMEs and individuals. Making up almost 98% of Malaysian businesses, SMEs have been hit hardest by COVID-19. Further, the previous B40 income group has now expanded to include the B50. In this post-pandemic era, there is no doubt that SME digitalisation and financial inclusivity are few of the key areas for Fintech stakeholders to prioritise on and develop. How might we, as a nation, build solutions that prioritise recovery and financial resilience for businesses and individuals alike?

The Fintech Reimagined: Roundtable Report 2021 looks at Malaysia's Fintech ecosystem and explores 3 broad themes — Fintech Innovation, the Fintech Regulatory Landscape and Fintech Funding and Investments. We brought together Fintech players from different organisations and utilised Design Thinking methodologies to identify the different perspectives and insights, dissecting the challenges faced by each of them, as well as potential solutions that can be implemented. The report also features notable Malaysian Fintech startups that have made waves in society in their own unique ways, be it via financial inclusivity, SME empowerment, or even financial health and literacy.

We encourage more aspiring startups and entrepreneurs to be innovative and step up to solve pertinent problem statements within the Fintech space. We believe that collectively, we can pave the way for greater and more sustainable Fintech development in Malaysia.

As Malaysia continues to recover from the pandemic, it is hoped that Fintech will continue to be one of the key enablers in rebuilding our country's economy. We hope that you find this report beneficial and catalysing as we move towards a more developed and inclusive society.

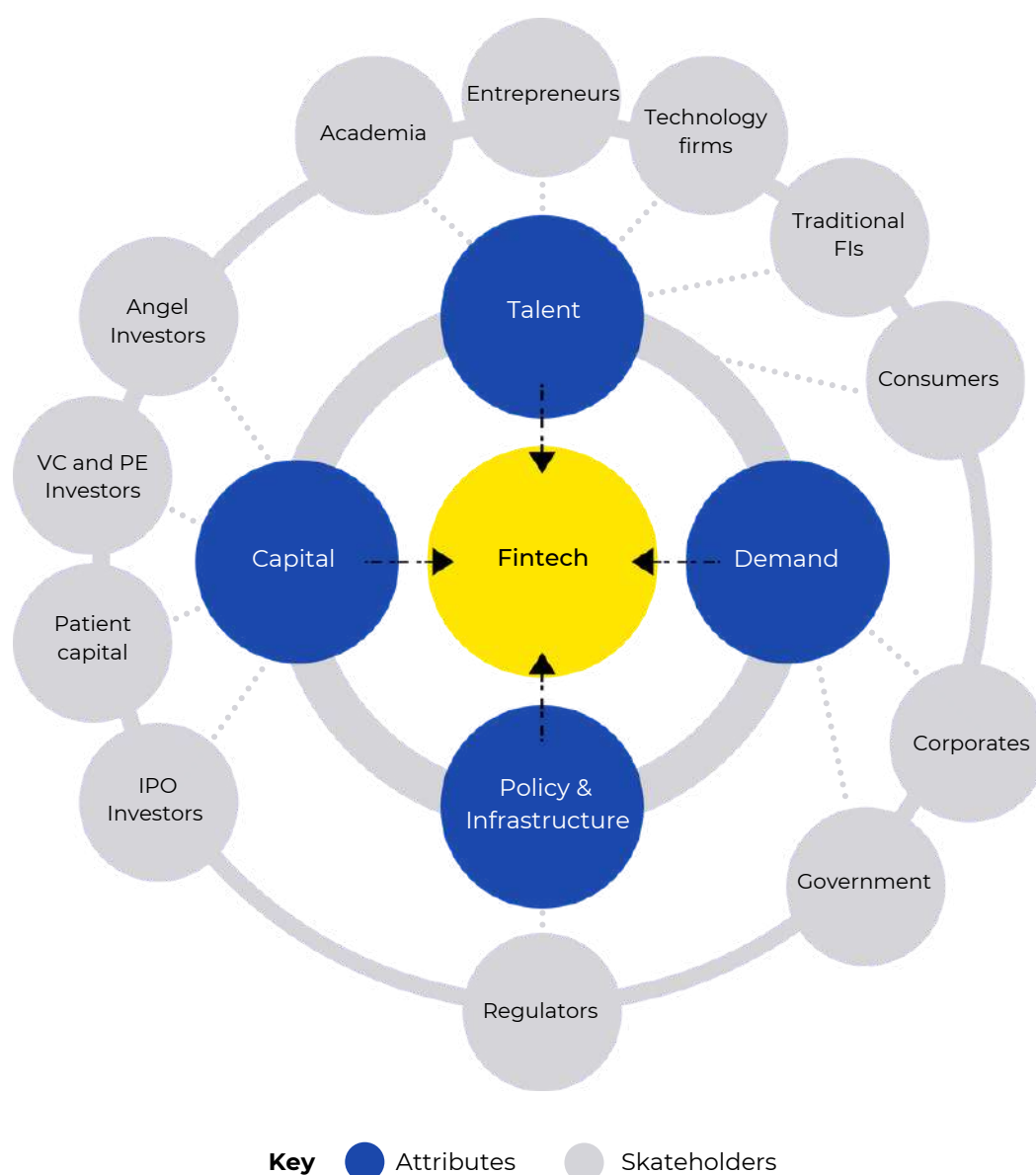
OVERVIEW OF THE FINTECH ECOSYSTEM

Disruption, Innovation, Inclusion and Transformation — Fintech is undoubtedly a game changer both globally and within Malaysia, with new technology revolutionising the concept of financial services while disrupting traditional business models. Despite the COVID-19 pandemic, we have witnessed industry resilience and adaptability, as well as strong growth in all types of digital financial services globally.

THE FINTECH ECOSYSTEM

The Fintech ecosystem consists of various key attributes including talent, capital, demand and policy infrastructure. This ecosystem is in turn supported by key stakeholders like government agencies and associations, startups, corporates, regulators and investors.

The Fintech Ecosystem



Source: Ernst and Young

WHY IS FINTECH INCREASINGLY RELEVANT TODAY?

Malaysia Going Digital

Over the years, demand for digital finance and various other forms of financial technology products and services has increased tremendously. According to the 12th Malaysia Plan, the digital economy is expected to contribute 25.55% to the country's gross domestic product (GDP) by 2025. Further, the government-launched MyDIGITAL or the Malaysia Digital Economy Blueprint aims to transform Malaysia into a digitally-driven nation and a regional leader in digital economy.

Economic and Financial Inclusivity

Fintech, with its scalable accessibility, is an important tool to help alleviate poverty and enable economic mobility for the underserved community and low-income individuals who are often financially excluded and sidelined. While Malaysia has a total employment of 15.37 million, only half contribute to the Employees Provident Fund. Further, more Malaysians are slipping into the B50 bracket, and Malaysia's absolute poverty rate has spiked to 8.4% in 2020 due to the effects of COVID-19. Financial inclusion through Fintech is key to tackling these economic divisions.

Financial Wellness Through Innovation

New technologies are allowing companies and financial institutions to serve customers in novel ways. More innovative solutions across different verticals have emerged in the market and are playing a substantial role in improving the day-to-day lives of people, be it in the space of banking and payments, insurance, wealth and more.

WHAT IS HOLDING MALAYSIA'S FINTECH ECOSYSTEM BACK?

Low Financial Literacy

In general, we notice a lack of financial literacy among Malaysians to navigate the complicated financial landscape. Bank Negara Malaysia's Financial Capability and Inclusion Demand-Side Survey 2018 highlighted few financial literacy concerns among Malaysians, which includes level of financial knowledge, saving and budgeting, readiness for unexpected life events, and planning for retirement.

Profit vs. Purpose

There often exists an emphasis on profit rather than purpose in the industry. As low-income individuals are not seen as a profitable market segment by many companies, they are often excluded from targeted product development.

Lack of Incumbent Support

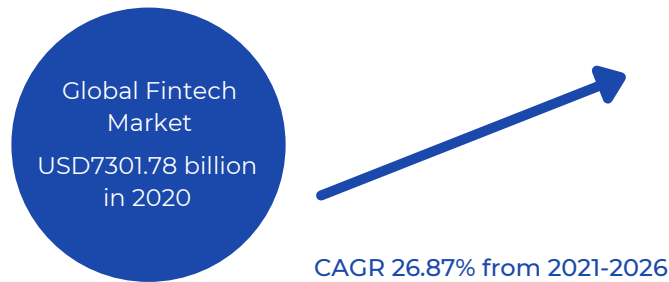
Fintech startups need to collaborate with existing incumbents to gain market participation. Albeit present, there seems to be insufficient incumbent participation in Fintech innovation, for instance via the setting up of accelerators and incubators or even internal innovation initiatives. A healthy ecosystem is one that encourages collaboration and innovation between both traditional financial institutions and new startups.

Regulatory Challenges

The Fintech industry is one of the most highly regulated sectors, justifiably so due to its scope, scale and dynamism. However, this has led to an array of challenges for Fintech companies, such as the speed and pace of regulatory clarity i.e. turnaround times from regulators, which may impede the generation of valuable Fintech innovations and even investments.

