

Frequently Asked Questions – Licensing Framework for Digital Banks

Last updated: 31 December 2020

Glossary

Digital Bank Policy Document	Policy document on Licensing Framework for Digital Banks issued on 31 December 2020
Licensing Procedures	Policy document on Application Procedures for New Licences under FSA and IFSA issued on 27 December 2019
Acquisition Procedures	Policy document on Application Procedures for Acquisition of Interest in Shares and to be a Financial Holding Company issued on 27 December 2019
FSA	Financial Services Act 2013
IFSA	Islamic Financial Services Act 2013

No	Question	Answer
Shareholders		
1.	Under what circumstances would the Bank allow a foreign shareholder to hold an aggregate equity interest of more than 50% in the licensed digital bank?	<p>The Bank may make a recommendation to the Minister of Finance to grant approval to the proposed shareholder to acquire controlling equity interest in the proposed licensed digital bank if the Bank is of the opinion that it would not be detrimental to the safety and soundness of the proposed licensed digital bank or undermine the stability of the financial system.</p> <p>In assessing the suitability of a proposed shareholder, including controlling equity holding by a foreign interest, the Bank will take into consideration matters that the Bank considers relevant, including any of the factors set out in Schedule 6 of the FSA or IFSA and the Policy Document on Shareholder Suitability.</p> <p>In licensing digital banks, the Bank is cognisant that presence of strong and well-managed domestic banking institutions is important for the stability of the financial system and its orderly growth and development. As set out in paragraph 8.4 of the Digital Bank Policy Document, preference will be accorded to an application where the controlling equity interest in the proposed licensed digital bank resides with Malaysians.</p>
2.	How will the Bank assess shareholders? Will it be purely based on financial strength, or will the Bank also consider other factors such as the size of the shareholder's customer base or the capability of its technology platform?	<p>As set out in paragraph 8.1 of the Digital Bank Policy Document, the Bank will have regard to factors set out in Schedule 6 of the FSA and IFSA. In this regard, the Bank will consider both the nature and sufficiency of the financial resources of the proposed licensed digital bank shareholder as a source of continuing financial support to a licensed digital bank as well as the business record and experience of the shareholder.</p> <p>In making an assessment, the Bank will also consider the availability of resources and expertise contributed by the shareholder that is relevant for delivering the objectives of the licensed digital bank. For example, the shareholder's experience in or access to transformative technology in the development and delivery of financial services, as well as the shareholder's own knowledge/ experience of certain business sectors/markets or access to the requisite knowledge.</p>

3.	Are applicants involved in money service business or designated payment instrument issuer recognised as having track record of operating in a regulated environment?	In assessing the suitability of the shareholder of the proposed licensed digital bank, the Bank will have regard to the ability of the applicant to contribute to the risk management and compliance capabilities of the licensee. This may be demonstrated by a track record of operating in a highly regulated environment that is comparable in intensity and complexity to that of banking business.
Minimum capital funds		
4.	<p>On the minimum capital funds for the licensed digital bank,</p> <ul style="list-style-type: none"> • Is the applicant required to demonstrate availability of the capital funds during submission of the application for the digital bank licence? • When should the funds be transferred into the proposed licensed digital bank? • What are the components of the capital funds? 	<p>As part of submission of information for assessment of the licence application, the applicant must indicate the source of funds that would be made available to meet the capital requirement for the proposed digital bank.</p> <p>For greater clarity, before the Bank makes a recommendation to the Minister of Finance, the applicant shall provide the Bank confirmation with supporting documents demonstrating that funds have been transferred to the proposed licensed digital bank in the form of the required amount of paid-up capital.</p> <p>For further information on the components of capital funds, please refer to the policy document on Capital Funds.</p>
Business plan development and submission		
5.	What are the key considerations applied by the Bank in assessing whether the business plan of a proposed licensed digital bank reflects a sustainable business model?	<p>In assessing whether a proposed business plan reflects a sustainable business model, the Bank will consider several factors, including the following but not limited to:</p> <ul style="list-style-type: none"> • whether the business plan has a clear competitive edge that would be a driving factor for business growth. This may include the application of advanced technological platforms or capabilities distinct to the licensed digital bank; • whether there is any undue reliance on non-recurring sources of income to enhance short-term profitability; • whether the financial projections are reasonable and commensurate with the level of risks that the licensed digital bank may face and its capacity to effectively manage such risks; • whether the financial projections demonstrate a clear path to profitability and longer-term viability based on reasonable and supportable assumptions; and • whether the applicant can credibly demonstrate the capacity to implement sustainable governance, infrastructure and

