

State of Malaysian Banks 2023

Unlocking new possibilities with digital
initiatives



Market highlights

1. The Malaysian economy is expected to go through a **slowdown** with the escalation of contagion risks amid global turmoil which will affect the revenue cycles of the banks and slow down their net interest margin growth.
2. Rising interest rates and funding costs are expected to **slow** credit growth to **4% - 5%**.
 - High household deposits add funding stability, with household deposits contributing **~36%** to the total systemwide deposits
3. Net interest margins are expected to **drop by 5 - 10** basis points from the current **~2%**.
 - The decline in NIMs will be **balanced** by tax rate normalization
 - This could be accompanied by a **pick-up** in the net interest income (NII), which could potentially **offset** the compression of NIM due to higher savings rates and intense competition among banks
4. Malaysian banks enjoy non-performing loans (NPLs) which are **lower** than most APAC regions.
 - The current average NPL for Malaysian banks stands at **1.7%**
 - However, NPLs are likely to **increase by 50 - 60** basis points in 2023 and 2024, due to the vulnerability of low-income households and SMEs to rising interest rates
5. Fee income distribution for Malaysian banks is **restricted** to traditional fees. However, there is a significant **opportunity** with open banking among banks and financial services.

Key challenges



#1

Rising Non-performing loans

- NPLs in Malaysia are expected to rise by 50 to 60 basis point in 2023 and 2024
- The top banks reported a 10 - 25 basis point increase in their NPLs in 2022
- SMEs, unsecured loans and corporate loans drive the increase in NPLs
- Low-income households and SMEs are vulnerable to the rising cost which could moderately increase the NPLs