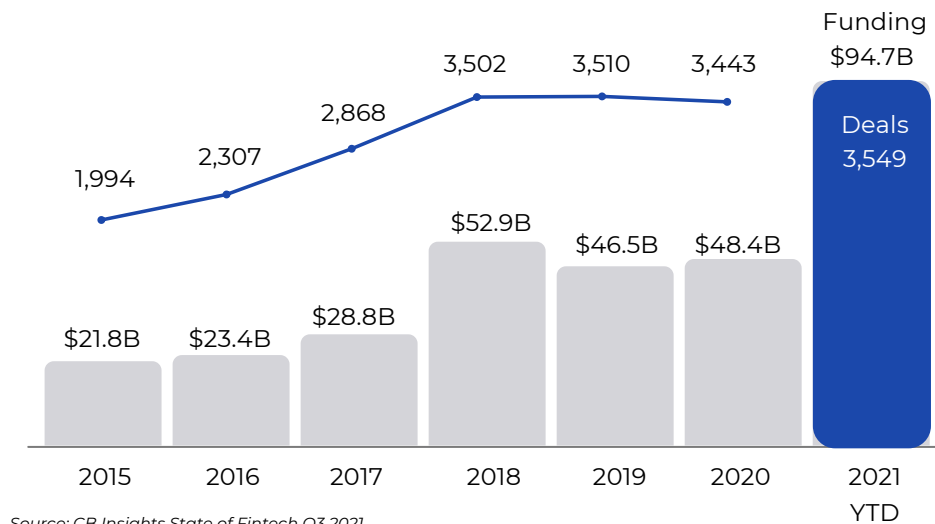
The Global Fintech Market

In 2020, the global Fintech market was valued at \$7301.78 billion with a projected CAGR of 26.87% during the forecast period of 2021 - 2026. With the rise of digital payments as well as increased investments in technology-based financial solutions, the global Fintech market is expected to experience healthy growth in the coming years.



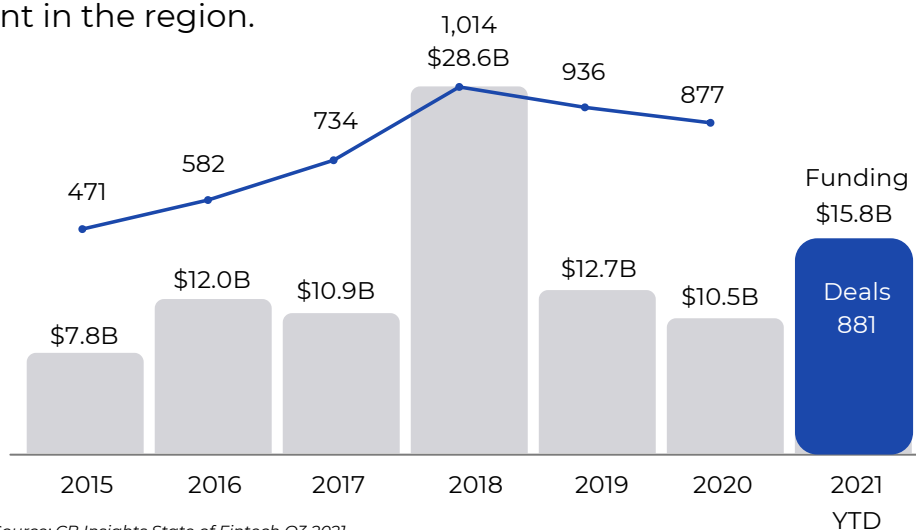
Source: Global FinTech Market, By Technology, By Service, By Application, By Region, Competition Forecast & Opportunities, 2026

Global Fintech funding in 2021 has surpassed 2020 totals by 96%, reaching a total funding amount of \$94.7 billion in 2021 YTD from a mere \$48.4 billion in 2020.



Source: CB Insights State of Fintech Q3 2021

As for funding in Asia, Fintech funding has gone up by 51% in 2021 YTD compared to the 2020 total, which is a positive sign for continued Fintech investment in the region.



Source: CB Insights State of Fintech Q3 2021

SUMMARY OF FINTECH ADOPTION IN MALAYSIA

Here is a brief overview of Malaysia's Payment and Digital Payment Statistics:

Has an Account with a
Financial Institution
(Jan 2021)



85.3%

Debit Card
Ownership
(Sept 2021)



140.5%

Credit Card
Ownership
(Sept 2021)



29.3%

Internet Banking
Penetration
(Sept 2021)



119.5%

Mobile Banking
Penetration
(Sept 2021)



69.7%

Makes Online Purchases
and/or Pays Bills Online
(Jan 2021)



38.8%

Number of People
Making Digitally Enabled
Payment Transactions
(Jan 2021)



13.1 million

Total Annual Revenue
of Digitally Enabled
Consumer Payments
(Jan 2021)



\$12.3 billion

Digital Payments:
Average Value of Annual
Transactions Per User
(Jan 2021)



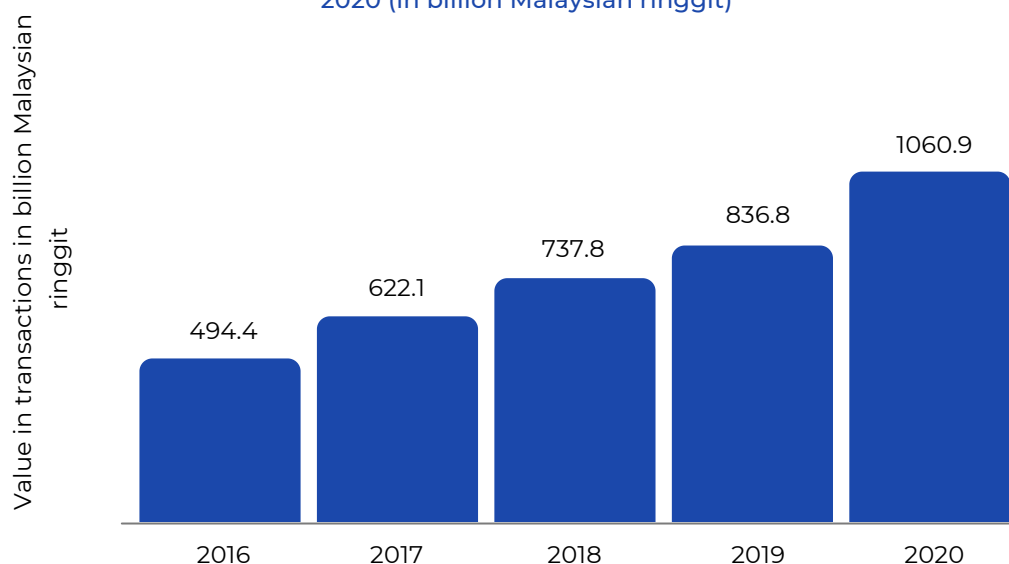
\$940

Source: Bank Negara Malaysia, World Bank Global Financial Inclusion Data, Statista Digital Market Outlook for Fintech Jan 2021

OVERVIEW OF THE FINTECH ECOSYSTEM

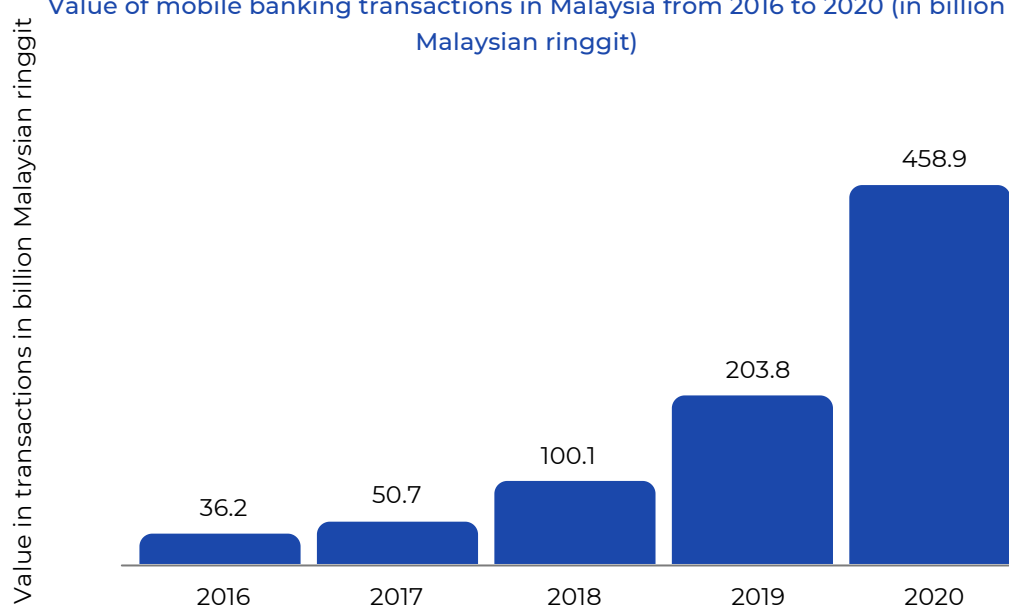
From 2019 to 2020, we see that the value of internet banking transactions in Malaysia have increased from RM836.8 billion to RM1060.9 billion. The internet banking penetration rate has also increased from 97.6% in 2019 to 112.5% in 2020, and subsequently 119.5% as of September 2021. As for the value of mobile banking transactions, its value has increased from RM203.8 billion to RM458.9 billion in 2020. The mobile banking penetration rate has seen a rise from 52.9% in 2019 to 61.8% in 2020, and 69.7% in 2021.

