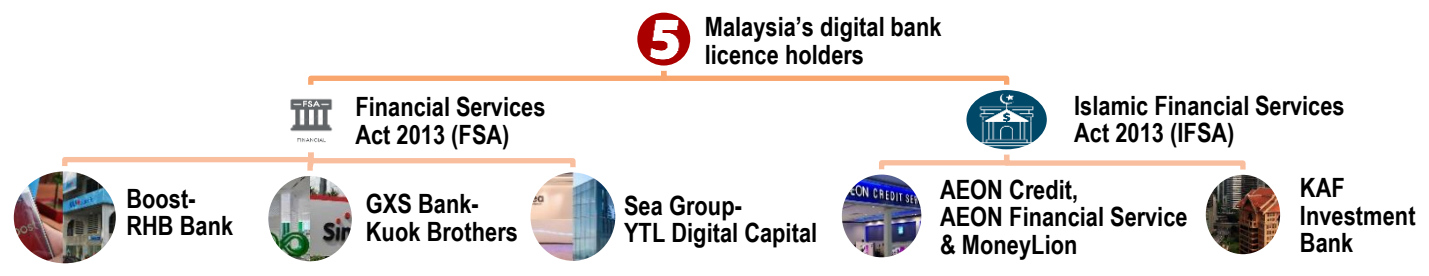


SNAPSHOT

10 MAY 2022

Digital Bank License

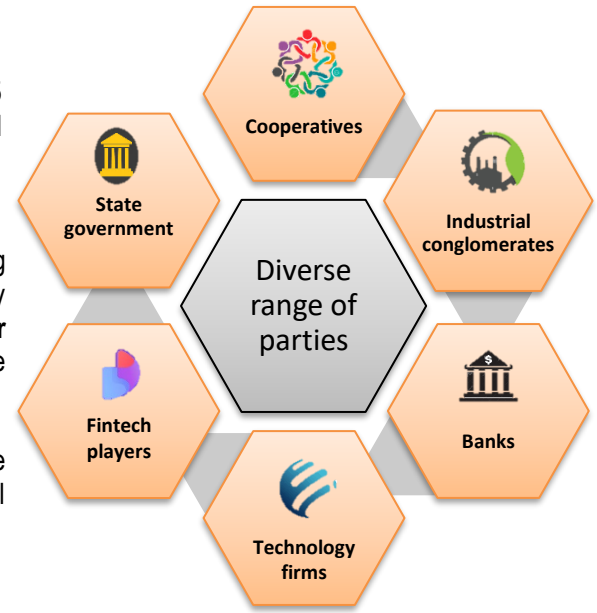


Bank Negara Malaysia (BNM) issued its Licensing Framework for Digital Banks in 2020 to kick start digital banking services in Malaysia. Of the 29 applications, 5 applicants were granted licences to provide financial services to **under-served and unserved** populations.



A digital bank license accords non-bank companies the power to offer banking services through platforms like a mobile app. In brief, digital banking essentially opens up the horizon of financial technology beyond online banking, to **further advance financial inclusion**. Technology-based innovations will flourish within the financial sector, enhancing and delivering efficient services.

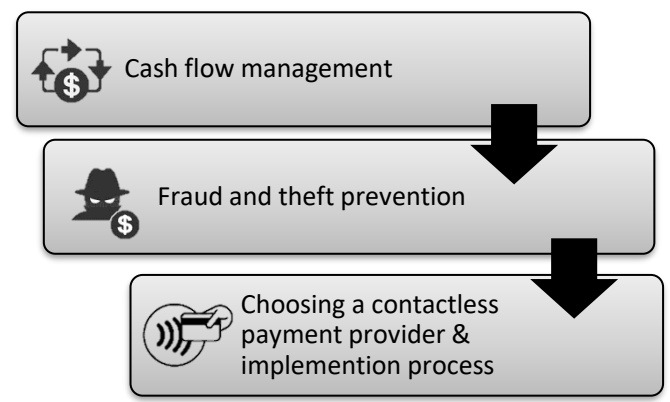
Digital banks can help individuals & businesses gain better access to more personalised solutions backed by data analytics. As businesses move online, digital banking also provides a safer and a more convenient way to transact.