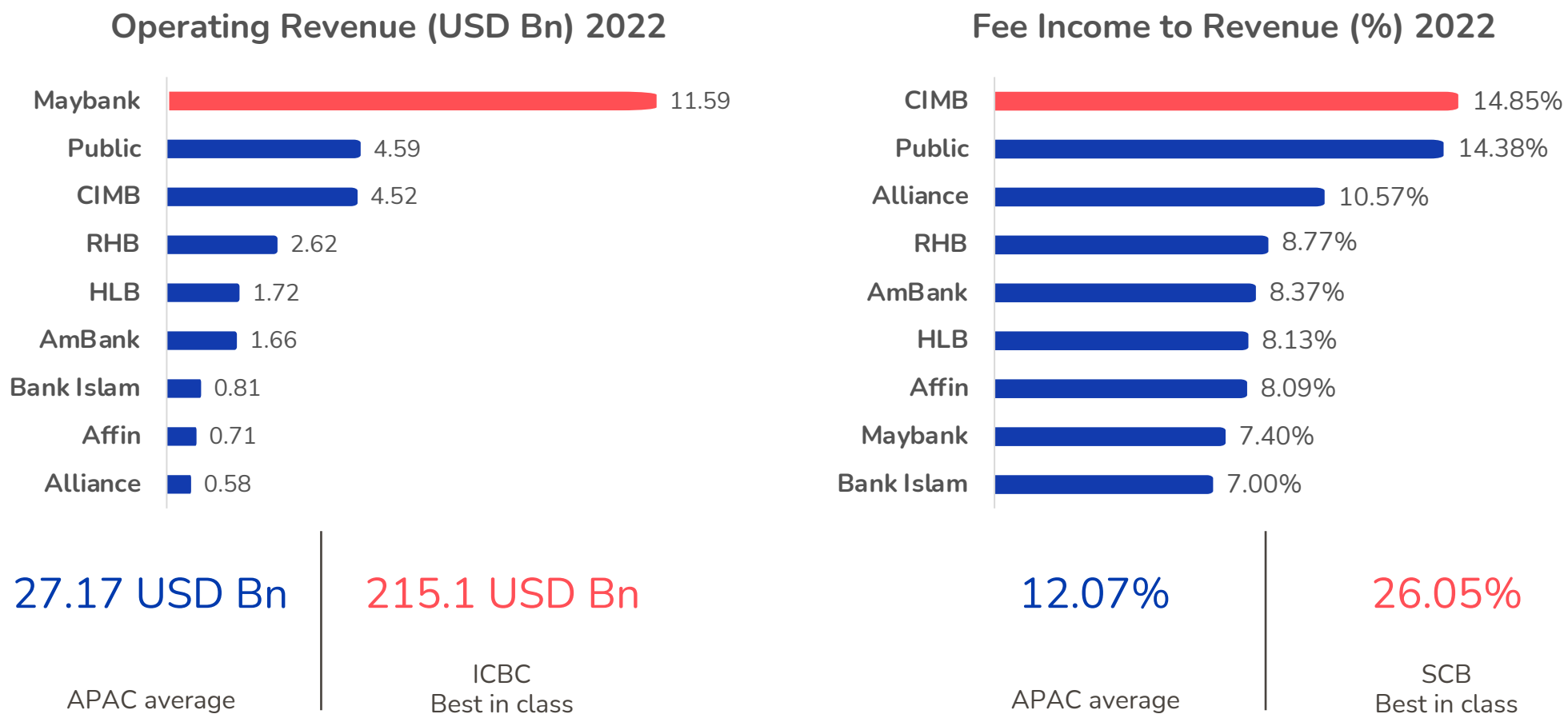


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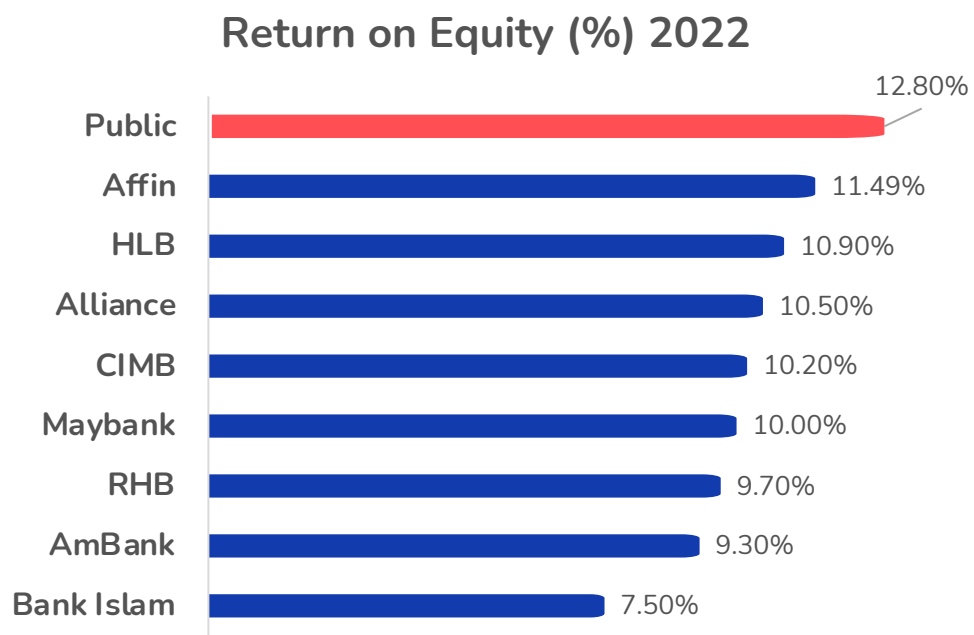
High household debt

- Malaysia's household debt is among the highest in the APAC region
- Household debt accounted for 81% of the country's nominal GDP in December 2022 at USD 330 billion
- High household debt stems partially because homeowners struggle to make repayments, leading to increased credit risk for banks
- The increase will likely reduce loan growth as people are reluctant to take additional loans

Fee income to revenue is majorly restricted to transactional fess



Net interest margin for Malaysian banks is expected to decline by 5 to 10 basis points

