Digital banking to advance more rapidly in Malaysia

BY **ADELINE PAUL RAJ**

Digital banking is expected to advance more rapidly in Malaysia over the next few years as strong usage of smartphones, tablets and the Internet allows banks to offer more services online, says PricewaterhouseCooper's (PwC) financial services leader for the Asia Pacific, Hugh Harley.

Digital banking has progressed at very different paces in different countries. The UK, Australia and South Korea are among the more advanced, Harley notes. "What's interesting now is that, rather than being an element of banking, computers are becoming the absolute core of banking — not just on the back end, but the front end too. Different countries are moving through that transition [to digital] at different times, but because banking is ultimately about the exchange of information, it's inevitable that digital will be a core element of banking forever.

"And I think, in a country like Malaysia, the evidence suggests — just from our discussions with the banks and the plans they've got around digital banking — that things are going to start moving quite rapidly," he tells *The Edge*.

SUHAIMI YUSUF/THE EDGE

Harley: If you look at countries like South Korea and Australia, consumers do about one electronic payment a day. In Malaysia, it's more like one a week.

In Malaysia, Internet banking was introduced over a decade ago and has become increasingly popular. Mobile banking, however, is relatively new and offers users limited services such as fund transfers.

As at June 2013, Malaysia had 14.6 million Internet banking subscribers, of which 0.3 million were corporate subscribers, translating to a 49.1% penetration rate of the population, Deputy Finance Minister Datuk Ahmad Maslan said last year. As for mobile banking, there were 3.25 million subscribers, accounting for just 10.9% of the population and 7.6% of all mobile subscribers at the time. However, it is unknown how many of them are active subscribers.

Harley notes that Bank Negara Malaysia's strong push for Malaysians to move towards electronic payments will aid the rise of digital banking. Under its Financial Sector Blueprint 2011-2020, the central bank is targeting to increase the number of e-payment transactions per capita to 200 by 2020 from 56 in 2012.

"If you look at countries like South Korea and Australia, consumers do about one electronic payment a day. In Malaysia, it's more like one a week. Roughly 30% of all non-cash transactions in Malaysia are carried out through cheques while in the rest of Asia, it's more like 10%. That's the magnitude of difference. I think it's clear we're going to see a bit of a wave here over the next few years," he says.

The rise of digital banking will not mean the end of branch banking in Malaysia as people still want a face-to-face banking experience, particularly when making heavy investment decisions. Surveys show that nearly 100% of Malaysians will use branches regularly for their banking, whereas for Thais, it's less than 80%, Harley says.

"It's clear at the moment that Malaysian consumers are a bit less willing to move to these [digital] channels for their banking, but evidence suggests, including the policies around encouraging electronic payments, that that's going to change," he says.

Banks in Malaysia take technology seriously and have invested heavily in it, notes Soo Hoo Khoon Yean, partner and financial services leader at PwC Malaysia.

"There are many reasons why different banks have invested in digital banking. For some, it's to acquire new customers and for others, it's to reduce cost. But what's important is that people in the industry generally acknowledge that digital technology is here to stay, whether you make money from it now or whether you use it as a money-making machine five years down the road," he explains.

Investing in digital is also a key part of a bank's branding. "I've heard management talking about how, if they don't get on board, the bank may be seen as somewhat of a laggard in the industry and they don't want to be in that position," Soo Hoo adds.

CONTINUES ON PAGE 57

Banks must educate consumers about digital channels

FROM PAGE 27

Digital forms the heart of banks' strategies today, Harley emphasises. "Banks' spending on digital generally needs to be the single largest share of total investments, bearing in mind that digital underpins everything they do."

But are customers ready to embrace digital banking here? "I think, given the revolution of both online and mobile, the answer is definitely yes. But of course, there are reservations. For instance, all astute customers have in the back of their mind the issue of security. The industry needs to do pragmatic things to reassure people about the security. But yes, clearly, Asian consumers are getting much, much more comfortable about this sort of banking," says Harley.

It's not just the younger, tech-savvy consumers that are attracted to digital banking, he points out. "Research shows that, actually, one of the more active groups of users is the one that's at the later end of their career, who have more time to explore these new technologies. The combination of convenience, access to information and in some cases, cheaper or lower costs, means that there are strong incentives for people to get comfortable with this."

Banks must educate consumers about digital banking and should also provide incentives to get them to use digital channels, Soo Hoo opines. "If we just do a (survey) of the banks in our country, how many would say, 'If you use Internet banking, I'll charge you a lower transaction fee as compared to if you went to a branch'? I think a lot of banks are focusing on trying to invest in the platform and their people. But what about the incentives? That could be a critical success factor that we should be focusing on as well."

Harley, a former banker, was head of PwC's financial services practice in Australia for five years before assuming his current role on July 1.

He says Australia was one of the early adopters of digital banking and today, almost all banking products — including mortgages — are available online and via mobiles. The take-up for credit cards, simple life insurance and home-content insurance is probably the three most popular items there. Less than 10% of mortgages are taken up online, he adds.

In some cases, one can open a transaction account online in less than 10 minutes. "You need to have your taxation number and your driver's licence, for instance. But the process is such that there's automatic verification by the bank that those numbers are right," Harley explains.

Soo Hoo notes that it's more challenging for Malaysian banks to offer products like loans and opening of accounts online. "For example, if you want to apply to open a bank account online, the bank needs to do certain regulatory requirements like anti-money laundering checks. So obviously, if the banks don't have infrastructure that's connected to the government agencies to do all the checks, they won't be able to do it so fast and immediately. And so, this is why it's not just a banking issue ... it's a task to be done in tandem with the government," he says.

In the UK, the value of Internet and mobile banking transactions have increased to nearly £1 billion a day and branch use is falling sharply, says a July report by the British Bankers Association. Branch banking reportedly declined 30% in the last four years.

Next year, the UK's first exclusively digital bank, Atom Bank, is expected to be launched in a bid to tap some 5.7 million people who use their mobile phone for banking. But there are already existing online banks in the world such as ING Direct, and Simple and Moven in the US. E