

Take 5

for business

Volume 10 Issue 3 - 6 April 2022

FSB series

Advancing digitalization

Malaysia's Financial Sector
Blueprint 2022 - 2026



Building a better
working world

Overview: Malaysia's Financial Sector Blueprint (FSB) 2022 - 2026

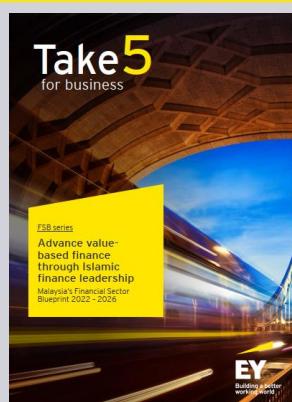
On 24 January 2022, Bank Negara Malaysia (BNM) launched the third Financial Sector Blueprint (FSB) 2022-2026. The FSB sets out BNM's vision for Malaysia's financial sector to act as a key pillar in supporting economic recovery as well as drive Malaysia's aspiration to be a dynamic, inclusive and sustainable nation.

Anchored on three themes, five thrusts and sixteen strategies, the blueprint serves as a guide to drive the development of Malaysia's financial sector to become highly adaptive in responding to a wide range of uncertain changes in the future.

In our second FSB series, we deep dive into Thrust 3, "Advancing Digitalization of the financial sector".

3 Themes

- 1 Finance for all
- 2 Finance for transformation
- 3 Finance for sustainability



5 Thrusts

- 1 Fund Malaysia's economic transformation
- 2 Elevate the financial well-being of households and businesses
- 3 Advance digitalization of the financial sector
- 4 Position the financial system to facilitate an orderly transition to a greener economy
- 5 Advance value-based finance through Islamic finance leadership

Advancing digitalization of the financial sector

Rapid innovations and evolving digital technologies are changing the risk landscape of financial services. As a result, the key transformation focus for Malaysia's financial sector is to continue leveraging on the benefits of digitalization, while managing the associated risks.

Under FSB thrust 3, "Advancing digitalization of the financial sector", BNM outlines four key strategies to advance Malaysia's financial sector:

- ▶ Future-proof key digital infrastructure
- ▶ Support a more vibrant digital financial services landscape
- ▶ Strengthen cyber security readiness and responsiveness
- ▶ Support the greater use of technology for regulation and supervision

Source:
▶ FSB 2022 - 2026, BNM

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With the rapid pace of digital innovations, financial institutions need to be on the lookout for future-proof digital infrastructure and systems that can scale-up efficiencies.



Dato' Abdul Rauf Rashid
Malaysia Managing Partner
Ernst & Young PLT



1.0 Future-proof key digital infrastructure

Future-proofing Malaysia's key financial services digital infrastructure, means that the ecosystem needs to be resilient, inclusive and adaptable. To achieve this, the FSB focuses on Malaysia's financial services digital infrastructure over the next five years, which includes the:

- ▶ modernization of a real-time¹ payment infrastructure; and
- ▶ advancement of an open data ecosystem

1.1

Leverage key financial infrastructure for Malaysia's broader digital ecosystem

- ▶ Modernization of the Real-Time Electronic Transfer of Funds and Securities Settlement (RENTAS) by reviewing the access model to include non-bank payment service providers
- ▶ Shared payment infrastructure including the adoption of common technical standards (ISO 20022, DuitNow QR)
- ▶ Enhance efficiency and explore emerging innovations for cross-border payments
- ▶ Intensify research and experimentation on the use of central bank digital currencies
- ▶ Coordinated collaboration with different government agencies and the private sector to establish a national digital identity
- ▶ Legislative and regulatory reforms to facilitate the end-to-end digitalization of business processes (use of digital and electronic signatures)
- ▶ Facilitate the accessibility and usage of digital financial services through speed, quality and affordable internet connectivity

1.2

Advance the development of an open data ecosystem that is fair and fit for the future

