LHAG Insights

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Navigating the Digital Banking Landscape in Malaysia

In keeping abreast with the new normal, more financial service providers are starting to move to digital banking. In line with this, regulators from different countries have either taken steps to introduce, or increase the allocation of digital banking licences, and set standards for a new banking landscape. While the approach to licensing varies across countries, it is recognised by all that digital banks can serve better outcomes for customers by extending banking services to the underserved and unserved segments, and injecting competition and innovation into the banking sector.

Digital banks provide the same banking services as traditional banks — except they operate purely on digital platforms instead of physical branches. As digital banks utilise information technology such as artificial intelligence and cloud-based solutions, they tend to operate at a lower cost compared to traditional banks, due to less expenditure on manpower and rent.

Developments in Asia

In the first half of 2019, the Hong Kong Monetary Authority granted a total of eight digital banking licences. The applicants were evaluated on their ability to endorse the application of financial technology and innovation, to offer a new kind of customer experience and to promote financial inclusion. Further, it is noted that successful applicants are subject to the same minimum paid-up capital requirement as other banks.

In December 2020, the Monetary Authority of Singapore awarded four digital banking licences. Applicants were evaluated based on their business value propositions, innovative use of technology, ability to manage a sustainable digital banking business, as well as their contributions to Singapore's financial industry. While minimum paid-up capital requirements are imposed, applicants are not required to meet the relevant amount of capital at the point of application.

Following in the footsteps of Hong Kong and Singapore, Bank Negara Malaysia (**BNM**) has announced that applications to conduct digital banking business are now open until 30 June 2021. Applicants are required to show a commitment in driving financial inclusion, including safeguarding quality access to, and responsible usage of financial services, particularly to the underserved and unserved segments. Successful applicants will first undergo a foundational phase, where they will be subject to simplified regulatory requirements, which include having the minimum amount of capital funds.

There is a distinct difference in digital bank licensing requirements in Singapore and Malaysia, compared to Hong Kong. While the former two enjoy a set of simplified regulatory requirements, the latter is required to meet the same requirements as other banks at the initial start-up period.

How will digital banking affect us?

Consumers will be able to manage personal finances at their fingertips. Through the usage of data and technology, digital banks can also offer more personalised products and services. Further, as noted above, digital banks have lower expenditure, and these savings would translate to better interest rates and lower fees.

Although the model of digital banks is highly attractive, digital bank operators must be vigilant regarding the possibilities of security breaches and identity theft. Therefore, it is imperative for digital banks to prioritise the security of their customers' personal and financial information.

Conclusion

The COVID-19 pandemic has changed the traditional way of banking across the world. Customers prefer to perform financial transactions through digital banking instead of heading down to a local bank branch.

The release of the policy document on licensing framework for digital banks by BNM late last year signifies a grand milestone in Malaysia's banking sector. BNM has made it clear that their core requirement of a digital bank is to improve financial inclusivity. With only up to five licences being issued, applicants will have to demonstrate to BNM their strategy to meet the financial needs of the underserved and unserved segments.

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