Value of internet banking transactions by private persons in Malaysia from 2016 to 2020 (in billion Malaysian ringgit)



Source: Bank Negara Malaysia, Statista 2021

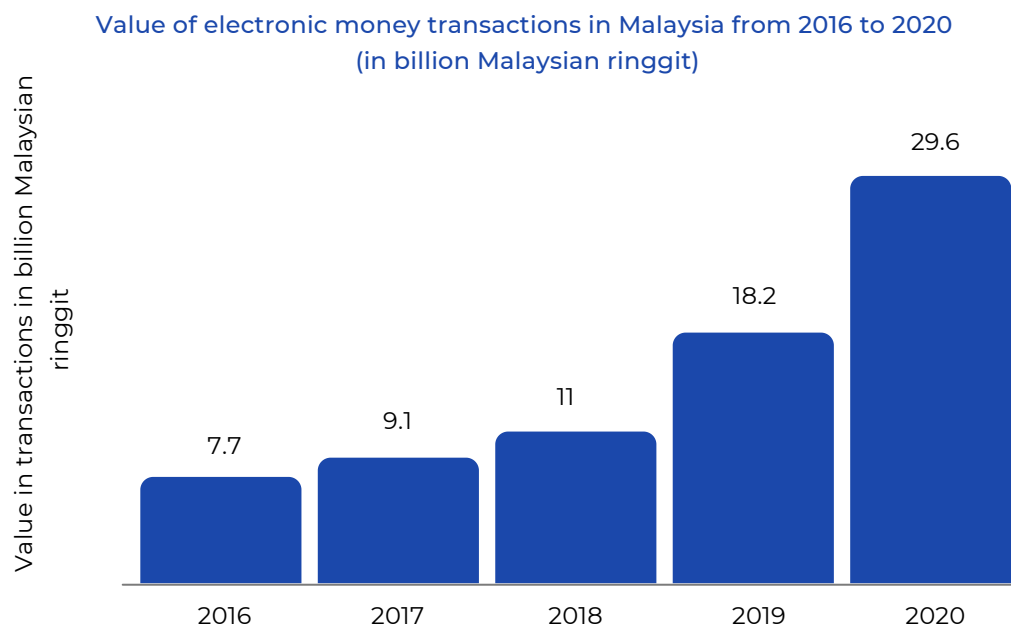
Value of mobile banking transactions in Malaysia from 2016 to 2020 (in billion Malaysian ringgit)



Source: Bank Negara Malaysia, Statista 2021

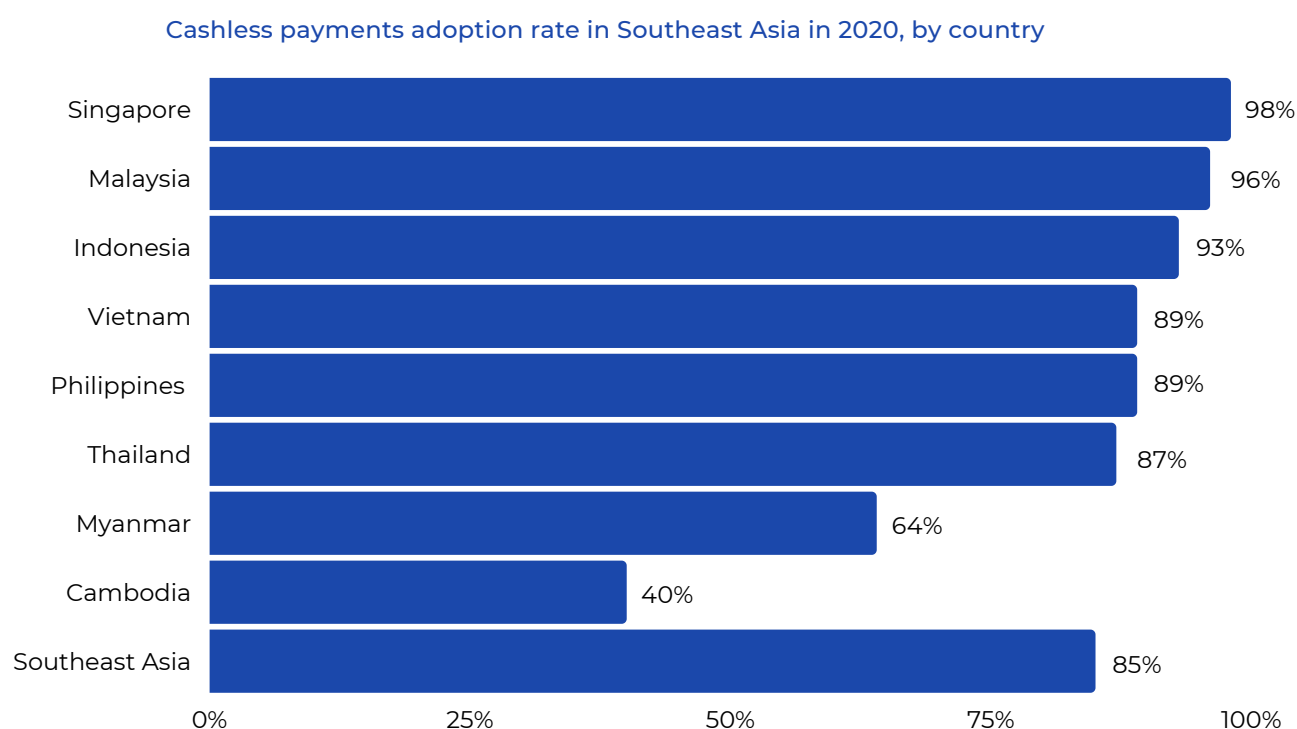
OVERVIEW OF THE FINTECH ECOSYSTEM

When it comes to electronic money transactions, the total value has increased from RM18.2 billion in 2019 to RM29.6 billion in 2020, a 63% increase.



Source: Bank Negara Malaysia, Statista 2021

According to a study conducted by VISA, an average of 85% of consumers across Southeast Asia embrace an array of cashless payment methods. When comparing against the Southeast Asian average as well as other Southeast Asian countries, it is apparent that Malaysia ranks high in its cashless payments adoption rate, coming 2nd behind Singapore at 96%.