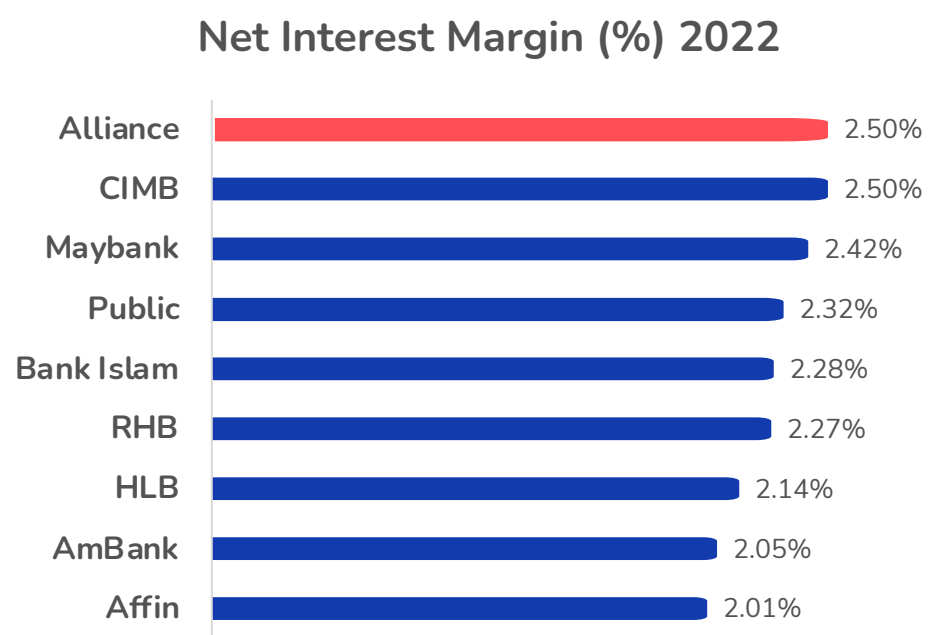


11.77%

APAC average

21.7%

BCA
Best in class



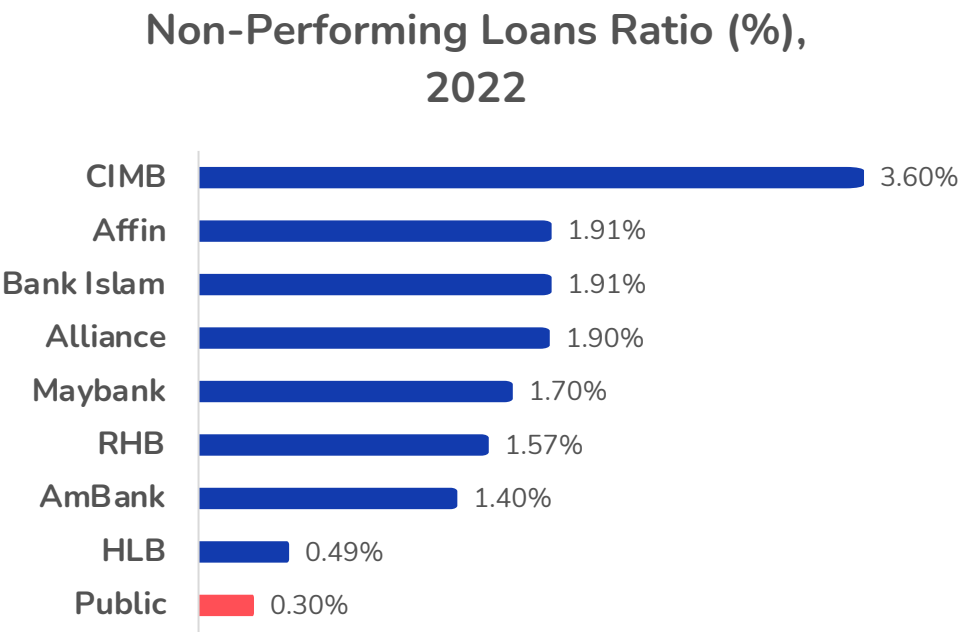
3%

APAC average

7.85%

BRI
Best in class

Malaysia is among the top 5 APAC regions with the lowest NPLs

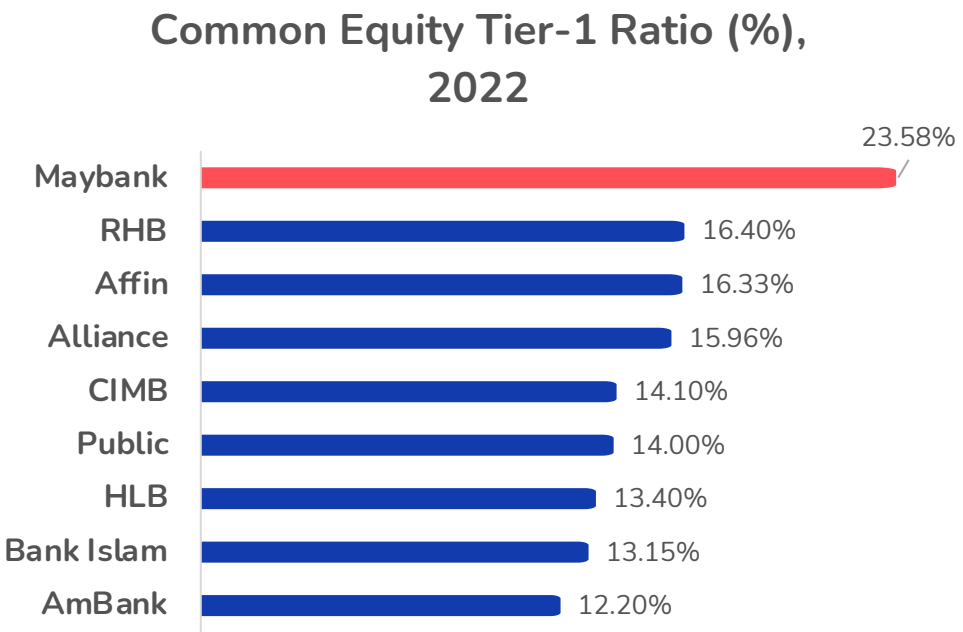


2.14%

APAC average

0.17%

Bendigo
Best in class



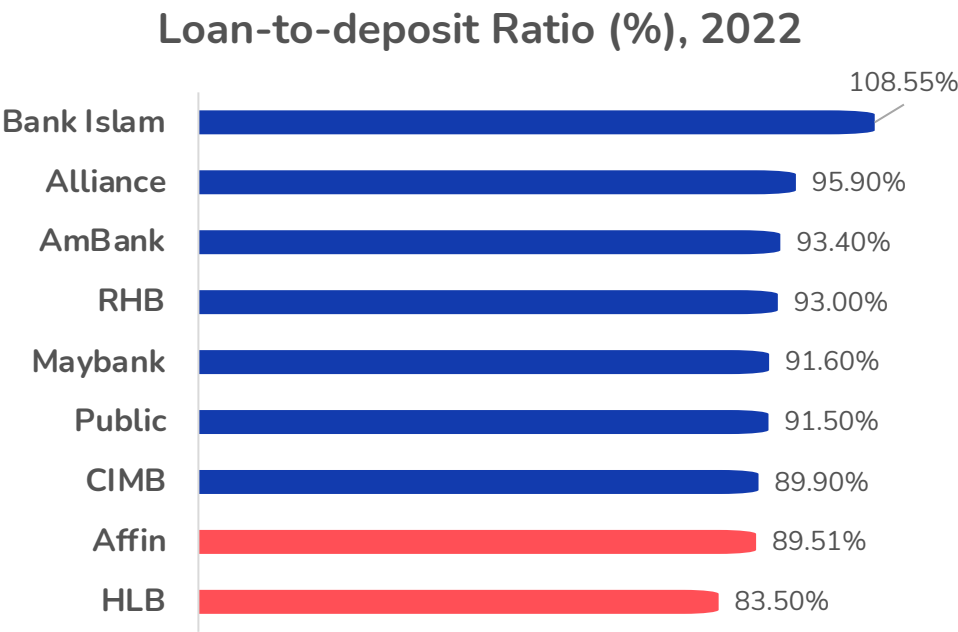
15.56%

APAC average

26.7%

Danamon
Best in class

Malaysian banks' cost efficiency ranges from 31% to 60%

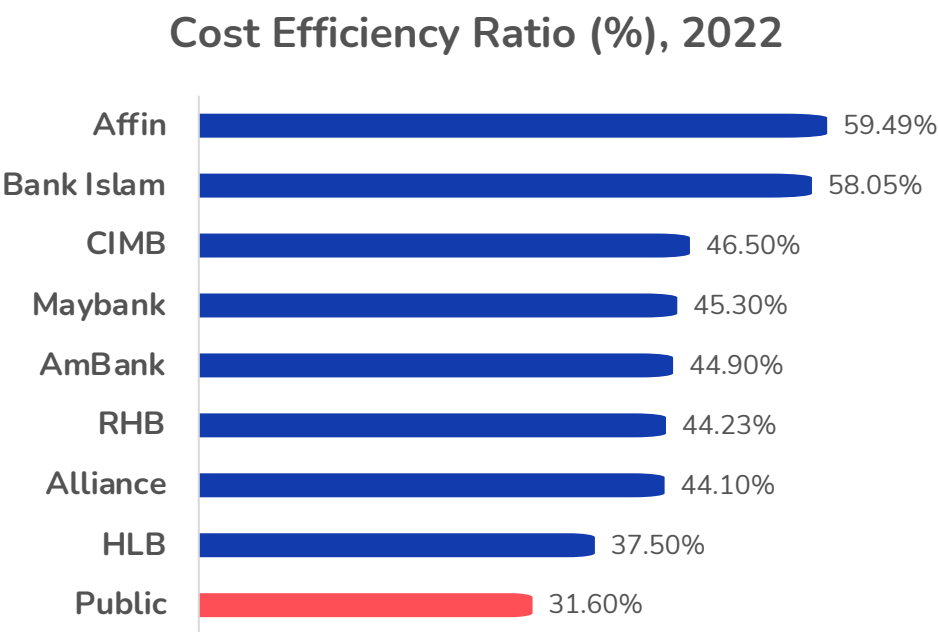


87%

APAC average

~85.8%

ANZ, BOC, Axis, Mandiri
Best in class



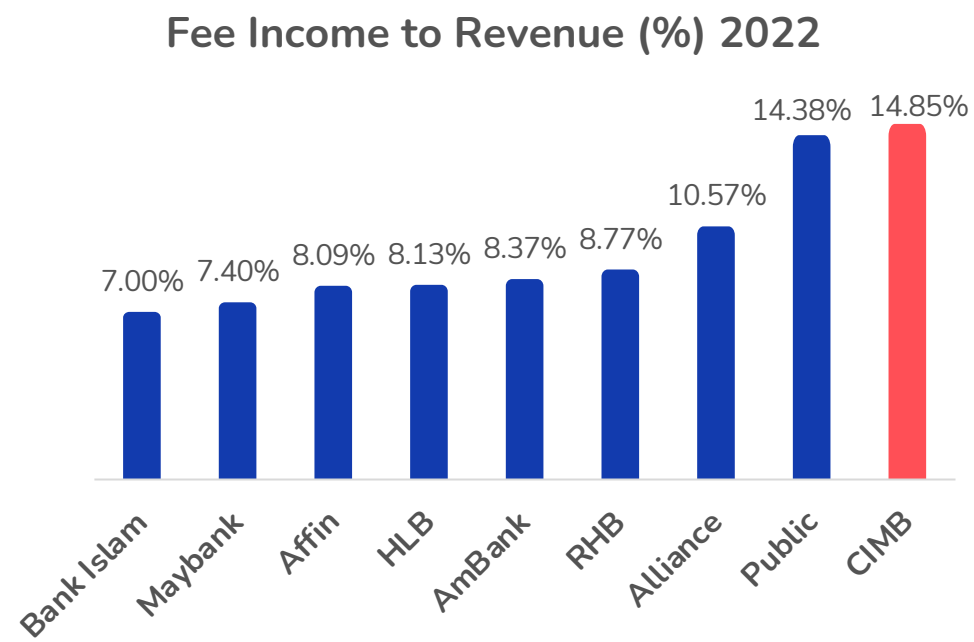
45.3%

APAC average

26.53%

ICBC
Best in class

Malaysian banks recorded an average of 9.7% fee income to revenue in 2022 from traditional banking sources



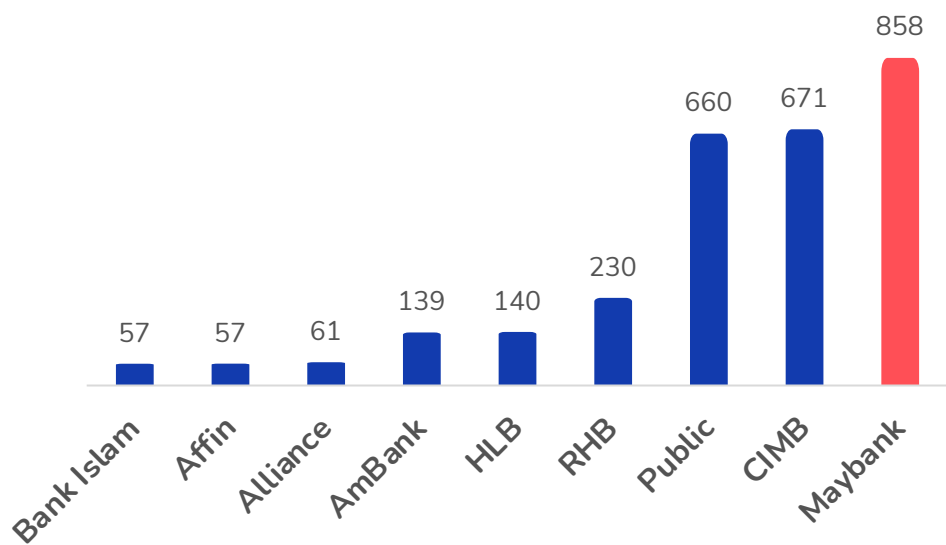
