YANGON UNIVERSITY OF ECONOMICS
DEPARTMENT OF COMMERCE
MASTER OF BANKING AND FINANCE PROGRAMME

Issues Encountered Regulating FinTech within Financial Service Businesses of Myanmar

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ABSTRACT

This study was to identify the regulations for FinTech in Myanmar and find out the issues encountered regulating FinTech within the financial service businesses of Myanmar. FinTech ecosystem does not exist significantly yet and financial inclusion remains challenging in the lowest financially literate population or in the unbanked areas. Some FinTech start-ups are working in an uncertain legal environment that poses risks to the stakeholders in some ways while the benefits may be well presented to the economy. The banks are on a digitization journey under the existing legal framework that used to be adaptable to the development. The research finding was conducted through a structured survey to a sample size of twenty-two senior executives from some commercial banks, investment firms, insurance company, FinTech start-ups, Tech Hub, IT businesses and payment services provider out of thirty-six population targeted. The survey included thirty-nine statements finding out the issues with regards to regulating FinTech in six different sections. From this finding, the highest response rate hit the issues encountered regulating FinTech are related to: cross-department coordination within the government; adequate regulatory support; managing the underlying issues. The other issues include the need to collaborate with the international partners, supportive government budget and addressing AML/CFT issues in order to develop an adequate FinTech ecosystem, a stable and efficient regulatory environment. The profound government has profound

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CBM	Central Bank of Myanmar
FCA	Financial Conduct Authority
FIs	Financial Institutions
MFS	Mobile Financial Services
AML/CFT	Anti-money laundering and counter-terrorism financing
UK	United Kingdom
MoPF	Ministry of Planning and Finance
FinTech	Financial Technology
IT	Information Technology
SWIFT	Society for Worldwide Interbank Financial Telecommunication
FATF	Financial Action Task Force

Chapter I

Introduction

In the Myanmar market, for the sake of financial inclusion, mobile wallets and digital pay services came into the market three years ago. Myanmar domestic banks have been on digitalization journey since 2015 with the start of Yoma Bank's Misys Core Banking software installation. Development of private sector led FinTech services growth is phenomenal nowadays. Mobile phone penetration and increased internet service availability are also driving the digital offers for FinTech services in the market. However, the businesses demand a better regulatory environment to suit their supply in the market.

The term "FinTech" is a brief representation used to the financial technologies used in the financial services industry. The technology has helped to increase the efficiency of the financial services providers and financial inclusion to the global citizens.

The Central Bank of Myanmar (CBM) as the regulator issued a directive for the Mobile Banking and a regulation of Mobile Financial Services in 2013 and 2016. The directive allowed banks and financial institutions to use mobile banking software to develop efficient services while managing risks and complying anti-money laundering and counter-financing terrorism (AML/CFT) rules. The regulation allowed mobile financial services providers to offer digital money transfer through phone number and agents for their customers.

The private sector organizations urge that the regulator, the CBM to initiate rapid creation of enabling regulatory environment in the market amidst of driven factors from the international markets. Although certain FinTech service providers are eager to push for a speedy development, banks consider FinTech service providers as competitors. However, all parties understand that different financial technology can be applicable for the respective business efficiency.

The regulators expressed their eagerness to develop the industry step by step with respect to the available capacity and required infrastructure. The strategy for regulating FinTech with the significant involvement of private sector stakeholders is still out of sight.

1.1 Rationale of the Study

Financial technology has been evolving in Myanmar and many kinds of risk also appear with regards to stability of financial industry in the nascent market. This study will identify the existing FinTech regulations and risks associated in Myanmar. Technological experts alone cannot create the digital financial services. Myanmar regulator ought to take initiatives to regulate FinTech products/services with no harm to the public taking into account of their existing resources and facilities. Therefore, the role of banking and finance professionals plays a crucial role in providing these efficient services to the public.

Banking financial institutions traditionally believe that FinTech businesses challenge their position in the revenue generation regards. However, non-banking financial institutions continue to produce efficient technologies which can sell to banking financial institutions or sell their services to consumers directly. Most of the case studies have proved that such digital financial services serve economies in many better ways. Regulators around the world are currently collaborating in regulatory aspects. The UK's Financial Conduct Authority led the regulatory approach and it will be taken an example in this research.

The Central Bank of Myanmar expressed its ambition to encourage evolution of FinTech area in a long-term plan. But, the businesses in Myanmar demands a quicker approach to allow FinTech development with the heavy support of the regulator. This study will examine ways for possible collaboration between the regulator, Central Bank of Myanmar, and other stakeholders based on mutual understanding.

1.2 Objectives of the Study

The main objectives of the study are:

(1) To identify the regulations for FinTech in Myanmar

(2) To find out issues encountered regulating FinTech within financial service businesses of Myanmar

1.3 Scope and Method of the Study

This thesis studies the existing FinTech regulations in Myanmar and find out the issues that are encountered while regulating FinTech within the financial service businesses of Myanmar. The survey was conducted through emails to a sample size of twenty-two; twelve banking professionals, two investment specialists, two FinTech entrepreneurs, one insurance company CEO, four IT experts and a Tech Hub CEO, out of a thirty-six population.

Primary data collection was done through a structured questionnaire and secondary data from reports, working papers, news and other related research studies of the reliable sources. The respondents included executives and senior managers in seven commercial banks, investment firms, FinTech startups, insurance company, payments network service provider, IT, tech hub and FinTech solution provider. The data was analyzed and found out the issues encountered related to regulating FinTech based on the responses from the financial service and IT businesses of Myanmar. The data was then interpreted referring to the issues encountered percentage.

1.4 Organization of the Study

This thesis is comprised of five chapters.

