Fintech's virus silver lining

From Covid-19, a digital-reliant economy will emerge

By JONATHAN LIM

IN recent weeks, Covid-19 has taken over every headline, publication and conversation. Information of this contagion has rooted in the minds and hearts of every global citizen to the extent where some are bracing themselves for the onset of the Armageddon.

Whilst leaders of every nation deliberate and weigh on the necessary measures to contain this contagion, the introduction of an interim semi standstill economy became the necessary evil to combat the spread of this outbreak. Indeed, this has translated to an impairment of economic growth. A prolonged adoption of such measures will indeed adversely impact the livelihood of many; where perhaps even future stimulus handouts will be insufficient to remedy its effects.

"Grief and resilience live together." – Michelle Obama, Becoming

Despite the "doom and gloom", the human race has historically proven to be most resilient. In managing this pandemic, it is evident that there is an influx in the adoption of digital technology. Young innovative businesses which were striving in the past, have begun to receive traction. The pandemic has become the invisible hand, which has forced an accelerated adoption of digital technology.

"If you're going through hell, keep going." – Winston Churchill

In the past, a digital economy was the agenda of many nations. The introduction of financial technology (fintech) in the region has sprouted much growth and provided numerous opportunities to both start-ups and the venture capital market. However, many brilliant ideas and proof of concepts were struggling to scale up, as the adoption rate of these innovations were too organic.

Thriving fintech companies largely premise on two key principles; finding a plausible problem statement and providing a user-friendly solution to it. Nonetheless, it remains apparent that in order to scale up, there is a significant need for upskilling, education and awareness for developing markets like South-East Asia. The challenge has always remained in the ability of businesses to accumulate sufficient "buy ins" from each market.

Fintech is the adoption of a digital lifestyle. From the adoption of electronic wallets, to e-hailing and online shopping, Fintech creates a new ecosystem where it changes the perspective of traditional views on consumerism, investment models as well as credit ratings. In the past, Fintech may have been treated more as a tool of disruption. However, drawing the silver lining from the Covid-19 pandemic, a new way of life is emerging. Social distancing may be the new norm and platform retailers may be the new access to provisions. Perhaps a pivot to a digital reliant economy is imminent.

"Resilience is very different than being numb. Resilience means you experience, you feel, you fail, you hurt. You fall. But, you keep going." – Yasmin Mogahed

What does that mean to the private sector today? In these unprecedented times, it is clear that we are surrounded with much inconvenience. Whether it is payroll or delivery, banking or transactions, it is clear that such inconvenience could have been curbed or better managed if we had digitised most of our processes. Perhaps it is time to embark on a digital journey and pivot one's business to embrace digitisation that provides market wide access as the new norm. There is no better time than yesterday, which would have changed today. Therefore, let us plan today for a better tomorrow. After all, an idle mind is the devil's workshop.

Bank Negara has in recent years enacted various legal frameworks that govern respective digital verticals such as electronic money, digital remittance, merchant acquisitions as well as other payment instruments. Of recent, consultation papers and exposure drafts relating to digital banking as well as prudential related matters were further introduced. Traditional entrepreneurs need not be intimidated or estranged by the complexity that may seem to surround the digital market. Each of these guidelines merely sets out the legal requirements to formulate proper governance required prior to an approval. With proper advice, these guidelines will assist to ease the digital transformation embarked by traditional entrepreneurs.

It is clear that Bank Negara has invested much effort in embracing the digitisation of traditional markets. The change in the traditional economic landscape simply will mean that private sectors that are in these traditional ecosystems may now consider exploring these verticals to evolve or expand their businesses. Business models which find it a challenge to fit into any of the legal framework may consider exploring the "Sandbox" where Bank Negara will take the approach of an "Informal Steer" to provide guidance and advice to the financial institutions or fintech companies on the modifications that can be made to align proposed business models or solutions with prevailing laws and regulations.

