

Virtual Banking: Malaysian customers take charge

November 2019



Can virtual banks help Malaysian customers take charge of their banking needs?

What is a virtual bank?

A “virtual bank” is defined as a bank which primarily delivers banking services through the internet or other forms of electronic channels without the presence of physical branches.

Hong Kong Monetary Authority virtual banking guidelines

Bank Negara Malaysia has announced that applications for virtual banking licenses will be issued soon. This follows in the footsteps of other Asian countries like Hong Kong and Singapore that will issue their licenses in 2020, and other markets that have already launched theirs.

Malaysia is already a leader in Asia in a number of digital and FinTech areas, such as e-wallets, regulated cryptocurrency exchanges, and online payments. Now is the opportunity for banks and customers to consider the benefits from virtual banking licenses, as well as opportunities to offer banking to the underserved and small and medium-sized enterprises (SMEs).

To understand the implications, PwC commissioned Intuit Research to conduct a survey of banking customers in Malaysia, Singapore, and Hong Kong. Insights from our survey are revealing and will be useful for banks, regulators, and potential virtual bank license applicants to consider the opportunities ahead.



Research

overview

Why did we do this?

The entrance of new virtual banking players promises to be the biggest single disruption that the banking environment has seen in decades.

PwC has consistently championed the importance of innovation in the retail banking sector, which is now very much the focus of attention with the upcoming arrival of new challenger banks. We commissioned this research to help answer a number of burning questions heard in the market.

- As a virtual bank, what proposition should I bring to market to attract customers?
- As an incumbent, how do I defend against the challengers?
- What are the triggers and the barriers for customers to open accounts with virtual banks?
- How much share are the virtual banks likely to capture in the near term?
- Which customers are most likely to defect to virtual banks?
- How will virtual bank accounts supplant or co-exist with legacy bank accounts?

What did we do?

A quantitative survey was conducted among bank account owners aged 18+ in Hong Kong, Singapore and Malaysia in early October 2019.

The survey was conducted online by Intuit Research.

Quotas were imposed for age, gender and income to ensure sample representivity when reporting at the overall level.