Chapter (I) includes introduction parts which describes rationale, objectives, scope and method, and organization of the study. Chapter (II) discusses an overview of global FinTech landscape, regulating approach and issues encountering globally to regulate FinTech. Chapter (III) FinTech in Myanmar, regulating for FinTech in Myanmar. Chapter (IV) shows evaluation and analysis of issues of regulations for FinTech in Myanmar financial services market based on the survey conducted to private sector stakeholders and the regulator. Chapter (V) concludes with summary of the whole thesis. In this part, the suggestion and recommendation to prioritize various tasks with respect to regulatory part based on the available resources and importance.

Chapter II

Literature Review

In this chapter, a review of relevant background literature of Regulating FinTech and issues encountered to regulate FinTech globally. This chapter includes three sections; the first one presents an overview of global FinTech landscape; the second one explains regulating financial services and 'sandbox' approach for the FinTech in the UK; the third one highlights the issues encountering for regulating FinTech globally.

2.1 Overview of global FinTech Landscape

Digital transformation has been taking place for decades in global financial services industry. The journey is driven effectively by non-bank innovators offering both customers facing and back office financial technology products and services (Digital Financial Services Paper, IFC, 2017). FinTech has increased business-to-business and business to customers interactions and is delivering better results in the international markets. Functions such as reconfiguration of design, operation, marketing, analytics, supply chain and delivery have become more efficient in the banks with FinTech innovations. In the global non-bank FinTech space, innovative products such as remittances, payments, lending, trade financing, investment management and insurance are already up and running in several markets. Moreover, distributed ledger technology-based digital currency is also another popular FinTech product, but it is not yet accepted in most markets.

Core banking software solution is changing the way banks operate. It supports banking transactions processing such as deposit, loan and credit processing across the various branches of a bank. This safer and faster FinTech can bring down cost considerably as it ensures to require lesser manpower to execute operations. Payment systems are also developing to faster and cheaper payments that go within the same market or across the borders. Many banks are pulling back from correspondent banking because of risk and compliance concerns, and, post-recession, traditional banks have become reluctant to lend to smaller businesses. (Anders la Cour, 2019) In

Europe, non-bank FI is able to provide multi-currency payment through virtual IBANs (International Bank Account Number) for B2C (Business to Client). SWIFT (Society for Worldwide Interbank Financial Telecommunication) has also advanced with SWIFT gpi (SWIFT Global Payment Innovation) that drives the connectivity for a faster and more transparent payment solutions. (Ingrid Weisskopf, 2019) Mobile wallets are needless to say that they are changing today's lifestyle until creating financial inclusion for the population underserved by the traditional financial services firms.

On the investment side, FinTech stocks has gained momentum with NASDAQ:FINX which is an ETF and entered in the top list of S&P 500 index since its inception in 2016. (Matthew Cocchrane, July 2019) The international top ten FinTech stocks are related to e-Commerce, bank technology, digital payment systems, accounting software, insurance software and bank. Other investment in FinTech set the record with $36.6 billion of venture capital invested in the sector across 2,304 deals, a 148% or 2.5x increase from 2017 and a 329% or 4.3x increase over five years. China, United States and United Kingdom are the top three countries invested in total capital in 2018. (Innovate Finance, 2018 FinTech VC Investment Landscape) In terms of number of FinTech investment deals, London, New York, San Francisco, Beijing and Singapore got into the top list in August 2019. (London and Partners/ Innovate Finance, September 2019)

As for the barriers, one of the biggest concerns for investment firms interested in FinTech is regulation complexity according to a report by Mayer Brown law firm in the UK in 2017. In particular they wished to see a change in the way regulation is applied to the business. The financial services sector will grow with clear guidelines in place, desire for new solution, delivery mechanisms and customer communications channels. (Nicholas Roi, March 2017)

As FinTech firms innovate, the risks of financial crimes and frauds also increase as non-bank FinTech firms do not deploy very tight controls such as banks and some other traditional FIs. The FATF (Financial Action Task Force) stated that it supports responsible financial innovation that aligns with the AML/CFT requirements found in the FATF Standards and also improve the effective implementation of AML/CFT measures for the new FinTech may present. The FATF discussed to fight

ML/FT, encourage public and private sector engagement, pursue positive and responsible innovation, set clear regulatory expectations and smart regulation which address risks as well as allow for innovation and make fair and consistent regulation. (FATF/GAFILAT Plenary, November 2017)

The more systems are connected on the internet, the better firms require to protect their critical infrastructure cybersecurity. All the financial institutions handle the important personal and commercial information as well as analytics. Those are legally responsible to protect from any intruders. The Carbanak attacks was one of the incidents happened in early 2013 that was malware-based bank thefts totaling more than $1 billion. The attack damaged against many banks simultaneously that utilized several such as ATMs, credit and debit cards, and wire transfers. The attackers set out an advanced knowledge of the cyber landscape and also experience in banking process, controls, and weaknesses arising from siloed organizations and governance. In the European Union, the General Data Protection Regulation (GDPR) 2018 requires firms to report breaches to the competent supervisory authority within 72 hours. Failure to that compliance could result in up to EUR 20 million or 4 percent of global annual turnover (whichever is higher). (Antoine Bouveret, IMF Working Paper, Cyber Risk for the FS, June 2018)

While the change in financial services industry is happening, the workforce skills also need to cope with the trend. FinTech products support business efficiency and these products also reduce human talents requirements for the business functions. Compiling and sifting through enormous swaths of data and analyzing contracts done by machines are really effective. Therefore, number of workforces required to do complex jobs has been reduced in the financial institutions. The machine learning and artificial intelligence (AI) are improving to automate operations in a matter of weeks. However, regulation and supervision can cause delay the rapid adoption of automation. 42 percent of FinTech currently have a digital skills shortage: 56 percent are filling the gap by hiring additional UK talent, 46 percent by additional talent and 34% by non-EU talent. (The future of talent in banking: workforce evolution in the digital era, EY, April 2018)