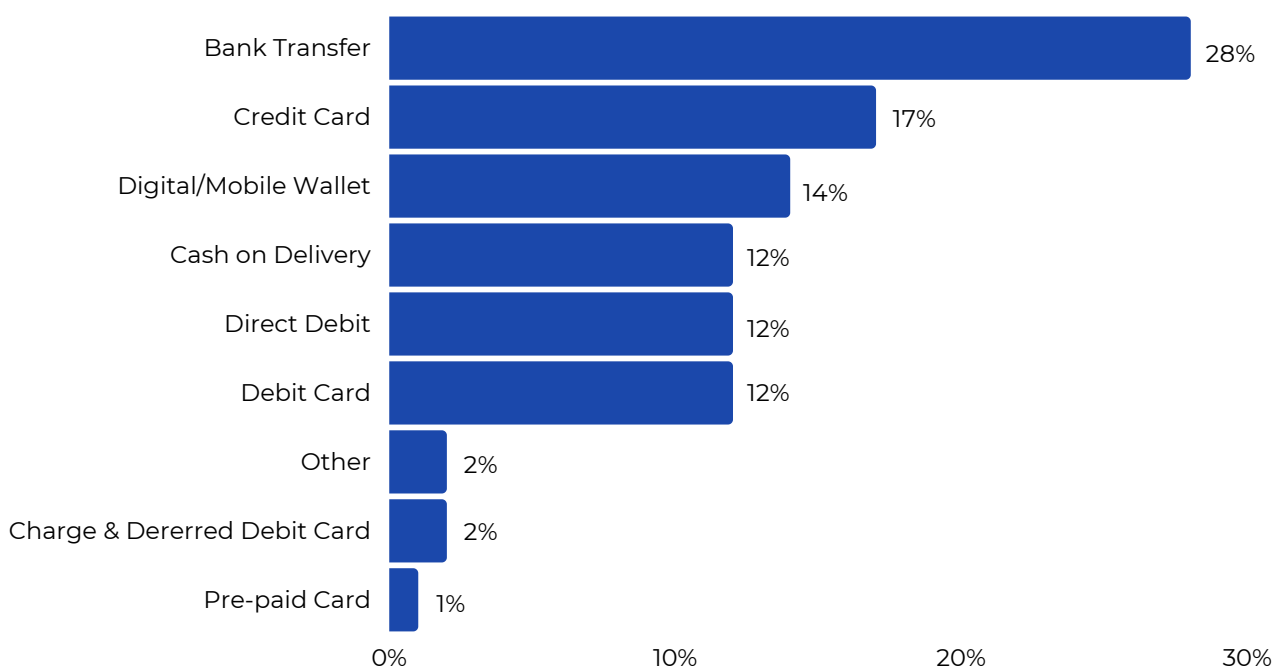


Source: Visa Consumer Payments Attitude Study 2021

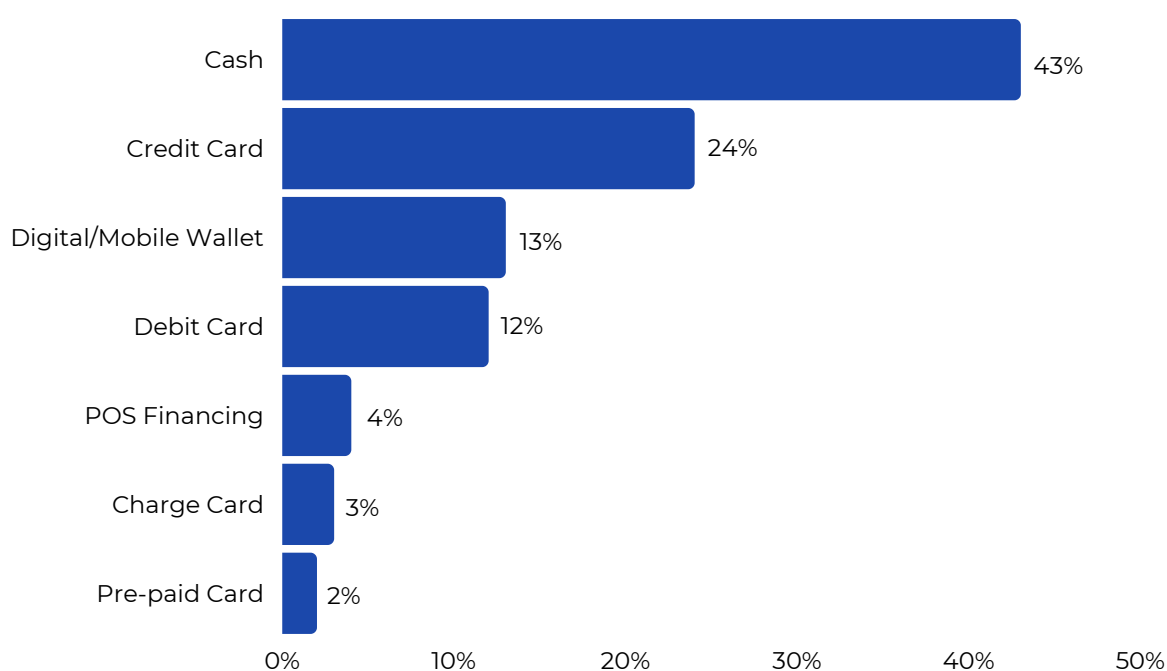
OVERVIEW OF THE FINTECH ECOSYSTEM

More and more consumers are using digital or mobile wallets both when shopping online and in-store, ranking third after cash/bank transfer and credit card payments. Digital and mobile wallets are slowly becoming the norm in Malaysia, as we observe an increased number of merchants accepting digital payments via GrabPay, Boost, Touch N Go and more.

2020 e-commerce mix by payment method



2020 point of sale mix by payment method



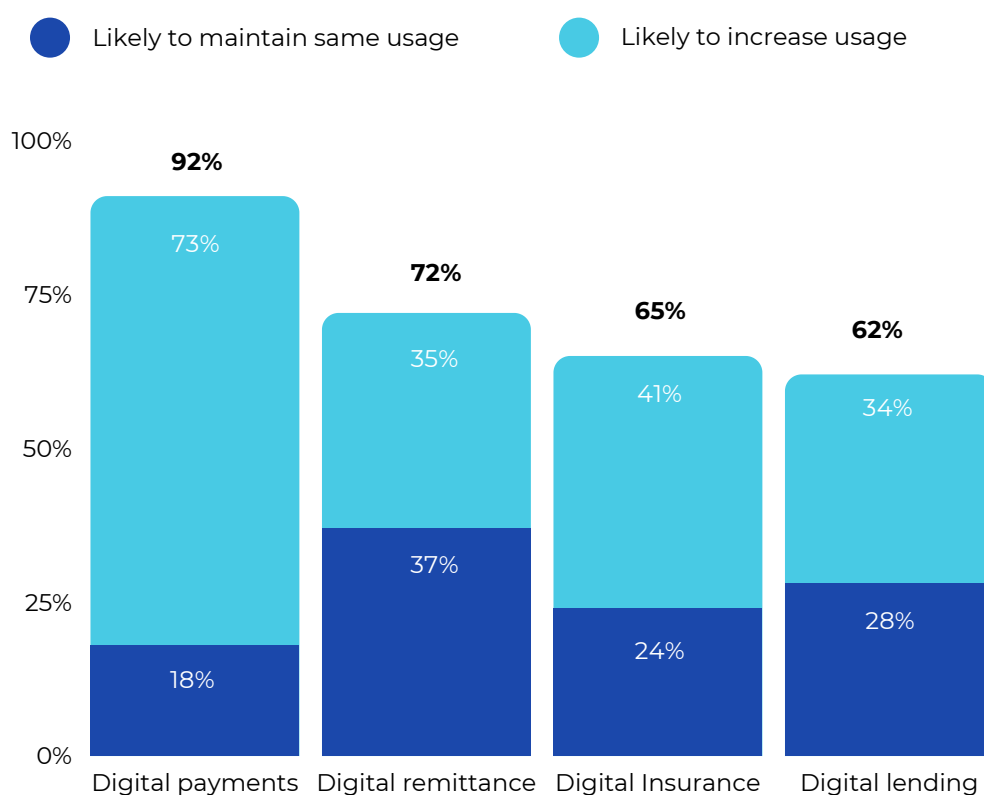
Source: The Global Payments Report 2021 by FIS Global

OVERVIEW OF THE FINTECH ECOSYSTEM

Certainly, it is apparent that digital merchants in Malaysia are getting increasingly tech-savvy and are expected to become even more so in the future in their usage of digital financial services such as digital payments, digital remittance, digital insurance and digital lending.

Digital financial services

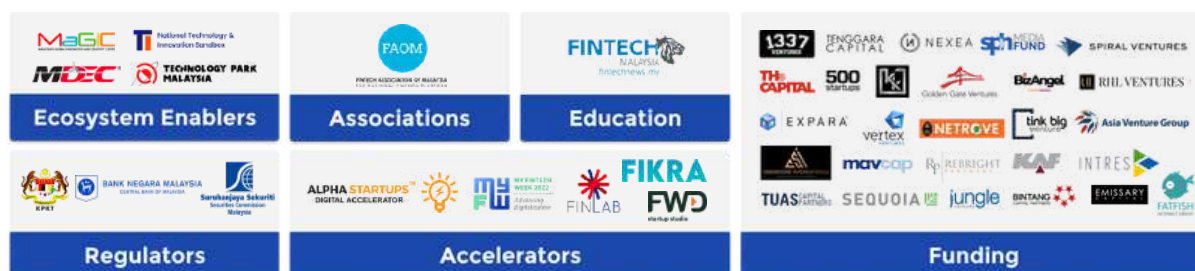
% of digital merchants likely to increase or maintain usage of digital financial services in the next 1 to 2 years



Source: e-Economy SEA Report 2021

FINTECH ECOSYSTEM MAP

Here are the ecosystem in Malaysia contributing towards the development and innovation in Fintech:



Source: 1337 Ventures analysis

Here are the different Fintech offerings in Malaysia, categorised by verticals:



Source: Malaysia Fintech Report 2021 by Fintech News Malaysia, Malaysia Insurtech Opportunity Report 2021/2022 by 1337 Ventures

CHALLENGES IN FINTECH IN MALAYSIA

During the roundtable discussion, our team of moderators and facilitators utilised Design Thinking methodologies to pry and discuss challenges identified from different perspectives by varying stakeholders. By having discussions cross-stakeholders with different perspectives, we are able to generate an exhaustive and wide perspective, primarily, around the themes of Innovation, Funding and Regulation.

INNOVATION IN FINTECH

Lack of Talent

According to most stakeholders, one of the biggest challenges of innovation in Fintech is the lack of talent in the space. Unlike most fields, Fintech requires more than just a stroke of genius. Since Fintech has matured drastically over the past few years, newer innovations are getting more technical and, in turn, require much more industry knowledge to identify the problems and needs in the financial world.

According to the Stockholm Fintech Report in 2018, the average age of Fintech company leaders in Stockholm ranges between 36 and 40, while the average CEO is 40 years old. Due to the industry experience required to better understand the needs within this industry, it is no surprise that the average Fintech founder would require extensive knowledge from work experience.

With that being said, talents required to operate a Fintech startup or venture would also need to be multifaceted in terms of possessing technical skills and also industry knowledge.



High Risk

Unlike other less regulated industries, Fintech innovation is much riskier. Due to the uncertainty of regulations, many corporates may take a “sit-and-observe” approach when it comes to new technologies. Due to this uncertainty, investors may also take a major risk when investing in new technologies.

An example often brought up during the roundtable is the rise of Buy-Now-Pay-Later (BNPL) solutions. With its popularity ballooning in our neighbourhood in Singapore, according to Finder, over a quarter of Singaporeans admit to being worse off financially due to a BNPL mistake. Due to this, regulators in Singapore are reviewing this new business model over concerns of rising consumer debt. In Malaysia, Bank Negara is also leading efforts to regulate BNPL schemes in 2022 via the Consumer Credit Act.

With this, new startups, corporates, or even investors may find it hard to engage in new cutting-edge technology or business models.



Regulatory Response Rates

The high risk inherent in exploring new Fintech innovation is attributed to the response rates by regulators. Some stakeholders mention that upon seeking advice from regulators prior to exploring Fintech innovation, regulators often take time to respond to requests or changes.