CIMB’s fee-based income increased by 10.34% from USD 608 Mn in 2021 to USD 671 Mn in 2022 due to stronger consumer wealth income, fee income from commercial and higher wholesale trading and fee income

CIMB generates more than 46% of its fee income from banking service changes and service fees

Fee-based income	2021	2022	YoY
Commissions	286.19	267.97	-6.37%
Banking fees	110.55	152.56	38%
Service charges and fees	123.51	155.83	26.17%
Corporate advisory	7.69	6.94	-9.73%
Guarantee fees	18.52	18.73	1.18%
Other fee income	50.69	58	14.42%
Placement fees	3.33	1.85	-44.26%
Underwriting commission	7.98	9.46	18.58%
Consolidated total	608.46	671.36	10.34%

Maybank generates the highest fee income at USD 858 Mn from traditional banking sources

Fee-based income (USD Mn), 2022



Maybank generates its non-interest income from core commission, service and fees, treasury & markets and insurance business

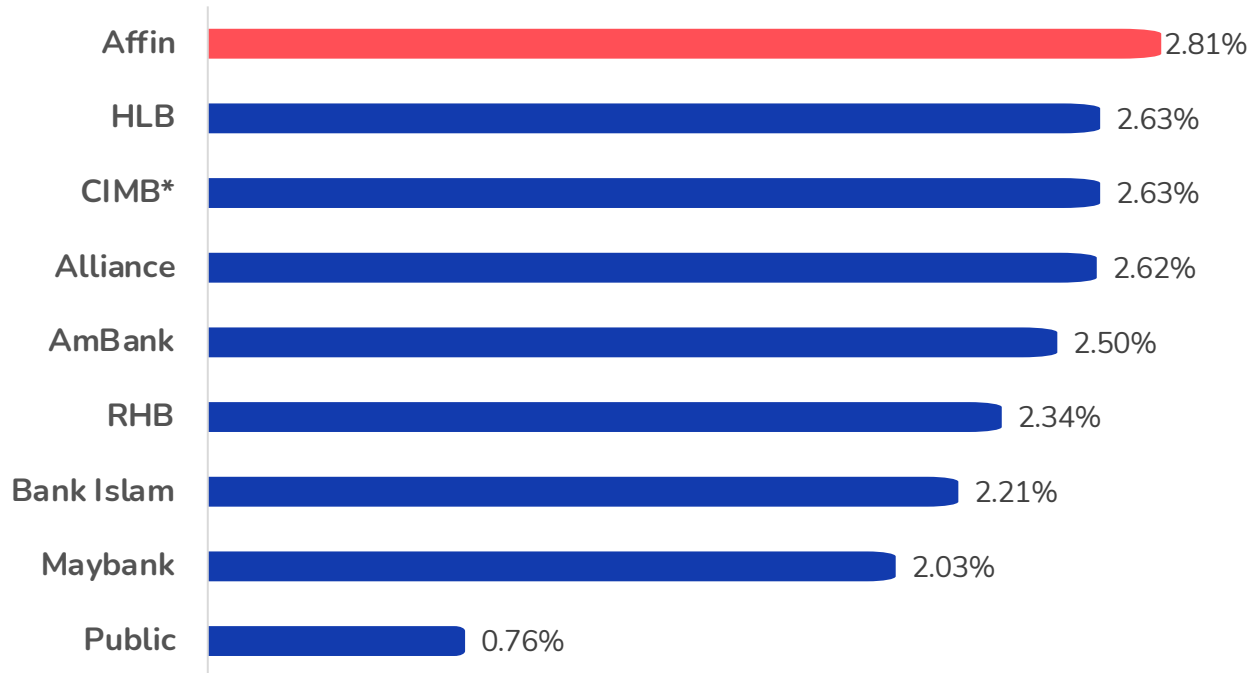
Maybank generates more than 46% of its fee income from service charges and fees