2.2 Regulatory 'sandbox' approach for FinTech in the UK

In the UK, the Financial Conduct Authority (FCA) was created by Parliament in 2013 as the regulator of the conduct of financial services. The FCA regulates over 56,000 firms including FinTech businesses. The objective of the FCA is to ensure that relevant markets function well and three operational objectives to advance: Protect consumers – to secure appropriate protection for consumers; Integrity – to protect and enhance the integrity of the UK financial system; Promote competition – to promote effective competition in consumers' interests. The FCA aim to be transparent and not just the benefits of regulation but also the costs. And the regulator delivers specific regulatory functions such as authorizations, supervision and enforcement as well as interpretation of their Competition duties and the needs of consumers. (Andrew Bailey, FCA, How we regulate financial services, 2017)

The regulator identifies harm, potential harm or markets not working well as they could do. They categorize harm in financial services into five types that may overlap. After identifying potential harm, diagnostic the cause, extent and potential development carry out as the second step. This step comes with a fee charged to the firms that is paid for the FCA's direct cost. The tools FCA used are individual firm analysis, Section 166 FSMA powers, data analysis, investigations, multi-firm work and thematic reviews, market studies and policy work. The final decisions are independently scrutinized by the Regulatory Decisions Committee. Regulatory actions are taken after diagnosis. Regulatory tools are used to make judgement about whether these tools can remedy or mitigate the harm cost-effectively. The intervention tools include rule changes, guidance, communications to firms, communications to customers and variation or removal of permissions. Testing of effectiveness of the remedies helps in making better decision and add more public value. The regulators monitor and publish key indicators that help to demonstrate the impact of interventions.

According to Chris Woolard, Director of Strategy and Competition of FCA, stated the importance of regulation to create an environment for true competition and innovation to occur. The CEO of the Financial Services Regulatory Authority of Abu Dhabi Global Markets Richard Teng discussed the critical role of regulators to harmonize between encouraging the growth of FinTech and innovation while ensuring financing stability. He convinced that regulators need to be active in the FinTech space to achieve this, by engaging with stakeholders and providing 'sandbox' environments to FinTechs in order to best identify and understand risks.

The **regulatory sandbox** ('sandbox') allows firms to test innovative products, services and business models in a live market environment, while ensuring that appropriate safeguards are in place. The sandbox is an experiment for the regulators as well as for the firms testing in the sandbox. The FCA's November 2015 report set out the potential benefits of the sandbox that would support the objectives as to reduce the time and, potentially, the cost of getting innovative ideas to market, to enable greater access to fiancé for innovators, by reducing regulatory uncertainty, to enable more products to be tested and, thus, potentially introduced to the market and to allow the FCA to work with innovators to ensure that appropriate consumer protection safeguards are built into new products and services. The sandbox operates on a cohort basis with two six-month test periods per year. Firms must submit an application setting out how they meet the FCA's eligibility criteria for testing in the sandbox with the tools; restricted authorization, rule waivers, individual guidance and no enforcement action letters. (FCA Regulatory sandbox lessons learned report, Oct 2017)

The sandbox sets the indicators of success. All sandbox tests have adhered to their standard safeguards. FCA have worked with firms to develop bespoke safeguards for tests. One firm successfully triggered their exit plan due to lack of consumer uptake during the test. The FCA maintains FinTech ecosystem so that the regulatory function align with the needs the service providers and consumers. **The ecosystem** results in mutually beneficial cooperation among the stakeholders and deliver lower cost, quicker services and better quality to the public. It is made up of FinTech innovators, regulators, financial institutions and consumers. (FinTech ecosystem playbook, EY and Singapore FinTech Association)

2.3 Issues Encountering Globally for Regulating FinTech

According to Anton Didenko's article about Regulating FinTech: Lessons from Africa in the San Diego International Law Journal (06-15-2018), regulating

FinTech can be complex in nature as it associates with different fields and industries such as financial services, information technology and legal. FinTech regulations are not just technology related in most cases. It heavily associates with banking, financial and economic norms. And the heavily regulated financial services sector in most jurisdictions uses to arise legal uncertainty as there may be gap in regulation or conflict each other. It is usual that financial institutions develop relationships with the regulator to make clear of the existing legal position, smaller FinTech businesses may not be ready to discuss due to the lack of third-party legal expertise. Even if pre-existing regulatory measures are generally sufficient to support the new technology, further regulatory intervention may still be necessary.

Smaller FinTech firms are not usually capable to engage with existing law when it is not easily accessible without specialized training. The inadequate common language can divide working together on both sides. Programme such as incubator or accelerator can fill the gap in order to smoothen the communication between the regulator and FinTech start-up firms. They can also facilitate investment targets, collect data and analyze the law for any gaps or weaknesses in the context of the new technology solutions. It also highlighted that overreliance on principles-based guidance could lead to a lack of certainty and may discourage businesses without having regulatory support and proper communication mechanism.

Another issue is regulating transnational FinTech such as cross-border payment solutions, foreign currency trading, virtual currencies and other that affect the local financial system. The foreign regulators' actions also can affect in the domestic market. So, coordination among the international regulators requires to cooperate in addressing regulatory challenges and resolution required. In the case of cryptocurrencies, most countries chose a "hands off" approach, some have taken action to classify virtual currencies according to the domestic law in Australia and the UK, or by differentiating between real and fake cryptocurrencies in Switzerland. Russia went on another approach with detailed rules governing cryptocurrencies with draft federal legislation.

Unequal treatment can potentially lead to an issue while regulating FinTech. Even though financial services are regulated in a neutral manner, principles-based approach would effectively prioritize large financial institutions. For example, the law would significantly limit the opportunities for the emergence of non-bank crowdfunding platforms if it characterizes a bank as any organization receiving deposits from a pre-defined floor number of depositors. Similarly, FinTech labs operate within incumbent financial institutions or in association with them but it can be confused if they are given a preferential position so as to dominate the regulator with respect to the firms that are close with them. This will only undermine competition in the financial services market.