Total respondents

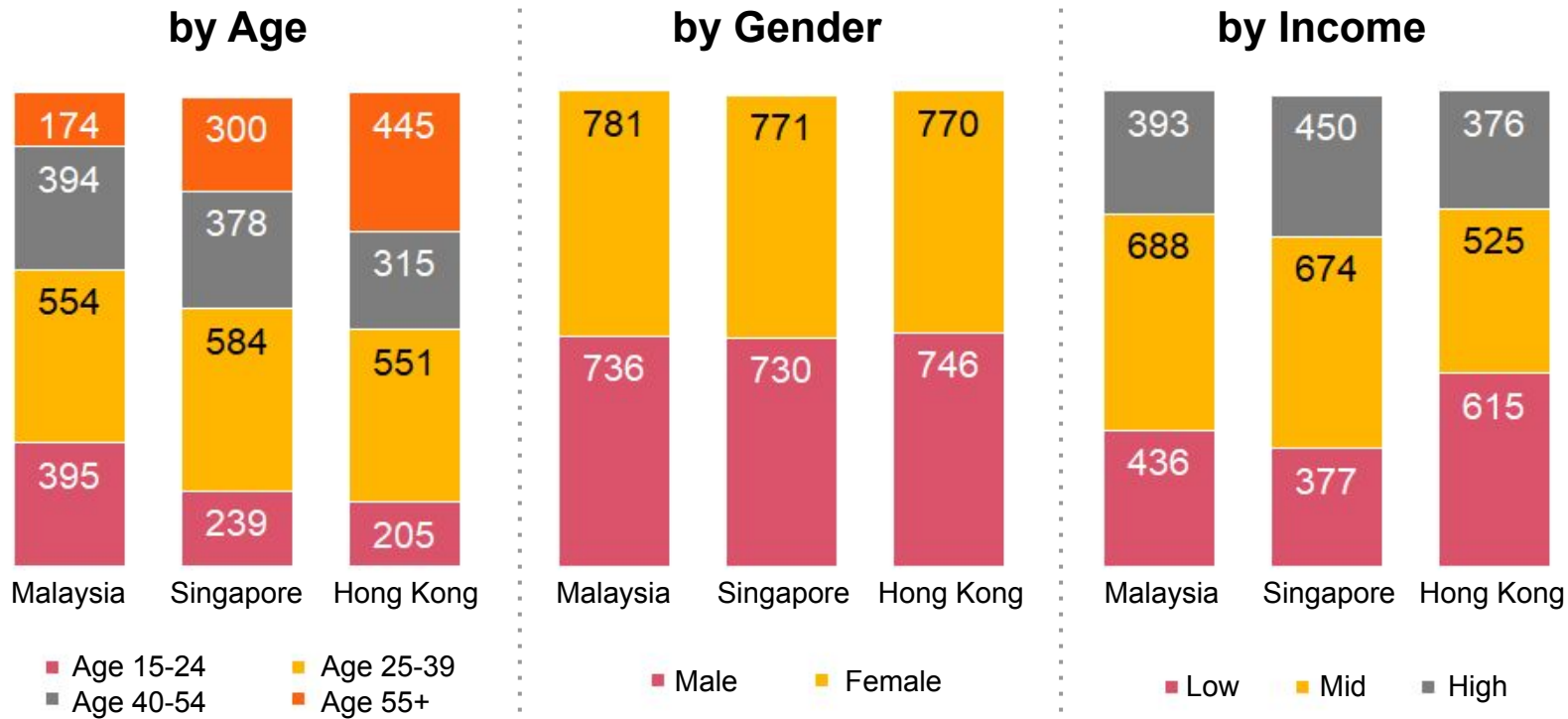
1,517
Malaysia

1,516
Hong Kong

1,501
Singapore

The survey results are representative of the potential customers for virtual banks

Interest in virtual bank by age

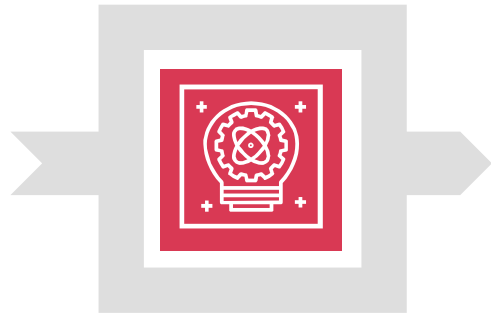


Income definition (Personal monthly income)

| | Hong Kong | Singapore | Malaysia |
|------|-------------------|------------------|-----------------|
| Low | Below HKD 15K | Below SGD 2K | Below RM 2K |
| Mid | HKD 15-30K | SGD 2-5K | RM 2-5K |
| High | More than HKD 30K | More than SGD 5K | More than RM 5K |

What we heard

Openness



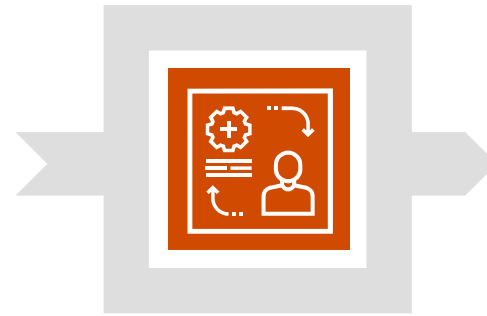
I **welcome** new technologies and services if they are better than what's currently on offer

Experience



Bad **experience**?
Hello, virtual bank!

Empowerment



Empower me
through
personalised tools

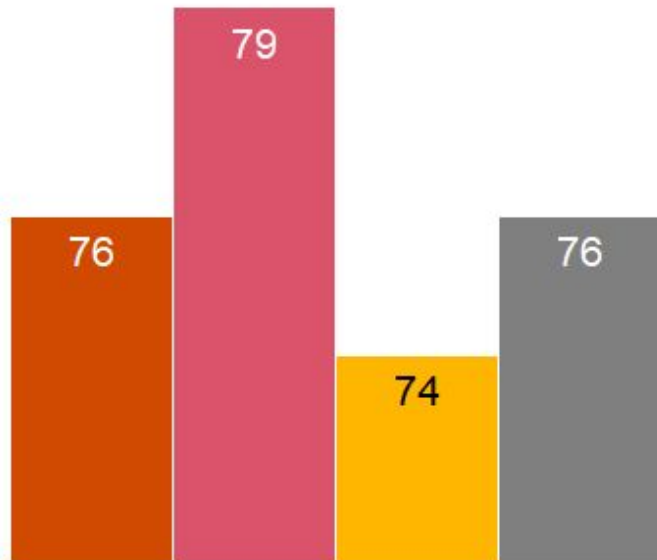
Platforms



Give me **access**
to e-commerce
and lifestyle
services

Three-quarters are already aware of virtual banks but interest in virtual banks is highest in Malaysia

Awareness of virtual bank (%)