- ▶ Facilitate efforts to develop common standards for data sharing in the financial sector, i.e., high-impact use cases
- ▶ Support efforts to establish a shared data infrastructure for the financial sector and broader value chain
- ▶ Review the data governance framework to ensure the protection and fair treatment of financial consumers
- ▶ Enable broader arrangements for more open and secure data sharing:
 - ▶ Improve accessibility to public data and make data sharing more seamless
 - ▶ Support national efforts to develop a data protection legal framework
 - ▶ Support regional data sharing initiatives including managing cross-border fraud and money laundering

Note:

¹ Real-time payment infrastructure include real-time gross settlement systems and retail payment systems (RPS)

Source:

FSB 2022 - 2026, Bank Negara Malaysia (BNM)

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Current innovations in open data will steer banks to speed-up their collaboration with telcos, e-commerce players and payment channel providers, leading to the reshaping of the financial ecosystem.



Shankar Kanabiran
Malaysia Financial Services Consulting Leader
Ernst & Young Consulting Sdn Bhd

Future-proofing Malaysia's digital infrastructure means achieving three broad outcomes:

Resilience

A secure ecosystem that preserves the continuity of critical services in adverse situations

Inclusiveness

Promote openness and interoperability without compromising the safety of the system

Adaptability

Able to fit emerging technologies and operating models

2.0

Support a more vibrant digital financial services landscape

The current technology-driven business landscape is a key catalyst for innovation in the financial sector. While a vibrant innovation ecosystem is encouraged, the stability of the broader financial system is equally important.

The three strategies to support innovation in Malaysia's financial services while preserving the stability of the financial system are:

2.1

Enhance pathways for digital innovations to test, scale and exit

- ▶ Refresh the Regulatory Sandbox
- ▶ Advance “collaborative pilot” mechanisms (e.g., common open API standards)
- ▶ Smoothen the implementation of digital banking framework
- ▶ Finalize the regulatory framework for digital insurers and digital takaful operators in 2022
- ▶ Advocate and support the growth potential of the broader fintech ecosystem

2.2

Support industry-led strategies for digital payment adoption

Industry-led approach to the development of digital payments:

- Advance the regulations for payment system operators (PSO)
- review existing regulatory policies on digital payments
- pave the way for industry leadership and market dynamism (e.g., shareholding of PayNet)
- ▶ Support the national aspirations for digital payments under MyDigital (cashless payments)

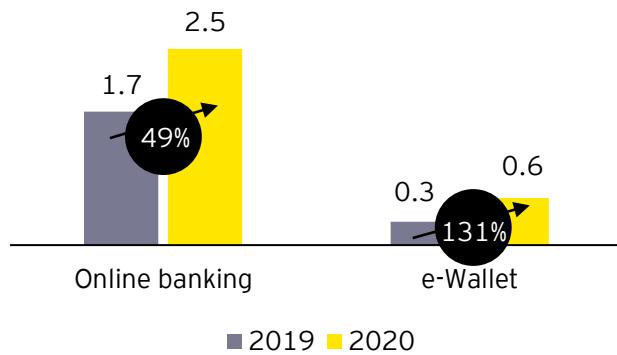
2.3

Preserve the effective oversight of digital business models

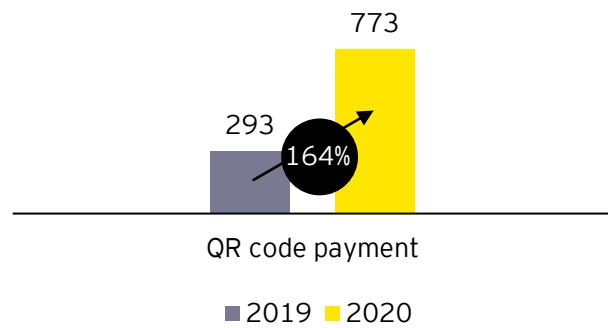
- ▶ Aim to preserve parity, proportionality and neutrality on digital business models
- ▶ Combine activity and entity-based approaches to regulation
- ▶ Focus on business continuity and the resolution framework
- ▶ Continuously develop and refine regulatory guidance on critical digital enablers
- ▶ Enhance inter-agency cooperation to better oversee emerging non-bank business models
- ▶ Ensure economic sectors are increasingly linked to financial services and adhere to regulatory mandates that are closely intertwined with monetary and financial stability

