



**Keynote Address by
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at FIMM Annual Convention 2018**

**“Staying on top of the Digital Game”
in Kuala Lumpur on Tuesday, 30 October 2018**

Introduction

Yang Berbahagia Datuk Siti Hadzar Mohd Ismail, Chairman of FIMM
Board Members of FIMM,
Ladies and gentlemen,
a very good morning to everyone.

1. Firstly, I would like to thank FIMM for organising this event and inviting me to deliver the keynote address today. It gives me great pleasure to be here at this year's FIMM Annual Convention.
2. Today's theme is “Staying on top of the Digital Game”. So... what is “Digital”? It is not just about the cool technology, rather more to do with people and how they get impacted in their day to day life by the emergence of new and innovative business models powered by technology. Think Grab (or Uber), Airbnb, Spotify and

within financial services, Funding Circle, Lending Club, Alipay, Transferwise, Betterment, Acorns and Covestor. Ultimately, it is the consumers who will be the biggest beneficiaries with better accessibility, convenience and affordability.

3. To elaborate... wouldn't it be nice, if at the end of our working day, after we have settled our daily chores in the late evening, there are ways that we could have an easy and convenient way to handle financial matters, be it savings for retirement or investment review. Not too many of us have access nor be able to afford dedicated professional investment advisors. Wouldn't it be great, if we could undertake research, with the right information at our finger tips, be able to compare performance of various portfolio and source for the right type of investments? Whilst there is a wealth of information available on the Internet, it can be rather frustrating and daunting to plow through the sea of information and make appropriate investment decisions. For many millennials or those who are digitally savvy, many of them may prefer interacting with technology for their investment needs.

Ladies and gentlemen,

Progress on our Digital Agenda

4. Back in 2016, the SC published our digital agenda, intended to achieve four key objectives, namely 1) Enhance Access to Financing, 2) Increase Investor Participation, 3) Augment the Institutional Market, and 4) Develop Synergistic Ecosystems. Allow me to share with you some of the progress we made.

5. Since the launch of the Equity Crowdfunding (ECF) and Peer-to-peer Financing (P2P Financing) regulatory frameworks in 2015 and 2016 respectively, the SC has registered seven ECF platform operators and six P2P Financing operators respectively. These developments are in-line with the first objective of our digital agenda to enhance access to financing, particularly for Micro, Small and Medium Enterprises (MSMEs). Each registered operator brings its own particular niche expertise and strength to the market, and have achieved admirable success thus far.
6. As of October 2018, ECF has raised a total of RM 39.29 million with 43 successful campaigns whereas P2P has raised a total of RM 130.06 million with 1690 successful campaigns. In total, the market-based financing has helped close to 500 MSMEs. Most of the ECF issuers sought funding below RM 500,000 while a majority of P2P financing issuers sought funding below RM 200,000. The ECF and P2P campaigns have attracted more than 9,000 investors, 88% of which are retail investors. This reflects the inclusive nature of ECF and P2P financing where issuers were able to raise relatively smaller amounts of capital from the crowd.
7. Both ECF and P2P could be attractive asset classes for investors who understand their own risk appetite and not averse to investing in this type of market-based financing.

Digital Investment Services

8. Globally, we have witnessed how the digital revolution has led to the emergence of new digital capability to assist investment

managers in developing and managing investment portfolios, driving efficiencies in their operations, and enabling them to hone in on investors to deliver bespoke and better quality products and services. The advent of digital investment services heralds a new era for goal-based investing and wealth management, as it promises to take the stresses, burden of unnecessary costs and hidden fees away from investors, and simplify their lives by managing and growing their investments, at an affordable cost.

9. SC believes that new technologies can help democratise our investment management industry by enhancing customer experience, driving down costs and reducing barriers of access. Traditionally, fund management, to large extent, was reserved for the high net worth individuals and institutions, now with the advent of technology, investment managers can widen their clientele by accessing retail segments as well. In line with our digital agenda, the SC launched the digital investment management (DIM) framework in 2017, aimed at increasing investor participation by facilitating the offering of automated portfolio management services to Malaysian investors. We have recently issued our first Digital Investment Management license and are in the midst of assessing several other applications. We anticipate that there will be more digital investment managers by year-end.
10. In 2017, the SC approved the first digital only equities broker for the Malaysian market, Rakuten Trade. Since its launch, Rakuten Trade has received positive response from investors with more than 19, 000 accounts opened, majority of which are new to the

market, with approximately 2,000 account-opening applications each month. We expect this number will continue to grow.

Approximately 45% of these investors are less than 30 years old, showing that younger generations are always finding new innovative investment solutions to cater to their evolving needs.

11. The SC will continue to facilitate and welcome the emergence of new digital capabilities to meet the investment needs of the tech-savvy generation and we believe that such platforms are also able to enhance financial literacy amongst investors due to the educational tools embedded. This will complement existing suite of investment channels, particularly those who have limited access to these services at an affordable cost. In this regard, new and existing industry players are encouraged to develop innovative solutions to enhance customer experience, deliver quality products and services to investors by embracing digital.

12. ECF, P2P financing, digital investment services are just some of the examples where we have seen technological advancements democratised capital market services to serve a wider cross-section of issuers and investors via new innovative business models. Through the regular engagements with the FinTech community via our (Alliance of Fintech Community) aFINity programme, we anticipate more innovative providers entering into our market, especially in micro-investing, financial planning, investment advice, social investing and automated trading space.