Interest in virtual bank

■ Total ■ Malaysia ■ Singapore ■ Hong Kong

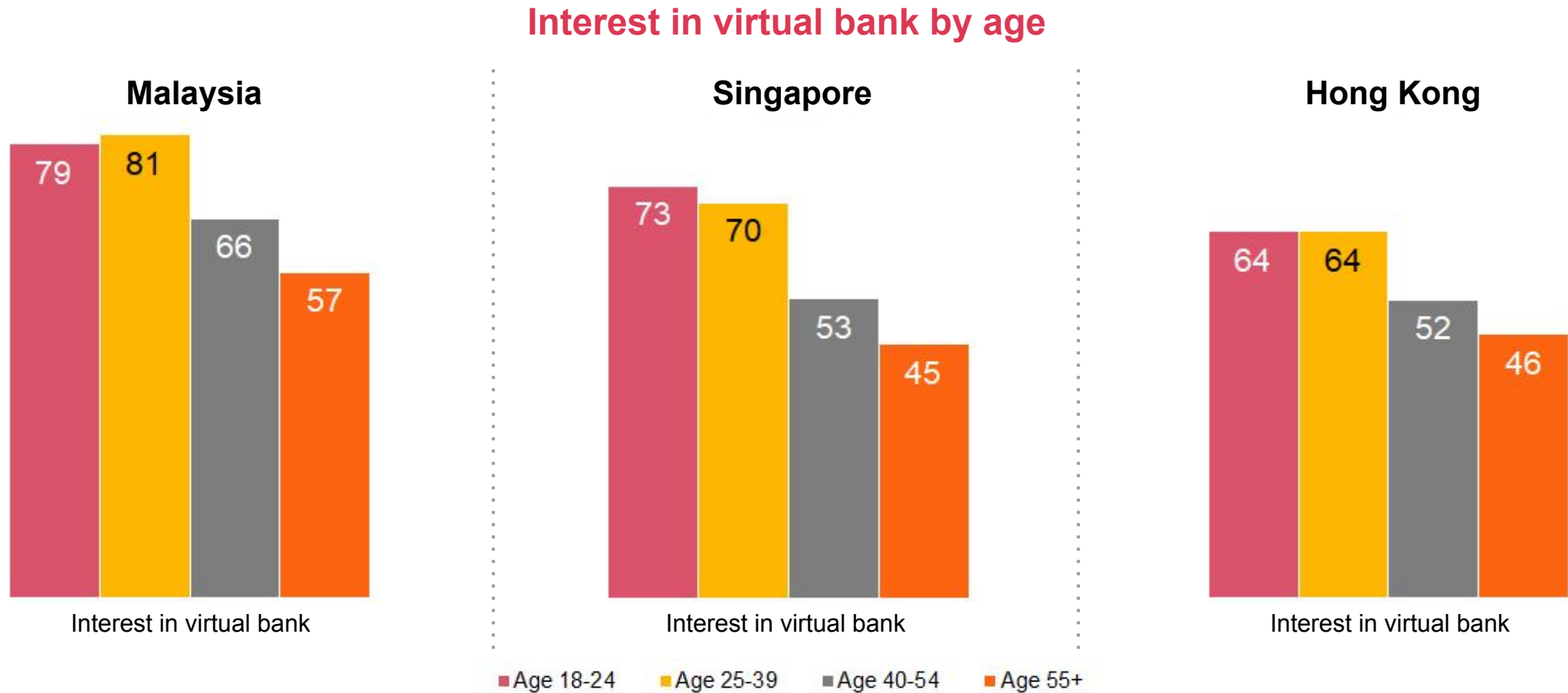
“I am interested in becoming a customer of a virtual bank”

