

# Take5 for business

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Participating in  
digital banking,  
Malaysia

# Industry 4.0

has spurred numerous **technology-based innovations** that have accelerated the **transformation** of business models, global market access, governance and regulatory frameworks.

In a series of measures aimed to enable **innovative application of technology** in Malaysia's financial sector, Bank Negara Malaysia has recently released an **Exposure Draft on The Licensing Framework for Digital Banks**.

The proposed framework seeks innovative business models to serve Malaysia's **underserved and unserved** market segments. **Traditional, licensed banks** (including Islamic banks) and **new participants** can apply for a digital banking license in 2020.

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As we step into a new decade, the introduction of **digital banks** will strengthen the growth of Malaysia's digital platform economy, expand market access, **optimize business performance** and delight netizens.

**Chow Sang Hoe**

EY Asean Advisory Leader, Malaysia  
Advisory Managing Partner,  
Ernst & Young Advisory Services Sdn Bhd

# The microcosm of a digital bank

Digital banks are not merely a digital channel for banking. They are fundamentally different to a bank with digital channels.

True digital players embed “digital” in all aspects – business model, operating model, technology and talent.



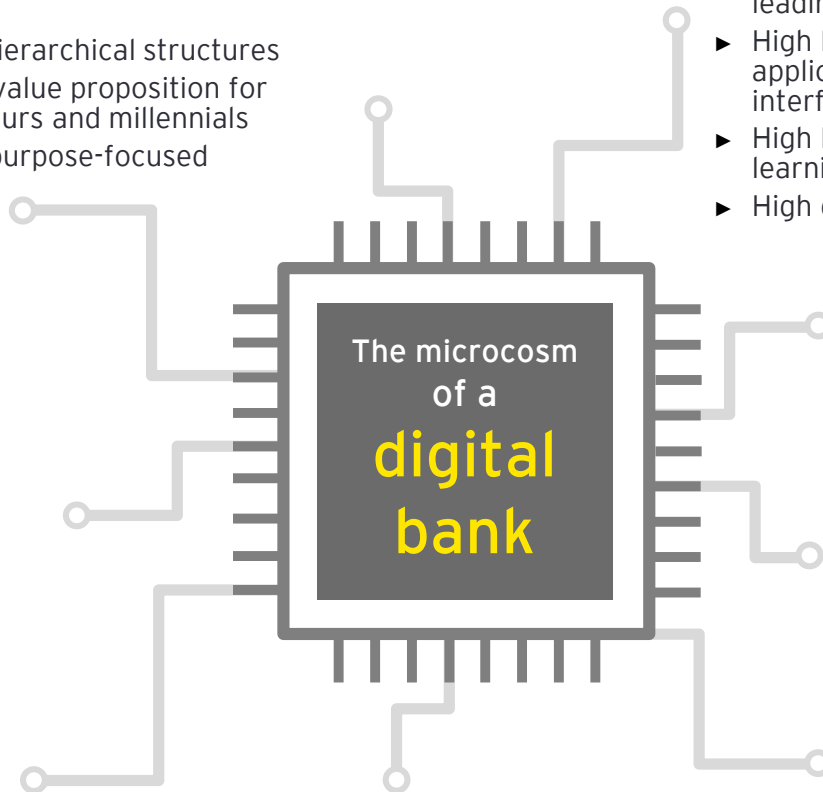
## Talent

- ▶ High proportion of engineers and design professionals
- ▶ Multi-disciplinary teams working together
- ▶ Flat, non-hierarchical structures
- ▶ Employee value proposition for entrepreneurs and millennials
- ▶ Values or purpose-focused



## Technology

- ▶ Configurable core banking
- ▶ Built on today's technology leading practices
- ▶ High leverage of cloud and open application programming interfaces (APIs)
- ▶ High leverage of AI and machine learning
- ▶ High degree of automation



## Business model

- ▶ Target micro-segments
- ▶ World-class Customer Experience (CX)
- ▶ Simple products, pricing and transparency
- ▶ High degree of personalization
- ▶ Embed in daily life of target segments



## Operations

- ▶ No/limited branch network
- ▶ Design process for NoOps (No operations)
- ▶ Aim to achieve low cost to income ratio (CIR)
- ▶ Mobile-only, virtual or robo-led servicing
- ▶ Leverage non-traditional data for credit assessment

# Accelerating digital transformations

Digital banking to drive financial inclusion

Bank Negara Malaysia (BNM)'s proposed Licensing Framework for Digital Banks aims to drive financial inclusion and deliver quality and responsible usage of financial services.