Similarly, the Securities Commission has invested much effort in shaping the digital economy involving capital market products. Notably, the introduction of Recognised Market Operators, which regulate alternative trading platforms such as Equity Crowd Funding, Peer-to-Peer lending, Digital Asset Exchange as well as Property Crowd Funding, has indeed brought about much growth in our economy prior to the pandemic. The introduction of the Digital Asset Exchange, as well as the upcoming Initial Exchange Offering framework, will likely reshape the way fund raising will operate in the near future.

The Labuan International Business and Financial Centre has been equally active in promoting the digital agenda over the past years. Labuan has positioned itself as a strategic choice for funds, fund management companies, money broking applicants, and has introduced Digital Labuan where licenses are used to facilitate digital players including for digital currency trading platforms.

To quote Prime Minister Tan Sri Muhyiddin Yassin in his stimulus speech, "no one will be left behind". The digital agenda aptly emulates the same, aiming to remove barriers to market and enable a further reach to the underserved and the unbanked. Tokenised fund raising or cluster sized Peer-to-Peer Lending and Crowdfunding will only translate to the provision of a larger scale of opportunity for growth. Platform industries with the adoption of data analytics will reshape the assessment of credit ratings and credit risk, which may change lending considerations in time to come. Citing some recent developments in the global market, consultancies have adopted webinars as the new norm in conducting training, and boutique gyms have utilised internet-based platforms to stream workout programmes to their members. On Feb 25, Dior live-streamed its catwalk show for its 2020 autumn/winter women's collection in Paris.

It is undoubtedly as mentioned, unprecedented times. It is also undoubtedly that these are times clouded with much uncertainty. However, it also worth shifting our perspective to seize this opportunity to pivot our businesses and arise stronger than before when the storm is over.

"That which does not kill us makes us stronger." – Friedrich Nietzsche

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Pragmatism and business sanity

Comment

LEE HENG GUIE

THE handling of the movement control order (MCO) requires pragmatism and business sanity for those industries that have been allowed to operate. This approach is needed to "find the right balance" between concerns about health risks and apprehensions about the economy.

Phases 1 and 2 of the MCO to contain the Covid-19 pandemic have received the support of all parties, including the public and businesses to fight the deadly coronavirus. The MCO 1 and 2 results have been quite encouraging so far, but we have yet to win the battle.

Patience and perseverance are still needed, as we are now moving into phase three of the MCO (MCO 3), from April 15 to April 28, 2020.

Amid mixed reaction, businesses are generally relieved that the government has allowed selected industries to operate under MCO 3, subject to an adherence of the standard operating procedure (SOP) to make sure that public health risk prevention is not compromised while supporting the partial running of the economy and businesses.

We reckon that the government is facing the toughest of choices as it balances the trade-off between the MCO and the economy to avoid a complete stoppage. There were lingering concerns whether the MCO's counter-measures against Covid-19 are worth the lasting economic damage on the economy they cause.

The MCO is guided by the SOP in ensuring minimal disruption to the continued operation of essential services, for example, the production and supply of basic necessities such as food, poultry, eggs, fish, etc. The continued operations of essential services are to avoid a complete stoppage of business activity, which would not only undermine the businesses involved, but also the whole economic supply chain.

Towards this end, we would like to draw attention to the concerns raised by the Food and Agriculture Organisation of the United Nations (FAO), which has warned that a protracted pandemic crisis could quickly put a strain on the food supply chain, a complex web of interactions involving farmers, producers, agricultural inputs, processing plants, packaging and logistics, and retailers.

Since the MCO, the fishery, agriculture and poultry-based producers/manufacturers have been given a 50% workforce to operate. The insufficient supply of manpower, along with other movement restrictions, have made it harder to continue food production and transport goods efficiently, and thus, placing the stable supply of food sources at high risk, especially during the festive celebration period.