74%
Malaysia

61%
Singapore

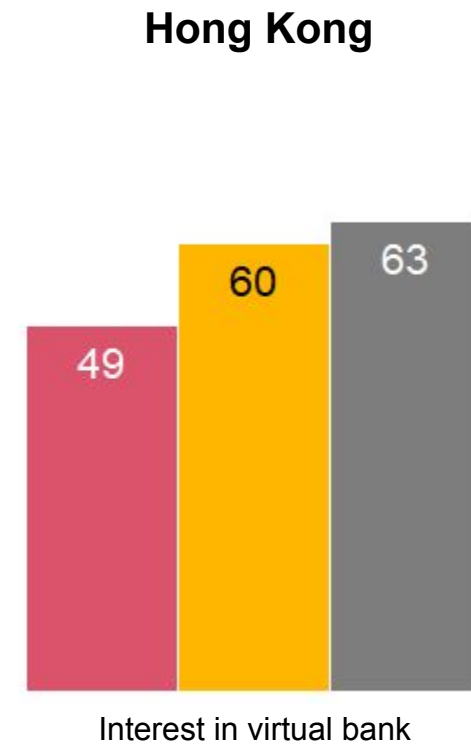
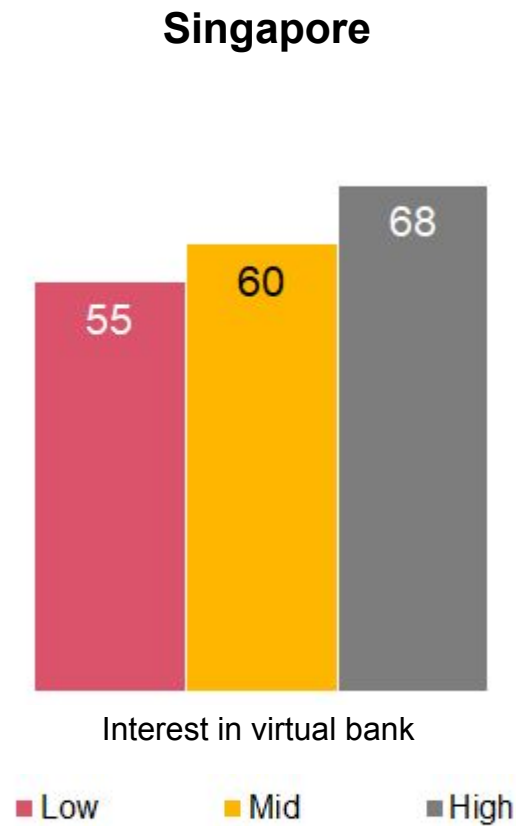
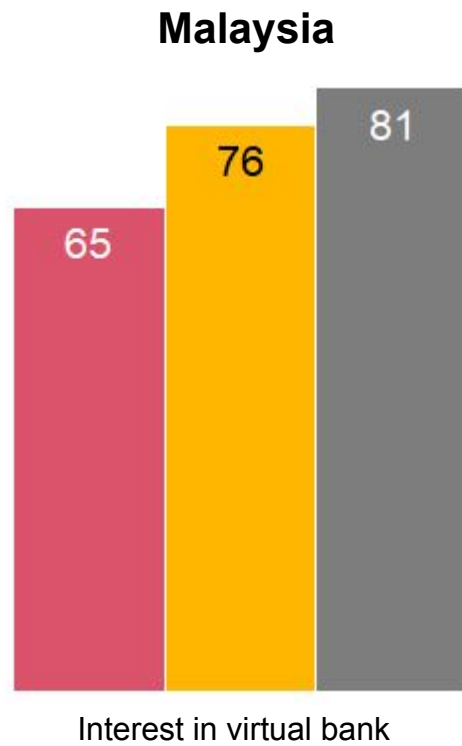
56%
Hong Kong

Interest in virtual banking is particularly strong among the 18-39 year olds



...and the affluent

Interest in virtual bank by income



Malaysians are most open to the idea of sharing their data

“*I will share my personal data with a virtual bank, as long as I am confident the data is secure*”

64%

Malaysia

55%

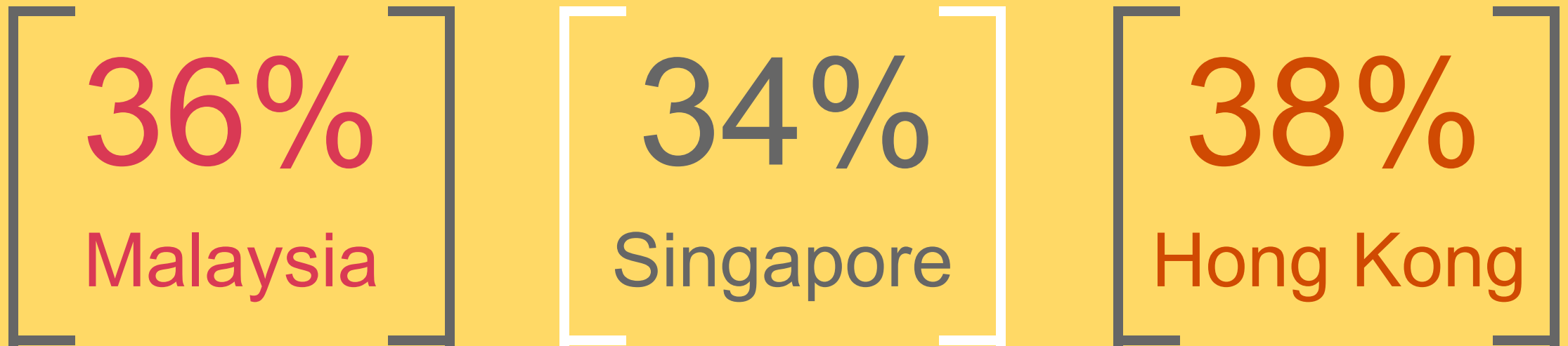
Singapore

47%

Hong Kong

...but not everyone trusts that virtual banks will keep their data secure

% trusting virtual banks in keeping their data secure





Are
incumbents
ready?

