

ADVANCE.AI

Malaysia Fintech Report 2021

Table of Contents

Chapter 1	**Malaysia fintech market overview**	**4**
	1. Background	**4**
	2. Overview of fintech companies	**5**
	3. Fintech regulatory system	**6**
	(1) Multi-agency regulation	6
	(2) Scope of duty of different regulators	7
Chapter 2	**Crowdfunding market and regulation**	**8**
	1. Crowdfunding market and regulation overview	**8**
	(1) Market size	8
	(2) Regulatory mechanism	8
	(3) SC's latest policy	9
	2. Equity crowdfunding (ECF)	**10**
	(1) Ten ECF companies registered with SC	10
	(2) ECF operating data	11
	3. Debt-based crowdfunding (P2P lending)	**12**
	(1) Registration and market access of debt-based crowdfunding companies (P2P lending)	12
	(2) Debt-based crowdfunding (P2P lending) data	13
	(3) Comparison of P2P lending platforms	14
	4. P2P lending platform cases	**15**
	(1) Funding Societies Malaysia	15
	(2) Fundaztic	15

Chapter 3 Online lending market and regulation 16

1. Online lending market regulation and access 16

(1) Regulation of online lending companies 16

(2) Application for online lending business license 17

(3) PPW application 18

2. Licensed online lending companies 19

(1) Grabfin Operations (M) Sdn Bhd 19

(2) GHL Payments Sdn Bhd 19

(3) Fortune Tree Capital Sdn Bhd 19

(4) Presto Credit Sdn Bhd 20

(5) Axiata Digital Capital Sdn Bhd 20

(6) BigPay Later Sdn Bhd 20

(7) JCL Credit Leasing Sdn Bhd 20

(8) Hoop Fintech Sdn Bhd 21

(9) Touch 'n Go 21

Chapter 4 AI applications in finance 22

1. AI applications in fintech 22

(1) Use of AI in eKYC 22

(2) Use of AI in financial management tools 23

Chapter 1 Malaysia fintech market overview



1. Background

• Malaysia has a population of 31.6 million and 76% of the population lives in urban areas. The country's GDP growth was 4.3% in 2019. Internet is growing rapidly in Malaysia. By the end of 2019, the penetration rates of smartphones and the Internet reached 75.9% and 86%, respectively. Malaysia also boasts a highly developed financial service industry. By the end of 2019, 74% of the Malaysian had held debit cards, and 21% had held credit cards. Online banking had a penetration rate of 95.2%, and mobile banking 50.4%.

• A high level of urbanization and well-developed Internet infrastructure have laid the foundation for fintech development in the country. With a high acceptance rate, fintech is rapidly becoming a central part of Malaysia's financial sector and is on pace for expansion, according to the International Monetary Fund (IMF) analysis.



2. Overview of fintech companies

• According to Malaysia Fintech Report 2019 by Fintech News Malaysia (fintechnews.my), the country had 198 fintech companies in 2019, with 40 specialized in online payment business, 38 in e-wallet, 16 in insurance technology, 15 in online lending, 15 in wealth management, 15 in blockchain, 12 in crowdfunding, 11 in financial regulation technology, 8 in artificial intelligence/ data, 6 in business platforms, 6 in Islamic fintech, 6 in real estate technology, and 17 in online exchange/remittance. (Note: Some companies may engage in two or more business areas to better reflect their business nature. But overall, they are fintech companies.)

• Malaysia's fintech market is filled with both startups and traditional players. Many banks have established fintech innovation projects to replace or improve the existing financial services.



3. Fintech regulatory system

(1) Multi-agency regulation

• Malaysia introduced a business activity-based mechanism to regulate the fast-growing fintech companies, which means their business activities may be subject to regulation by the Bank Negara Malaysia (BNM), the Securities Commission Malaysia (SC), the Ministry of Housing and Local Government (KPKT), and other government departments.

• Meanwhile, Malaysia Digital Economy Corporation (MDEC) is also stepping up efforts to push the fintech development.

(2) Scope of duty of different regulators

• Fintech services are regulated by different authorities depending on the business activity undertaken:

1. BNM regulates services related to the financial market, such as digital banking, electronic payment, and insurance aggregation. It provides three regimes: the Licensing Regime, the Approval Regime, and the Registration Regime. At the same time, innovative services are allowed in the regulatory sandbox. As of November 15, 2020, a total of 48 non-bank financial institutions were authorized by BNM to issue electronic money.