Regulators ought to balance perceived risk and reward. If the banking rules apply to peer-to-peer lending platforms while not licensing as a full bank status to these businesses, they may be forced to leave the market or restructure the businesses so as to apply for a banking license. FinTech firms have not yet collected as much data as the banks have been doing. Access to existing financial infrastructure such as banks' APIs and interoperability between systems may obviously weaken the ability to scale the business especially in the payments sector. Referring back to the unequal treatment, the unfair advantage may be potentially supported in a process of a regulatory sandbox. If criteria for selecting businesses to test in a regulatory sandbox programme is not sent rightly, unclear and devoid of regulatory arbitrariness may happen.

End-users (consumers) protection is also another important thing to consider carefully while regulating such risky business models. In the case of financial advisory platforms, service providers such as financial advisors may require a special regulatory authorization like license. On the other side, regulators may regulate the masses out of the market and miss the opportunity for greater financial inclusion offered by FinTech by imposing strict entry requirements.

Another issue is the fraud related risks that may challenge potential investors if regulators cannot address to prevent or manage the mis-conduct (e.g. Ezubao in China or TrustBuddy in Sweden). General business regulations such as labor and immigration system, company registration, tax policy, intellectual property rights, contracting terms also can affect the development of FinTech. Inadequate data protection standards can heavily damage public trust in the event of incidents and FinTech as a sector will be put on a wrong track. AML/CFT issues are also of high important concern nowadays. Unless FinTech firms cannot design to track end-users and transparency of operations with virtual currencies. Therefore, regulators' ability to draw identification procedures and exercise the capable monitoring and oversight cannot be limited.

The regulators' ability to update themselves with trending technology developments is critical in managing systemic risks and solving regulatory challenges. It has to be very timely responsive as such activities use to happen swiftly by nature. For example, Bank of China fully banned on raising finance through ICOs (initial coin offerings) with the reason of the risky nature of the underlying investment in September 2017.

The weak cooperation between domestic respective regulators also cause uncertainty and confusion that discourage innovators. There can be overlapping roles and conflicts on an industry level (e.g. between central banks and other areas of regulating departments). This will result in ineffective regulatory measures and unproductive dealing with the businesses. Likewise, cooperation between international regulatory bodies is also an area that can tackle issues related to cross-border FinTech services.

Chapter III

Overview of FinTech and the Related Regulations in Myanmar

This chapter includes an overview of FinTech and brief review of financial services sector in Myanmar. It also explains a brief history of development of FinTech related regulations in Myanmar. Furthermore, the Financial Institutions Law (2016),

3.1 FinTech in Myanmar

Mobile wallets became popular in Myanmar almost four years ago. Since then, mobile financial services gain the public trust gradually with the wider use in the market and the government's advocacy works concerning financial inclusion.

In this study, the term FinTech covers products or services which utilize technology to deliver financial services from the business to the consumers or to the firms themselves. The Myanmar leading banks are now on their digitization journey and can deliver better service than some years ago. Mobile wallets are now available and widely used in the urban areas. Moreover, online lending platform and online invoice financing services are also available in the market. Those services will be explained in a later part. Such financial products definitely help consumers to be able to manage their financial needs better and to predict the future.

However, the public financial literacy is still low and that cause a slow progress to grab the emerging opportunities on demand side. Even though mobile phone penetration is skyrocketed, the public awareness about cyber security is still very poor. This sort of phenomenon can put both the financial institutions and consumers at risks. Banks and non-bank financial institutions nowadays provide cross-cutting financial services that affect both rural and urban populations equally. The government and international organizations encourage them to involve in poverty reduction by means of developing financial inclusion. Some barriers such as customer trust, human capital, legal environment and lack of required infrastructure remain challenged for the speedy development on supply side.

The **financial inclusion** journey did not come very far from but there are challenges remained even though some of the initiatives such as the aforementioned FinTech services due to legacy problems. The United Nations Secretary General's

Special Envoy (UNSGSA) stated in the Annual Report 2017 that the impact of digital finance has been demonstrated on multiple levels, from poverty reduction to GDP growth. Yet technology carries significant risks that demand appropriate regulation, good provider practices, and customer preparation, she wrote. The Myanmar Sustainable Development Plan (MSDP, 2018-2030), a living document for development in all aspects, include strategies to develop FinTech and promote financial inclusion for the economic development. The MSDP also aligns with the Sustainable Development Goals (SDGs 2030).

At the time of this study based on most significant data, five mobile money service providers have registered under the Mobile Financial Services Regulation (MFSR 2016) at the CBM. They offer remittance, cash-in/ cash-out, shopping and bill payment services but it is yet to expand to a wider network of merchants. One online lending platform has registered under the Financial Institutions Law (FIs Law 2016) at the CBM. It accepts an unsecured loan application online, automates underwriting process in real time and make a quick credit decision regardless of the customer's financial history. One online invoice financing service provider is also operating but it is not yet legally allowed by regulation. But, the CBM has recognized their work is giving a good impact to the economy.

In the banking industry, core banking software is the sole FinTech product using in the banks. It serves daily banking operation from front office to back office. Data management and analytics is also integrated in the system for decision making and database management. However, cyber security and protection against it is still weak. Public awareness for cyber-crime is also low at this time. For example, one may share the bank account or ATM card password with others simply because it is a friendly behavior at least. In this way, consumers can put themselves at risks using FinTech. Financial institutions are now raising financial literacy and cyber security awareness so that FinTech can gain momentum without any disruption due to trust issues.

Myanmar Credit Bureau has been set up in 2018. One of the most important part in the financial services industry is data management and analytics. Current FinTech firms gather information and assess for their business purposes in a limited scale. Once the Credit Bureau is up and running, FinTech firms can extend to a wider range of financial services.

In Myanmar of 54 million population with increasing demand of e-Commerce nowadays, entrepreneurs are looking into quicker payment and settlement online service business. The CBM and government has expressed their willingness to create more dynamic market providing easier access to financial services in Myanmar for the public. The later parts will explain more about regulating FinTech.