Pain points or frustrations with banks are prevalent

% with at least one pain point with current bank

65%
Malaysia

71%
Singapore

82%
Hong Kong

What we heard: Common frustrations

I have to wait
too long in
branch/
on the phone

Online
experience is
poor/ lack of
functionality

Not enough
education on
financial
products

Products are
not tailored
enough

Malaysians are especially interested in a better banking experience

**% who are looking for a virtual bank to offer
a better mobile and digital experience**

45%

Malaysia

40%

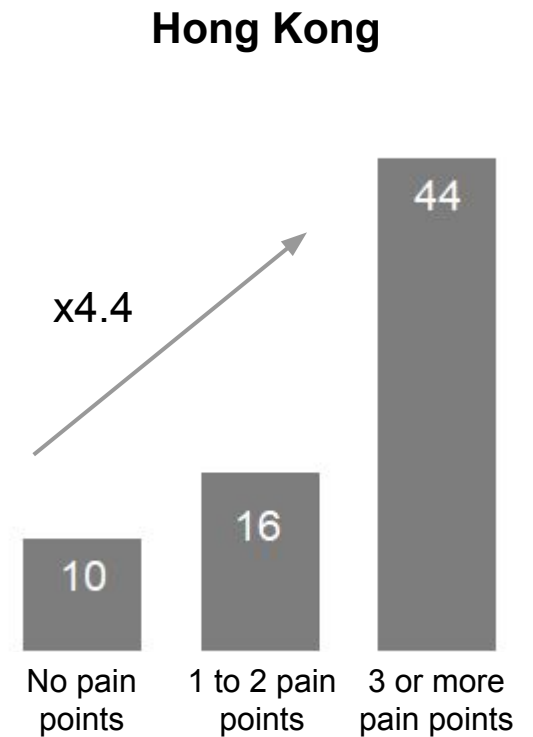
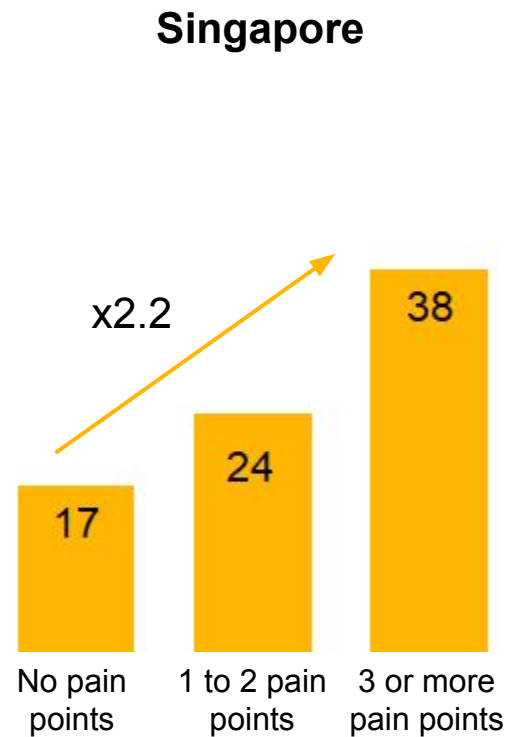
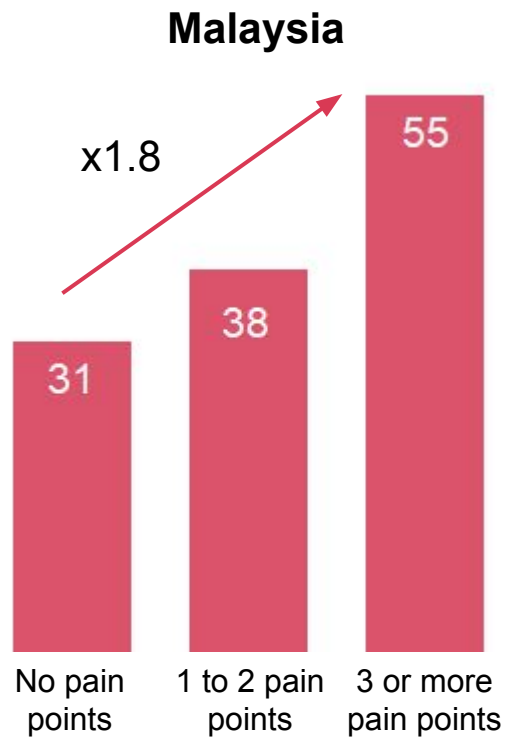
Singapore

30%

Hong Kong

Customers who experience problems are much more likely to be “very interested” in signing up with virtual banks

% very interested in opening a virtual banking account



...and certain customers are much more likely to switch due to a bad experience with their current bank

Those aged 55+

are almost twice as likely to be interested in a virtual bank due to a bad experience with their current bank*