Fee-based income	2021	2022	YoY
Commission	340.66	311.74	-8.49%
Service charges and fees	390.07	398.73	2.22%
Underwriting fees	11.84	11.61	-1.92%
Brokerage income	116.36	76.74	-34.05%
Banking and financing fees	58.98	58.98	-
Consolidated total	917.92	857.80	-6.55%

Maybank generates the most fee-based income among all Malaysian banks in terms of dollar value. The bank also has multiple sources of revenue for fee income apart from banking fees, including underwriting and brokerage

Malaysian banks spend an average of 2.29% of their revenues on ICT in 2022

ICT to revenue (%) 2022



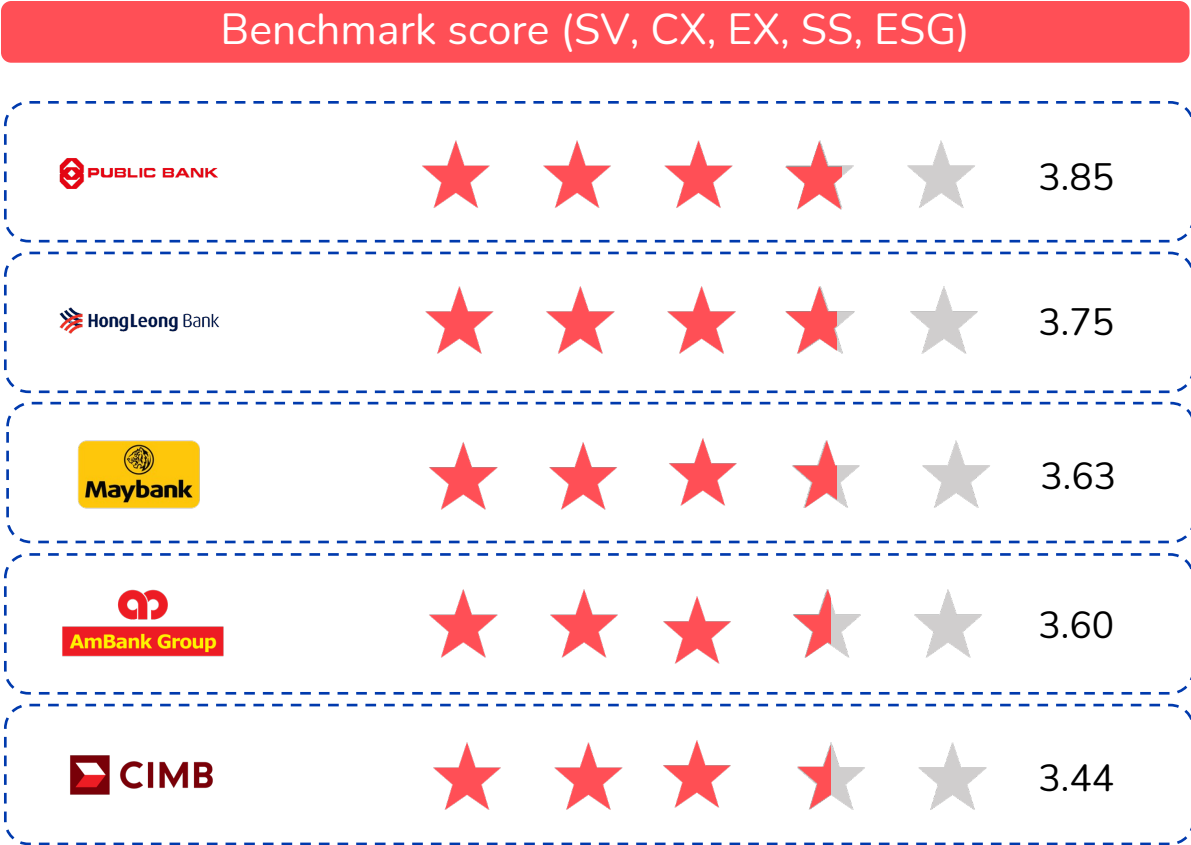
Note: CIMB's ICT spending consists of computer software and work-in-progress additions in 2022

- The average ICT spending for Malaysian banks is among the **lowest** in APAC, although close to the APAC average of **2.96%**
- Maybank has the highest ICT spending in dollar value at **USD 249 million**
- Malaysian banks are investing in the following technologies:
 1. **Core modernisation** – AmBank has engaged with TCS BaNCS (a core banking software suite for retail banks) to replace its core banking engine to allow for flexible development and scalability required by the bank
 2. **Migration to the cloud** – Affin Bank has partnered with HCL Technologies to integrate an on-premise data platform with Google Cloud to enable data-driven decision making



- Malaysian bank benchmarks
- Best practices

twimbit purpose scores for top 5 banks in Malaysia



Public Bank's key digital initiatives

Payment ecosystem:

- Public Bank became the **first** Malaysian bank to launch **DuitNow** online banking/wallets and QR-based cross-border payments.
- Public Bank accepted QR international payments from Indonesia, Singapore and Thailand.