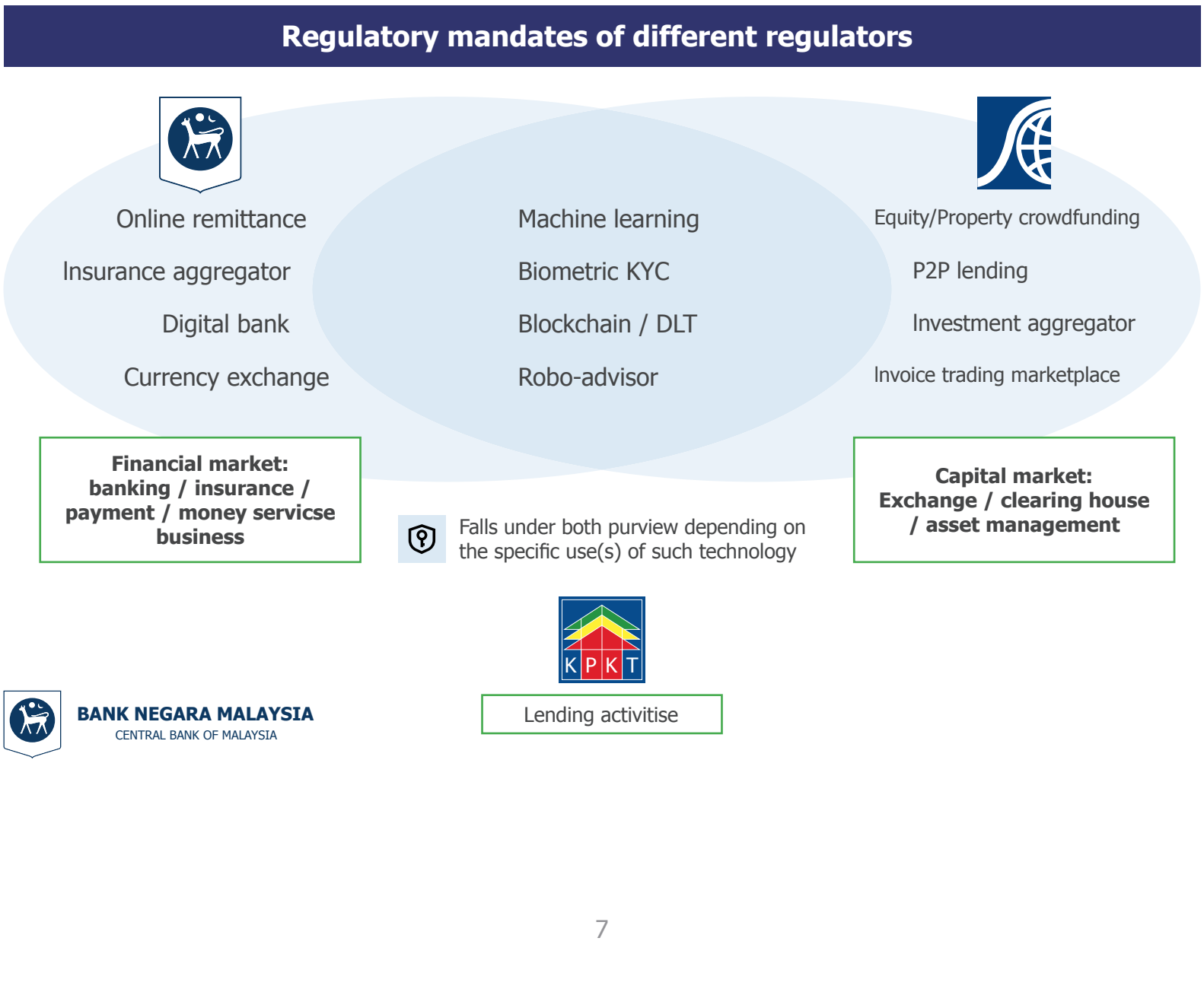
2. SC regulates services related to the monetary market, such as equity crowdfunding, bond crowdfunding/peer-to-peer (P2P) financing, and investment aggregation. (For details, see Chapter 2.)

Services related to AI, biometric identification for KYC, and blockchain may fall under the supervision of either of the above two authorities depending on the actual services applied.

3. KPKT regulates online lending services. (For details, see Chapter 3.)

• BNM released the following figure on August 4, 2020 to explain fintech regulations in Malaysia.

Fintech services are regulated bu different anthoritise depending on the business activity undertaken



Chapter 2 Crowdfunding market and regulation



1. Crowdfunding market and regulation overview

(1) Market size

• Over 90% of companies in Malaysia are micro, small & medium enterprises (MSME) or startups that need the short-term cash flow.