It is unfair, however, to put the blame solely on regulators, when such frontier technologies may have unforeseen consequences. For instance, the initial goal of the BNPL model is to provide consumers without a credit score the opportunity to credit, and, slowly, build up their own credit via an alternative credit scoring method. This financial inclusion dream, however, only showed adverse consequences 5 years after its initial introduction. It is, therefore, difficult for regulators to provide quick responses to these frontier technologies that may require months, or years, to study before providing a definitive framework or response that ensures the safety of all stakeholders involved.

To potentially accelerate regulatory response rates, industry players, together with regulators, must work together to understand and map out the key risks and implications of new technologies and business models. As regulators become more informed earlier, holistic and comprehensive frameworks may be developed at a more reasonable pace for the market.



FINTECH FUNDING AND INVESTMENTS

Lack of Investment Appetite in Malaysia due to Limited Potential

Startups identified a lack of investment opportunities in Malaysia. According to investors and government agencies, this is because of the lack of investment appetite in Malaysia due to limited potential. Fintech solutions typically require more funds than ventures in other sectors especially when it comes to licensing requirements. It is noteworthy that this creates a vicious cycle — due to lack of investment opportunities in Fintech, entrepreneurs steer away from Fintech innovations. However, this in turn leads to a lack of investment opportunities in Malaysia.

Corporates, on the contrary, raise an interesting point — how can it be that investors are claiming a lack of potential in Malaysia due to its small population compared to its neighbours (Indonesia with 273 million population, Thailand with 69 million population), when Singapore, with only 20% of Malaysia's total population, is able to receive more investment compared to Malaysia?



Complicated Funding Processes

Another main concern raised by startups is that the funding process is highly complex and time-consuming. An example of this is the Simple Agreement for Future Equity (SAFE) document. This common investment vehicle, utilised by many investors overseas, is a simple method to provide early investments to startups, especially when the valuation of a startup at such a stage can be uncertain. Though, this has not been a common practice in Malaysia until recently — Malaysian entrepreneurs had to play keep-up to better understand this new instrument while investors have to further understand its mechanics before utilising the SAFE in their own investments.

Even when it comes to typical term sheets and shareholders' agreements, many startups still struggle to understand certain terminologies and legal jargons. Furthermore, startups who are raising capital for the first time are unaware of fundraising norms when it comes to timeline, due diligence requirements, and more, further exacerbating the complex fundraising process for all parties involved.

Lack of Funding for Early-stage Startups

Another problem noticed, primarily by government agencies, is that Malaysia's funding ecosystem is inherently flawed. Out of the many funding means in Malaysia, only a handful are focused on the early-stage — to make matters worse, only 1-2 are truly of pre-seed stage. Unlike other countries, where most VCs dwell in the early stages, it is harder to kickstart a Fintech idea in Malaysia through the support of external fundings.

Due to the makeup of this current VC funnel, later-stage VCs experience a lack of deal flow as entrepreneurs are deterred from both pursuing Fintech ventures in the first place and subsequently raising further capital at a later-stage.

REGULATIONS

Regulatory Adaptation is an Iterative Process

During the roundtable discussion, many stakeholders were of the opinion that existing regulations do not reflect or serve the current technology trends and environment. Furthermore, Fintech has evolved and penetrated beyond just the finance industry, as we see it being applied and utilised in adjacent industries such as PropTech and AgriTech. Instead of providing dedicated regulatory frameworks for each sector, current regulations are instead standardised across all verticals.

This is not a niche problem faced only by startups. With more to lose than startups, it is also harder for corporations to experiment with and implement new technologies. Despite having internal innovation units, they are often crippled by slow decision-making processes, multi-layer approvals and long processing times. This further hampers potential collaboration between startups and corporates, as startups may not have the liberty of waiting upwards of a year for the corporate's approval process.

An example of such risk-adversity can be seen with cloud computing — while many Fintechs operate with a cloud-first approach for their solutions and storage management, many corporates shied away from this technology due to a previous regulation that required data to be stored in Malaysia. While this regulation has since been amended to accommodate the use of cloud computing, it highlights the active role that regulators play in working together with industry players in understanding the risks associated with adoption of new technologies. It is thus imperative that industry players work closely with regulators in developing frameworks to accommodate the use and mitigate the risks arising from adoption of new technologies.

Difficulty in Navigating through Regulatory Hurdles

For those new to the Fintech scene, navigating through regulatory hurdles can be a very complex process. Despite this, it is imperative for startups to understand these regulations. Founders who do not have the time or experience to comb through regulation documents will have to outsource these professional services to lawyers and shariah advisors. This, however, results in a Catch-22 — early-stage startups that have yet to generate revenue or prove their applicability to investors do not have the funds to hire professional services; on the other hand, they require the expertise of professional services prior to launching, generating revenue or testing their product-market fit.

There are support structures currently available for founders, such as the Bank Negara Sandbox, which provides startups the opportunity to operate in a “sandbox” environment, and MDEC’s Fintech Booster, which provides startups with the access to professional services required to navigate through the regulatory environment in Malaysia. Though, it is agreed by participants that more can be done to assist founders in overcoming regulatory barriers.

Fintech Startups do not Understand their Value Proposition clearly

Several participants from government agencies and associations, however, disagree with the problems stated above. According to them, the purpose of regulation has never been to hamper innovation — it has always been to protect stakeholders, especially users of financial services.

Despite the availability of resources for startups, government agencies, regulators, and associations argued that the problem lies in the lack of understanding from the startup founders themselves — when prodded further in terms of their business model and value proposition to users, many founders are said to be unable to elaborate or provide clarifications.

ENVISIONING THE FUTURE OF FINTECH IN MALAYSIA

In response to the various challenges identified in Fintech funding, regulation, and innovation, ecosystem players have identified several wish list items as well as potential opportunities that can be leveraged. Here are some key highlights from the roundtable discussion.

INNOVATION IN FINTECH

Open Innovation

Corporates, government agencies and associations can look into organising more innovation bootcamps to facilitate public and private sector organisations in churning out problem statements. There often seems to be a mismatch between startups' offerings and what organisations are looking for. Increased clarity in challenge statements will enable startups to work on specific ideas or solutions that match the pain points of these organisations, while also increasing the commercialisation rates of these startups.

Another way would be to incentivise corporates to partner with or allocate resources to Fintech startups. This can be done through tax rebates, access to matching funding and more to enable them pilot certain initiatives.





Developing Local Talents in Fintech

Talent is crucial to innovation. Stakeholders wish to see an increased emphasis in STEM education within the country through partnerships and collaborations with higher education institutions. An existing MDEC initiative, #mydigitalmaker, was launched a few years ago to encourage students to adopt digital skills such as coding, app development, and data analytics. This is achieved via programmes such as the #mydigitalmaker Champion Schools, Digital Competency Scores (DCS), Education Fund Network and Digital Ninjas. We wish to see more of such digital initiatives to enhance Malaysia's Fintech talentbase.

Collaborative Ecosystem

Above all, we wish to see the creation of a centralised platform connecting different stakeholders and industries — for real interoperability. This would enable the convenient exchange of information and resources, as well as collaboration to foster Fintech innovation. One local example would be the FWD API Sandbox which exists as an open facility for innovation community members to experiment and test their solutions in a secure, live environment.



FINTECH FUNDING AND INVESTMENTS

Increased Clarity on Fundraising Instruments

Simple Agreement for Future Equity (SAFE) and Keep It Simple Security (KISS) agreements commonly used by Silicon Valley startups are still relatively new in Malaysia. Startups that wish to fundraise via these methods in Malaysia will still have to customise and localise these agreements. Participants expressed interest in the introduction of simplified fundraising documents and/or processes to make fundraising easier and more accessible. It is hoped that regulators can work together with the early-stage fundraising community to provide greater regulatory clarity for such instruments.



More Co-investments by the Government

To close the funding gap that early-stage startups in Malaysia face, Fintech players wish to see more government co-investment into early-stage startups, as most government investments are merely focussed on late-stage startups. One good example would be the fund-matching initiative under the Dana Penjana Nasional (DPN), where the Malaysian government will match RM600 million on a 1:1 basis, of the funds raised by both foreign and private domestic venture capitalists. More government partnerships could also be established with accelerators that invest into early-stage startups.



Industry-wide Collaborations

Industry-wide collaborations supporting Fintech offerings will most definitely spur the Fintech ecosystem, namely collaborations between prominent players such as Bank Negara Malaysia, Securities Commission, Employees' Provident Fund, Lembaga Tabung Haji, Kumpulan Wang Persaraan and more. We do observe a couple of initiatives such as the Fintech Booster and Financial Innovation Lab, though participants are of the consensus that more industry collaborations can be done to support Fintech startups and foster closer relations between startups and ecosystem players.



FINTECH REGULATIONS

Flexible Licensing Frameworks

More flexible licensing frameworks can allow startups to test out their concepts in a controlled setting. This includes conditional licensing frameworks which limit the applicant's scope and/or size of activities until they meet the full requirements. MyMy Payments is a Malaysian Fintech startup that has recently received conditional approval for a large scheme Electronic Money License from Bank Negara Malaysia.

Licensing based on tiers has also been adopted by many Regulators in countries like Korea, Singapore, India and Hong Kong. In India, applicants can select from two tiers of cooperative bank licenses and six tiers of commercial bank licenses.