Malaysia's exponential increase in digital payment adoption (online banking, e-wallet and QR code payment)

Transaction volume (billion)



No. of registered merchants (thousand)



Note:

*Percentage calculation is based on BNM statistics

Source:

- Annual report 2020, Bank Negara Malaysia (BNM)
- FSB 2022 - 2026, Bank Negara Malaysia (BNM)

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Malaysia's launch of licensed digital banks will bring in vibrancy, innovation and better access, especially to the underserved



Kay Yeow Ling
Partner, Technology Consulting,
Ernst & Young Consulting Sdn Bhd



3.0

Strengthen cyber security readiness and responsiveness

As financial services become more intertwined with the broader network of digital relationships¹, strengthening cyber security and safeguarding data privacy are the key priorities of FIs.

The key strategies adopted are centered around

- ▶ mitigating cyber attacks; and
- ▶ enhancing collaborative arrangements with the relevant authorities and digital service providers, including telcos and cloud operators.

3.1

Strengthen system-wide cyber security oversight and capabilities

- ▶ Ensure the financial industry adheres to a strong set of minimum standards on cyber risk governance and management
- ▶ Intensify focus on cyber security issues arising from critical third-party service providers (TPSPs)
- ▶ Develop the capacity to construct and maintain comprehensive cyber contagion maps of the financial industry
- ▶ Expand the scope and coverage of resilience measures (e.g., implementation of the cyber resilience maturity assessment (CRMA) framework, organize cyber drill exercises with other stakeholders and the Government and establish the Financial Sector Cyber Threat Intelligence Platform (FinTIP))

3.2

Strengthen domestic and global collaborative efforts on cyber security

- ▶ Support efforts in strengthening digital literacy and cyber hygiene practices
- ▶ Advocate greater standardization in cyber security and cyber resilience terminology
- ▶ Facilitate initiatives to deliver specialized cyber security training and certification

Note:

¹The network of digital relationship with services providers include TPSPs (e.g., telcos, utilities, e-commerce platforms), other FIs and devices (e.g., IoT devices).

Source:

FSB 2022 - 2026, Bank Negara Malaysia (BNM)

EY/Institute of International Finance (IIF) global bank risk management survey: operational risks

► What are the banks' operational resilience priorities over the next three years

The survey found that the COVID-19 pandemic has caused the majority of banks (87%) to increase their investment priority on operational resilience.

The key operational resilience areas for banks to focus include:

- Cybersecurity controls including identity access management (70%)
- Third party dependencies (51%)
- Technology capacity to stay resilient (42%)