Up to five licenses may be issued to qualified applicants to establish digital banks to conduct either a conventional or Islamic banking business.

## Digital banks: 5 application criteria

1

### Best interest of Malaysia

Commitment in driving financial inclusion, including to ensure quality access and responsible usage of financial services

2

### Demonstrate viability and sound operations

Maintain asset threshold of no more than RM2b in the first 3-5 years ("Foundational" phase)

3

### Comply with regulations

Must comply with Financial Services Act (FSA) and Islamic Financial Services Act (IFSA) regulations, with simplified regulatory requirement in the "Foundational" phase

4

### Meet the needs of the underserved and unserved segments

Offer meaningful access and responsible, affordable financial solutions

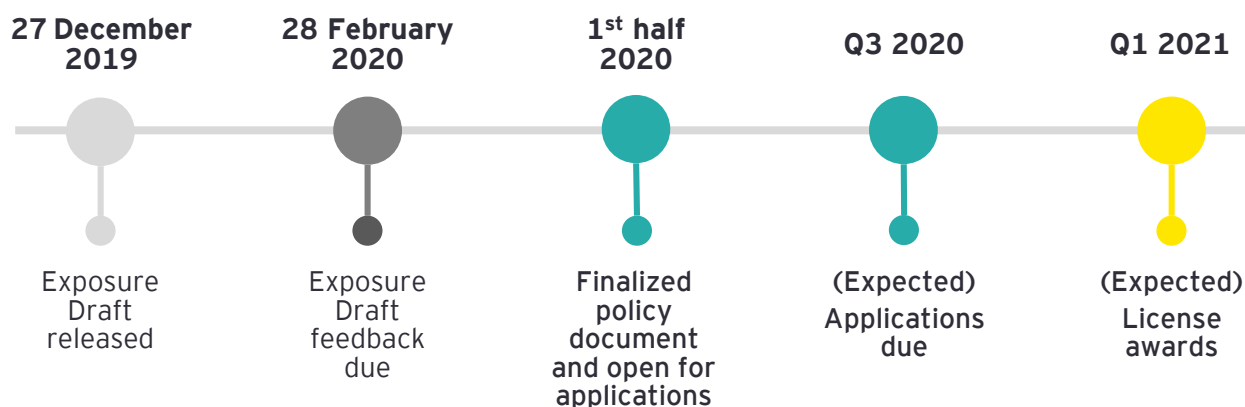
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### Safeguard the integrity and stability of the financial system

Through capital funds of RM100m in the "Foundational" phase, and RM300m thereafter

## Licensing Framework for Digital Banks and application timelines

The licenses are expected to be awarded in early 2021.



Sources:

- Licensing Framework for Digital Banks, Bank Negara Malaysia
- Press releases, Bank Negara Malaysia

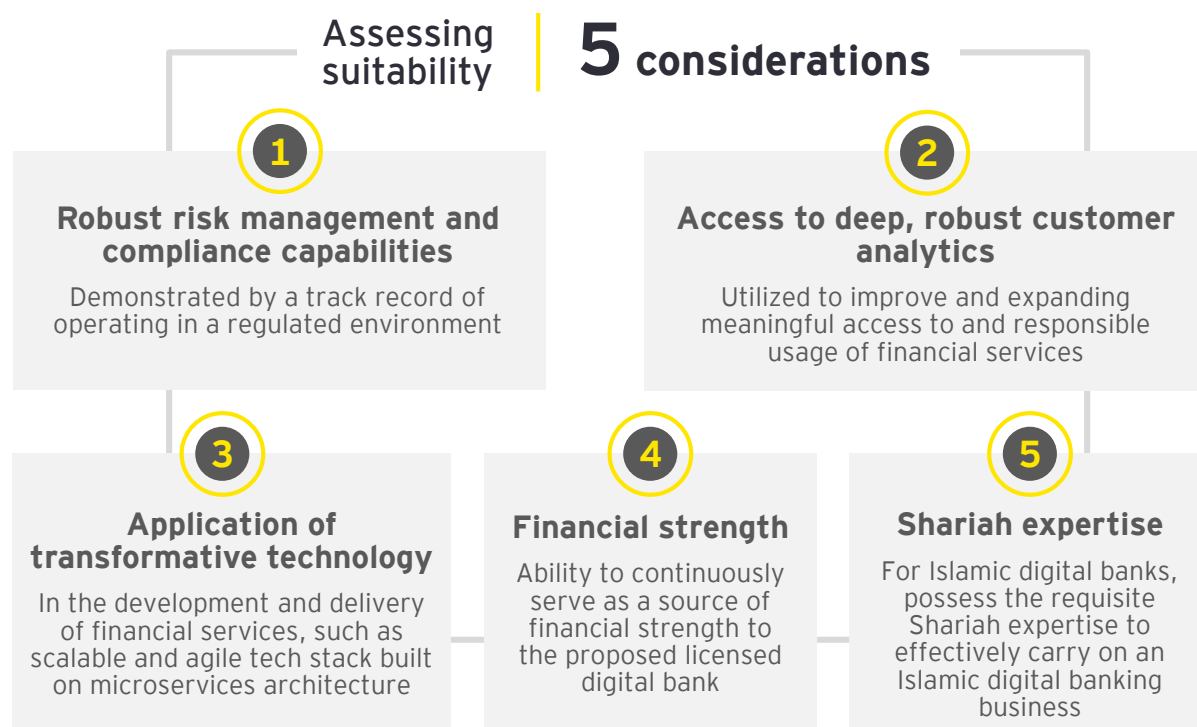
## Regulatory requirements for digital banks