Banking-As-A-Service

Inspired by the Banking-As-A-Service (BAAS) business model, Fintech startups also hope to be able to leverage on Financial Institutions for their existing licenses. Through this model, startups can connect with banks' systems directly via APIs, build banking offerings on top of the providers' regulated infrastructure, while also reducing their lead time to market. DBS Bank Singapore is an example of a bank who has adopted this model. "Banking is necessary, banks are not" — with the influx of new Fintech startups offering faster, cheaper and more personalised offerings, we anticipate more financial institutions exploring the concept of BAAS.

Regulatory Task Force

As most startups and innovations have overlapping regulating bodies, it is proposed that regulators form a specialised task force to come up with recommendations and to formulate new and improved regulatory frameworks. The task force can look into the rules and regulations surrounding banking, securities, asset management, insurance and more to discover ways to promote innovation. It is also hoped that the regulators can foster more engagement with the Fintech startup community for enhanced regulation literacy.

FINTECH CASE STUDIES

Discover some notable Fintech startups in Malaysia and explore their business models, the industry problem statements they are tackling, their Fintech solution, as well as their founding team's collective vision of success for Fintech in Malaysia.

FINTECH STARTUPS IN MALAYSIA

Startup	Description	What problems are they solving?	What is their solution?	Vision of success for Fintech in Malaysia
	Direct Lending is an online lending platform set up to offer a better lending experience to consumers in Malaysia in a fast, easy, secure and affordable way.	To increase the opportunity of financing for everyone, especially the underserved, Direct Lending aims to make financing more transparent and affordable to everyone at any time and anywhere.	Direct Lending provides an end-to-end financing solution where borrowers can find, compare, apply and receive the financing that suits them.	"An open banking regime that allows consumers, especially the bank underserved, to have better access to useful and affordable financial products & services."
	MoneyMatch is a multi-national financial technology firm focusing on international payments, covering cross-border trade payments and individual remittances.	MoneyMatch provides low-cost, simple and transparent international money transfer services, and is redefining the way people send money abroad by eliminating hidden fees and vague processes.	MoneyMatch has optimised its treasury operations with machine learning algorithms and integration with blockchain solutions for Swifter disbursement. They have successfully executed over MYR 2.5 billion in transactions.	"Putting savings back into customers' pockets through the democratisation of finance."
	CoFundr is a Peer-to-Peer financing platform for business insurance premium financing (IPF) and working capital financing (WCF). It is a safer, smarter and more rewarding option for Peer-to-Peer investors.	Cofundr bridges the gap between retail investors seeking to invest within local businesses and the businesses that require capital. Cofundr aims to reduce the financial burden of SMEs as they get the necessary protection.	With Cofundr, not only can SMEs crowd finance their working capital, but they can also crowd finance up to 75% of their business insurance premiums. Cofundr acts as intermediary connecting retail investors and businesses.	"Cofundr being the Fintech, envision the convergence with Insurtech, where SMEs can procure general insurance and secure financing for their policy digitally within a single platform."


FINTECH CASE STUDIES

Startup	Description	What problems are they solving?	What is their solution?	Vision of success for Fintech in Malaysia
	<p>Billplz is a payment platform for organizations to pay and get paid fast at the lowest possible cost.</p>	<p>Forget about printing bills or waiting for them to get delivered. Billplz aims to overcome the costly, slow and non-environmental friendly paper-based billing mechanism with a digital billing solution.</p>	<p>Billplz provides an array of services, including API, Billing, Payment Form, Mass Payments and Real Time Settlement.</p>	<p>"The top three exports for Malaysia should be commodities, semiconductors, and local Fintech."</p>
	<p>Finology is an innovative Fintech company that specialises in lending and insurance to drive change within the banking, property, and insurance industries.</p>	<p>Finology aims to simplify lending and insurance, making access to financial products seamless for everyone.</p>	<p>Finology offers two marketplaces - Loanstreet which is a personal finance website and product aggregator that allows users to apply for loans and purchase insurance through the portal; Loan plus which is a mortgage pre-approval and tracking platform for property developers.</p>	<p>"A more customer centric infrastructure and processes in the banking and insurance sector; a scene where the Fintech companies can also finally operate, innovate and grow with sustainable margins."</p>
	<p>Pod is a micro-savings app that helps young Malaysians and gig workers around Southeast Asia to lead better financial lives.</p>	<p>Pod provides accessible banking to gig workers and the underserved community to encourage saving behaviour for better financials. It aims to make saving fun by enabling users to save money for their personalised goals, with rewards as they reach their saving milestones.</p>	<p>Pod enables microfinancing opportunities to be accessible, encourages saving behaviour with direct debit and allows users to track their expenses and transfer their leftover change into savings to progress towards their saving goals.</p>	<p>"Enabling gig workers to access financial products in a frictionless, dynamic and personalised manner; all embedded within their daily activities."</p>

FINTECH CASE STUDIES

Startup	Description	What problems are they solving?	What is their solution?	Vision of success for Fintech in Malaysia
	<p>Viracle is Malaysia's first parental controlled cashless nurturing solution for children. It allows parents to give their children pocket money, teach kids to save and spend responsibly.</p>	<p>Viracle aims to turn every parent into a digital bank for kids and equip every kid with financial literacy to learn how to spend, save and earn money responsibly under parental guidance.</p>	<p>Viracle E-wallet enables parents to provide digital pocket money to their children with spending rules to follow. Parents get to know how the money is spent, and it also gives parents peace of mind on their child's nutrition consumption.</p>	<p>"A regulatory innovation flow which allows new Fintechs to launch without license restrictions (safe market test period) and the removal of restrictive cost & access barriers for instruments like duitnow QR or Mydebit which seems to be exclusively crafted for the big players."</p>
	<p>jomSETTLE™ empowers businesses, especially Micro Businesses and individuals, to pay and receive credit card payments virtually from customers or tenants without needing a website, payment gateway, or credit card terminal.</p>	<p>jomSETTLE™ has been set up as a bridge to connect the credit card users to good use by allowing them to pay for essential business payments, which was impossible before. Consequently, this provides a competitive edge for micro-businesses.</p>	<p>With just a payment link sent to the customers via email and SMS, customers can submit their payments using a credit card. Everything is done at the tip of their fingers and payments will be received within 3 working days.</p>	<p>"An ecosystem where Fintech players should be more open to collaborating than to compete. The Big Boys should nurture original innovative startup companies rather than continue spinning off its startup."</p>
	<p>Kapitani is an agritech startup that aims to improve the productivity and livelihood of smallholder farmers in Malaysia through financial inclusion and technology-based solutions.</p>	<p>Small farmers have poor access to technology, innovation, and financial support. They have no proper record keeping of past business performance, hindering them from making informed decisions to innovate and obtain financial support.</p>	<p>Kapitani's bookkeeping application automates the bookkeeping process, providing farmers with a solid track record to prove their creditworthiness and gain access to funding for innovative solutions to increase yield productivity.</p>	<p>"Empowering financial literacy of Malaysian smallholder farmers to unlock greater market and investment opportunities."</p>

FINTECH CASE STUDIES

Startup	Description	What problems are they solving?	What is their solution?	Vision of success for Fintech in Malaysia
	<p>Senang is an insurtech organisation that enables low to middle-income customers to purchase insurance for the first time via bite-sized microinsurance. It enables MSMEs and individuals to obtain one-off insurance coverage.</p>	<p>The market for micro and small entrepreneurs in Malaysia is currently being neglected by the insurance distribution channel. Senang aims to have all lines deterring people from having access to insurance that is hassle-free, blurred, if not completely erased.</p>	<p>Senang plays a broker role between the large insurance providers and those who need micro-coverage and leverages technology to make it work between the three parties.</p>	<p>"Transforming a tedious, staid process of purchasing and claiming insurance into a more efficient and seamless experience for future policyholders."</p>

DEEP DIVE:

Innovative Services for the Underserved

Determined to reshape the negative perception of credit cards associated with irresponsible spending, Mazer Fintech Sdn. Bhd. has successfully developed jomSETTLE™ and launched it in February 2021 to connect credit card users to good use by allowing them to pay for essential business payments, which was impossible before.

jomSETTLE™ empowers businesses, especially micro-businesses and individuals, to pay and receive credit card payments virtually from customers or tenants without needing a website, payment gateway, or credit card terminal. With jomSETTLE™, payment receiving methods are now broadened, especially for SMEs, micro businesses and freelancers.

jomSETTLE™ Make Payment – Pay Bills Virtually with a Credit Card

With the jomSETTLE™ Make Payment solution, the underserved SMEs and micro-businesses can now make Credit Card payments for their business expenses to payee or payment recipients who do not have credit card receiving facilities. This can include rental, staff salary, property maintenance fee, legal fees and more.

SMEs and micro-businesses will now have immediate access to new working capital through their credit card without the hassle of going through the conventional route of applying for business loans or high-interest cash advances.

“

The reason why I use the jomSETTLE™ Make Payment solution is because it allows me to use my credit card to settle my payment to the Payee who does not accept credit card payments, which helps me to relieve cash flow constraints. From there, I can manage my cash flow even better.

”

jomSETTLE™ Request Payment — First Virtual Credit Card Terminal

Many businesses are still unable to accept credit card payments due to low credit card payment volumes, high maintenance costs, and technical skills needed.

To encourage the adoption of payment receiving methods via credit cards, jomSETTLE™ has introduced the jomSETTLE™ Request Payment solution. With this solution, users can request for credit card payments by simply sending a secure payment link via SMS or email to their customers.