• As of September 30, 2020, more than 2,500 MSMEs had raised over RM 1 billion (with 90% from P2P financing) through the regulated crowdfunding market.

• In 2019, funds raised through alternative funding programs like ECF and P2P financing grew 127% to RM 400 million while those raised through venture capital and private equity saw an 8% contraction to RM 600 million.

(2) Regulatory mechanism

• There are four types of crowdfunding: rewards and donation crowdfunding launched in 2012, ECF approved by SC in 2015, and lending/P2P approved in 2016.

• Since Malaysia introduced the ECF and P2P regulatory framework in 2015, SC has registered 21 platforms to provide regulated crowdfunding products.

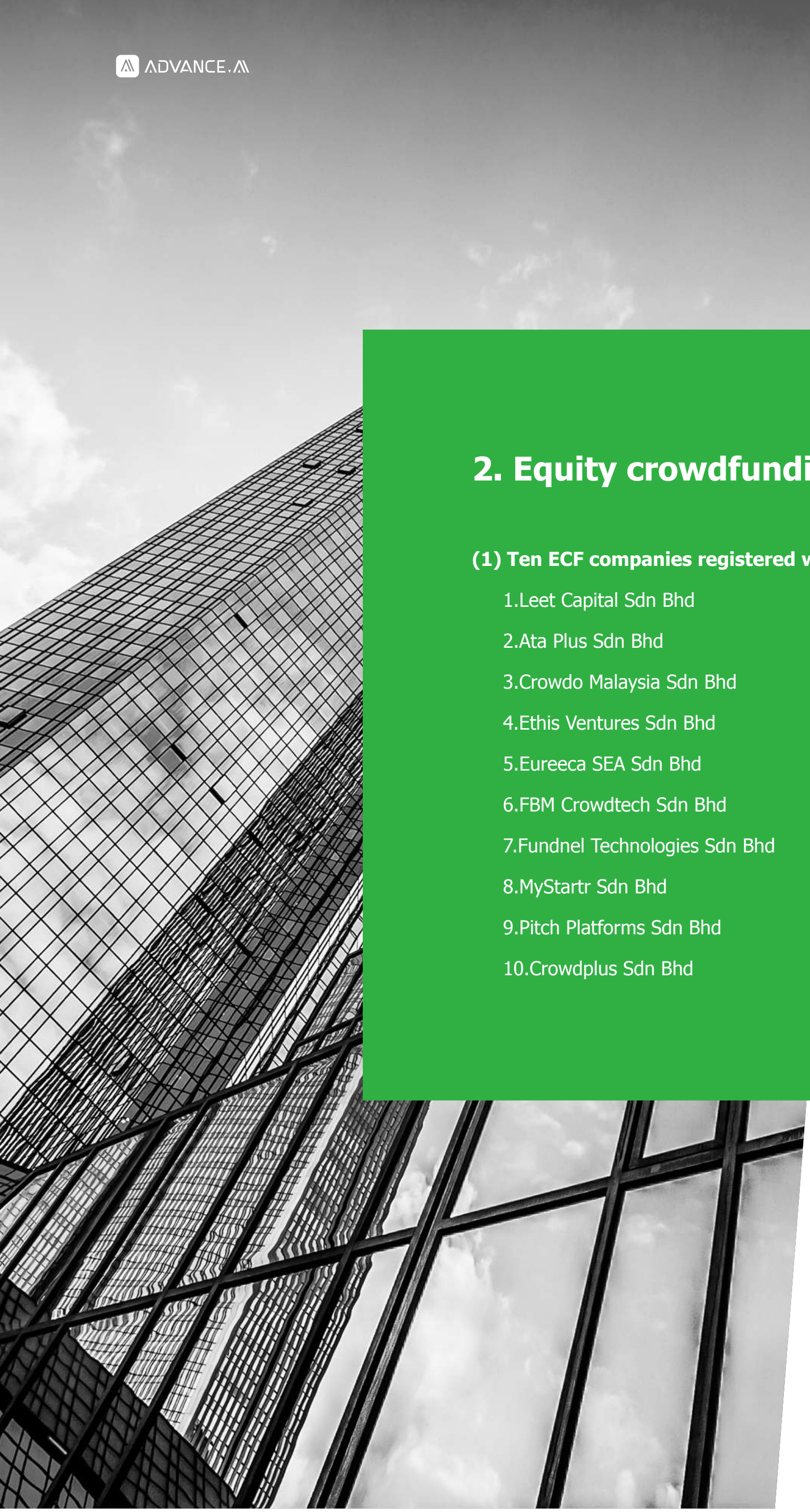
• According to SC Chairman Syed Zaid Albar, the crowdfunding market is growing rapidly, but investors are warned not to invest in unregulated capital market products and services. With the increasing number of online scams, investors should also be alert to the fraud risk in their search for products with a high return on investment in a market dominated by low-interest-rate products."



