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Paving a Digital Route for the Unbanked and Underbanked

In 2017, Bank Negara Malaysia (**BNM**) estimated that about 8.3% of the total population of Malaysian adults are unbanked. This figure is about to change, as digital banks are finally coming to Malaysia!

A digital bank, like a traditional bank, offers banking services such as accepting deposits or providing loans. However, unlike a traditional bank, it does not have physical branches. Through digital banks, banking services can now be offered and delivered over the internet, without requiring customers to be physically present.

On 27 December 2019, BNM issued an Exposure Draft on Licensing Framework for Digital Banks (**Exposure Draft**), which sets out the proposed framework to allow the entry of digital banks into the Malaysian market. The Exposure Draft emphasises BNM's approach of allowing the entry of digital banks that offer innovative banking products and services with financial inclusion objectives of addressing the unserved and underserved segments. Interested applicants are required to apply for a licence under s 10 of the Financial Services Act 2013 or s 10 of the Islamic Financial Services Act 2013 to carry on digital banking business or Islamic digital banking business. The Exposure Draft sets out eligibility requirements and application procedures that must be fulfilled by interested applicants.

BNM has taken a balanced approach to enable the admission of digital banks with strong value propositions while safeguarding the integrity and stability of the financial system as well as depositors' interests. To this end, licensed digital banks or Islamic digital banks (**Licensees**) are required to demonstrate their viability and sound operations in the first three to five years of operations, a period known as the "foundational phase". During the foundational phase, Licensees are subjected to certain business limitations and a simplified regulatory regime.

After three years from commencement of operations, Licensees may apply to BNM for the foundational phase to end and for the business limitation to be uplifted. BNM will then decide the application based on areas specified in the Exposure Draft. In any event, by the end of the fifth year, Licensees must comply with all equivalent regulatory requirements applicable to a licensed bank or Islamic bank and achieve a minimum amount of capital funds of RM300 million, failing which their licence could be revoked.

Grab, Razer, AirAsia, Axiata and CIMB are already looking to apply for a digital bank licence. With the race for digital bank licences — only five of which are to be issued — expected to intensify upon finalisation of the Exposure Draft, interested parties are encouraged to make early assessment and preparation in order to stand a chance of obtaining one of the coveted licences.

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