		processes which will be able to support scaling up of business.
6.	Can the applicant make changes to the business plan after a formal application has been submitted to the Bank?	<p>In view that the business plan is an integral component in the licensing assessment of the proposed licensed digital bank, an applicant is expected to exercise due care in ensuring comprehensiveness of the business plan, which should be thoroughly deliberated at the applicant's board prior to the formal submission to the Bank.</p> <p>An application for the digital bank licence will only be considered complete when the Bank has received the required documents and information, including the final business plan.</p> <p>Upon approval of the licence, the Bank expects the Board of the licensed digital bank to take ownership and ensure feasibility of implementation of the business plan. During the operational readiness phase, the licensed digital bank's Board may make appropriate adjustments to the implementation plan, provided they do not alter substantively the commitments made under the application for the licensing of the proposed licensed digital bank, or key elements of the business plan that were material to the Bank's assessment of the application.</p>
Permissible business or activities		
7.	<p>Does the scope of digital banking business covers the following activities:</p> <ul style="list-style-type: none"> • Offering cryptocurrencies or handling settlement between cryptocurrency and fiat currency • Offering of fund management products, investment banking products and services, broking and asset management services • Accepting foreign currency deposits 	<p>(i) With regards to digital assets¹:</p> <ul style="list-style-type: none"> • A licensed digital bank who wishes to partake in digital asset activities must meet the relevant regulatory requirements set by the relevant regulator, depending on the type of business activity. • The Securities Commission Malaysia (the SC) regulates fundraising via digital token offering and Initial Exchange Offering platforms; trading of digital assets via digital asset exchanges; and the provision of digital asset custodian services. Notwithstanding this, a licensed digital bank is also required to comply with the Bank's requirements under the policy document on Introduction of New Products. • Any issuance or dealing of digital assets with a payment function, or usage of digital assets for the purpose of payments, will need to comply with relevant laws and regulations relating to payments and

¹ Digital assets include digital currencies and digital tokens

		<p>currency matters. Notwithstanding this, digital assets are not legal tender and are not a payment instrument that is currently regulated by the Bank.</p> <p>(ii) With regards to capital market activities, a licensed digital bank would be considered as a licensed bank, which is a category of registered persons under the Capital Market Services Act 2007 (CMSA). A registered person may carry out certain capital market activities as set out in the Second Column of Schedule 4 of the CMSA.</p> <p>(iii) With regards to foreign currency deposits, a licensed digital bank is allowed to accept foreign currency deposits.</p>
8.	Could a licensed digital bank carry out limited non-financial activities?	In accordance with section 14 of the FSA or section 15 of the IFSA, a licensed digital bank is not allowed to carry on any business or activity that is not for the purpose or in connection with its licensed digital banking business, unless the Bank issues a specification that allows such activity. The licensed digital bank is advised to engage the Bank where it plans to request for any such specification.
9.	<p>Can a licensed digital bank leverage on digital technologies in the supply of financial services, such as:</p> <ul style="list-style-type: none"> • AI, machine learning or big data analytics for credit assessment and credit decisions • Robo-advisors for digital client onboarding, customer risk profiling, automated digital advice and customer portfolio management 	<p>Yes, the Bank expects that analytical models developed for the purpose of making business and / or lending decision should be subject to a robust and continuous validation process to ensure these models continue to be fit-for-use.</p> <p>In deploying these technology, licensed digital banks shall be guided and comply with the relevant policy documents such as Risk Management in Technology (RMiT), e-KYC, Outsourcing, Credit Risk and Risk-Weighted Capital Adequacy Framework.</p>
10.	Could licensed digital banks serve customers, for example collect deposits and offer loans, beyond the unserved and underserved segments?	<p>The framework for licensing of digital banks is developed with the primary aim of expanding meaningful access to and responsible usage of financial solutions for the underserved and unserved market segment.</p> <p>As such, the overall conduct of the digital banking business of the licensed entity is expected to be aligned with the above financial inclusion objectives, where the commitment would be reflected as part of the performance indicator of the licensed digital bank.</p> <p>Provision of any financial services beyond the underserved and unserved segment should not substantively steer the licensed digital bank</p>