(3) SC's latest policy

• In April 2020, SC announced the liberalization of ECF limit to RM 10 million from the previous limit of RM 5 million, and it also allowed ECF and P2P platforms to operationalize secondary trading. Meanwhile, Malaysia Co-investment Fund (MyCIF), which is administered by SC, has increased its funding matching ratio from 1:4 to 1:2 for eligible ECF and P2P campaigns, to provide additional liquidity into the alternative fundraising space.

• On October 28, 2020, SC's revised Guidelines on Digital Assets came into force to promote responsible innovation in the digital asset space while simultaneously managing emerging risks and safeguarding the interests of investors. Despite its purpose of promoting digital innovation, the Guidelines point out that "digital currencies and digital tokens are not recognized as a legal tender nor as a form of payment instrument that is regulated by Bank Negara Malaysia."



2. Equity crowdfunding (ECF)

(1) Ten ECF companies registered with SC

1.Leet Capital Sdn Bhd

2.Ata Plus Sdn Bhd

3.Crowdo Malaysia Sdn Bhd

4.Ethis Ventures Sdn Bhd

5.Eureeca SEA Sdn Bhd

6.FBM Crowdtech Sdn Bhd

7.Fundnel Technologies Sdn Bhd

8.MyStartr Sdn Bhd

9.Pitch Platforms Sdn Bhd

10.Crowdplus Sdn Bhd

(2) ECF operating data

• As of September 30, 2020, ECF companies had completed 119 projects, raising RM 129.64 million in total. Among these projects, 41% raised less than RM 500,000, 30% between RM 500,000 and RM 1.5 million, 26% between RM 1.5 million and RM 3 million, and 3% more than RM 3 million. Retail investors, angel investors, sophisticated investors, and institutional investors accounted for 59%, 20%, 19%, and 3%, respectively.

• For details, see the figure below:

Crowdfunding Statistics
As of 30 September 2020

Equity Crowdfunding(ECF)Key Statistics[1]

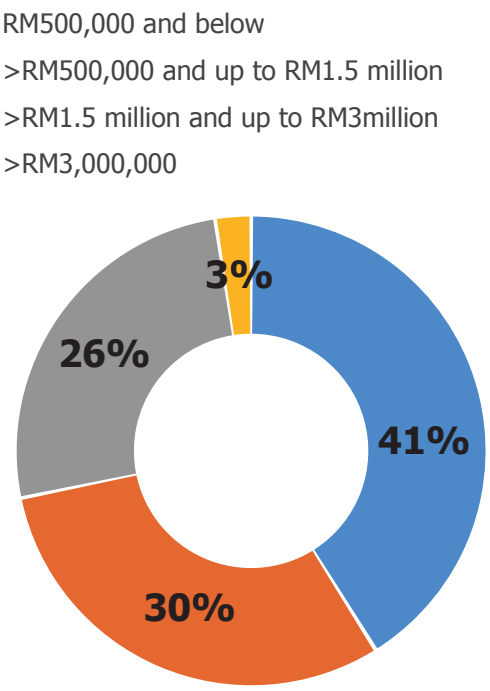
Campaigns and Issuers[2]

119
Successful campaigns

RM129.64 million
Amount raised

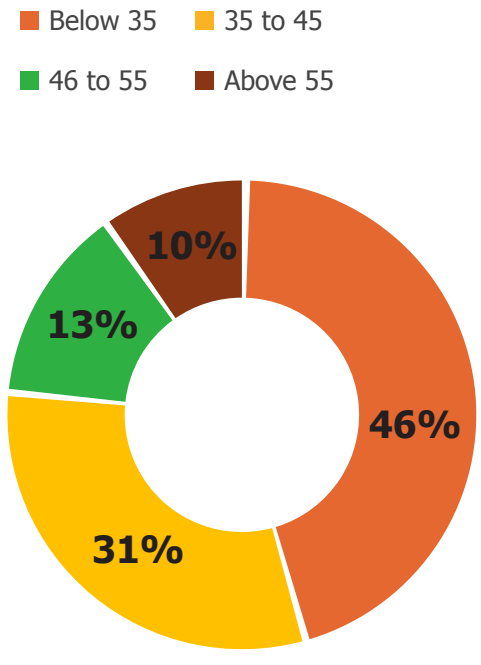
113
Successful issuers

Distribution by fundraising amount:

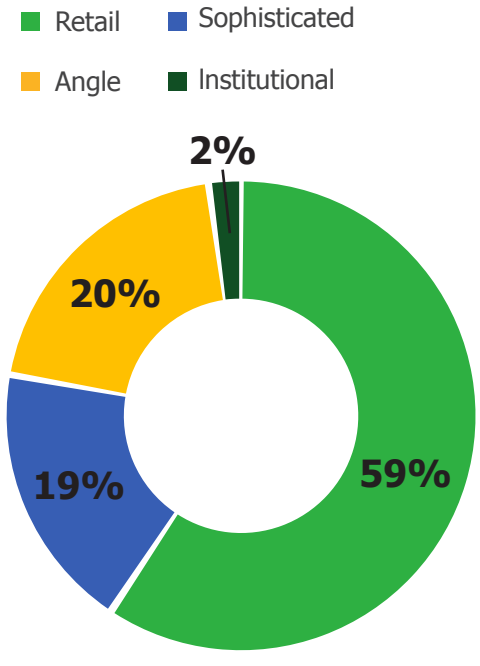


Investors[3]

Age demographics:



Type:





3. Debt-based crowdfunding (P2P lending)

(1) Registration and market access of debt-based crowdfunding companies (P2P lenders)

• All P2P lending platforms must be registered with SC before carrying out market operations in Malaysia. But currently, applications for P2P lending are temporarily closed.

• There are 11 debt-based crowdfunding companies (P2P lenders) registered with SC:

1.Bay Smart Capital Ventures Sdn Bhd

2.B2B Finpal Sdn Bhd

3.Capsphere Services Sdn Bhd

4.Crowd Sense Sdn Bhd

5.P2P Nusa Kapital Sdn Bhd

6.FBM Crowdtech Sdn Bhd

7.MicroLEAP PLT

8.Modalku Ventures Sdn Bhd

9.Moneysave (M) Sdn Bhd

10.Peoplender Sdn Bhd

11.QuicKash Malaysia Sdn Bhd

(2) Debt-based crowdfunding (P2P lending) data

• As of September 30, 2020, debt-based crowdfunding companies (P2P lenders) had completed 13,039 projects, raising a total of RM 921.83 million. Among these projects, 73% raised less than RM 50,000, 20% between RM 50,000 and RM 200,000, and 7% more than RM 200,000. Retail investors, angel investors, and sophisticated investors accounted for 88%, 8%, and 4%, respectively.

• For details, see the figure below:

Crowdfunding Statistics
As of 30 September 2020

Peer-To-peer(P2P)Financing Key Statistics[4]

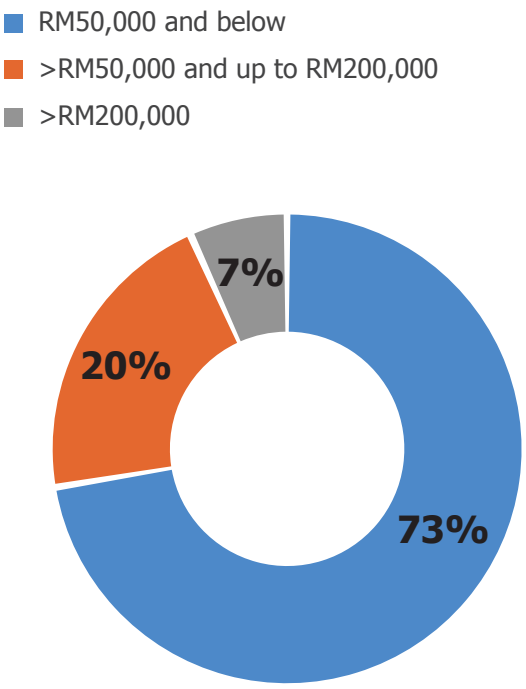
Campaigns and Issuers[5]

