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Bridging Borders IV: National and Global Fintech Considerations

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Introduction

Malaysia has a high level of digital adoption that has facilitated strong growth in the use of financial technologies (fintech) such as digital payments. The Central Bank of Malaysia (*Bank Negara Malaysia*, BNM) has instituted an Interoperable Credit Transfer Framework (ICTF) that fosters innovation and the development of other fintech services, such as digital banks and cross-border digital payments.

With the intention of expanding Malaysia's participation in global finance and digital trade, both public and private entities in Malaysia are exploring international partnerships for cross-border digital payments. This could improve Malaysia's economic growth and expand its role in the global economy.

When considering global digital finance, there are at least four policy issues to take into account, namely digital financial inclusion, increasing risks of financial cybercrime, disruptive effects of unregulated decentralised finance and cryptocurrency, and geopolitical considerations.

In a four-part series on Malaysia's expanding fintech and digital payments space, I assess the growth and current state of Malaysia's digital adoption and use of the internet for financial transactions and consider opportunities and initiatives in fintech, particularly in terms of cross-border digital payments. This is a fast-moving and fast-growing sector rapidly introducing innovations and new technologies to consumers.

The first article presents an overview of Malaysia's digital adoption and use of fintech, focusing on the growth in digital payments from 2011–2024.

The second article reviews the contribution of BNM's ICTF and the introduction of digital banks to Malaysia's financial services landscape.

The third article explores the demand for and developments in cross-border digital payments between Malaysia and other countries.

This fourth article concludes the series by discussing policy considerations around the use of digital payments and fintech in a globalised society.

Policy considerations for digital financial services

As Malaysia moves towards expanding digital financial services such as digital banks and cross-border digital payments, there are at least four fintech-related policy issues to be considered, at both national and global level. These issues are: digital financial inclusion, increasing risks of financial cybercrime, disruptive effects of unregulated decentralised finance and cryptocurrency, and geopolitical considerations.

Financial Inclusion

Digital banking has the potential to improve financial inclusion, making financial services such as loans and credit lines available to underserved populations. As mentioned above, digital banks are available 24/7 and can reduce transaction costs. Digital banking apps can capture transactional data that can be used as an alternative source of assessing creditworthiness. Beginning with microloans and tracking cash flow over time, digital banks can also provide a means of establishing traditional credit scoring.

However, as I and a co-author have discussed elsewhere[1], digital finance alone is not a guarantee of financial inclusion. Affordable and reliable internet connectivity is a prerequisite for digital banks. As a means of financial inclusion, digital banks depend on reliable internet service being accessible to unbanked and underbanked populations. These populations are likely to live in non-urban areas, which are also likely to be underserved by internet infrastructure.

[1] Gong and Hollins-Kirk (2022)

A certain degree of digital and financial literacy is also required to reap the full benefits of digital banks beyond digital payments. Efforts to onboard underserved communities in Malaysia suggest that it is not just limited digital and financial literacy but also limited financial resources that might hinder the take up of digital banking[2].

It is possible that financial inclusion without financial literacy may lead to an overextension of credit that results in new financial risks to the underserved. As such, policies encouraging the use of digital financial services should include considerations on how to mitigate these risks.

It would not be surprising to find that the people more likely to use digital banks are those who are already banked and have access to more than enough resources to meet their financial services needs. This is an empirical question that should be answered once more data on digital bank customers becomes available.

As is the case with most technological innovations, new technology alone is not enough to reduce inequality. Persistent on-the-ground engagement to understand and meet the needs of the target audience is needed.

Risk of financial cybercrime

As digital payments become easier, more acceptable and more widely used, the risk of financial cybercrimes such as fraud and scams increase. In Malaysia, at least MYR3 billion has reportedly been lost to online scams involving more than 95,800 victims between 2021 and April 2024[3]. Not only that, a 2024 Global Anti-Scam Alliance survey reported that Malaysia has the highest rate of re-victimisation in Asia, being scammed more than 2.5 times[4].

The survey also indicated that bank transfers are Asia's dominant scam payment method. In Malaysia, both the Minister of Communications and the Minister of Digital have indicated that cybersecurity and online financial crime are high priority issues for them. The Malaysian government is considering requiring banks to reimburse scam victims if they are found to be negligent. This will likely be included in the Online Safety Bill to be tabled in Parliament in 2025[5].

This follows the establishment of a National Scam Response Centre (NSRC) in 2022 and the National Fraud Portal (NFP) in 2024. "The NSRC is a joint venture between the National Anti-Financial Crime Centre (NFCC), the Royal Malaysian Police (PDRM), Bank Negara Malaysia (BNM), the Malaysian Communications and Multimedia Commission (SKMM) as well as financial institutions and the telecommunications industry[6]." The NFP is an integrated platform run by BNM, PayNet and financial institutions to strengthen the operational capabilities of the NSRC by automating the handling of scam reports and the tracing of stolen funds[7].

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[2] Grace Yap Ern Hui and Chelsea Lee Jia Shi (2024)
[3] Diyana Isamudin (2024)
[4] Global Anti-Scam Alliance (2024)
[5] The Straits Times (2024)
[6] Prime Minister's Department (2024)
[7] Bank Negara Malaysia (2024)

Besides the Online Safety Bill, robust consumer protections fit for purpose in a digital marketplace are needed as e-commerce and digital trade continue to expand globally.