		away from, or otherwise compromise the delivery of the above commitments.
11.	Who would the Bank consider as unserved and/or underserved segment?	<p>Generally, the unserved and/or underserved segments are a group of individuals and businesses whose needs for financial products and services are not adequately served or met.</p> <p>Examples of factors that may contribute to this include:</p> <ul style="list-style-type: none"> • The customer segment faces challenges in obtaining financial services due to higher information asymmetry and higher risk profile. This may be due to the lack of credit history, collateral or consistent source of income. For example, start-ups, SMEs with insufficient collateral, SMEs in high-growth sectors, lower income segments, self-employed individuals, first-time borrowers, individuals who recently joined the workforce and retirees. • The customer segment has low level of financial literacy or limited understanding of the formal processes to obtain financial services, which may be due to the education level, language barriers or no access to the right information. For example, customer has minimal understanding of the range of financial products available and its benefits or perceives that purchasing a particular financial product is a complicated process or requires a lot of documentation; or • The customer segment is physically difficult to reach or be served through traditional means. For example, customer residing in hard-to-reach locations or persons with disabilities. <p>Licensed digital banks are expected to identify their target unserved or underserved segment(s) and leverage on technology, alternative data and in-depth understanding of customer behaviour in order to meet the needs of their target segment. Financial products designed and offered towards this segment should also foster responsible usage as well as improve the overall financial well-being of the consumer.</p>
12.	Will there be restrictions imposed on product features or pricing that licensed digital banks can offer?	Licensed digital banks shall at all times ensure a fair, responsible and professional conduct in dealing with financial consumers, in line with the requirements imposed on existing licensed banks. Licensed digital banks must also have in place customer suitability procedures to ensure

		<p>that products sold meet the needs and financial circumstances of the customers.</p> <p>The relevant policy documents and guidelines are, amongst others, the policy documents on Introduction of New Products, Fair Treatment of Financial Consumers, and Imposition of Fees and Charges on Financial Products and Services.</p>
13.	<p>Could a licensed digital bank perform the following cross-border supply of services:</p> <ul style="list-style-type: none"> • launch a product outside of Malaysia for Malaysian customers residing overseas? • accept customers that are based outside of Malaysia, for example by onboarding foreign customers from their respective countries? • market products sold by third party providers from foreign countries? 	<p>With respect to offering products to customers outside of Malaysia, or marketing products by foreign counterparts to Malaysian customers, licensed digital banks are generally bound to the same requirements as licensed banks.</p> <ul style="list-style-type: none"> • A licensed digital bank may offer products outside of Malaysia or accept customers outside of Malaysia subject to the other country's relevant rules and regulations. • With regard to offering banking products sold by financial institutions outside of Malaysia, a licensed digital bank is prohibited from doing so under section 29(1) of the FSA and section 26(1) of IFSA, as the case may be. Generally, a foreign financial institution is required to establish commercial presence in Malaysia and obtain the appropriate licence or approval before offering financial products to Malaysian customers residing in Malaysia.
14.	<p>Are there restrictions on overseas expansion of licensed digital bank during foundational phase?</p>	<p>During the foundational phase, generally a licensed digital bank may expand its business overseas, subject to the Bank's approval as stipulated in the FSA/ IFSA. In deciding whether to approve such expansion, the Bank may consider several factors including the following:</p> <ul style="list-style-type: none"> • The impact and benefit of the expansion to the licensed digital bank and to Malaysia from financial and non-financial perspective; • The strength of governance and oversight by the licensed digital bank over the enlarged operations; and • Any impediments to the Bank's ability to supervise the overall group. <p>In considering applications to expand during the foundational phase, the Bank generally expects the licensed digital bank to remain clearly focused on delivering its committed value proposition in Malaysia and prioritise its resources towards building strong local business operations.</p>