13,039
Successful campaigns

RM921.83 million
Amount raised

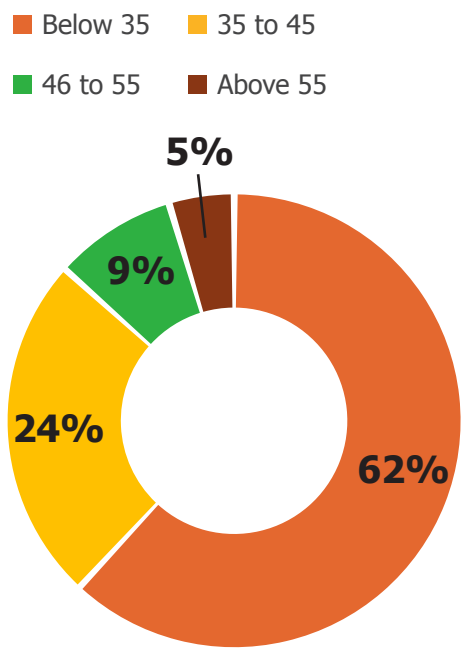
2,502
Successful issuers

Distribution by fundraising amount:

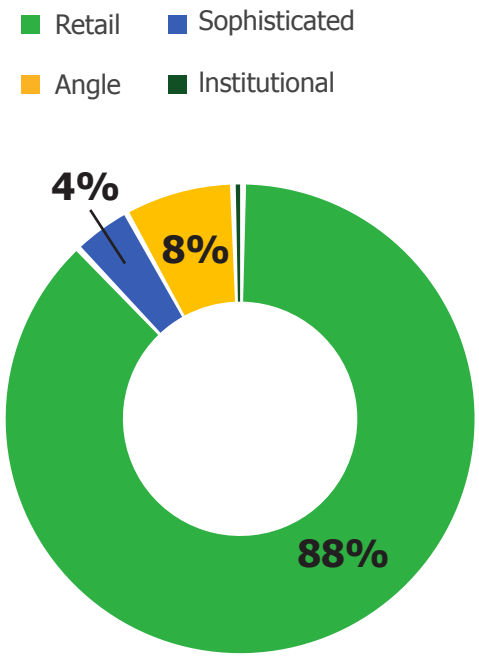


Investors[6]

Age demographics:



Type:





(3) Comparison of P2P lending platforms

• Funding Society, B2B Finpal, and Fundaztic are the top three P2P lenders in Malaysia by market share. Fundaztic has a much higher default rate (10.42% since interception) than Funding Society (3.58%). This suggests Fundaztic is taking on higher-risk loans, which could translate into higher interest returns.

• Comparison of P2P lending platforms in Malaysia by default rates, minimum investment limits, and charges.

Name	Default rate	Minimum investment
AlixCo	2.59%	RM 500
B2B Finpal	3.15%	RM 1,000 initial deposit RM 100 per campaign
CapitalBay	0%	RM 10,000
Capsphere	0%	RM 200 initial deposit RM 50 per campaign
Cofundr	N/A	RM 1,000 initial deposit RM 100 per campaign
MicroLEAP	N/A	RM 50
Funding Societies	3.58%	RM 1,000 initial deposit RM 100 per campaign
Fundaztic	10.42%	RM 2,000 initial deposit RM 50 per campaign An initial deposit is required to enable Smart Invest.
QuicKash	1.34%	RM 100

4. P2P lending platform cases

(1) Funding Societies Malaysia

• Headquartered in Singapore, Funding Societies is the largest P2P financing platform in Southeast Asia. Funding Societies Malaysia, part of Modalku Ventures Sdn Bhd, was founded in 2015. As of August 2020, the platform had garnered more than 44,000 registered investors with about RM 460 million financed.

(2) Fundaztic

• The company provides a financing amount of RM 20,000 to RM 200,000, with a repayment period ranging from three to 36 months and an annual interest rate of as low as 8%. Its strategic partners include MUV (an online bidding platform for used car dealers), MyTigas Alliance (a community of pharmacists and pharmacies), AXA Malaysia (an insurance company), imSME (a loan and financing platform wholly owned by Credit Guarantee Corporation Malaysia Berhad), and Easy Pay Transfers (a cross-border service platform).

• Fundaztic is wholly owned and managed by Peoplender Sdn Bhd which has been registered with SC as a recognized P2P financing platform in Malaysia. In July 2020, Peoplender launched the first P2P secondary market in Malaysia.

Chapter 3 Online lending market and regulation



Market segments: online money lending/online loans
Regulatory authority: Ministry of Housing and Local Government (KPKT)

1. Online lending market regulation and access

(1) Regulation of online lending companies

• Online lending companies are regulated by KPKT. According to KPKT Minister Zuraida Kamaruddin, access to financial services became more important than ever to individuals and MSMEs after the outbreak of COVID-19.