Licensed digital banks must comply with the equivalent regulatory requirements applicable to a licensed bank/Islamic bank, except for specific requirements as stated below:

Areas of simplification/exemption to the existing regulatory framework	
<b>Capital adequacy requirements</b>	<ul style="list-style-type: none"> <li>▶ Minimum Total Capital Ratio (TCR) of 8% with simplified calculations of the following risk-weighted assets: <ul style="list-style-type: none"> <li>▶ Credit risk</li> <li>▶ Operational risk; and</li> <li>▶ Market risk</li> </ul> </li> <li>▶ Only Common Equity Tier 1 (CET1) capital is recognized in the computation of TCR</li> <li>▶ Exempted from capital buffer requirements</li> </ul>
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>▶ Simplified liquidity requirements</li> <li>▶ The bank may impose Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) requirements when the digital bank conducts significant maturity transformation</li> </ul>
<b>Stress testing</b>	<ul style="list-style-type: none"> <li>▶ Exempted</li> </ul>
<b>Public disclosure</b>	<ul style="list-style-type: none"> <li>▶ Simplified requirements</li> </ul>

## Considerations for assessing shareholders

BNM considers the ability of applicants and relevant shareholders to contribute to a proposed licensed digital bank in the following areas:



Sources:

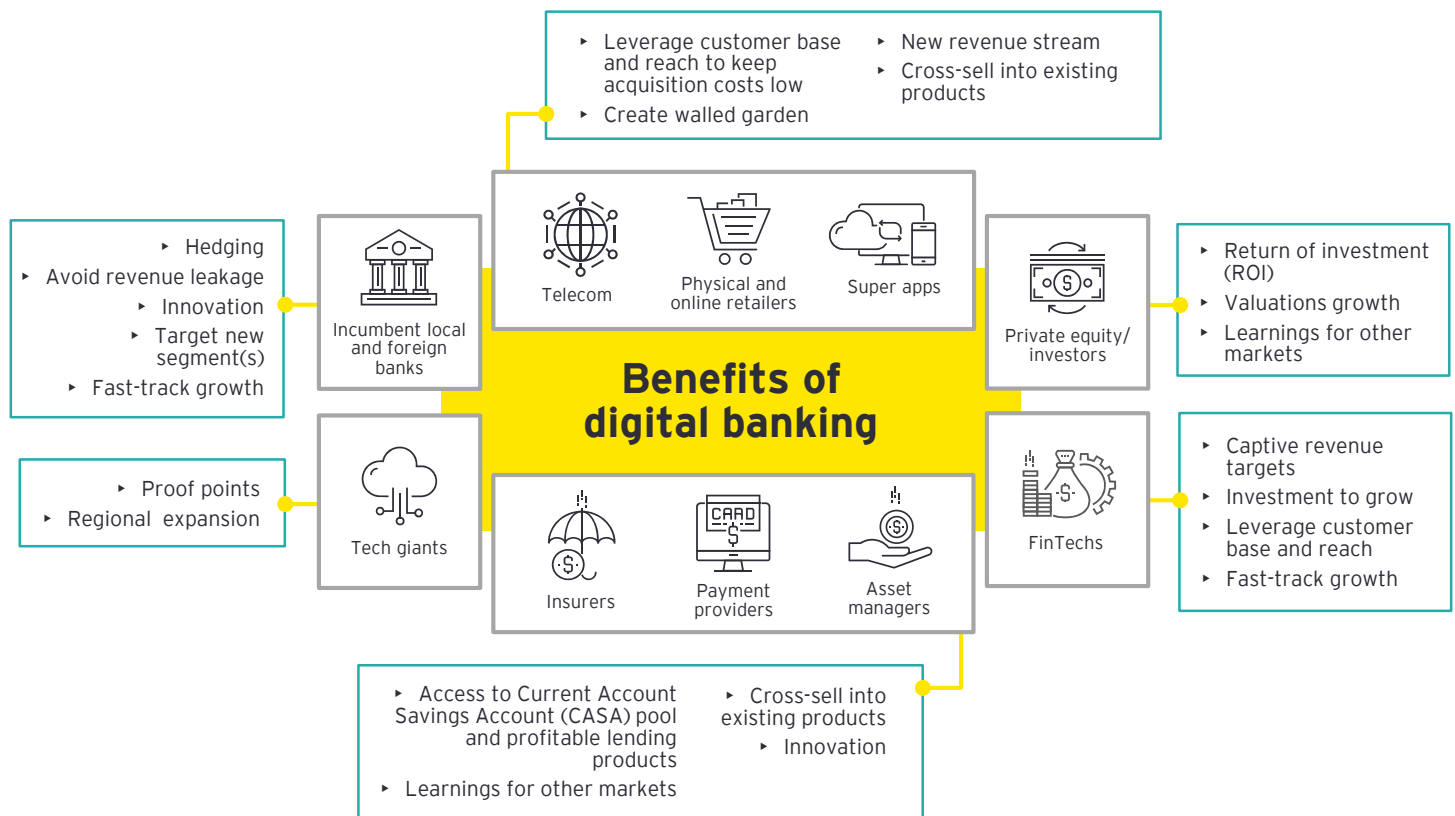
- ▶ Licensing Framework for Digital Banks, Bank Negara Malaysia