*** Compared with those aged 18-24**

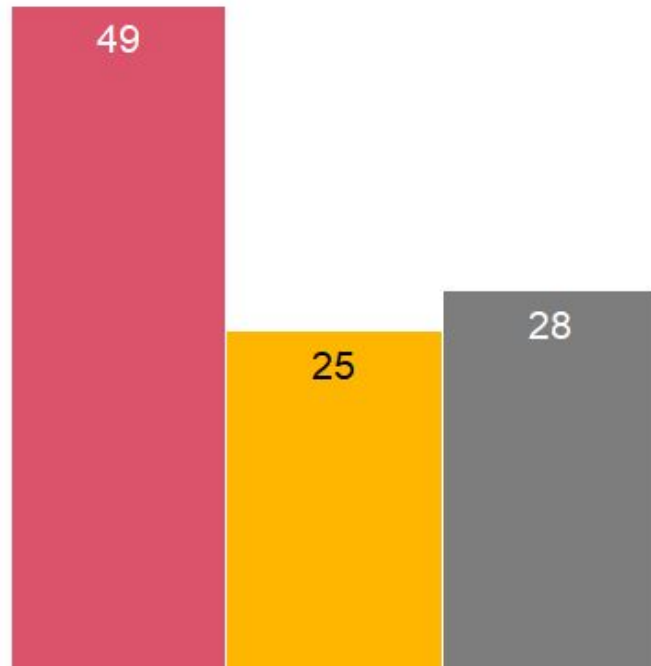
Those earning RM10k+ per month

are more than twice as likely to be interested in a virtual bank due to a bad experience with their current bank**

**** Compared with those earning RM2,000-3,500**

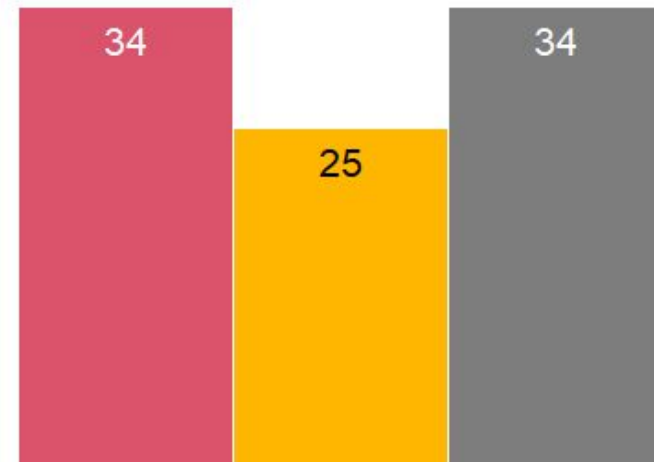
However, it's not all bad news for incumbents

One in every two Malaysians will choose the same bank that their employer uses for payroll



% that mentioned employer payroll as their main reason in selecting their primary bank

One in three choose their bank based on brand reputation

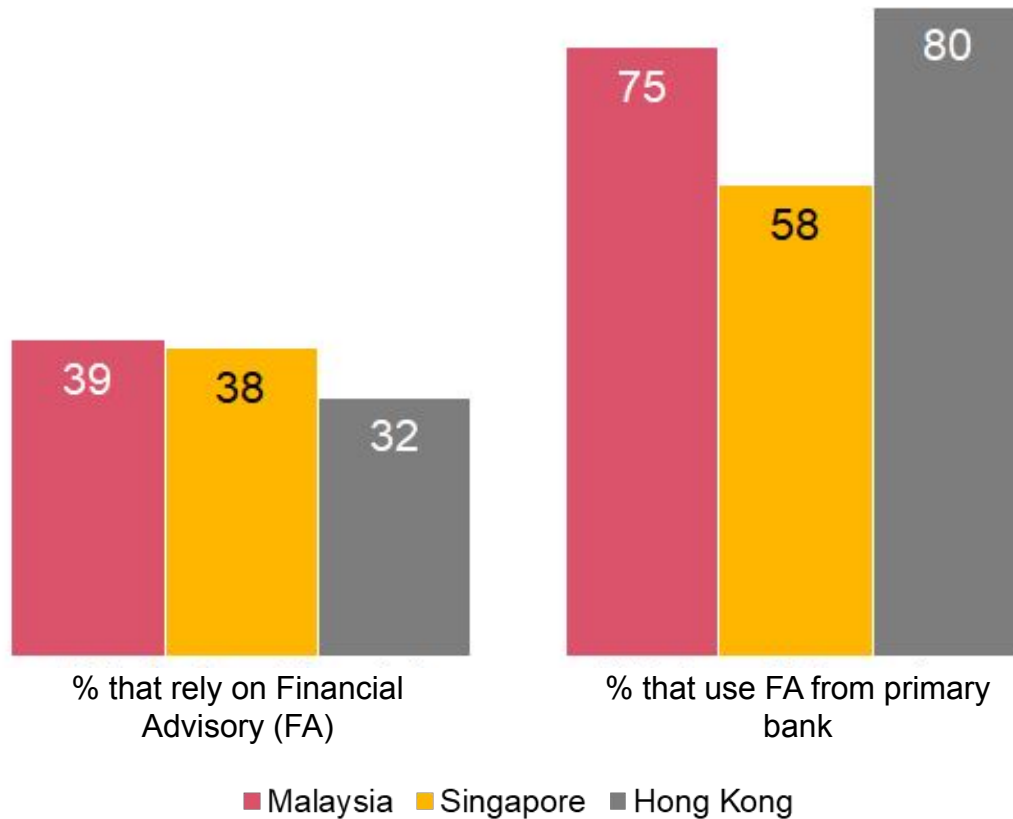


% that mentioned brand reputation as their main reason in selecting their primary bank