• As of November 13, 2020, KPKT had granted licenses to eight companies:
1.BigPay Later Sdn Bhd
2.Axiata Digital Capital Sdn Bhd
3.Grabfin Operations (M) Sdn Bhd
4.GHL Payments Sdn Bhd
5.Presto Credit Sdn Bhd
6.JCL Credit Leasing Sdn Bhd
7.Fortune Tree Capital Sdn Bhd
8.Hoop Fintech Sdn Bhd

(2) Application for online lending business license

• Operating online lending business in Malaysia requires a license from KPKT. Overseas companies are recommended to find a local partner. The application form and guide are in Malay.

• Download the application guide

Go to the official website of KPKT (www.kpkt.gov.my), click Announcement and DOKUMEN GARIS PANDUAN PEMBERIAN PINJAMAN WANG DALAM TALIAN (KREDIT KOMUNITI) to download the application guide.



• Application documents

1.The Application Form
2.The copy of the Loan Permit License (PPW) issued by KPKT
3.The Online Lending Proposal (community credit loan) as required in the application guide
4.Copies of the Malaysian Network Information Center (MYNIC) registration documents
5.Submit a feasible website/technology application proposal
6.Submit a system security certificate
7.You can mail or send in person the above documents to the following address:
Pendaftar Pemberi Pinjam Wang
Kementerian Perumahan dan Kerajaan Tempatan
Bahagian Kawalan Kredit Komuniti
Aras 22, No. 51 Persiaran Perdana
Presint 4
62000 Putrajaya



(3) PPW application

• A Loan Permit License (Pemberi Pinjam Wang, PPW) is the precondition for an online lending license. Companies should apply for it with KPKT.

• The applicant must not be a branch company and should have a minimum paid-up capital of RM 2 million. Each applicant (citizen or non-citizen) must register their fingerprints at the Criminal Department (the Pusat Pendaftaran Penjenayah) of the Royal Malaysia Police (PDRM) in Bukit Aman or Singapore.

2. Licensed online lending companies

(1) Grabfin Operations (M) Sdn Bhd

• The company introduced PayLater, a post-paid service, to its super app Grab, allowing users to access Grab services and settle the payment later without additional costs. All transactions made during a month will be included in a bill at the end of the month, and users may settle the bill with their GrabPay balance before the due date in the next month. Currently, users can use PayLater to pay for rides, food delivery, grocery delivery, and express orders.

• Grab Financial Services Asia Inc, registered in the Cayman Islands, holds a 40% stake in Grabfin Operations, and The Edge Media Group Chairman Kooi Ong Tong owns a 60% stake in the company. Grab Co-founder and CEO Tan Hooi Ling is a board director of Grabfin Operations.

(2) GHL Payments Sdn Bhd

• GHL Payments Sdn Bhd is a wholly-owned subsidiary of GHL Systems Berhad. Founded in 1994 and listed on the Main Market of Bursa Malaysia in 2003, GHL is a comprehensive e-payment service provider and a leading merchant acquirer. It offers a payment system to help merchants realize cashless payment and collection.

• GHL has also teamed up with Axiata Group to provide micro-lending services for SMEs. Users can borrow a maximum of RM 100,000 without the need to repay the principal for the first three months. But the application must comply with sharia. GHL has planned to launch strategic financial products to cater to the needs of SMEs.

• APIS PARTNER and ACTIS STARK bought into GHL in 2017 and 2018 respectively. The latter is now the largest shareholder of GHL.



(3) Fortune Tree Capital Sdn Bhd

• GoodKredit Malaysia, a lending platform owned by Fortune Tree Capital, provides fixed-rate unsecured short-term loans for individuals via a mobile app. It offers up to RM 10,000 at an annual interest rate of 18% and issues a loan within 24 hours. Users can choose 6, 9, or 12 months as their load period.

(4) Presto Credit Sdn Bhd

• Presto, a subsidiary of ACE Market-listed company PUC Berhad, is primarily engaged in the business of lending.

• It offers civil servants loans with a term of up to 10 years at an annual interest rate of as low as 6.5%. Applicants who earn RM 1,500 a month can borrow a maximum of RM 150,000.

• Remarks: China Founder Group, the founder of PUC Berhad, disinvested from the latter in 2017.

(5) Axiata Digital Capital Sdn Bhd

• Axiata Digital Capital is a subsidiary of Axiata Group Berhad, and the owner of e-wallet businesses Boost and Aspirasi. Singapore-based life insurance group Great Eastern had bought about 22% stake in Boost for USD 70 million.