# Considerations for digital banking

## The case for digital banking participation

Players across different industries can benefit in unique ways:



## 6 capabilities to run a digital bank

Consortiums/partnerships can be formed to develop the critical capabilities needed to successfully launch a digital bank.



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Malaysia's proposed digital banking framework **redefines the financial services ecosystem** and offers exciting opportunities for banking incumbents and new players to provide **responsible usage of suitable and affordable** financial services.

**Shankar Kanabiran**

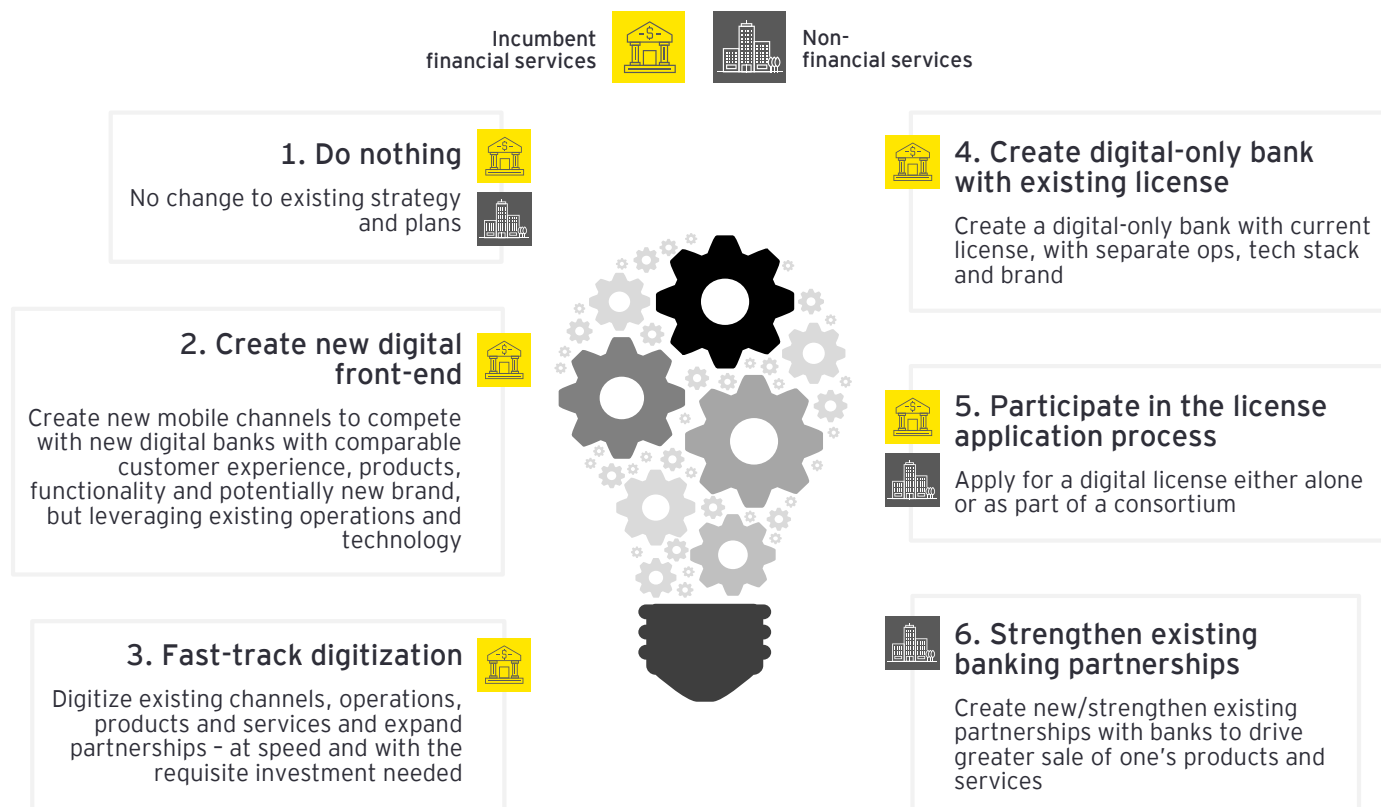
Partner, Malaysia Financial Services Advisory Leader,  
Ernst & Young Advisory Services Sdn Bhd