Already, basic necessities have been in high demand during the MCO and if there are supply disruptions relative to abnormal market demand, the resultant impact will be a shortage of supply, with consumers having to pay higher prices for basic necessities.

On this note, the government has indicated that the maximum price control scheme on the list of essential items, which are normally imposed during festive seasons, can be implemented immediately during the MCO period. This is to ensure that irresponsible parties or traders will not take advantage to increase the price of essential items during the period.

The supply and price controls on basic food necessities would be futile if focused action is not taken to facilitate production. The government should consider meeting the request of companies under the essential services, especially basic necessities, for a bigger workforce than the current 70%, or even higher as per the company's request, to run the production and processing plants. This is to ensure the adequate supply of goods at stable prices in the market. Besides that, many companies that have been allowed to operate are unable to fulfil their order books as they are running below the workforce capacity.

The views expressed here are the writer's own.

Unrestricted Thoughts

ANOTHER blow for the domestic oil and gas (O&G) industry is the latest warning from Petroliam Nasional Bhd (Petronas) that the rollout of projects in and outside Malaysia could face some slowdown due to the prolonged lockdowns worldwide.

The national O&G company in reply to questions stated it would strive to maintain its domestic spending for this year, but anticipated disruptions due to the breakdown in the global supply chain from service providers as a result of the lockdowns to contain the Covid-19 pandemic.

Petronas is expected to spend between RM26bil and RM28bil in capital expenditure (capex) this year. Its spending drives the highly regulated local O&G industry that is largely controlled by bumiputra-owned companies.

Although regulated, the domestic O&G industry is a crowded field. Despite Petronas calling on the industry to consolidate since 2015, the industry has hardly seen major mergers.

The reason is because probably many of the companies are comfortable with the margins of the contracts being dished out and presumably earn decent profits. A few listed companies have yet to restructure their financials since the 2014 June crude oil crash and have had their names struck off from the list of Petronas contractors for not performing up to the mark. However, the industry continues to attract new companies.

Petronas' calls for the industry to consolidate have not been effective. Under such circumstances, a possible delay in the rollout of capex, if it happens, amid a fragile price outlook for oil could just be the push factor for a market-driven industry consolidation.

In fact, it is surprising that Petronas has not revised its capex for this year, as most oil majors have cut their spending by between 20% and 30% following the latest crash in prices. Saudi Aramco has revised its capex from US$35bil to US$25bil, Brazil's Petrobras has cut its expenditure by 29% to US$8.5bil, while Shell and BP have slashed their spending this year by 20%, respectively.

Moreover, the global oil scenario does not look good for this year and next.

The US-based Energy International Administration (EIA) in a report last week predicted oil demand to drop to 95.5 million barrels per day (b/d) this year, from an average of 100.7 million b/d in 2019. It expects Brent crude to average US$33 per barrel this year and US$46 the next.

The Paris-based International Energy Agency (IEA) paints a better picture, expecting demand this year to drop by 90,000 b/d to an average of 99.9 million b/d. In the worst-case scenario on the assumption that the Covid-19 pandemic is not contained by the third quarter, the IEA forecasts demand to drop by up to 730,000 b/d.

To prevent a further spiraling down of oil prices, an agreement was reached by members of the Organisation of the Petroleum Exporting Countries (Opec) and non-Opec members to cut production by close to 10 million b/d. US President Donald Trump reckons that the oil production would be cut by up to 20 million b/d.

Even the state of Texas in the US is looking at cutting down on production, the first time since the 1970s, as it anticipates weak demand for oil.

The Covid-19 pandemic has virtually caused an upheaval to any form of transportation. Petrol kiosks are seeing less sales because most people stay at home, airlines are grounded because there is no passenger traffic while cruise ships are docked.

For years, Petronas has been using gentle suasion methods to consolidate the players in the domestic O&G companies. The disruptions due to the Covid-19 pandemic and the risk of Petronas delays in rollouts may just be the panacea for industry consolidation.