Customers can pay businesses from anywhere at any time via the payment link issued. This will instantly broaden the payment receiving methods for many businesses.

This eventually enables businesses to secure their payments faster and gain a competitive advantage over their competitors solely dependent on cash terms.

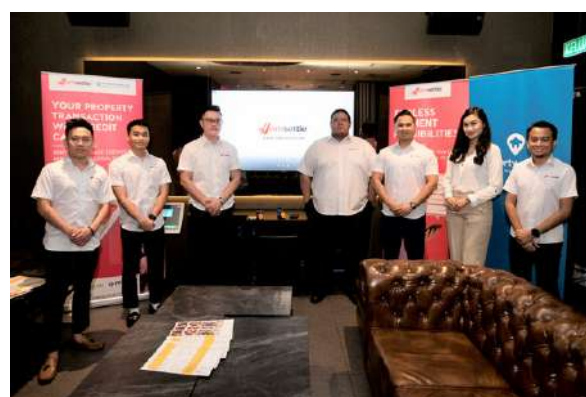


Image Credit: jomSETTLE

“

When my customer wanted to pay me with a credit card, and I didn't have a credit card payment receiving facility, jomSETTLE™ Request Payment solution came to my rescue.

”

Key Results

- jomSETTLE™ was the first Fintech startup to be approved under the Malaysia National Technology and Innovation Sandbox (NTIS).
- jomSETTLE™ aspires to build a Fintech ecosystem surrounding credit facilities via credit cards with SMEs, micro businesses, and the gig economy in mind. In line with this, jomSETTLE™ has also been the first Fintech solution to collaborate with the Halal Development Corporation via the Halal Integrated Platform to empower the growth of the Halal Industry.
- jomSETTLE™ has empowered property transactions by enabling the payment of property-related transactions via credit card. It is the first Malaysian Fintech company to offer such services.

What's Next for jomSETTLE™?

Settle Now Pay Later Scheme

jomSETTLE™ is currently engaging in a Proof Of Concept (POC) with a bank to offer a first of its kind “Settle Now Pay Later” scheme that provides jomSETTLE™ users with an interest-free instalment plan for all transactions made on the platform.

jomSETTLE™ Virtual Credit Card for SMEs and Gig Workers

In the long run, jomSETTLE™ aspires to launch their very own SME and Gig Workers Virtual Credit Card. This Virtual Credit Card will give absolute control to the users by allowing them to set the category of usage and credit limit. It also allows the users to monitor their real-time spending pattern analysis to avoid overspending.

Advice to Fintech Startups

“

Do not be afraid:

- To Ask: Approach regulators and government agencies to find out more about the different types of support available to you.
- To Share: Share your ideas with like-minded individuals and gather valuable feedback.
- Of Rejections: Take every rejection as a lesson to nurture and grow your ideas.

”

DEEP DIVE: VIRACLE

Leveraging Technology to Raise a Financially-Smart Child

Viracle is established in July 2020 as a cloud based SaaS solution that allows parents to provide digital pocket money to their children. The team had built their own card rails with parental oversight, allowing children to pay for meals at school using the Viracle cashless card.

Viracle helps parents raise financially smart and responsible children in an increasingly cashless and digital world. Their aim is to turn every parent into a digital bank for children and equip every child with financial literacy to learn how to spend, save and earn money responsibly under parental guidance.

Children at the Heart of its Intervention

For every feature built, the team at Viracle looks at its impact on children and their parents. Viracle's founder, Gokula Krishnan first realised some major concerns among parents, schools and educators when it comes

to the financial and physical wellness of their children. If a child receives money, there are chances that they could have spent it on chocolates, sugary drinks, or maybe not on food and not in school at all. On top of that, parents are unsure how to take on the discussion about money with their kids. As long children are transacting in the analogue world (cash), there isn't much intervention one can do to nurture kids to be more responsible.

With that realisation, Gokula and the Viracle team figured they needed to build a child safe technology which is legal, does not require a parent to walk into a bank to set up an account, and at the same time, give parents sufficient oversight to make sure their children can be safely introduced to the cashless world.



Image Credit: Viracle

Not Your Typical Fintech Solution

Viracle gives a peace of mind to parents by enabling parental supervision not only on their child's spending, but also on their child's food intake.

Malaysia has one of the highest children obesity rates in the region. The Viracle app enables parents to pre-order their child's meals from the school canteen on a weekly, monthly or on term-basis, providing healthier food choices for their children. Viracle has also gamified food consumption with nutrition scores so that children are motivated to make healthier and wiser food choices.

Delving into areas beyond the usual Fintech solutions, Viracle aims to be the leading parental control payment and nurturing platform for children aged 5 to 18, with measurable impact across health, financial literacy and character development.

Key Results

- A year back, Viracle launched the 1st family wallet in Malaysia, a feat no one else had attempted — 1 Parent eWallet, multiple dependents, shared balance with super secure controls to safeguard both the parent's wallet and child's usage all running on Viracle's proprietary card network.

- Viracle is ready to turn parents into digital banks with its up and coming Malaysia's first and truly Child Safe Visa Debit Card through the partnership with Faspay™ and the world payments leader VISA™.
- In just a year, Viracle has successfully partnered with 21 schools in Kuala Lumpur, Selangor, Johor Bahru, Ipoh and Penang.

Advice to Fintech startups



- Understand your Play in Fintech — Volume or Value. Volume addresses the mass market while value play is niche.
- Give regulators the benefit of doubt. If something can bring real value, regulators will listen.
- Build a rock solid product customers want and to do that right, find your "why". There are no shortcuts or half-baked approaches in Fintech.



DEEP DIVE:



Accessible Financial Services for the Underserved

Co-Founder and CEO of Pod, Nadia Ismadi saw a gap in creating and distributing financial products for the underserved. Inspired by the existing Fintech solutions in the United Kingdom, United States and China, Nadia was determined to make financial services more accessible to the underserved in the South East Asian region.

With that purpose in mind, Pod was established as a micro-saving app to help young Malaysians, gig workers and the underserved society to lead better financial lives.

Targeting Gig Workers in South East Asia

Pod aims to level the playing field for the underserved, particularly gig workers — a segment World Bank predicts to make up 70% of the workforce in Southeast Asia.

Enabling them to get the right financial products at the right time will help them build financial resilience. Pod's vision is to help at least 100 million users across the region to save, have access to financing and build their wealth in the next 5 years.

Gig workers struggle to get access to the right products at the right time, particularly credit due to the lack of credit trail within the existing financial institutions. However, with Pod, they can now save and get access to microfinancing as well as other financial products.

To further expand Pod's offering to the underserved and gig workers, Pod has teamed up with Bank Islam and the United Nations Capital Development Fund (UNCDF) to provide accessible banking to gig workers and the B40 community. The partnership with Bank Islam has benefited users by allowing them to build their credit trail using Pod Shariah Microfinancing and gain access to more sophisticated financing from Bank Islam.

“

We love it when the gig workers share with us what goals they have managed to save for via Pod. We have seen so many goals saved for on Pod from emergency fund to downpayment for a car and marriage fund.

-Nadia Ismadi, Co-Founder
and CEO of Pod

”

Making Saving Fun and Rewarding

Saving as an obligation can be tough but saving with a purpose can be rewarding. Pod allows users to save for specific reasons or goals, such as mortgage payments, vacations, marriage, and so on. What's more rewarding is that users will be rewarded with discounts and cash bonuses when they reach their saving milestones. Saving without feeling the pinch is also made possible with Pod's feature that allows users to save their leftover change, at as low as 10 cents, into big goals.

Key Results

- Pod has successfully whitelisted over 10,000 borrowers for the Shariah microfinancing product by leveraging its alternative credit scoring algorithm.
- Saving habits have been reinforced among Pod's users as 85% of its users are saving consistently for at least 7 months towards their saving goals. Gig workers who were living paycheck to paycheck are now saving on average RM482 per month.
- Financial literacy among women users has also improved as indicated by their savings traction on Pod (up 32% YTD).
- Pod was among the 3 startups which were selected by UNCDF during the MyFintech Week '19 B40 Challenge to develop solutions to improve the financial health of the low and moderate-income Malaysians.

Advice to Fintech Startups

“

Building a Fintech venture is slightly trickier and costlier, both in time and capital resources, than other tech ventures due to licensing requirements and other regulatory safeguards. So if you can work together with other stakeholders such as the existing financial institutions or other digital platforms to test your core hypothesis or assumptions of your problem statement, it will help cut your time to market and validate your ideas early before losing valuable time applying for the licenses to make legal products that the market might not want or is ready for.

”

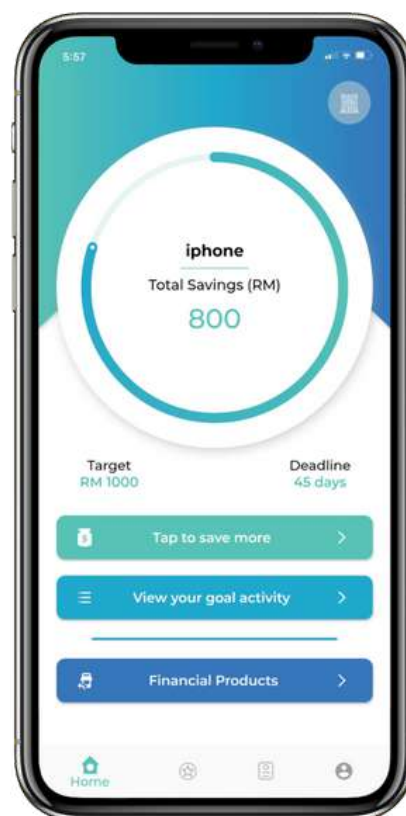


Image Credit: Pod

WHAT'S NEXT?