THE BENEFITS OF DIGITAL BANK LICENSE

- Enable Microfinancing
- Involving smaller loans
- Expanding meaningful access
- Promoting responsible usage of suitable financial solutions to unserved & underserved segments.

DIGITALISATION CHALLENGES FACED BY SMES



THE IMPACT OF DIGITAL BANKING TO FINANCIAL INSTITUTIONS

Malaysia's push for digital banking will help provide cost-effective financial services to retail customers and the underserved community. Digital banks may offer more affordable services & **improve access to groups** such as small businesses, gig economy workers, youth or students.

1. Lower operating & transaction costs

Banks and credit institutions that adopt digital banking can spend less money on IT infrastructure and people costs. Automation allows banks to streamline their back-end processes and reducing errors.

2. Become more competitive

Increasing digitisation that enables various payment options will retain and attract customers, especially the younger generations. Working with fintech companies to provide a more digitised banking solution will place a bank in a stronger position. Examples:

- ❖ Simplifying forms to set up banking accounts
- ❖ Ability to accept alternative collaterals for loans
- ❖ Faster loan disbursements
- ❖ More innovative credit evaluation

DIGITALISATION:

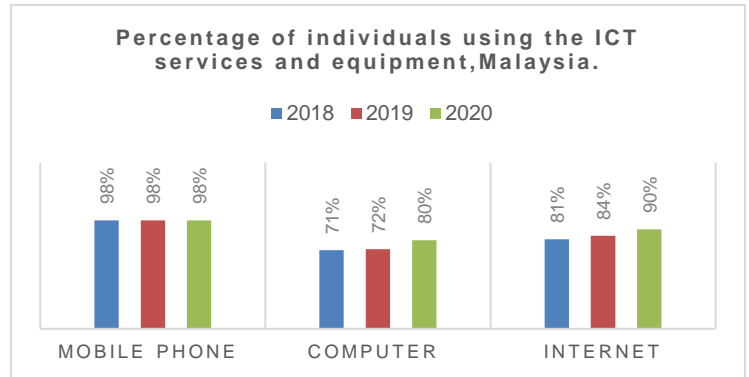


25.5% CONTRIBUTION OF THE DIGITAL ECONOMY TO GDP BY 2025

INCLUSIVITY :



STRENGTHENING THE EFFECTIVENESS OF FINANCIAL INTERMEDIATION ECOSYSTEM



Malaysia has gain strong traction in the usage of technological devices and internet. This paves the way for digital banking to penetrate the market and serve the masses. Almost **90%** of individuals used the Internet in 2020, a sharp increase from **81%** in 2018.

WILL DIGITAL BANKS CANNIBALISE THE MARKET SHARE & PROFITABILITY OF TRADITIONAL BANKS?



To avoid direct competition, BNM has reinforced that these digital banks' paid up capital is limited to RM 300 mil, with the scope of financing targeting the unserved and underserved market segments. As these digital banks are smaller in size and has leaner organisational structure, they are more agile in adapting to tech innovation and deployment to better cater to these target customers.

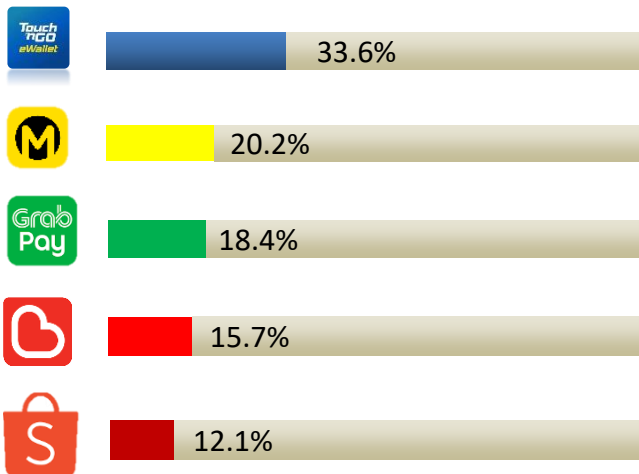
The award of digital bank licenses will usher in a new chapter for Malaysia's financial industry, capturing the younger demographic who are financially and technologically savvy. This will create greater exuberance in the financial services space.

