



CFA Society  
Malaysia

# FinTech Forum Series 2021

## Part 1:

# Digital Banking – The Next Level of Banking Experience



# Overview of Digital Banking Landscape

- Eight virtual banks in Hong Kong have launched its operations in 2019 since The Hong Kong Monetary Authority (HKMA) granted their licences.
  - Each virtual bank offers **a set of unique services and features with a targeted audience in mind.**
  - A key pillar supporting Hong Kong's entry into the smart banking era which offers a new kind of customer experience. Whilst these challenger banks enters the market with a capital requirement of 300 HK\$ Million, it is forecasted that these virtual banks will make losses within the first 3-5 years of its operations.
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- The Monetary Authority of Singapore (MAS) **has awarded licences to 4 entities** to commence digital banking in Singapore to liberalise the financial industry and accelerate the rise of the digital economy in the Lion City.
  - MAS has allowed non-banking players to make their first foray into the heavily regulated financial services space to **co-exist** alongside traditional banks.
  - The new licensees awarded are **established players in the technology and e-commerce landscape** with strong ties with Chinese tech giants.
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- Malaysia is moving quickly to catch up with the digital banking space since Bank Negara Malaysia's announcement back in December 2020 on Malaysia's Licensing for Digital Bank Framework.
  - Applicants are scurrying to meet the deadline of 30 June 2021 to vie the coveted spot of the 5 licences to be granted.
  - The competitive landscape has led to **more collaborations** and **partnerships** with industry key players as evidently witnessed in the past month.
  - It is vital for interested applicants to **learn from the experiences of other countries on areas of opportunities and customers' experiences**, as well as envision the next level of banking experience in order to emerge and carve out a niche that they are able monetise in the long run.



Hong Kong



Singapore



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# Customer Experience

- Virtual banks in Hong Kong are producing various marketing campaigns to win customers' hearts and minds by delivering an **unrivalled customer experience** with their own set of unique product offerings and services.
  - Some of the features offered by virtual banks in Hong Kong include royalty programs, personalization tools as well as social responsibility efforts.
  - Virtual Banks aim to offer a **seamless experience** to customers by removing the pain points of traditional banking with its remote account opening and single touch-point features.
  - Whilst the younger crowd in Hong Kong have yet to be familiar with the new type of banking, it is slowly gaining traction among tech-savvy clients particularly those in financial institutions.
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- To succeed and compete with 150 existing banks in Singapore, regulators imposed a **comprehensive plan** for digital bank applicants which include an exit phase during the foundational period. During this phase, digital bank applicants needed to present a sustainable business models that show a path to profitability as regulators recognised the heightened risks associated with the new venture.
  - Digital banks will face many of the same challenges as incumbent players when it comes to **managing personal data protection, cyber security, cloud computing and business continuity risks**. However, digital banks cloud computing is not tied to systems, processes, and operating models as compared to traditional banks.
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- Aspiring digital bank applicants need to have an **agile** mindset in catering to different market segments and customers that would assist in delivering a seamless customer experience.
  - To emerge and lead in Malaysia's digital banking space, it is crucial for applicants particularly incumbent banks **to embrace collaborations** and partnerships as well as have an appetite for learning as the digital bank is far cry from the usual conventional banking.



Hong Kong



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# Lessons Learnt

## Apply

- Malaysia is an **ideal market for ethical and shariah banking** companies to base their operations in. This is in-line with the country's vision that has identified the digital economy and Islamic finance as key catalysts.
- Aspiring applicants should consider **implementing virtual account management** as an integral feature in their operating models in ensuring that customers' finances are well-managed. This feature would be appraised in delivering a wholesome digital banking experience for its potential customers.



Malaysia

## Build

- In the interim of 6 months from the submission of license application to the launch date of the country's first digital banking licences, it is essential for applicants to **choose the right organizations and partnerships** in implementing a successful operating model.
- Choosing the right partnership needs to be done right from the start, as it would enable applicants to forge a relationship with regulators. In return, applicants would have a head start in tailoring the applications according to the objectives set by the regulators.



Singapore

# Launch

- Virtual banking is a booming market and each virtual banks is fighting to get the **best talent onboard** as part of their respective operations. It is estimated that about 150 - 200 headcounts are required for each virtual bank to operate as compared to the massive headcounts in traditional banks.
- **The mindsets and perspectives of shareholders and regulators need to be shifted.** With the technological advancement in the banking sector, shareholders need to learn to be more receptive of new ideas and changes to thrive in this competitive changing landscape. Regulators on the other hand, needs new talent to manage a new entity in ensuring guidelines are met for the new banking industry.
- **New alliances and partnerships need to be formed.** Virtual banking players are seeking to partner with giant retail companies and start-ups to emerge and lead the new virtual banking space. Virtual banks are facing intense pressure from their competitors. Each virtual bank is producing ways to be relevant in paving their path of sustainability and profitability.



Hong Kong