■ Malaysia ■ Singapore ■ Hong Kong

I trust my primary bank to help me meet my financial goals

I prefer to deal with a human



63%
For wealth
management

63%
For personal
loan

60%
For
insurance

% that preferred human interaction
for each service type



Empowering
customers
to take control

69% of Malaysians do their own financial planning, but there is interest in even more personalised information and tools

% interested in each additional feature

75%

Savings and
investment advice
based on my
current life stage

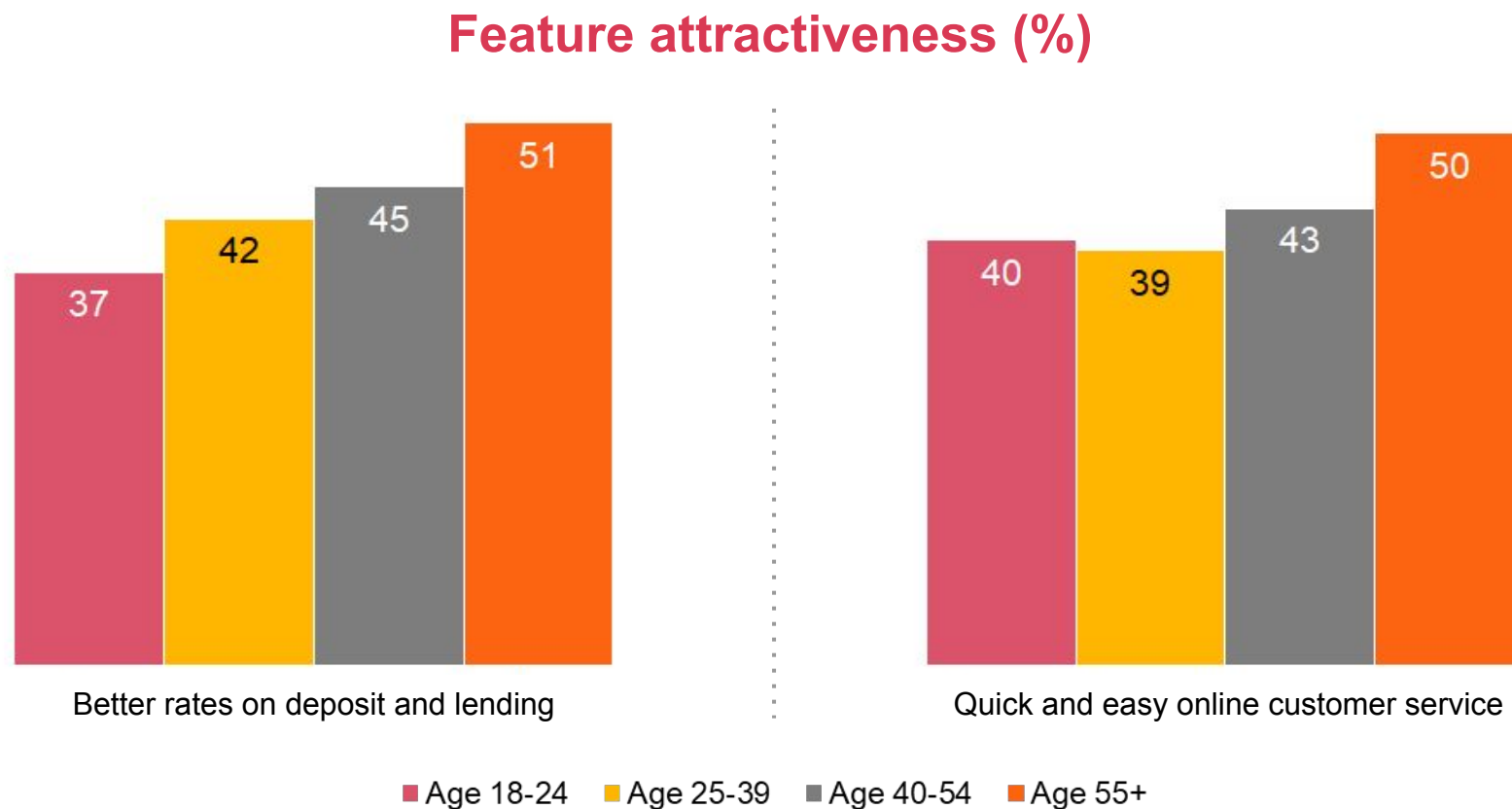
64%

Access to
analyst and
market reports

62%

Educational
videos

Customers aged 55+ are particularly receptive to service innovation as well as better rates