THE USAGE OF E-WALLET

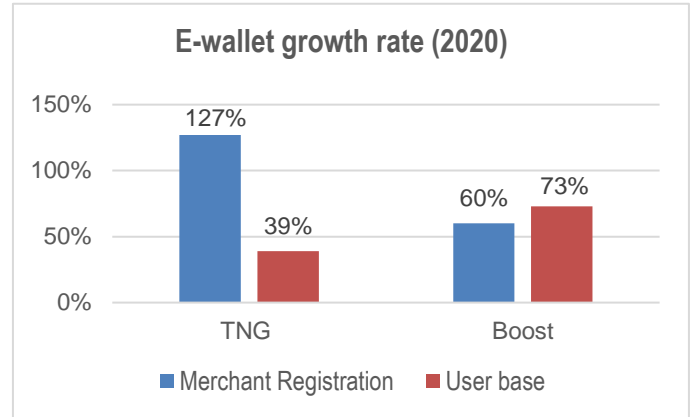
The COVID-19 pandemic saw a staggering increase in the use of e-wallets in Malaysia. E-payment transaction volume per capita reached 169.9 in 2020, a **+13.5% increase** from 2019.



Top 5 E-wallets in Malaysia

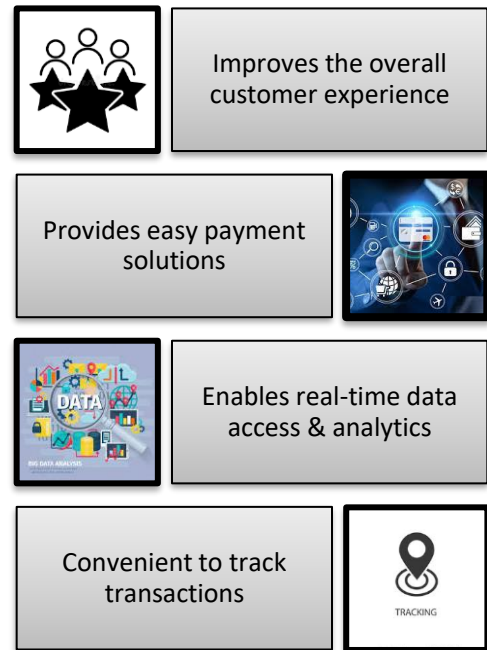


In 2020, the e-wallet user base and merchants' registration rate were at an all-time high due to the high demand for contactless payments.



E-wallets are here to stay as the usage among netizens is trending up, thanks to the ease & speed of transactions.

Benefits of having an e-wallets for SMEs include:



Sources: Bank Negara Malaysia, The Edge, Department of Statistics Malaysia and SCEA compilation

DISCLAIMER

SME BANK has exclusive proprietary rights in the data or information provided herein. This document is the property of SME BANK and is protected by Malaysian and international copyright laws and conventions. The data and information shall only be used for intended purposes and not for any improper or unauthorized purpose. All information contained herein shall not be copied or otherwise reproduced, repackaged, transmitted, transferred, disseminated, redistributed or resold for any purpose, in whole or in part, in any form or manner, or by any means or person without SME BANK's prior written consent.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Any opinion, analysis, observation, commentary and/or statement made by SME BANK are solely statements of opinion based on information obtained from sources which SME BANK believes to be reliable and therefore, shall not be taken as a statement of fact under any circumstance. SME BANK does not and is in no position to independently audit or verify the truth and accuracy of the information contained in the document and shall not be responsible for any error or omission or for the loss or damage caused by, resulting from or relating to the use of such information. Analysts based in SME BANK offices produce research on macroeconomics, equities, fixed income, currencies, commodities and portfolio strategy.

SME BANK and its affiliates, subsidiaries and employees shall not be liable for any damage or loss arising from the use of and/or reliance on documents produced by SME BANK or any information contained therein. Anyone using and/or relying on SME BANK document and information contained therein solely assumes the risk in making use of and/or relying on such document and all information contained therein and acknowledges that this disclaimer has been read and understood, and agrees to be bounded by it.

Strategic Credit & Economic Analytics, SME Bank
