Digital banking to accelerate Malaysia's financial inclusion agenda

MALAYSIA

By Siew Suet Ming

Bank Negara Malaysia (BNM) had formulated a robust Financial Inclusion Framework under the Financial Sector Blueprint 2011–2020. Revisiting the framework in 2017, BNM embedded six new strategic plans into it (Figure 1). To accelerate the inclusivity agenda, BNM issued the Licensing Framework for Digital Banks (Licensing Framework) in December 2020.

Under the Licensing Framework, assessments of digital banking license applicants will be based on their commitment to financial inclusion, including ensuring quality access and responsible usage of financial services in a sustainable manner, without jeopardizing depositors' interests. Underserved and unserved segments, such as retail and MSMEs, should be a focus.

The six-month application period (up to the 30th June 2021) netted 29 applications from diverse backgrounds including banks, conglomerates, technology, e-commerce and fintech players, cooperatives and state governments.

BNM will issue five digital banking licenses to successful applicants by the second quarter of 2022, under both the Financial Services Act 2013 and Islamic Financial Services Act 2013. In doing so, Malaysia will become the second country in ASEAN after Singapore to issue digital banking licenses.

At least five consortiums have expressed their licensing bid as a Shariah compliant digital bank. Of these, only one has partnered with a financial institution as existing regulations allow banks to digitalize their current business operations without a separate license.

While many traditional financial institutions have long embarked on the digitalization journey, fintech, technological advancements and evolving consumer trends have made digitization a priority as the banks strive to adapt.

For instance, Maybank currently considers itself "technically a digital bank", having heavily invested in digital technologies through its Maybank2U banking and mobile app platform. Stand-alone Islamic banks also increased their spending to support their digital ambitions.

Bank Islam committed RM300 million (US$72.23 million) from 2019 to 2021 as part of its 'digital-first' approach, establishing a 'Center of Digital Experience' as a stepping stone to evolving into a 100% digital bank.

MBSB Bank, likewise, set aside nearly RM250 million (US$60.19 million) for a new banking platform to convert five branches into smart branches.

Malaysian consumers' embrace of digital culture and demand for digital services are evident, with the COVID-19 pandemic accelerating interest in digital banking. KPMG's 2020 report titled 'Digital Banking: The Inclusive Agenda' noted 77% of Malaysians viewed digital banks as the next trend in financial services, with 82% keen to open a bank account through online platforms, provided they are regulated by BNM.

Virtual banking's extended reach opens market access to the unbanked and underserved segments that can now easily access seamless financial services and obtain basic financing products via digital banking platforms, smartphone banking apps and point-of-sale payment services.

Going forward, fintech innovation from digital banks and the digital transformation of traditional banks should create more choices and inclusivity for consumers. This will help catalyze the Malaysia Digital Economy Blueprint (MyDigital) 2021 agenda to "transform Malaysia into a digitally-driven, high-income nation and a regional leader in the digital economy".

Siew Suet Ming is the chief rating officer at RAM Ratings. She can be contacted at suetming@ram.com.my.

Figure 1: Financial Inclusion Framework (2011–2020) and Revisited Strategic Plan (2017–2020)

Desired outcomes

Vision: An inclusive financial system that best serves all members of society, including the underserved, to have access to and usage of quality, affordable essential financial services to satisfy their needs toward shared prosperity

- Convenient accessibility
- High take-up
- Responsible usage
- High satisfaction

Key enablers

- Technology & talent
- Data & measurement
- Strategic partnerships
- Proportionate regulation/supervision

Broad strategies – 10 strategies under FSBP

1. Innovative channels
   - Agent banking
   - Technology-based innovative channel
2. Innovative products & services
   - Flexible microfinancing
   - Microsavings
   - Microinsurance/Takaful
3. Effective FIs & infrastructure
   - Strengthen DFIs' capabilities in financial inclusion
   - Structured training in financial inclusion
   - Measurement framework & financial inclusion index
4. Well-informed & responsible consumers
   - Leverage NGOs for capacity-building programs
   - Financial literacy via mobile link & collaboration with consumer associations

6 Game changers formulated in 2017

1. Online SME financing aggregator
2. Leverage on telco & agent bank for insurance/ Takaful distribution
3. Proliferate "cashless clusters" (schools & partner malls)
4. FIs as angel investors through NGO partnerships
5. Unlocking big data to extend financial services
6. Revitalizing DFIs to drive the financial inclusion agenda

Source: BNM