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

Interest in virtual bank by age

by Age
- Malaysia: 174
- Singapore: 300
- Hong Kong: 445

by Gender

by Income
- Low: Malaysia: 393, Singapore: 450, Hong Kong: 376
- Mid: Malaysia: 688, Singapore: 674, Hong Kong: 525
- High: Malaysia: 551, Singapore: 550, Hong Kong: 615

Income definition
(Personal monthly income)

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<th>Hong Kong</th>
<th>Singapore</th>
<th>Malaysia</th>
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<td>Low</td>
<td>Below HKD 15K</td>
<td>Below SGD 2K</td>
<td>Below RM 2K</td>
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<td>Mid</td>
<td>HKD 15-30K</td>
<td>SGD 2-5K</td>
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<td>High</td>
<td>More than HKD 30K</td>
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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 (%)

<table>
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<th>Country</th>
<th>Interest in virtual bank</th>
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<tr>
<td>Malaysia</td>
<td>74%</td>
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<tr>
<td>Singapore</td>
<td>61%</td>
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<tr>
<td>Hong Kong</td>
<td>56%</td>
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"I am interested in becoming a customer of a virtual bank."

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Interest in virtual banking is particularly strong among the 18-39 year olds.
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...and the affluent
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
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…but not everyone trusts that virtual banks will keep their data secure

% trusting virtual banks in keeping their data secure

36% 34% 38%
Malaysia Singapore Hong Kong
Are incumbents ready?
% with at least one pain point with current bank

- Malaysia: 65%
- Singapore: 71%
- Hong Kong: 82%
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

- **Malaysia**:
  - No pain points: 31
  - 1 to 2 pain points: 38
  - 3 or more pain points: 55 (x1.8

- **Singapore**:
  - No pain points: 17
  - 1 to 2 pain points: 24
  - 3 or more pain points: 38 (x2.2

- **Hong Kong**:
  - No pain points: 10
  - 1 to 2 pain points: 16
  - 3 or more pain points: 44 (x4.4

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...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

One in three choose their bank based on brand reputation

Percentage that mentioned employer payroll as their main reason in selecting their primary bank:
- Malaysia: 49%
- Singapore: 25%
- Hong Kong: 28%

Percentage that mentioned brand reputation as their main reason in selecting their primary bank:
- Malaysia: 34%
- Singapore: 25%
- Hong Kong: 34%
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I trust my primary bank to help me meet my financial goals

I prefer to deal with a human

% that rely on Financial Advisory (FA)

- Malaysia: 39%
- Singapore: 38%
- Hong Kong: 32%

% that use FA from primary bank

- Malaysia: 75%
- Singapore: 58%
- Hong Kong: 80%

% that preferred human interaction for each service type

- For wealth management: 63%
- For personal loan: 63%
- For insurance: 60%

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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.

### Feature attractiveness (%)

- **Better rates on deposit and lending**
  - Age 18-24: 37%
  - Age 25-39: 42%
  - Age 40-54: 45%
  - Age 55+: 51%

- **Quick and easy online customer service**
  - Age 18-24: 40%
  - Age 25-39: 39%
  - Age 40-54: 43%
  - Age 55+: 50%
I am interested in my bank providing more than just financial services

Interest in additional service provided by bank

- **Malaysia**: 77%
- **Singapore**: 66%
- **Hong Kong**: 55%
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

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

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Desired additional service provided by bank (%)

- A FX wallet account that can be used directly for transactions in foreign countries: 72%
  - Malaysia: 51%, Singapore: 49%

- Health care and illness consultation: 63%
  - Malaysia: 54%, Singapore: 50%

- Direct booking of hotel and flights through the banking app: 59%
  - Malaysia: 54%, Singapore: 48%

- Online shopping platform: 58%
  - Malaysia: 45%, Singapore: 38%

- Car owner services (e.g. gas station, offers, car wash offers, etc.): 41%
  - Malaysia: 20%, Singapore: 15%
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

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To have a deeper conversation, contact...

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