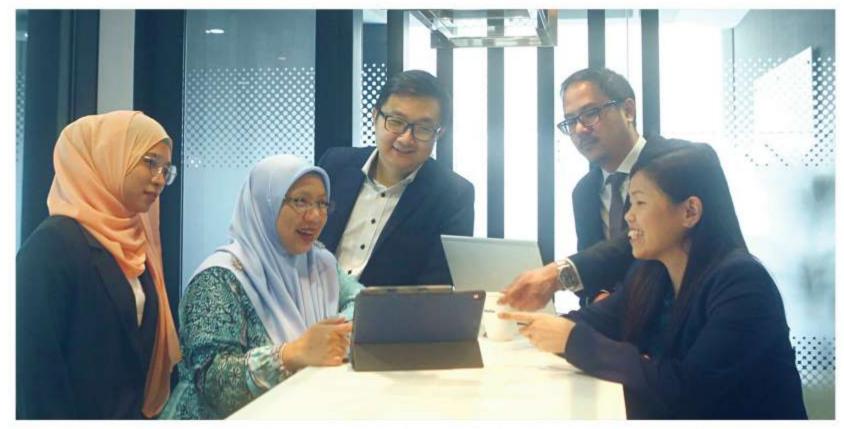
# **Banking on Digital**

#### What is Digital Banking?

A full-fledged digital bank is a financial institution that offers financial services solely through a digital platform. Digital banking leverages on highly digitalised and automated workflows connecting front, middle, and backend processes which allow seamless integration for data-centric work. The bank's lean operating models and analytics capability allow it to reduce costs, while achieving higher efficiency and better customer experience.



The Digital Banking team in Deloitte Malaysia: Justin Ong (3rd), Financial and Regulatory Risk Leader; together with Norhayati Yakap, FSI Audit Director; Siti Hajar Osman, FSI Co-Audit Leader; Anthony Tai, Financial Services Leader; and Sharon Kok, FSI Audit Principal.

"Banks have gone through multiple transformations to keep up with rising customer service expectations and to rival growing FinTech startups, but is it enough?

With the introduction of digital banks, incumbent banks are forced to push the boundaries of its traditional business models, to remain relevant in this age of digitisation.

On the other hand, it opens doors to non-banking players to join the banking revolution and directly compete with incumbent banks."

Justin Ong, Digital Banking Leader at Deloitte Malaysia.

#### What is the role of Digital Banking?

Digital Banks have an important role of driving financial inclusion by ensuring that the unserved and underserved communities have access to basic financial services and technology enabled advancements.

# What does the unserved and underserved landscape look like?

Access to new technologies changes the shape of the conversation for banks and provides a means to engage the unbanked population, as part of Malaysia's journey towards becoming a full-fledged cashless society.

The Shared Prosperity Vision ("SPV 2030") also highlighted the need to address the widening disparity in the contribution of Bumiputera SMEs to economic growth.

# Who are the 8% unbanked adult population?



92% have either no/low income



**64%** from age of 15-24 years old



51% from North & East Malaysia

Source: Bank Negara Malaysia

# Bumiputera SMEs contribution to economic growth remains low



The average value-added by Bumiputera SMEs is lower than non-Bumiputera

# RM0.8 mil 357,863 units



Bumiputera SMEs

RM1 mil 528,843 units



SMEs

Source: Shared Property Vision 2030

# Overview of digital banking in ASEAN

# Taiwan Financial Supervisory Committee (FSC) issued in April 2018 the virtual banking license requirements. As of July 2019, FSC has issued up to 3 digital banking licenses.



Monetary Authority of Singapore (MAS) announced the notice on issuance of the digital banking licenses on the 28 June 2019.

# Indonesia

The Indonesian Financial Services Authority (OJK), has issued the guidelines to manage provisions of digital banking services by commercial banks through POJK 12/2018, effective 8 August 2018.

#### South Korea

To date, South Korea's Financial Services Committee (FSC) has issued up to 2 digital banking license.

## Hong Kong

Hong Kong Monetary Authority (HKMA) published the Guidelines on Authorisation of Virtual Banks on the 30 May 2018. To date, HKMA has issued up to 8 digital banking licenses.

## Malaysia

Bank Negara Malaysia (BNM) issued the Digital Banking License Framework Exposure Draft on 27 Dec 2019.

## Australia

Australian Prudential Regulatory Authority (APRA) introduced the new "restricted" accreditation for new retail Banks in May 2018 and granted its first license to Volt Bank Ltd.

## What is the future of Digital Banking in Malaysia?

On 27 Dec 2019, Bank Negara Malaysia (BNM) issued the Digital Banking License Framework Exposure Draft, laying down the conditions for a Digital Bank applicant;

- Omnipresence, in which no establishment of physical branches is allowed
- 2. Secure, where robust risk management capabilities is a must
- Sustainable, injected through a strong business plan and with the right ecosystem of support
- 4. Self-sufficient, through development of a viable exit plan

Aligned with Malaysia's aspirations of becoming a global Islamic hub, we foresee that this will also present an opportunity for Islamic Banks to go digital.

## What does it mean for Malaysian consumers?

- Intelligent automation, providing customers with a platform for frictionless banking experiences, while remaining behind the scenes
- Customised and personalised, through lifestyle integrated bundles
- Receptive and predictive, where big data and the Internet of Things means better analysis of a customer's spending patterns and financial needs
- Rewarding, where operational cost efficiencies translate into lower cost and higher returns for customers

#### The five critical success factors of a Digital Bank

- Clear strategy and credible business plan
- Sound organisational structure and governance
- Advanced technological infrastructure and efficient operations
- Detailed Treasury and financial management
- Ongoing regulatory compliance and robust risk management framework



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