As the 2022 budget brings forth a “Keluarga Malaysia” approach, it is hoped that the Fintech ecosystem in Malaysia can continue to drive socio-economic development, inclusivity, resilience and recovery for our nation.

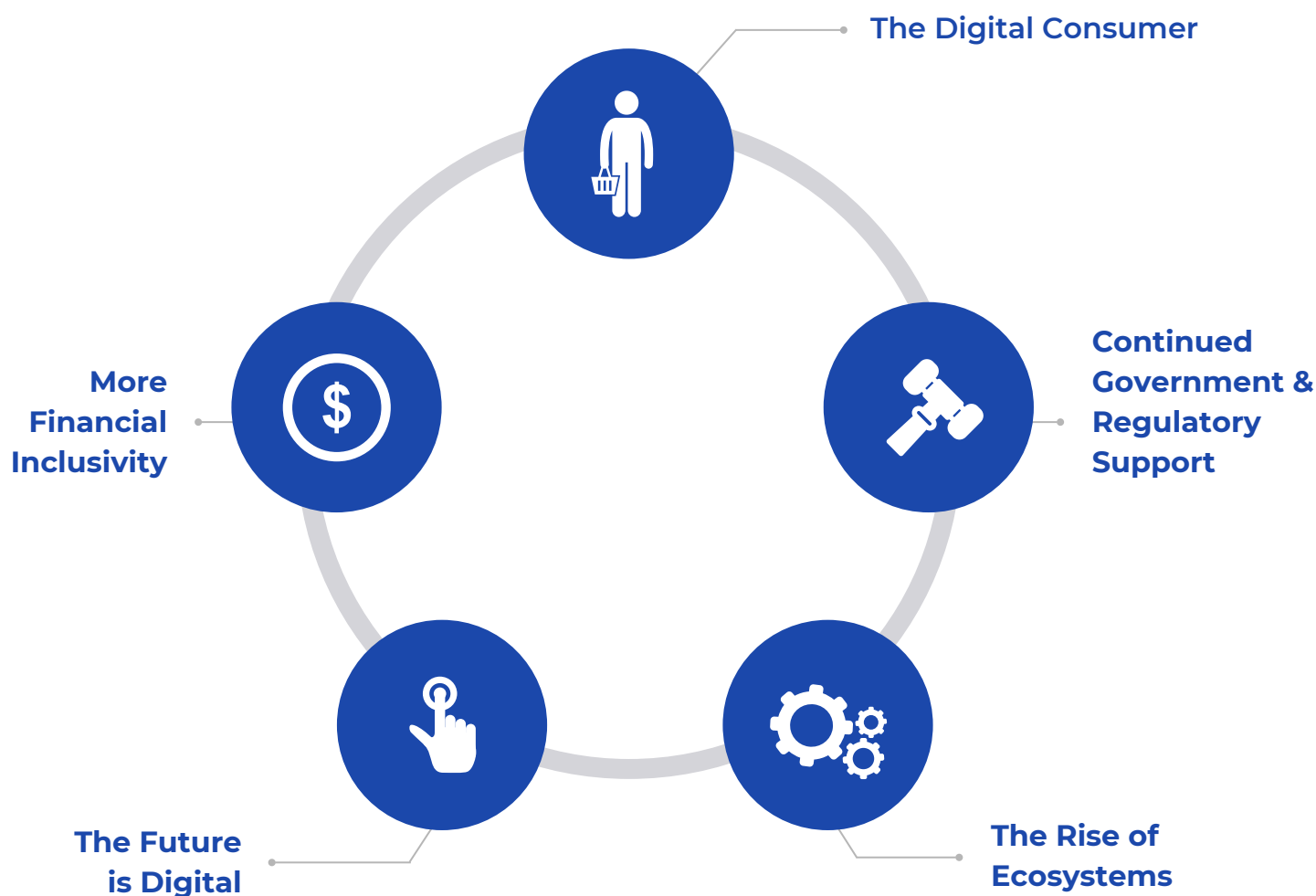
VISION OF SUCCESS FOR FINTECH IN MALAYSIA

At the Fintech Reimagined: Virtual Roundtable Discussion, we asked Fintech leaders and players all over Malaysia about their vision of success for the future of Fintech in Malaysia. They revolve around three common themes, mainly Inclusion and Sustainability, Digital and Collaboration.



TRENDS AND OPPORTUNITIES DRIVING THE SECTOR FORWARD

Where do we go from here? Moving forward, here are the key focus areas that will continue to drive Malaysia's Fintech sector forward.





The Digital Consumer

With 81% of all internet users now consuming digital services, we have witnessed the growth of online services such as online shopping, ride-hailing and food deliveries, coupled with the move towards cashless and contactless payments. Fintech is present anywhere and everywhere as consumers manoeuvre into a digital way of life.

More Financial Inclusivity

As most startups and innovations have overlapping regulating bodies, it is proposed that regulators form a specialised task force to come up with recommendations and to formulate new and improved regulatory frameworks. The task force can look into the rules and regulations surrounding banking, securities, asset management, insurance and more to discover ways to promote innovation. It is also hoped that the regulators can foster more engagement with the Fintech startup community for enhanced regulation literacy.

The Future is Digital

Bank Negara is set to issue digital banking licenses in 2022, making Malaysia the second country in ASEAN to do so after Singapore. It has received 29 applications for a maximum of 5 licenses. Further, with VSure.life becoming the first insurtech company in the country to have secured approval from Bank Negara to introduce lifestyle digital insurance, we anticipate Malaysia to emerge as one of the regional leaders in Fintech.

Continued Government and Regulatory Support

For years, Fintech companies have struggled with balancing between innovation and regulation. Governments and regulators have also recognised the need to build a framework to foster innovation while ensuring compliance to regulations. The Bank Negara Regulatory Sandbox and National Technology Innovation Sandbox (NTIS) are examples of platforms providing Fintech startups with the opportunity to test their products and services in a regulated manner.

The Rise of Ecosystems

We expect to see more and more local and regional tech companies expanding into the Fintech space, as well as increased participation from traditional incumbents. These models will be a critical means for companies looking to expand their service offerings or transform their business models. We also anticipate a rise of interconnected platforms offering a variety of products and services catering to different needs, providing a one-stop, integrated experience.



APPENDIX

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LIST OF PARTICIPANTS

- AirAsia Berhad
- Alfie Tech Sdn Bhd
- ASEAN Fintech Group
- Bank Islam Malaysia Berhad
- Bank Pembangunan Malaysia Berhad
- Billplz
- Blocklime Technologies Sdn Bhd
- Boostorder Sdn Bhd
- Bursa Malaysia Berhad
- Digital Penang
- Direct Lending Sdn Bhd
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- Grab Financial Group
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- HomeCrowd Sdn Bhd
- Hong Leong Bank Berhad
- Izwan & Partners
- Kapitani Sdn Bhd
- kipleX
- LAKSANA - Ministry of Finance
- Malaysia Digital Economy Corporation (MDEC)
- Malaysian Global Innovation & Creativity Centre (MaGIC)
- Masryef Academy Sdn Bhd
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- MIGHT
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- Pod
- Prosper by CGS-CIMB
- RHB Banking Group
- Securities Commission
- Singular
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ABOUT US

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ABOUT MaGIC

MaGIC discovers and empowers technology startups and social innovators through creativity, innovation and technology adoption, and develops a vibrant and sustainable entrepreneurship ecosystem in Malaysia.



Since its inception in 2014, MaGIC has provided its community of start-ups, investors and ecosystem players with capacity building programmes, funding opportunities and regulatory assistance that impacted more than 100,000 aspiring and seasoned entrepreneurs with an overall value creation of RM1.9 billion.

As an agency under the Ministry of Science, Technology and Innovation (MOSTI), MaGIC facilitates, navigates and enables the ecosystem with the mission of strengthening Malaysia's position as an emerging innovation nation. For more information on MaGIC, please visit mymagic.my.

ABOUT 1337 VENTURES

1337 Ventures is a Malaysian early-stage venture capital (VC) firm. We are Malaysia's first accelerator programme, having started in 2012. Through Leet Academy, we've accelerated the growth of over 1,000+ startups from 5 different countries by pioneering the Design Thinking Methodology and Design Sprints in Malaysia.



We work with corporations on bespoke accelerators, corporate innovation, and digital transformation to help individuals and organisations become more resilient. Among our clients are FWD, NTIS, Bank Negara Malaysia, Khazanah Nasional, Telekom, Digi, MDEC, MaGIC, CIMB, RHB, and Maybank, to name a few.

To democratise fundraising, **Leet Capital** is an Equity Crowdfunding (EFC) platform licensed by the Securities Commission (SC) that connects firms with angels and regular investors. We created Muru-ku.com, a one-stop portal with 730+ Malaysia Startups Listed, VC, Grants, Events & Problem Statements to bridge the gap between startups, corporations, and the government.

Visit www.1337.ventures to learn more about 1337 Ventures and our ecosystem.