3.1.1 Myanmar Financial Inclusion Roadmap

The Myanmar Financial Inclusion Roadmap outlines a number of initiatives that will alleviate poverty and increase financial access across the country regardless of any geographic and demographic base. Under the Output 1.2 of the roadmap, it addresses market barriers across product categories. It mentions that e-payments will be introduced for the essential payment, clearing and settlement infrastructure as a priority for the government. This also includes the Myanmar NPS Strategy. According to the roadmap, it will also be necessary to migrate consumer payments to electronic payments to electronic payment systems and to convert current non-account-based payments undertaken by banks to account-based relationships. It aims to provide possibility to transact electronically for all major institutions (including MFI) and citizens. It also requires Myanmar’s integration into ASEAN Payment and Settlement System and to provide reliable, comprehensive real time network connectivity between banks. It also states to enhance existing laws and regulations to cater new modes of services and providers alike while ensuring consumer protection for digital financial services and encouraging enablers such as POS, ATM, mobile cash-in cash-out agents, telecommunication infrastructure, and training and awareness.

3.1.2 Myanmar Sustainable Development Plan (MSDP 2018-2030)

The MSDP is a very forward looking and act like a living fortune teller document for Myanmar’s social, economic and political development as drafted by the National League for Democracy (NLD) government in 2018. Under the MSDP Pillar 2, Goal 3, Strategy 3.5.3 sets an action plan to expand the scope of mobile and FinTech services, including through both domestic and foreign financial actors. It aims for a robust set of commercial banks including both local and foreign-owned banks, compete to offer a wide variety of financial products to a wide spectrum of customers in PSD AP, Pillar 2. The CBM and Ministry of Planning, Finance and Industry are the sole responsible government organizations. It also relates to the 12 Points Economic Policy EP 8, Sustainable Development Goal (SDG) 8.10, SDG 1.4, SDG 5.a and SDG 8.3. The Strategy 3.7 plan to encourage a greater creativity and innovation which will contribute to the development of a modern economy as stated in the MSDP.

3.1.3 Myanmar National Payment Systems Strategy (2019-2024)

The Myanmar National Payment System Strategy (Myanmar NPS Strategy) sets the main broad objectives as below;

- Increase the speed and safety of payment transactions for banks, government, businesses and individuals
- Reduce costs of payments through reducing payment transactions in cash and through interoperability of systems and instruments
- Migrate to a less-cash society by spreading the usage of efficient electronic payment instruments and FinTech
- Have legislation and regulations that support competition, reduce barriers for providers of payment services, are forward looking, and promote technological innovations in payment services
- Achieve broad access to payment services for the Myanmar population and facilitate broader financial inclusion
- Build technical capacity of the regulators and overseers of the NPS to enable effective oversight and timely respond to emerging risks in a rapidly changing payment environment

Strengthen cooperation between all stakeholders in the payment ecosystem to drive reforms

3.2 Regulating FinTech in Myanmar

The CBM wrote in the Mobile Financial Services Regulation that "In exercise of the powers conferred under Section 132 and 184 of the Financial Institutions Law, 2016 the Central Bank of Myanmar hereby issues the following Regulations in order to create an enabling regulatory environment for efficient and safe mobile financial services in Myanmar". This regulation is followed by the Financial Institutions Law enacted in January 2016. As a result of the Myanmar Financial Inclusion Roadmap 2015-2020 with the intention to remove barriers to financial inclusion, a Financial Sector Development Strategy (FSDS 2015-2020) was adopted.

The World Bank recommended to strengthen financial sector legal, regulatory and supervisory framework in its "Financing The Future" Report 2015 that is applicable in this study. It suggested to move towards internationally recognized good practices in financial sector regulations to establish the legal certainty required to foster competition and investment in the sector. The bank highlighted the FIs Law 2016 to provide the basis for a well-structured, modern, and comprehensive legal framework for the financial sector development. Followed by the FIs Law 2016, the CBM approved the Mobile Financial Services Regulations (2016) to foster financial inclusion and that encouraged the faster and convenient means of payment and settlement between individuals and trading.

In 2019, the Yangon Regional Government opened the Yangon Innovation Centre that is operated by Seedstars Myanmar in collaboration with Thura Swiss. The centre was developed to boost tech start-ups and facilitate financing mechanism for the entrepreneurs including FinTech. One of the Myanmar's leading banks, the CB Bank, has empowered the centre and has been actively looking into developing the FinTech areas such as AI (Artificial Intelligence), payment innovation and other trending initiatives. The government arranged online electricity bill payment and online pension payment system in cooperation with the mobile financial service provider in 2018 and it is assumed that the government is trying to develop FinTech in some ways.

The CBM has been developing its cash payments for both M1 (narrow money) and M2 (broad money), non-cash payments such as cheques, drafts, bills of exchange, promissory notes, money orders and postal orders. The regulators are also trying to develop card payments as well. The Myanmar Payment System Development Committee (MPSDC) is solely in-charge this activity. The CBM has been working on MMQR code to standardize QR (Quick Response) code for Myanmar. CBM NET system development is also in progress that is working with Nippon Telegraph and Telephone Corporation (NTT) Data to develop a new core banking system for the settlement of government bonds, funds and collateral management funded by the Japanese Government. Myanmar Payment Union (MPU) was established with three State-owned Banks and fourteen domestic private banks contributing equal shares of capital. Myanmar Investment and Commercial Bank (MICB) is the settlement bank for the MPU. (Myat Sandar Kyaw, A study of development of payment system in Myanmar banking industry, 2015)

The CBM laid out its National Payments System Development Strategy (Myanmar NPS Strategy) (2019-2024) in May. The strategy was drawn on the basic and realistic ground of the CBM's currently available infrastructure and very forward looking in nature according to U Bo Bo Nge, Deputy Governor of the CBM during the National Payment System Strategy forum in 2019. The key strategic areas of Myanmar NPS Strategy focus to modernize the payment and settlement infrastructure, to strengthen institutions and enhance payment instruments and services in the short term, medium term and long term (The Myanmar NPS Strategy Document, 2019). The Deputy Governor highlighted that transaction fees are currently high and they were trying to develop the RTGS (Real Time Gross Settlement) system to facilitate interoperability between banks. The regulator further explained to enhance the clearing and settlement rules and mechanisms, oversight framework and human capacity development in order to adequately conduct regulatory and supervisory functions at the CBM.