I am interested in my bank providing more than just financial services

Interest in additional service provided by bank

77%
Malaysia

66%
Singapore

55%
Hong Kong

Malaysians are very open to banks offering lifestyle services

“

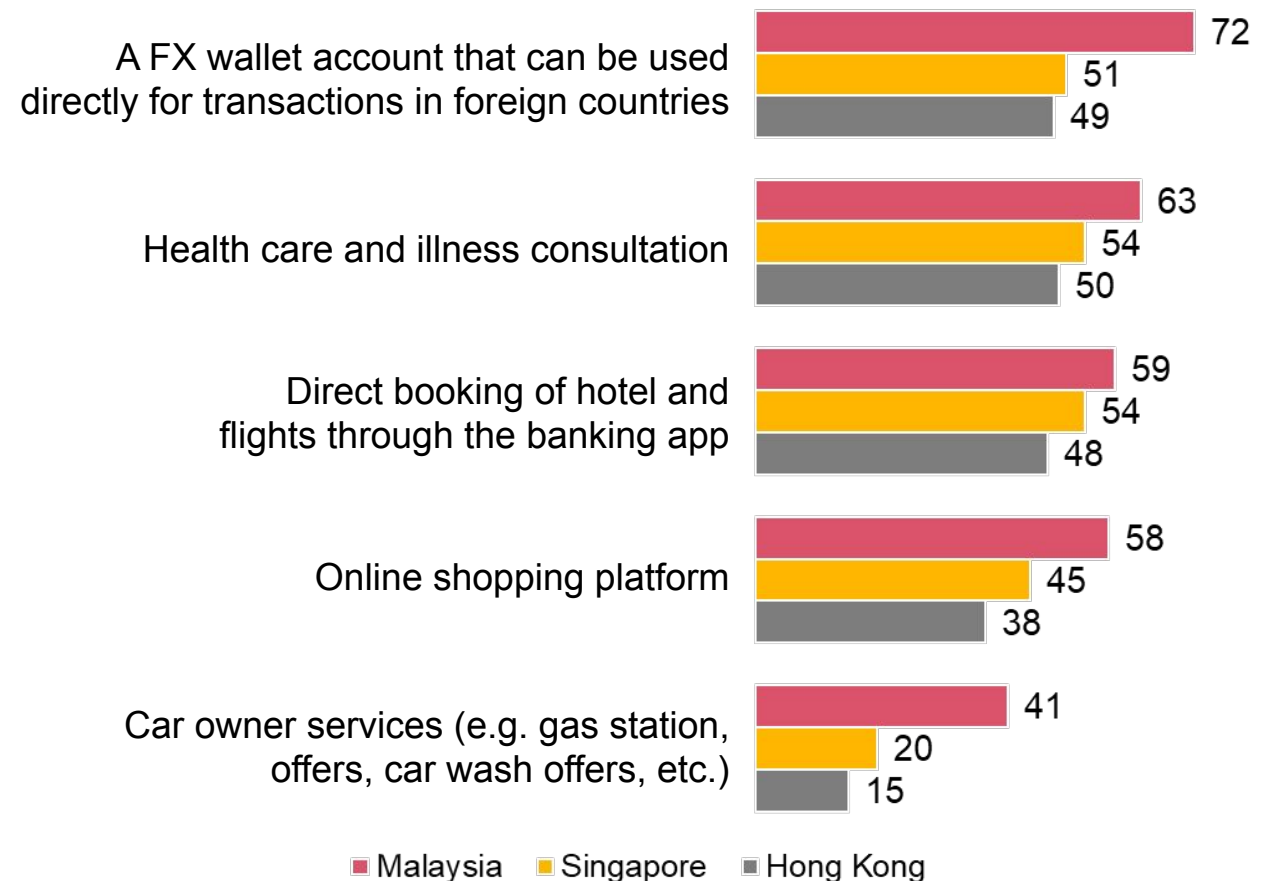
When you talk about a digital bank, it is about not having a physical presence (at all). Not the brick and mortar type. All banking services and transactions will be delivered through the Internet or other forms of electronic channels, instead of physical branches.


”

Datuk Nor Shamsiah Mohd Yunus
Governor, Bank Negara Malaysia ¹

¹ Virtual banking is happening now - BNM Governor, 2019, Bernama

Desired additional service provided by bank (%)





Key takeaways
for both challengers
and incumbents

Both challengers and incumbents can take advantage of the opportunities that lie ahead



Build and nurture trust with your customers

...in data privacy, security and your brand reputation



Capitalise on Malaysians' openness to new things

...to bring world-class experiences to an emerging market



Empower customers to better manage their finances

...with innovative access to personalised information and services



Introduce distinctive digital and lifestyle services

...which in Malaysia are not always easily available

To have a deeper conversation, contact...



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