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THE BANKING SOFTWARE COMPANY

## 4 Things to Know Before Building a **Virtual Bank in Malaysia**

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# I Introduction

Ever since Hong Kong issued 8 virtual banking licenses in 2019, regulators from around the region are clamoring to each introduce their own framework. Malaysia is, of course, no exception.

Bank Negara Malaysia Governor Nor Shamsiah [announced](#) last year that a virtual banking framework is in the works and applications for the new license is anticipated to be open by mid-2020.

Despite the recent [delay](#) brought on by the COVID-19 pandemic, virtual banks still remain to be a very relevant topic to explore, especially since the pandemic has accelerated digital adoption at speeds that we've never seen before in our lifetime.

With a new breed of banks entering the market, it is worth exploring whether there is an addressable gap in Malaysia's financial landscape and whether or not financial services as we know it will fundamentally shift.

To tread these uncharted territories, we sat down with Nicholas Edwards, Temenos' Asia Pacific Head for Business Development. Temenos serves of 3,000 banks across the globe, according to them, their software is proven to enable top-performing clients to achieve cost income ratios of 26.8% half the industry average and returns on equity of 29%, three times the industry average.

Nick considers Malaysia to be a rapidly maturing technology and financial services market, with strong incumbent full-service banks. However, despite his high regard for the industry, he believes that there are ample opportunities for a new breed of banks to create better outcomes for customers — whether they are in prime market segments or underserved segments.



# Untapped Opportunities for Virtual Banks in Malaysia

While Malaysia has a good track record with financial inclusion, there are plenty of gaps to be filled when it comes to financial health. The “Malaysia National Strategy for Financial Literacy” [demonstrated in their report](#) some statistics that clearly illustrate that there is a market for digital financial services that helps Malaysian better manage their money.

The study, for example, pointed out that 1 in 5 working adults did not save any money in the past six months, and that 52% of Malaysians have difficulties raising RM 1,000 for emergencies.

Many of the virtual banks that already operate overseas come with user-friendly budget planning capabilities which in turn can be a powerful tool help their users to better plan their financial goals. Similarly, aspiring virtual banks Malaysia should also look at how to adapt these tools to the local context.

MSMEs also represent a large untapped opportunity for virtual banks to address, especially since [98.5% of Malaysia’s business establishments consist of SMEs and 76.5 of which are micro SMEs](#). Despite its significance to the Malaysian economy, many businesses especially micro-entrepreneurs find it difficult to access financing.

Nick pointed out that this is the case because incumbent banks often deprioritise these markets because it’s challenging for them to make a profitable value proposition partly due to high operational cost and capital requirements. Virtual banks on the other hand without the shackles of legacy systems and the ability to design a nimble business model may find themselves to be in a better position to serve these markets.

The assertions are all in line with Bank Negara Malaysia’s intention when coming up with this framework, it is clearly stated in the document that applicants are required to demonstrate a “commitment in driving financial inclusion” particularly to “underserved segments which includes retail as well as micro, small and medium enterprises.”

Nick praises the timing of Bank Negara’s initiatives and describes it as a smart framework, modeled on other developed markets.

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# What is Key to A Successful Virtual Bank?

While virtual banking customers in markets like the UK and Australia are raving about superior UX, Nick was quick to stress that the key to virtual banking is not only about differentiated UX.

In his view, what makes virtual banks successful whether in Malaysia or other markets is whether or not it is delivering a new vector of convenience for the customer. He says that virtual banks need to shift the focus on the outcome and not the banking product. He states that "People don't want a 5 year debt, they want a loan". Historically, banks have been great at lending or storing money, in other words, selling product, and not truly embracing their customer's outcomes.

There's clear evidence that there are many new conveniences that virtual banks can offer customers, a [PWC study](#) indicated that 74% of those surveyed indicated an interest in being a virtual banking customer and that 65% of are experiencing at least one pain point with their current bank. These include — waiting too long in branches, poor digital experience, lack of education for financial products, and products that are not tailored to their needs.

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## Pitfalls to Avoid

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While incumbent banks are often the punching bag in media headlines when it comes to failure to innovate, Nick cautioned aspiring virtual banks not to underestimate the existing competition. He said that nearly every tier 1 bank has a solid digital interaction framework with much investment made and much more investment to come.

Nick suggests that it's important to build momentum in the new bank's business. There have been multiple occasions where we see a small number of new entrants taking a large piece of the available market. Often these are the businesses that were first to market and rapidly built momentum.

Despite having some issues many were able to iron out the bugs later into their cycle. He cautioned new players to balance the pursuit of perfection, operational or technological, with making headway in the market. He said in this instance, the focus for virtual banks is to establish a quick go-to-market strategy, which is to prioritize on selecting proven packaged technologies that allow rapid time to market, after so, they can pursue further on the ability to be agile.



# 4

## How Should the Incumbents Respond to Disruption?

With the new players now eyeing a piece of the market where incumbents have traditionally thrived, it is to be expected for incumbents to respond. While incumbents have some disadvantages Nick pointed out that they also have scale, trust, an established customer base, and branch presence — all the things that new virtual entrants don't.

Incumbents will need to use this leverage to compete against a new breed of banks who are more nimble, probably more sexy and with new technology foundations and a lower cost to serve. For them, Nick believes that there needs to be continued investments on its platforms with a particular focus on digital (technologies, processes, and products) to improve issues that have developed over time which includes — old world cores, heavily customised applications, and inflexible costly technology operations.

Temenos will be hosting a series of webinars on the 2nd, 16th June and 1st July to share valuable insights for digital contenders in the banking industry. Join Nicholas and leading industry speakers by saving your virtual seat here:

[temenos.com](https://www.temenos.com)

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## About Temenos

Temenos AG (SIX: TEMN) is the world's leader in banking software. Over 3,000 banks across the globe, including 41 of the top 50 banks, rely on Temenos to process both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud-native, cloud-agnostic and AI-driven front office, core banking, payments and fund administration software enabling banks to deliver frictionless, omnichannel customer experiences and gain operational excellence.

Temenos software is proven to enable its top-performing clients to achieve cost-income ratios of 26.8% half the industry average and returns on equity of 29%, three times the industry average. These clients also invest 51% of their IT budget on growth and innovation versus maintenance, which is double the industry average, proving the banks' IT investment is adding tangible value to their business.

For more information, please visit [www.temenos.com](https://www.temenos.com).

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