3.3 Regulations related to FinTech

The CBM as the regulator enacted the Financial Institutions Law(FIs Law) in January 2016. The Regulation on Mobile Financial Services (MFS) (2016) aimed to create an enabling regulatory environment for efficient and safe mobile financial services in Myanmar under the FIs Law. (Regulation on Mobile Financial Services, CBM, March 2016). The CBM issued the Mobile Banking Directive in 2013.

3.3.1 Financial Institutions Law

According to the CBM's announcement of the Financial Institutions Law (2016), the following legal items are taken to point out how it applies to FinTech.

The law prescribes as follows: Chapter 6 states items related to Non-Bank Financial Institutions and Foreign Bank Representative Office; Chapter 18 states items related to E-Money, E-Banking and Mobile Banking; Chapter 19 states items related to Oversight of Payment and Settlement System; Chapter 22 states items related to Electronic Evidence; and Chapter 25 states items related to Prohibitions.

3.3.2 Mobile Financial Services Regulations

According to the Mobile Financial Services Regulations (MFSR) (2016) under the FIs Law (2016), a non-bank may receive a license even though the licensee must be a multi-national organization (MNO) or company established solely for MFS (with its parent company having relevant experience) and must have registered capital of at least 3 billion MMK.

3.3.3 Mobile Banking Directive

According to this Mobile Banking Directive issued by the CBM in 2013, the license may only be granted to a bank licensed in Myanmar and local banks have received such licenses. The bank or licensee may partner with private firms and/or MNOs and engage a network of cash agents for the purposes of providing the services. However, the bank holds the absolute liability to the customers and so it owns the customer base that requires to open the bank account under the respective individual customer.

Chapter IV

ANALYSIS ON ISSUES ENCOUNTERED REGULATING FINTECH WITHIN THE FINANCIAL SERVICE BUSINESSES OF MYANMAR

This chapter presents the analysis of the study on issues encountered regulating FinTech in financial service businesses of Myanmar. The primary data in this analysis was collected by using a structured survey questionnaire and the analysis was carried out on SPSS software. The responses are recorded, and issues encountered are presented in percentage after analysis. The respondents of the survey include senior management executives and senior managers from some commercial banks, investment firm, FinTech startups, insurance company, payments network service provider, IT companies, tech startups accelerator and FinTech software service provider.

4.1 Research Design

The main objectives of this study are to identify the regulations for FinTech in Myanmar and to examine issues encountered regulating FinTech within financial service businesses of Myanmar. Primary data collection was done through a structured questionnaire and secondary data from reports, working papers, news and other related research studies of the reliable sources. The survey was conducted via emails among executives and senior managers in seven commercial banks (KBZ, AYA, CHIDB, MTB, CB, MAB, MCB), two investment firms (Omidyar Network and SSP Ventures), three FinTech startups (2C2P, nexlabs and Dinger), one insurance company (AYA Myanmar Insurance), one payments network service provider (Myanmar Payment Union), three IT businesses (PwC Cyber Security, Myanmar Information Technology and Kernellix), a tech accelerator (Phandeeyar) and one FinTeh solution provider (Finastra formerly known as Misys).

The survey was conducted in one week from 26th December 2019 to 2nd January 2020. The sample size is twenty-two out of thirty-six population of financial service and IT businesses. The questionnaire was organized in eleven sections that branched out to related statements respectively. The sections are financial inclusion, ease of doing business, ecosystem, regulatory support and other factors pertaining to FinTech in the financial service businesses of Myanmar. The binomial type survey was comprised of thirty-nine statements.

4.2 Demographic Profile

The study sample population was twenty two out of thirty-six in total that the survey was circulated. The twenty-two respondents represent sixty one percent of the total sample size. Even though the response rate was just over a half of the sample size, quality of the respondents shows a strong representation such as their roles and responsibilities, experience, expertise and organizations. The survey recorded their roles and type of their businesses that supports their response adequacy accordingly. Sixteen Chief Executive Officer and Managing Director or equivalent to these ranks participated in the survey. It accounts for almost seventy three percent of the total respondents. Six executive level staff answered the survey which is about twenty seven percent of total response rate.

Table (4.1) Role of Respondents

Role	No. of Respondent	Percent
Senior Management	16	72.73
Executive	6	27.27
Total	22	100.0

Source: survey data, 2019

As the table below states that twelve senior bankers accounted for about fifty five percent of total respondents. It is followed by four IT experts taken for almost eighteen percent. Each two from the investment firms and FinTech entrepreneurs are recorded as about nine percent equally. The survey recorded also from a leading insurance company's Managing Director and the CEO of a tech hub with a percentage of 4.55.

Table (4.2) Type of Business vs. No. of Respondent

Type of business	No. of Respondent	Percent
Banking	12	54.54
Investment	2	9.09
FinTech Startups	2	9.09
Insurance	1	4.55
IT	4	18.18
Accelerator	1	4.55
Total	22	100.0

Source: survey data, 2019

4.3 Analysis on Issues Encountered Regulating FinTech within Financial Service Businesses of Myanmar

The study sample population was twenty two out of thirty-six in total that the survey was circulated. The twenty-two respondents represent sixty one percent of the total sample size. Even though the response rate was just over a half of the sample size, quality of the respondents shows a strong representation such as their roles and responsibilities, experience, expertise and organizations. The survey recorded their occupation and type of their businesses that supports their response adequacy accordingly. Sixteen Chief Executive Officer and Managing Director or equivalent to these ranks participated in the survey. It accounts for almost seventy three percent of the total respondents. Six executive level staff answered the survey which is about twenty seven percent of total response rate.