Incumbents Leveraging Digital

13. In an industry where advances in technology, new competition and shifting client expectations are rapidly changing the Game, it is imperative our financial institutions continue to innovate. As existing financial institutions face new competition from new entrants, it is important that we take this opportunity to re-evaluate our business models and how business and operations are conducted today.
14. Industry players that take bold action now rather than rely on a wait-and-see approach will be in a better position to capitalize on the opportunities presented by this changing environment. As more technology becomes available in the market, digital capability can be leveraged to be more thoughtful in their offerings and how they are servicing their clients, while at the same time allowing their businesses to be more nimble and efficient.
15. Globally, we observe how traditional incumbents are also evolving their offerings and business model to respond and align their business model to specific client needs and preference. There are financial institutions that embraced a broad spectrum of digital capabilities, from pure digital self-directed to tech-assisted model, while others are equipping their salesforce with digital tools to enhance their capabilities. For example, FinTech startups such as Wealthfront, Personal Capital and Betterment were seen as industry disruptors by launching pure robo-advisory platforms, whilst incumbents such as Schwab's (Intelligent Advisor), Vanguard (Personal Advisor Services), Morgan Stanley

and BlackRock have joined the fray with their own hybrid solutions.

16. Digitisation can free up financial professionals to focus on quality interactions with their clients. Increasingly, performance, engagement and trust are important factors for clients to determine which firms or financial professionals they choose, and these will influence client loyalty and retention.
17. An earlier survey by one of the prominent wealth managers, concluded that their customers yearned more frequent interaction with their Relationship Managers. Through its digital transformation program, the wealth manager was able to enhance its client interaction, by curating client-specific content and delivering them to the respective clients on a weekly basis, without overly burdening its relationship managers.
18. In the areas of investment and wealth management, it cannot be stressed enough the significance of transparency in fees and portfolio performance, as the top factor in building trust and delivering superior client experience. With the emergence of digital investment managers/advisors offering low fees for investment services, clients are looking to better understand the value added by human professionals. All this will require existing financial institutions and new entrants alike, to continuously assess their fee proposition that justifies the value provided, and the ones that figure this out will have a distinct competitive advantage.
19. Social media is increasingly becoming a main-stay in engaging the clients. Some firms are experimenting with chatbots for customer

servicing in addition to the value added investment advice. It is key to strike a right balance when using social media as an engagement tool to make sure that it is indeed effective.

Arguably, firms and financial professionals need to “push less and listen more” when interacting with clients. That said, if firms are not delivering what clients want or expect, this power can work against them as clients will use this platform to interact with other clients to rate financial providers or providing feedback in a public forum. Ultimately, success in talking to clients via social media is tied to a firm’s ability to listen and tailor content accordingly.

20. Not limited to the front-end client servicing, Digital has also found its place within the middle and back office domain. Technology can be leveraged to effect a more lean and efficient operation through better integration between systems via straight-through processing, deployment of bots to automate repetitive tasks and perhaps AI and advanced analytics for better risk management. While incumbents face the tough challenge to surmount the inertia for change, as they are often prone to legacy issues, we also recognise that their current market-leading position also comes with a wealth of historical and institutional data. How these data can be mined for strong actionable insights can be a key differentiator for our existing financial institutions.

21. On this front, the SC is undertaking ongoing efforts to accelerate digitisation in the capital market through the BRIDGE initiative. The BRIDGE initiative was established as a joint working group between the SC, BNM, the brokers, the banks and Bursa Malaysia. It aims to accelerate the digitisation of the brokerage industry for

greater operational efficiencies and enhance customers' experience in a cost-efficient manner in 3 core areas, namely digital onboarding, post-trade and settlement and transparent e-corporate actions.

Ladies and gentlemen,

Cyber Resilience and Ongoing Vigilance

22. As a regulator, we are also mindful of the risks which the advent of digital can pose to our market. A key risk confronting us both locally and globally is the risk of rising cyber threats. SC had released our Guidelines on Management of Cyber Risk back in 2016, and we have been hard at work in facilitating the implementation of the guidelines to strengthen the cyber resilience of our market and have also convened the capital market industry cyber security committee.

23. I would like to remind both our financial institutions, as well as our investors to remain vigilant and take the issue of cyber risk seriously. Cyber threats can start from something as simple as a phishing email which steals a user's login and password to sell it on the black market, or use the credentials for even more sinister cyber breaches or data theft. We need to remain constantly vigilant against such attempts and strengthen our defenses against the eventuality of such attacks.

Ladies and gentlemen,

Closing

24. The financial services sector is rapidly changing in many ways. Industry players who wish to grow their businesses will need to stay abreast of the cutting-edge technology and continue to innovate. Arguably, financial firms and professionals today face more competition than ever before, and consumers now have an unprecedented number of alternatives to choose from when it comes to investing and managing their money.
25. In order for incumbents to capture new clients and retain their competitive edge, they will need to be ready to compete with new entrants by raising their digital game, re-evaluating their business models and operations while aligning the value they delivered. It will be the firms that continue to innovate that will emerge as champions.
26. As we continue to drive our digital agenda, we believe this will present more opportunities in the capital market to existing and new players. We do not believe new fintech entrants will drastically replace the traditional capital market participants in the near future, nor do we believe that the incumbents can stay complacent and not respond to these changes. The key to stay on top of this digital game is to be proactive and not reactive. Take the bull by the horn!
27. It is our hope and wish that through the adoption of Digital, this will result in more vibrant market place and "larger pie" where everyone would benefit. This can only be achieved if all industry players collaborate to better serve the needs of the investors. The

SC, as the capital market regulator will continue our efforts to work closely with industry to facilitate fintech developments while remaining vigilant to any potential risks. Ultimately, we want to ensure that we have in place the necessary regulation, resulting in an environment that is conducive to innovation, while promoting trust and confidence in the capital market.

28. On that note, I wish you all a fruitful and engaging session ahead.

Thank you very much