Collaboration with Carsome:

- The bank entered a Memorandum of Understanding (MoU) to offer stock financing and end financing solutions for **vehicles** to both its member car dealers and individual buyers who have successfully secured bids through the Carsome online portals.
- The collaboration allows Public Bank to interface with Carsome's online platform, **streamlining** vehicle financing and minimizing documentation for successful bids.

Empowering SMEs:

- The bank has partnered with digital solution providers in the PB Enterprise Digital SME Assist program.
- The partnership offers customers various **digital business solutions**, including human resource management, property management, and cloud-based accounting and payroll solutions.



HLB committed to the needs of its customers (1/2)

HLB ConnectFirst:

The bank's new digital banking platform for business customers provides a consolidated view of customer payments, transactions and accounts.

The platform's launch resulted in a year-on-year customer **growth of 11%** to nearly 100,000 with an average of 1.5 million transactions per month.

Apply@HLB:

HLB became the **first** Malaysian bank to offer its customers **end-to-end digital onboarding** without the need to visit a branch or use a self-service terminal.

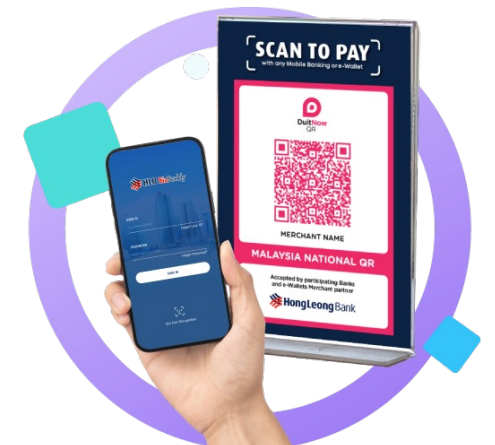
The app resulted in a six-fold increase in accounts opened through the channel compared to 2021.

HLB BizBuddy:

The app allows business owners to accept customer payments through various **QR code** options

Businesses can monitor, track and analyse **real-time** transactions to gain valuable insights

HLB enables instant refunds in case of same-day purchase cancellations, creating a seamless and efficient customer experience



HLB committed to the needs of its customers (2/2)

CX Lab:

- Promotes cross-departmental **cooperation** with conducive settings for product idea generation and prototyping
- Gathers **insights** through various techniques, including A/B testing, gaze tracking, quantitative research, ethnographic research, and qualitative research
- Enables the Lab to evaluate and act upon comprehensive **consumer insights** to better address consumer needs
- In FY2022, the Lab ran:
 - **27** customer research projects
 - **59** usability testing sessions
 - **13** post-launch evaluation initiatives



Maybank's omnipresent digital strategy (1/2)

ATM Cash-out:

- Malaysia's **first** contactless cash withdrawal service
- Customers can withdraw cash by **scanning a QR code** on Maybank ATMs using the MAE app



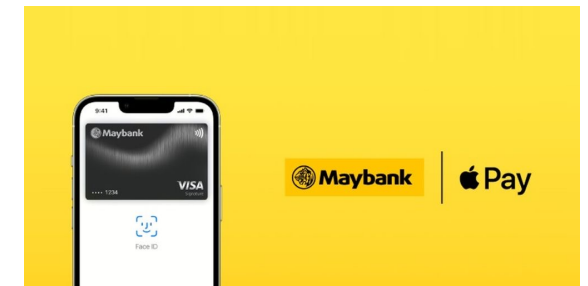
Delivering differentiated digital experience with Home²u:

- Integrated within the MAE app, **Home²u** is Malaysia's **first digital home financing** solution that offers a seamless home-buying experience
- Customers can browse properties and get home loan approvals **within 10 seconds**
- Customers can also choose contractors to get help with setting up their home after purchase, providing **end-to-end** support in the home-buying experience