4.3.1 Financial Inclusion

Referring to the table (4.3) below, respondents were asked to express their views about the issues encountered for financial inclusion in Myanmar at present. First and foremost, the survey asked if the financial inclusion programs reach out to the people with the least financial knowledge and access to formal financial services. The second and third statements are to check whether organizations and government working for financial inclusion provide clear and reliable information to the public. The last one examines if the general public as customers would still like to use cash payments against digital payments or FinTech services.

Table (4.3) Financial Inclusion

No.	Statement	Yes	No	Issue %
1	Financial inclusion programs reach out to places where most financial literacy illiterates exist.	9	13	59.01
2	Organizations working on financial inclusion provide clear and reliable information to the public.	10	12	54.55
3	Government led projects related to financial inclusion provide clear and reliable information to the public.	8	14	63.64
4	General public prefer using FinTech such as digital payment rather than cash payment.	7	15	68.18

Source: survey data, 2019

According to the analysis, it is found out that 59.01 percent of the respondents answered that financial inclusion programs reach out to the least financially literates population. 54.55 percent and 63.64 percent of them responded that public was not provided with the clear and reliable information by the organizations and government through their financial inclusion projects respectively. 68.18 percent of respondents said that the general public still like to use cash rather than digital payments using FinTech.

4.3.2 Ease of Doing Business

In this section, the survey statements include clarity and supportiveness of existing regulations to start a FinTech business. It also includes effective protection for the businesses and users by existing regulations related to IT. The third one is about whether a FinTech business still face barrier of conservative restrictions. And, it includes statements finding ease of investing in FinTech start-ups based on existing regulations and any tax incentives offered for FinTech start-ups.

Table (4.4) Ease of Doing Business

No.	Statement	Yes	No	Issue %
1	Existing regulations for FinTech are clear and supportive to start business.	2	20	90.9
2	Existing regulations related to information technology protect both businesses and users effectively.	3	19	86.36
3	FinTech business can start without any conservative restrictions.	7	15	68.18
4	It is easy to invest in FinTech start-ups according to existing regulations.	7	15	68.18
5	Tax policy favors of FinTech startups.	4	18	81.82

Source: survey, 2019

Based on the above data, 90.9 percent of the respondents answered that existing regulations with regards to FinTech are clear and supportive. 86.36 percent responded that existing regulations for IT effectively protect both businesses and users. 68.18 percent said that FinTech business still face the conservative restrictions to start its business. 81.82 percent of the respondents do not agree that FinTech start-ups are given favors for any taxation.

4.3.3 Ecosystem

In the ecosystem part, the survey explored three pillars link; regulator, financial institutions and consumers.

Table (4.5) Ecosystem

No.	Statement	Yes	No	Issue %
1	FinTech businesses can expand according to existing FinTech regulations.	19	3	13.64
2	Institutions working for FinTech ecosystem are professional and efficient.	12	10	45.45
3	Government eagerly encourages competition of FinTech businesses in the market.	7	15	68.18
4	Cooperation among related businesses and, between businesses and government bodies are good.	7	15	68.18
5	The business community has a collective plan to develop FinTech.	12	10	45.45
6	Banks demand FinTech solutions.	20	2	9.09
7	Government has an effective consumer complaint arrangement for FinTech users.	7	15	68.18

Source: survey, 2019

According to the above table (4.5), there can be issues to expand FinTech business based on existing FinTech regulations by only 13.64 percent of the respondents. And 45.45 percent said that institutions working in the FinTech ecosystem are professional and efficient. 68.18 percent states that government does not eagerly encourage competition of FinTech businesses in the market. Cooperation among businesses themselves and between businesses and government bodies are not good as found out from 68.18 percent of the respondents. 45.45 percent said that the business community has a collective plan to develop FinTech sector in Myanmar. 68.18 percent answered that government does not have an effective consumer complaint arrangement for FinTech users.

4.3.4 Regulatory Support

In this part, the 16-statement survey finds out the issues arising from the regulator side. These issues are related to collaboration, consultation with the related stakeholders, strategy and action, internal coordination and enforcement of required regulations.

Table (4.6) Regulatory Support

No.	Statement	Yes	No	Issue %
1	Cross-department coordination within the government is efficient.	2	20	90.9
2	Government collaboration with key international partners is productive.	4	18	81.82
3	FinTech firms can provide safe and secure products/services only when government enforces AML/CFT regulations strictly.	18	4	81.82
4	Working groups for the respective initiatives are designed to include all parties related.	10	12	54.55
5	Administrative level engagement with the financial service businesses is constructive.	9	13	59.09
6	Regulator led consultation and discussion meetings are constructive.	12	10	45.45
7	Government has a strategic vision to develop FinTech sector in Myanmar.	13	9	40.9
8	Government sets out strategic plan to develop FinTech.	7	15	68.18
9	All FinTech businesses including foreign ones are treated fairly.	7	15	68.18
10	Government protects intellectual property rights for FinTech effectively.	6	16	72.73
11	Making policies for FinTech are transparent and realistic at present.	5	17	77.27
12	The regulator's supervisors for FinTech are effective.	7	15	68.18
13	Regulators are proactive to develop FinTech regulations.	4	18	81.82

14	Government deploys required resources efficiently and monitor progress regularly FinTech sector development.	5	17	77.27
15	Government budget is sufficiently provided for the required FinTech development.	3	19	86.36
16	Government manages the underlying issues that may cause delay to develop FinTech.	2	20	90.9

Source: survey, 2019

More than 90 percent of the respondents stated the issues of cross-department coordination within the government and managing the underlying issues that cause delay to develop FinTech. For insufficient government budget provided for FinTech development, government collaboration with key international partners, not enforcing AML/CFT regulations strictly and regulators not being proactive, are the second highest scored issues with more than 80 percent respondents expressed. The third issues are protecting IP rights, efficient resources deployment and, making transparent and realistic policies with over 70 percent respondents. The latter issues follow by over 60 percent respondents for strategic plan for FinTech development, treating all FinTech businesses fairly and effective regulatory and supervision capacity of the regulators. All-inclusive working groups initiatives and government's administrative level staff engagement related issues are raised by over 50 percent of the respondents.