15.	There is insufficient data in credit database on the unserved and underserved segments. Will licensed digital banks have access and legal grounds to alternative data to be able to serve the unserved/underserved such as pensions, health insurance or tax database?	Licensed digital banks will have access to the Central Credit Reference Information System (CCRIS). A licensed digital bank may also enter into commercial arrangements to partner with other credit bureaus or alternative data providers.
Independent External Assurance		
16.	<p>On the appointment of independent external party:</p> <ul style="list-style-type: none"> • Does the appointment require approval by the Bank? • How should the applicant assure the Bank that the independent external party is independent and is free from conflict of interest? • Should the independent external party provide assurance for both business plan and internal controls/IT system, or can it be two separate parties? 	<p>An applicant is not required to seek the Bank's approval for the appointment of the independent external party. However, the independent external party should meet the criteria as set out in paragraphs 10.4 and 10.5 of Digital Bank Policy Document.</p> <p>In assessing the independence of the external party, an applicant may refer to professional standards and practices, code of conduct or any other criteria considered relevant by the applicant for the evaluation process.</p> <p>The assurance for business plan and internal controls/IT system may, but are not required to, be provided by the same parties.</p>
Exit plan		
17.	<p>In the event of an exit, could the exit plan provide the following:</p> <ul style="list-style-type: none"> • A shareholder or affiliate entity who is a bank to assume the assets and liabilities of the licensed digital bank? • Sale of certain business lines for continuity of non-banking business? 	The exit plan could provide for the two options. Similar to the licensing process, exit plans involving shareholders should be guided by paragraph 8 of the Digital Bank Policy Document, as well as existing requirements relating to shareholders, such as those stipulated in the Licensing Procedures and Acquisition Procedures.
18.	Can the exit plan be determined at segment level, such that the licensed digital bank can initiate exit at a certain segment rather than exiting the whole business?	As highlighted in paragraph 11.2 of the Digital Bank Policy Document, an exit plan must result in winding down or transfer of the licensed digital bank's business. This is to ensure that applicants are prepared to exit the business in the event that such business models prove to be unsustainable or ineffectual. Nevertheless, applicants may prepare exit plans at segment level to support the overall exit plan.

19.	Are applicants required to conduct scenario analysis on the respective exit options?	Applicants are not required to conduct scenario analysis to the extent stipulated in the Exposure Draft on Recovery Planning. Nonetheless, to effectively identify measures that can be taken as part of the exit plan, applicants are expected to consider the impact and feasibility of such measures under different scenarios and/or circumstances to ensure an orderly exit, as stipulated in paragraph 11.5 of the Digital Bank Policy Document.
Key responsible persons		
20.	<p>On the proposed key responsible persons:</p> <ul style="list-style-type: none"> • Is there a requirement for the proposed key responsible persons to be Malaysian? • Can the applicant submit anonymised curriculum vitae of the proposed persons? • Can the applicant make changes to the proposed persons after the formal submission to the Bank? 	<p>There are currently no requirements for key responsible persons to be Malaysians. Notwithstanding this, key responsible persons are subjected to specific requirements and processes, among others:</p> <ul style="list-style-type: none"> • Chief Executive Officer of a licensed digital bank shall have his principal or only place of residence within Malaysia, unless the Bank otherwise approves (section 55 of the FSA or section 64 of the IFSA); and • Expatriates application are subjected to approval by the Bank. <p>As set out in paragraph 13.1 of the Licensing Procedure, the applicant must provide the names and current curriculum vitae of proposed key responsible persons to facilitate the Bank's assessment on whether the propose licensed digital bank will be operated responsibly by persons with suitable competence and experience.</p> <p>Where the applicant is unable to provide the required information at the application stage, the applicant must notify the Bank in writing and the justification for the inability to provide the same. In such a case, the Bank may require an applicant to provide any other information to facilitate the assessment. The submission of an application is only considered as complete when the Bank has received the required information.</p> <p>Information received at the application stage will be kept confidential by the Bank and Key Responsible Persons identified may be indicative. However, applicants should note that upon granting of licence, failure to secure suitable persons in key roles could affect the</p>

		licensing decision or operational readiness assessment.
Group resources		
21.	Could a licensed digital bank leverage on its group affiliate, or outsource Shariah committee to a third party?	Outsourcing of Shariah committee function to a third party is not allowed. Nevertheless, if the licensed digital bank is within a financial group where there is an existing licensed person under the IFSA, the licensed digital bank may leverage on the existing Shariah committee within its group affiliate, subject to obtaining the Bank's prior written approval in accordance with section 30(2) of the IFSA. In this regard, the Bank will assess and provide its approval depending on the merits of each case.
22.	Could the licensed digital bank share its data with its parent bank, other shareholders or other strategic partners?	Licensed digital banks are subject to the strict secrecy obligation under section 133 of the FSA or section 145 of the IFSA. Licensed digital banks may share its customer information with its parent bank or other parties only for legitimate purposes that fall within the scope of permitted disclosure under Schedule 11 of the FSA or IFSA. In addition, the permitted disclosures under Schedule 11 of the FSA or IFSA are subject to conditions specified by the Bank in the policy document on Management of Customer Information and Permitted Disclosures.
Group resources		
23.	Could licensed digital banks have access to the customer base of its partner/shareholder(s)?	<p>A licensed digital bank may access the customer base of its parent or affiliate companies or shareholders subject to compliance with all relevant data protection laws and regulations, i.e., the Personal Data Protection Act 2010.</p> <p>Nonetheless, where the parent or affiliate company or the shareholder is a financial institution as defined in section 131 of the FSA or Islamic financial institution as defined in section 143 of the IFSA, any arrangement for the licensed digital bank to access their customer base must be in compliance with the secrecy provisions under the FSA or IFSA, respectively.</p>