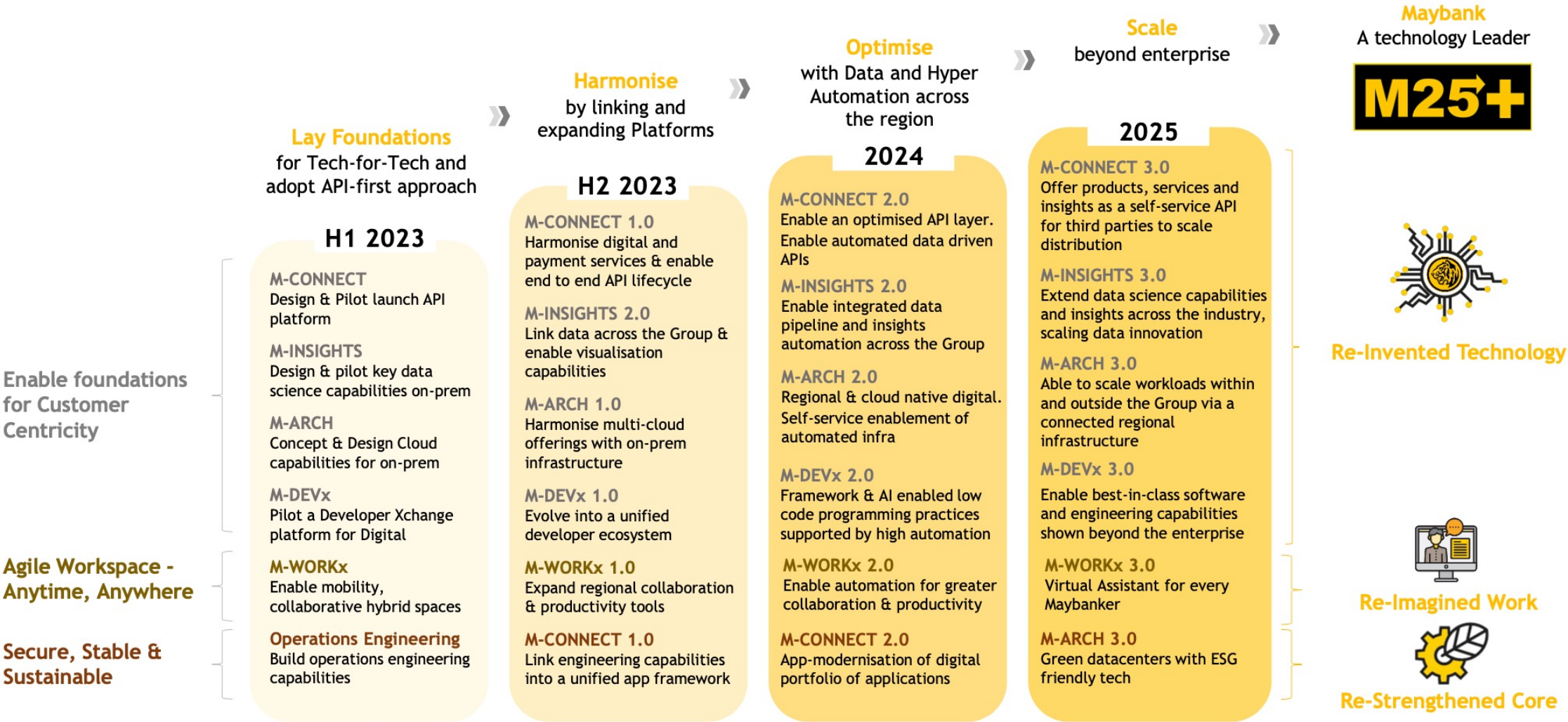


Partnership with Apple:

- Maybank is one of the **first** Malaysian banks to partner with Apple and introduce **Apple Pay** nationwide
- Enables Maybank and Maybank Islamic Mastercard and Visa credit, debit and prepaid card users to make contactless payments via their iPhone or Apple Watch in Malaysia and Singapore



Maybank's M25+ roadmap is driven by API-first approach (2/2)



AmBank's transformational approach to unlock digital potential

Fintech Partnerships:

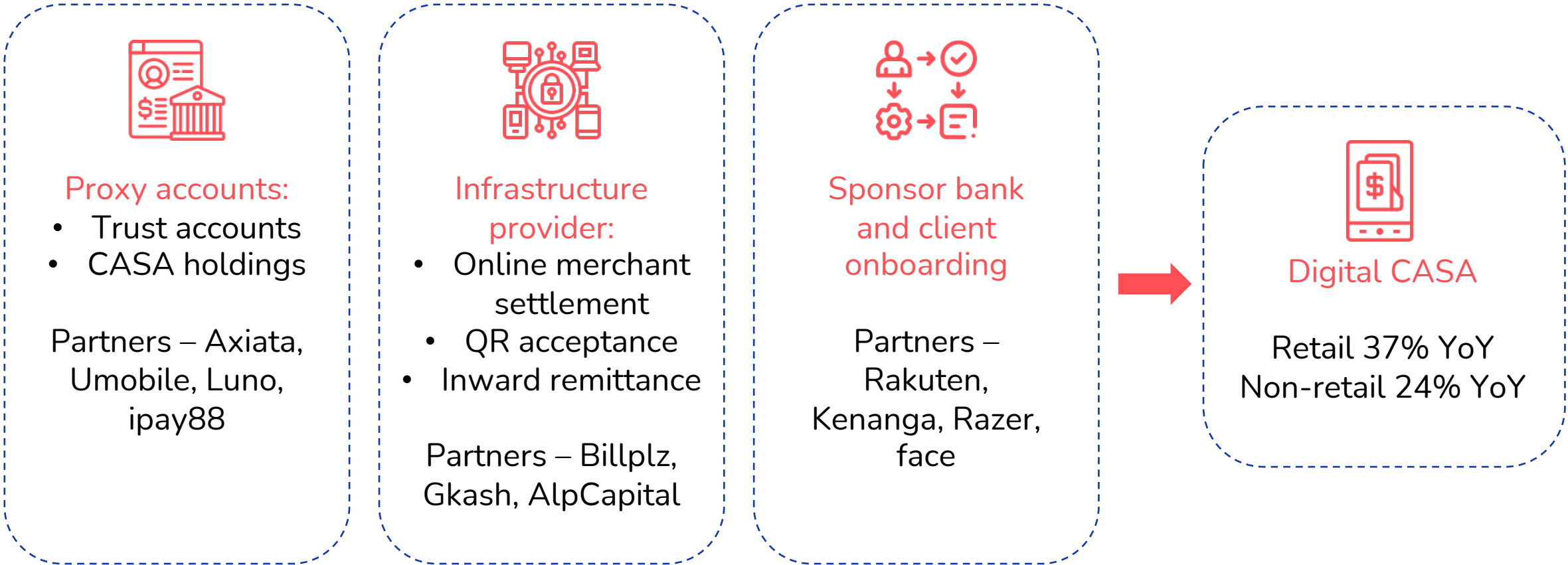
- Established Fintech partnerships via Payment Service Agents (PSAs) for PayNet's RPP products and services
- Provided customized solutions to Fintech partners (Money Service Businesses "MSB") for digitizing inward remittance through DuitNow transactions using APIs
- Expanded and introduced DuitNow QR services through API for smooth reconciliation with the dynamic DuitNow QR
- Introduced **first** in the market **hybrid e-wallet** that combines current accounts with cross border, multi-currency payment solutions, in partnership with Merchantrade Asia

Enhancing digital efforts:

- The bank's digital account opening platform allows end-to-end digital account opening for SMEs and retail customers
 - The platform became Malaysia's **first fully end-to-end** eKYC business current account opening for SMEs
- **One-Touch mobile app** – A mobile application for drivers on the road in the event of any road emergency
- **OneUp mobile app** – A mobile platform exclusively for agents, providing up-to-date sales information/performance management modules and allowing call-to-actions

AmBank is diversifying its fee income by introducing Banking as a Service

The bank has launched 68 open APIs and has another 21 work in progress. The API integration has helped the bank improve its retail as well as non-retail digital CASA.