4.3.5 Others

These statements are set out to find out other important factors such as cost to consumers, trust, guidance for safe use of FinTech, AML/CFT and data protection, in issue of FinTech regulatory environment.

Table (4.7) Others

No.	Statement	Yes	No	Issue %
1	People are willing to pay a reasonable fee for FinTech services.	17	5	22.73
2	Mobile financial services usage increased only in a short duration.	20	2	9.09
3	Public trust FinTech services currently in the market.	6	16	72.73
4	Proper regulations protect FinTech service users.	5	17	77.27
5	Instructions for safe usage of FinTech services are guided effectively.	5	17	77.27
6	Businesses agree to absolutely follow global standards of AML/CFT regulations.	6	16	72.73
7	Regulator should develop FinTech sector only with a proper data management system and regulations ready.	12	10	45.45

Source: survey, 2019

To explain the table (4.7) above mentioned with over 70 percent respondents' answers, public trust for FinTech services, regulations for FinTech, instructions for safe usage of FinTech and AML/CFT global standards compliance on the business side are others issues pertaining. Even though only 22.73 percent and 45.45 percent of respondents reported their concerns for reasonable price and data protection regulations, these two are also still existing issues.

Chapter V

Conclusion

This chapter reviews on the discussion of the data findings and suggestion on the issues encountered regulating FinTech within the financial service businesses of Myanmar.

5.1 Findings

The main objectives of this study are to identify the regulations for FinTech in Myanmar and to find out issues encountered regulating FinTech within the financial service businesses of Myanmar. A structured survey comprised of thirty-nine statements was used to collect information from twenty-two senior executives from the financial and IT businesses operating in Myanmar.

This study proved that financial inclusion in Myanmar is still facing challenges due to issues found out by the analysis data aforementioned. Public's preference to cash over digital payments is also observed to be difficult to develop and this is associated with public trust, government's consumer complaint mechanism and proper rules and regulations related to FinTech. Other areas of finding for issues are the needs of clear and reliable information provided from the stakeholders to the least financially literate population. The study also addresses to enforce AML/CFT global standards so that FinTech businesses can provide their services safely and securely in the market. Most importantly, many issues also lie on the regulator and government sides. The government budget is not sufficient enough to develop FinTech sector and to deploy the required resources efficiently as well as to monitor the progress of FinTech development. The study alarms that government's cross-department coordination is critically required attention. Likewise, its cooperation with the key international development partners in the financial service sector also requires focus. When making policies, transparency and consultation with the respective stakeholders remain an issue. The government's strategic plan to develop FinTech was not satisfactory according to the survey. The respondents demand the regulator to be proactive to develop FinTech in Myanmar. And also, the business community was not strongly pleased almost half of the respondents participated the survey with regards to develop FinTech sector collectively with other stakeholders.

5.2 Suggestion

According to the objectives of the study, the following suggestion were made: this study recommends the regulator to lead regulating FinTech in collaboration with the financial service businesses closely and proactively. According to the findings under ‘Ecosystem’ section, it is also suggested to the regulators to make an initiative of typical style of regulator-FIs-FinTech startups-consumers in a controlled environment something like the regulatory ‘sandbox’ to efficiently regulate so that innovators and the financial businesses can predict their business models with certainty.

Financial inclusion should be put as a high priority targeting the lowest financially literate population while making FinTech works for all. It is inferred that the regulators need to engage with all the respective stakeholders for the respective strategies and plans to get their insights on a systematic and regular basis. I would like to encourage financial business-related associations such as Myanmar Banks Association and Myanmar Microfinance Association collectively engage and encourage the regulator to secure their commitments to build an ecosystem that is cost-effective, better customer experience and quicker services. This inference is referred to the statements of regulator led consultation and the strategic vision of the government and government’s plan mentioned under the ‘Regulatory Support’ section of the analysis.

According to the statements about increasing usage of MFS and willingness to pay under ‘Others’ section, ‘Trust’ issue should be addressed by the organizations and government as a part of scaling up their financial inclusion projects which were found out to be lack of effectiveness in ‘Others’ and ‘Financial Inclusion’ sections. It is also advised the regulators to convince the businesses to comply with the AML/CFT global standards. I would like to suggest the government to organize the advocacy campaigns about safe usage of FinTech and data security across the financial service industry.

5.3 Needs for further study

The study suggest that the further research should be conducted on challenges to regulate FinTech in Myanmar into more details by prioritizing the areas based on the specific criteria such as benefit to the economy, fulfilling the public's fundamental needs, customer demand and government's development strategy beyond this study's two objectives in this research.

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APPENDIX A

1. Survey Cover Letter

Dear Sir/Madam,

My name is Kaung Htet Zaw. I'm currently doing my Master of Banking and Finance Degree thesis on Issues Encountered Regulating FinTech within Financial Service Businesses of Myanmar at the Yangon University of Economics. This study finds out about gaps between the regulator and private sector and highlights other matters pertaining to regulate FinTech.

I'm grateful if you could spare some time to fill out my survey. I'll use the anonymous data to present in my thesis. Kindly note that questions are not really orderly arranged and may link each other but some do not. The statements are prepared just to collect information but do not necessarily reflect to the researcher's own views.

Please feel free to answer the questions. Your honest response is much appreciated.

Many thanks,
Kaung.