Sources:  
EY Advisory

# Your digital transformation partner

## How can EY teams help?

In response to the digital banking regulations in Malaysia, both incumbent financial services institutions and non-financial services institutions can explore a number of options:



EY teams can help you from strategy to execution in your digital bank journey, from assessing your strategic options and partnerships to all aspects of the application submission process for setting up a new digital bank.

## Illustration: An Asia-Pacific digital bank

EY professionals advised a digital-only bank on its strategy and implementation.

### Metrics achieved:

#### Performance

- ▶ Acquired 1m customers within 5 days (currently 10m)
- ▶ Breakeven within 3 years

#### Customer

- ▶ Majority of customers aged 30-80
- ▶ 80% of bank accounts are active

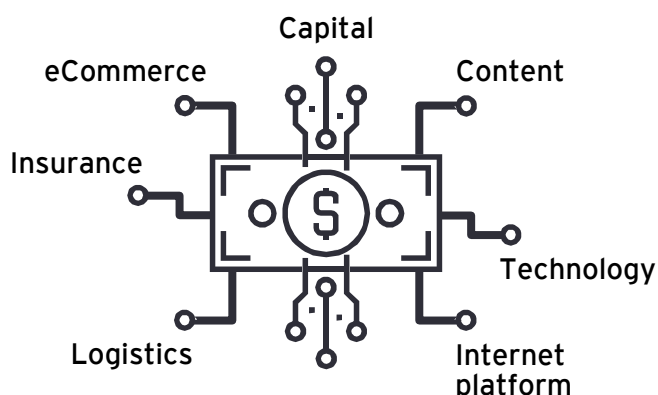
#### Products

- ▶ Account opening < 7 mins
- ▶ Unsecured loan < 1 min

#### Operations

- ▶ Cost-to-income ratio lower than bank average
- ▶ 1/3 of workforce are IT specialists

### Key industry partners



# EY contacts

**Dato' Abdul Rauf Rashid**

EY Asean Assurance Leader  
Malaysia Managing Partner  
Ernst & Young PLT

Tel: +603 7495 8728  
abdul-rauf.rashid@my.ey.com

**Chow Sang Hoe**

EY Asean Advisory Leader  
Malaysia Advisory Managing Partner  
Ernst & Young Advisory Services Sdn Bhd

Tel: +603 7495 8696  
sang-hoe.chow@my.ey.com

**Shankar Kanabiran**

Partner, Malaysia Financial Services  
Advisory Leader  
Ernst & Young Advisory Services Sdn Bhd

Tel: +603 7495 8824  
shankar.kanabiran@my.ey.com

**Chan Hooi Lam**

Partner, EY Asean FSO Market Segment  
Assurance Leader  
Ernst & Young PLT

Tel: +603 7495 8753  
hooi-lam.chan@my.ey.com

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[ey.com/my](https://ey.com/my)

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- ▶ Accelerating digital transformation - Four imperatives for risk management, 2018, EY
- ▶ What's after what's next? The upside of disruption, 2018, EY