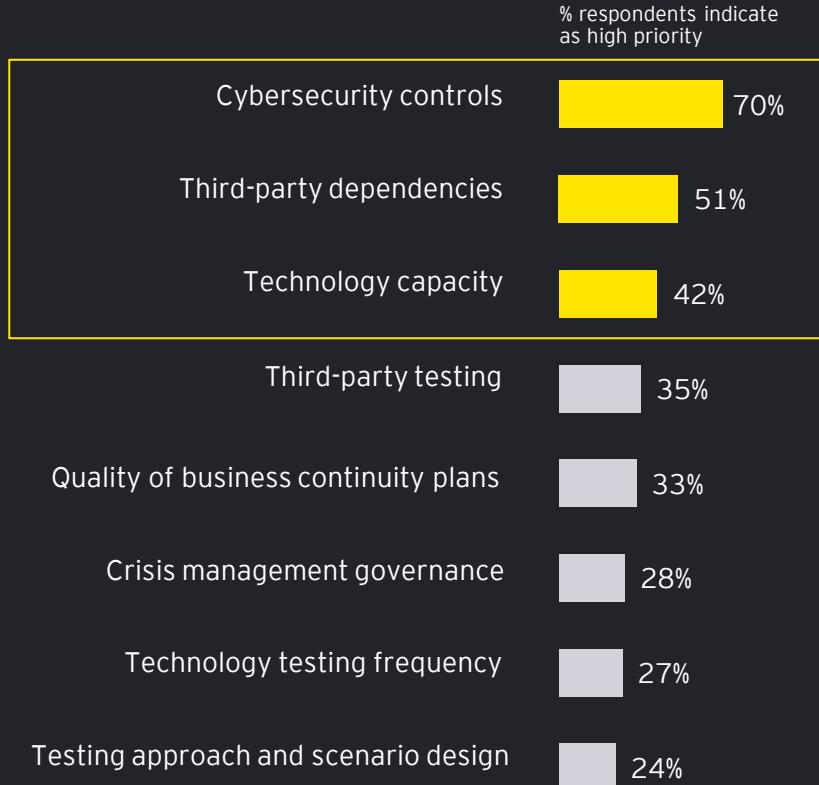
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A resilient cybersecurity plan is not about prevention alone, but also the detection of risks, containment of breaches, and recovery from cyber attacks as swift as possible



Jason Yuen
Malaysia Cybersecurity Leader,
Ernst & Young Consulting Sdn Bhd

Risks areas that banks are prioritizing over the next three years



About the EY/IIF global risk management survey

Annually, the EY organization, in conjunction with the IIF, surveyed IIF member firms and other banks in each region globally, on how banks are managing traditional and emerging risks.

The theme of the 11th annual survey is about resilient banking and how banks can capture opportunities and manage risks over the long term.

The survey was conducted from November 2020 to January 2021 and received responses from 88 FIs across 33 countries.

Source:
11th annual EY/IIF global risk management survey; resilient banking: capturing opportunities and managing risks over the long term, June 2021, EY

4.0

Support the greater use of technology for regulation and supervision

With data becoming the lifeline of digital business models, the way forward is to leverage on digital technologies to create, collect, capture, synthesize and share data, with the goal of improving the efficiency, integrity and security of the financial ecosystem.

Data is expected to become a vital tool for the surveillance of risks and vulnerabilities to enable more timely and targeted interventions.

4.1

Leverage technology to further strengthen the Bank's regulation and supervision of the financial industry

- ▶ Foster greater integration of risk analytics engines to support holistic surveillance across different data sets
- ▶ Streamline a more efficient regulatory and compliance process (e.g., a single application and submission interface with monitoring capabilities for all financial institutions)

4.2

Future-proof the Bank's data strategy

- ▶ Gradually phase out manual or semi-automated data submissions and quality control processes and explore the use of an Application Programming Interface (APIs)
- ▶ Leverage the use of geospatial and other technologies to continuously enhance the granularity of data
- ▶ Enhance public access and portability to financial and economic data sets through Open Data initiatives

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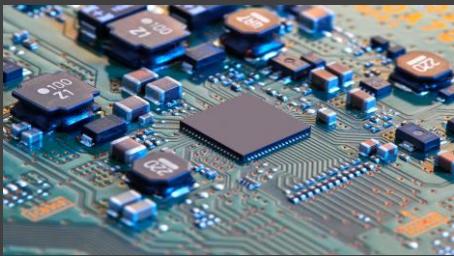
FIs need a data-driven approach and advanced technologies to mitigate operational risks and improve efficiencies in their regulatory compliance.