(6) BigPay Later Sdn Bhd

• The company is owned by Airasia. Its e-wallet business BigPay enables users to transfer money to foreign accounts in China, Australia, Vietnam, Indonesia, Singapore, Thailand, the Philippines, India, Bangladesh, and Nepal.

• Remittance to China is performed via Alipay. Users just need to enter the payee's name and Alipay account ID before they can transfer money to any UnionPay bank account associated with the Alipay account.

• During the COVID-19 pandemic, the company primarily provides online lending services for the B40 group, i.e., the low-income group that accounts for 40% of the country's population. According to the Department of Statistics of the country, citizens in the B40 group earn a median household income of RM 3,000.

(7) JCL Credit Leasing Sdn Bhd

• Founded in 1996, the company provides a range of services including personal loans, commercial loans, credit sales, and insurance sales. It was acquired by Japanese Business Partner Co., Ltd. in 2014.





(8) Hoop Fintech Sdn Bhd

• The company provides small installment loans for individuals at an annual interest rate of 12%-18%. It also offers P2P services for MSMEs and rural communities.

(9) Touch 'n Go

• Touch 'n Go, which has yet to obtain an online lending business license, is the largest e-wallet in Malaysia. By the end of 2019, it had more than 6.8 million registered users and 120,000 merchants.

• A joint venture of TNG Digital and Ant Group, Touch 'n Go eWallet allows its user to pay road tolls, telephone bills, and Astro satellite TV bills, as well as buy film tickets and air tickets.

• Touch 'n Go Sdn Bhd and Ant Group hold 51% and 49% shares in TNG Digital, respectively. The shareholders of the former include CIMB Group Holdings, MTD Equity, and PLUS Malaysia.

Chapter 4
AI applications in finance



1. AI applications in fintech

• Amid the budding digital transformation in Malaysia, AI technology is revolutionizing financial institutions in business processing accuracy and speed.

(1) Use of AI in eKYC

• In June 2020, BNM released the much-anticipated guidelines for eKYC in Malaysia. The policy was introduced in recognition of the importance of digital identity as an enabler for user convenience and cost efficiency for financial institutions. As such, the framework included guidelines for the use of AI and machine learning in identification and verification. The AI component will detect facial movement, identify facial biometrics, authenticate ID documents, verify real-world presence, and provide anti-fraud information.



(2) Use of AI in financial management tools

• UOB Malaysia has launched an AI-based digital banking service, Mighty Insights, in a bid to help its customers manage finance more simply and effortlessly. The prediction and analysis engine can provide customers with personalized insights by analyzing their banking and spending patterns, and thus allow them to track and manage their deposit and spending accounts. Mighty Insights also point customers to financial solutions that are relevant to their needs.

2. ADVANCE products and services

(1) Digital Identity Verification

By virtue of its computer vision and natural language processing capabilities, ADVANCE.AI persistently explores and improves digital identity verification components, including but not limited to ID check, liveness detection, face comparison, and anti-fraud biometric identification technologies, enabling customers to conduct digital identity verification and fraud prevention remotely in numerous scenarios. Digital identity verification helps industries effectively reduce labor costs, lift business hour restrictions, and improve business efficiency.

(2) Liveness Detection

Liveness detection verifies the authenticity and reliability of users by using a camera to collect dynamic images and recognize facial expressions in real time. It effectively prevents identity frauds, significantly improves the credibility of remote online transactions, and fundamentally eliminates the fraud committed through the use of static photos, pre-recorded videos, or masks. Furthermore, performance optimization solutions are tailored based on the service environments in Indonesia, India, the Philippines, Vietnam, and Thailand.



(3) Face Comparison

The face comparison system features the following functions: recognize faces, extract facial features, compare face images, calculate the similarity of face images, and verify the person to whom a face image belongs. It aims to help enterprises verify the identities of users more precisely and quickly. It has been trained by using more than 2 million face images of Southeast Asians and Indians to improve the accuracy of digital identity verification. In addition, performance optimization solutions are tailored based on the service environments in Indonesia, India, the Philippines, Vietnam, and Thailand.

About ADVANCE.AI

ADVANCE.AI is a leading AI and big data company in Asia, helping to solve digital transformation, fraud prevention and process automation for enterprise clients. Founded in 2015, we are the leaders in artificial intelligence, risk management and digital lending solutions. We are headquartered in Singapore and have a regional footprint across Southeast Asia and India. Sector focuses include banking, financial services, fintech, payment, retail and e-commerce. Request a demo here.

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sales@advance.ai