Operational readiness		
24.	What are the consequences of unsatisfactory results of operational readiness assessment for a licensed digital bank?	In the event that the Bank is not satisfied with the outcomes of the operational readiness review, the licensed digital bank will not be allowed to commence its digital banking business.
Regulatory framework applicable to licensed digital banks		
25.	What is the licence fee for a licensed digital bank?	The annual fees payable by a licensed digital bank to the Bank are RM150,000. For further information, please refer to the Financial Services (Fees) Regulations 2014 or the Islamic Financial Services (Fees) Regulations 2014, as published in the Federal Gazette website.
26.	Are licensed digital banks expected to comply with the same requirements as other banks, for example requirements on: <ul style="list-style-type: none"> • The Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions Policy Document • Foreign Exchange Notices and the Direction to Financial Institution • Statutory reserve requirement • Risk-informed pricing • Guidelines on the disposal/purchase of non-performing loans by banking institutions • Outsourcing • Risk Management in IT • Staff Training Fund and Staff Training Expenditure • STATsmart Reporting Requirements on Data Submission for Reporting Entities • Fair treatment of financial consumers • Basic banking services • Responsible financing • Product transparency and disclosure • Imposition of fees and charges on financial products and services • Complaints handling • Fair debt collection practices 	All licensed digital banks are required to comply with the same rules and requirements as other licensed banks, except where the specific requirements applicable to licensed digital banks are set out in paragraph 14.1 of the Digital Bank Policy Document.

27.	<p>On cloud adoption:</p> <ul style="list-style-type: none"> • What guideline should applicants refer to with regards to adoption of public or private cloud? • Will applicant need to obtain specific approval from the Bank to use cloud? • Are there any restrictions to subscribe to cloud providers outside of Malaysia? 	<p>In deploying cloud technology, licensed digital banks shall be guided and comply with the RMIT policy document, which require amongst others:</p> <ul style="list-style-type: none"> • where cloud services are intended to be used for non-critical systems, to provide a prior notification to the Bank; and • where public cloud is intended to be used for critical systems, to conduct a prior consultation with the Bank. <p>Provided that all necessary safeguards are in place, the Bank does not currently restrict a licensed digital bank from subscribing to cloud providers outside of Malaysia. Aside from the RMIT policy document, licensed digital banks shall also refer to Outsourcing policy document where relevant.</p>
28.	<p>Please provide confirmation if licensed digital banks will have access to the following systems, and what would be the requirements for participation:</p> <ul style="list-style-type: none"> • Payment systems such as RENTAS, IBG, RPP- Duitnow, QR, e-SPICK • CCRIS database • Interbank lending and borrowing market (money market and foreign exchange market) • The Bank liquidity facility 	<p>A licensed digital bank will have access (including the same requirements for participation) to the same systems and facilities as an existing licensed bank.</p>
29.	<p>Would licensed digital banks be subject to the Bank's supervision during the foundational phase?</p>	<p>Licensed digital banks and its Financial Holding Companies shall be subject to the Bank's supervision both during and after the foundational phase.</p>
Deposit insurance		
30.	<p>Does a licensed digital bank need to be a PIDM member?</p>	<p>Pursuant to section 36(1) of the Malaysia Deposit Insurance Corporation Act 2011, a licensed digital bank will automatically become a member of PIDM once it is licensed to carry on digital banking business.</p>
Exiting the foundational phase		
31.	<p>If a licensed digital bank did not meet its value proposition after five years, will it be forced to exit?</p>	<p>As stated in paragraph 15.5 of the Digital Bank Policy Document, a licensed digital bank that fails to show satisfactory progress in achieving the committed value propositions as described in its business plan by the end of the fifth year from the commencement of its operation may be subject to an enforcement action, including direction to implement its exit plan.</p>

		<p>Depending on the gravity of each case, actions can be taken against such licensed digital banks ranging from:</p> <ul style="list-style-type: none">(i) enforcement action under section 234 of the FSA or section 245 of the IFSA;(ii) action under section 259(4) of the FSA or section 270(4) of the FSA; and(iii) revocation of licence under section 20(1) of the FSA or section 18(1) of the IFSA.
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