Joazral Yusof
Partner, Financial Services Risk Management
Ernst & Young Consulting Sdn Bhd

How to advance digitalization

The advancement of Malaysia's digital financial services require the continuous strengthening of risk management policies and measures to mitigate contagion risks, while adapting to innovation changes . The five areas for FIs to consider in their digital transformation include:



1 Being part of the ecosystem

- ▶ Understand FIs involvement in the digital relationships with service providers; and identify synergies and areas for collaboration
- ▶ Embedding products and services at the point of need to capture full market value



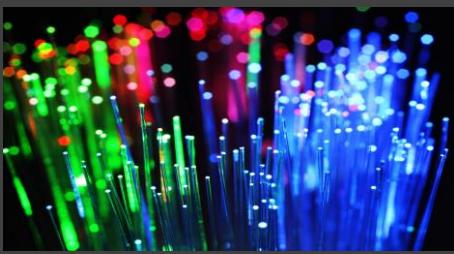
2 Preparing for cyber attacks

- ▶ Implement measures to strengthen the end-to-end delivery of services
- ▶ Review corporate security positions and business continuity plans to ensure resiliency



3 Managing data effectively

- ▶ Protect new or alternative sources of data
- ▶ Safeguard consumers data privacy
- ▶ Develop measures to share data with the public (e.g., data for financial and non-financial disclosures for Environmental, social and governance (ESG) reporting)



4 Being ready for technology acceleration

- ▶ Transition to new and emerging technologies (cloud adoption, automation, AI*/machine learning, blockchain) that enable flexibility, scalability and security by design
- ▶ Leverage advanced technology to deliver business value



5 Recruiting new talents and fostering an agile and innovative work culture

- ▶ Tap into new talents with skills such as cybersecurity, data science, climate change, data modelling, AI/machine learning
- ▶ Foster agility and innovation in the work culture and environment

Note:

AI refers to artificial intelligence

Source:

11th annual EY/IIF global risk management survey; Resilient banking: capturing opportunities and managing risks over the long term, June 2021, EY

Case studies: Making it happen

Successful digital implementations globally



		South Korean digital bank on a messenger platform which disrupted the traditional banking services experience	South African bank which encourages customers to be financially healthy via reward program
1	Being part of the ecosystem	<ul style="list-style-type: none"> ▶ Create “extreme” convenience of services ▶ Review and re-engineer all existing processes 	<ul style="list-style-type: none"> ▶ Integrated ecosystem offerings, e.g., Group Products, Samsung Pay, Pay your Contacts, Apple Store Benefits
2	Preparing for cyber attacks	<ul style="list-style-type: none"> ▶ Design the architecture for performance and stability ▶ Ensure high performance and maintain stability against system failure, and fast failover 	<ul style="list-style-type: none"> ▶ Maximize secured digital service points through mobile experience, enabled by secured service and core platform
3	Managing data effectively	<ul style="list-style-type: none"> ▶ Data collection and processing/analysis from Day 1 ▶ Real-time sync of data processed in Core platform 	<ul style="list-style-type: none"> ▶ Behavior and banking - encourage regular interaction with bank apps to meet customer goals, monitor money and redeem rewards ▶ Push financial education and monthly goals setting
4	Being ready for technology acceleration	<ul style="list-style-type: none"> ▶ Account opening, 24 x 7 with automated decision making ▶ Easy transfer via phone number, SMS, ▶ Card-less pay: QR code and NFC based convenient payment service 	<ul style="list-style-type: none"> ▶ Innovate products such as upfront Interest and global credit limits
5	Recruiting new talents and fostering an agile and innovative work culture	<ul style="list-style-type: none"> ▶ 1/3 of the employees have an IT background (UI/UX design, technology innovation and service design) 	<ul style="list-style-type: none"> ▶ Mobile-led experience, no branches - digital onboarding

Notes:

- ▶ NFC refers to near field communication
- ▶ UI / UX refers to users' interface and users experience

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To fast-track FI digitization, we do not need to re-invent the wheel. There are already successful digital banks out there.



Christina Low
Partner, Technology Consulting,
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