Public education efforts such as the *Klik Dengan Bijak* (Click Wisely) Programme are also underway, especially in non-urban communities, to improve public awareness of different types of scams and to instil a sense of scepticism if an offer seems too good to be true. Although there is an assumption that the elderly are most vulnerable to online scams, official crime statistics from Malaysia indicate that in 2023 the modal online crime victim was a woman aged 21–30[8].

Decentralised finance and cryptocurrency

Decentralised finance (DeFi) and cryptocurrency represent emerging fintech innovations that could significantly disrupt traditional financial systems. A detailed explanation of these innovations is beyond the scope of this paper[9]. Suffice it to say that DeFi and cryptocurrency are worth monitoring because they bypass centralised financial intermediaries like banks and allow entities (individuals and businesses) to transact directly with each other.

Proponents say that DeFi improves accessibility by reducing transaction costs and enabling low-cost transactions across national borders. DeFi is also supposed to improve security and transparency of financial transactions as all transactions are recorded and cannot be changed. For example, DeFi could dramatically change the way stock trading is conducted by allowing users to directly buy and sell stocks instead of relying on brokers and allowing trades even when the stock market is closed.

However, there are also high risks associated with DeFi. By definition it is decentralised with no governing authorities, thus it is unregulated. Although transactions are recorded, no one is legally liable for any erroneous or fraudulent transactions. More than signing up for a digital bank account and not falling prey to online scams, the use of DeFi and cryptocurrency requires higher levels of digital and financial literacy.

The technology and its associated applications and use cases are still in their infancy, despite the ebbs and flows of cryptocurrency valuations. DeFi is difficult to scale securely, because it requires so much computing power. It is unlikely to replace traditional financial systems any time soon, but policymakers should keep an eye on developments within this space[10].

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[8] DOSM (2024)

[9] An overview is available in a 2023 Bank of International Settlements paper titled "The Technology of Decentralized Finance (DeFi)".

[10] Dekker et al. (2022)

Geopolitical considerations

Geopolitical priorities are expanding to include control over technology and data. The government of the United States of America (US) has raised concerns about foreign surveillance technologies and big data for national security reasons, although it has not done much to regulate its own home-grown Big Tech companies. Incoming President Donald Trump may be friendly to Big Tech within and without the US but concerns around the collection and use of personal data by digital platform providers are not easily dismissed.

The push and pull in the technology and trade tensions between US and China will likely have ripple effects around the world. As countries try to find their footing in the global digital economy, the establishment of cross-border digital payment partnerships may be viewed as a form of digital diplomacy. The expanding influence of BRICS[11], of which Malaysia is a partner country, and the introduction of Central Bank Digital Currencies (CBDCs)[12] will no doubt be watched closely, even though the introduction of a BRICS currency is unlikely in the near future.

It is not just state-state tensions that have to be negotiated. The relationship between governments and technology corporations is increasingly fraught as more governments seek to regulate digital platform providers and ensure consumer protections. In Europe, the Instant Payments Regulation (IPR) entered into force in 2024, requiring all payment service providers to be able to send and receive instant payments at any time across the European Union[13].

Advances in fintech are not driven by financial institutions, which are traditionally slow to move and very heavily regulated. Instead, innovations in fintech are coming from the technology side of the equation, with Big Tech embedding payments and financial services such as Buy Now, Pay Later (BNPL) into their apps and offerings. It has been said before that the "value" of Big Tech companies is greater than the GDP of many countries[14]. It follows that their influence, if not their power as well, will also be significant. Countries seeking foreign direct investment from Big Tech, including Malaysia, may want to consider the geopolitical implications of overreliance on these corporations.

Conclusion

This article concludes a four-part series on Malaysia's fintech and digital payments space.

The series began with an assessment of the potential for expansion of digital finance and fintech in Malaysia, given the high rates of internet access and digital adoption among its population. Even before the pandemic, the country's financial services sector, financial institutions and central bank had driven digital payments forward, especially through the introduction of BNM's ICTF in 2019.

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[11] Ferragamo (2024)
[12] Kumar et al. (2024)
[13] European Central Bank (2024)
[14] Wallach (2021)

Since then, the demand for digital finance has grown and is expected to continue to grow with the introduction of digital banks and the expansion of cross-border digital payment partnerships and platforms in Southeast Asia and the surrounding region. This offers opportunities for economic growth and digital trade provided that digital financial systems are well-governed and trusted by their users.

The series concludes with a discussion of four fintech-related policy issues worth examining closely, ranging from national to global scale. These issues are: digital financial inclusion, increasing risks of financial cybercrime, disruptive effects of unregulated decentralised finance and cryptocurrency, and geopolitical considerations. Fintech is a fast-moving sector; robust policies are needed that will enable economic growth and innovation, safeguard economic and social wellbeing, and serve the public interest by reducing inequality and improving inclusion.

It is important for policy stakeholders, including the public, to gain a better understanding of the digital technologies that are becoming part of everyday life. While digital technologies can make life easier in many ways, there are many issues to consider when deciding if and how to deploy them. It is time to go beyond straightforward cost-benefit analyses of immediate advantages and disadvantages to considering potential long-term and wide-ranging implications of the use of digital technologies in society.

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