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The Rise Of Digital Banking

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The COVID-19 pandemic has served as a catalyst for the rapid growth of e-commerce and the need for contactless transactions. With the expectation that Southeast Asia's digital payments would surpass \$1 trillion by 2025,¹ it is no surprise that countries such as Hong Kong, Taiwan, Indonesia and Singapore are fuelling the development of digital banks.

It is evident that Malaysia is keeping pace with such transformation. On 31 December 2020, Bank Negara Malaysia (BNM) issued the [Policy document on Licensing Framework for Digital Banks](#) (Policy Document on Licensing Framework) and has set 30 June 2021 as the deadline for applicants to submit their applications to conduct digital banking businesses.

What Is Digital Banking?

In a nutshell, digital banking is the transition from conventional / traditional banking activities and services that are typically available in physical banks into virtual / digital banking services. Banks such as Monzo and Starling Bank are examples of digital banks in Europe which were launched before the outbreak of the COVID-19.

What Are The Application Procedures?

BNM requires prospective applicants intending to carry on digital banking business or Islamic digital banking business to meet and discuss with BNM prior to submitting a formal application for a licence. The application and assessment procedures relating thereto are set out in the Policy Document on Application Procedures for New Licences under Financial Services Act 2013 and Islamic Financial Services Act 2013 (Policy Document on Licensing

¹ Google, Temasek and Bain & Company, 'e-Economy SEA 2019' (p.46) <https://www.blog.google/documents/47/SEA_Internet_Economy_Report_2019.pdf>.

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Procedures) and the Policy Document on Licensing Framework.

Considerations Under law

In assessing the applications for licences to carry on digital banking business or Islamic digital banking business and the suitability of the shareholders of a proposed licensed digital bank or the prospective shareholders of a licensed digital bank, BNM will be guided by the [Policy Document on Licensing Procedures](#) and the [Policy Document on Application Procedures for Acquisition of Interest in Shares and to be a Financial Holding Company](#), respectively.

In addition, BNM will take into consideration amongst others, the character and integrity of the applicant, whether the application is made in the best interest of Malaysia, and the effect of the investment on the stability of the financial system.² Preference will be accorded to applicants whose controlling equity interest are held by Malaysians.

How Many Licences Will Be Granted?

BNM has indicated that up to five licences may be issued to qualified applicants and that BNM will notify the successful applicants by the first quarter of 2022.³

Which Entities Are Applying For This Licence?

Applications for such licences are likely to be made by non-bank entities as the existing banking licences enable existing lenders, such as commercial banks, to operate in the digital banking sphere.⁴

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² See Sections 10 and Schedules 5 of the Financial Services Act (FSA) 2013 and Islamic Financial Services Act (IFSA) 2013. See also Section 90 and Schedule 6 of the FSA 2013 and Section 102 and Schedule 6 of the IFSA 2013.

³ Bernama, 'BNM issues Policy Document on Licensing Framework for Digital Banks' (31 December 2020) <<https://www.bernama.com/en/business/news.php?id=1917416>>.

⁴ The Malaysian Reserve, 'Non-banks to dominate digital banking application' (4 January 2021) <<https://themalaysianreserve.com/2021/01/04/non-banks-to-dominate-digital-banking-application/>>.

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We are a full-service commercial law firm with a head office in Kuala Lumpur and a branch office in Penang. Our key areas of practice are as follows:-

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Prior to the finalisation of the licensing framework, companies such as Axiata, Grab, Sunway, AMTD, MyMy, Razer Fintech, Paramount Group, Green Packet and the state governments of Johor and Sarawak have respectively announced their intentions to bid for such digital banking licence.

How Would Malaysians Be Impacted?

BNM's licensing framework would add dynamism to the banking landscape and allow new players to offer banking products and services to the underserved and unserved market segments through digital or electronic means. With the introduction of digital banks, a larger population of people would be able to access basic and affordable financial services to better manage their wealth and protect their interests.

Conclusion

The introduction of the Policy Document on Licensing Framework is a welcome first step to transform our financial ecosystem and to create a conducive banking environment for the enablement of technology-based innovations and for the benefit of Malaysian consumers. However, the journey to materialise such digital transformation has a long way to go, as a whole new wave of digital products and solutions are required, with the support of a robust regulatory ecosystem, innovative technology and cultural adaptation which will then stimulate economic growth and financial inclusion in Malaysia.

Authored by Annabel Kok and Shera Chuah, who are respectively senior associate and pupil specialising in Corporate & Real Estate Transactions.

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