CIMB's customer-centric digital proposition

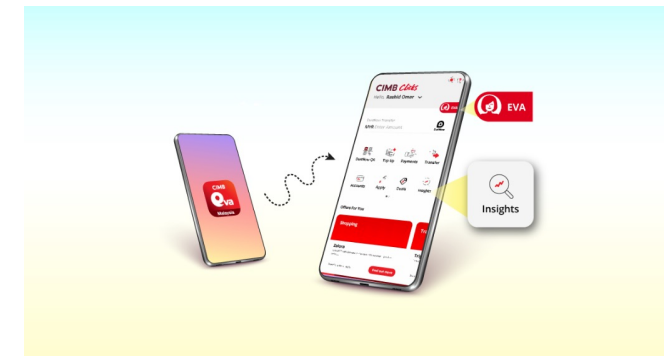
CIMB Octo:

- The bank launched its **first** fully digital savings account and introduced the CIMB Octo Debit Mastercard as part of its strategy to **expand** the CASA base
- The account opening and onboarding process is conducted **entirely online** under five steps
- Customers receive their debit cards directly through the mail, offering a convenient **branchless experience**
- Users can engage in a **gamified experience**, complete with missions and challenges, allowing them to earn points and receive instant rewards



EVA chatbot for SMEs:

- EVA is **Malaysia's first** Natural Language Processing (NLP) powered chatbot for commercial banking, offering conversational and real-time interactions
- SME customers can access EVA **24/7**, receiving instant and consistent answers to their queries
- EVA acts as an electronic **relationship manager**, assisting SMEs in selecting suitable financial relief assistance for their business needs
- EVA's Eligibility Check feature **digitizes** and **streamlines** the lengthy process of engaging with a sales representative





3 growth opportunities for Malaysian banks

- Digital only banks
- Buy Now Pay Later (BNPL)
- Open banking

Malaysian banks need to think about digital-only banks

Neobanks have been **disrupting** traditional banks with superior customer experience, ease of use, and popularity among the younger generation, attracting a large customer base at **lower** acquisition and service delivery costs.

Malaysia's nascent neobank sector presents a significant opportunity for local banks to leverage, with a CAGR growth of **14.24%** in transaction value between 2023 and 2027.

Recently, Bank Negera Malaysia has announced five digital banking licenses approved by the Ministry of Finance Malaysia. The licenses have been split into two categories and are given to the following consortiums:

1. Financial Services Act 2013 (FSA):

- i. Boost Holding and RHB Bank consortium
- ii. GXS Bank and Kuok Brothers consortium
- iii. Sea Group and YTL Digital Capital consortium

2. Islamic Financial Services Act 2013 (IFSA):

- i. AEON Financial Service Co., Ltd., AEON Credit Service (M) Berhad and MoneyLion Inc. consortium
- ii. KAF Investment Bank consortium



A competitive Buy Now Pay Later (BNPL) offering (1/2)

BNPL is fast becoming a **popular choice** of payment among APAC consumers. Hence, BNPL fintech companies are offering this lucrative payment option which is currently dominating the market share of traditional bank fees.

The Malaysian BNPL payment adoption is expected to grow at a CAGR of **35.4%** between 2022 and 2028 and reach USD **6.88 billion** by 2028.

None of the top banks in Malaysia offers a true BNPL service. The closest to this is AmBank and CIMB, who both offer an instalment service on their credit cards. For instance, AmBank's AmFlexi-Pay charges a **6% interest rate**, while CIMB's Easy Payment Plan (EPP) does not charge any interest.

A competitive BNPL offering will help Malaysian banks in the following ways:

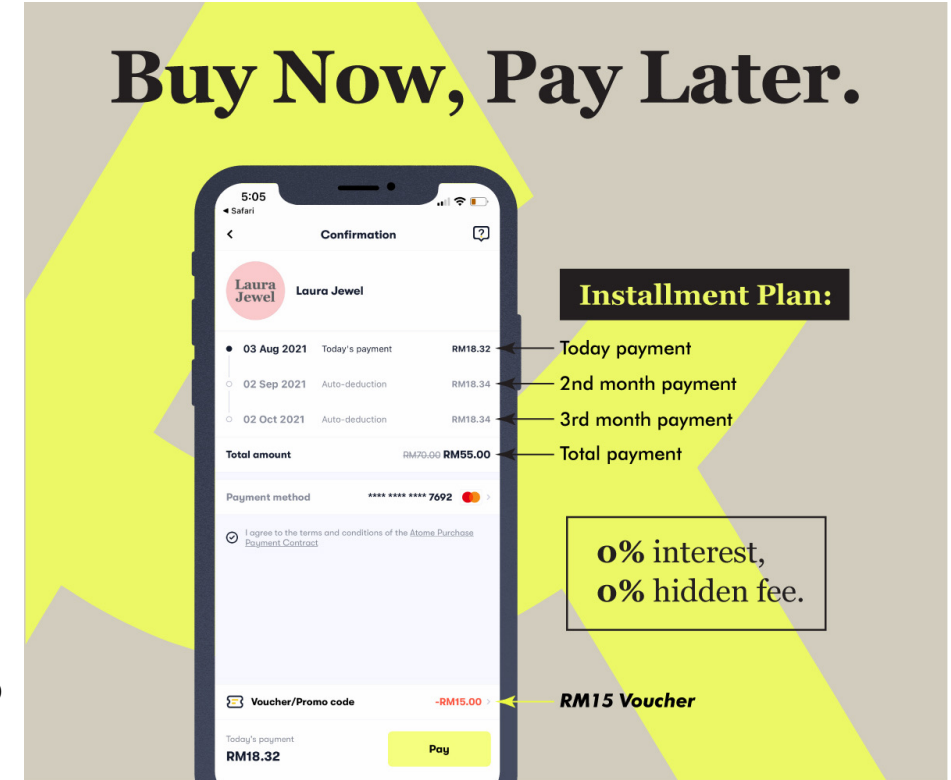
1. **Attract** younger customers who prefer flexible payment options
2. **Increase** customer engagement by offering a seamless and user-friendly payment experience
3. **Form** new merchant partnerships to strengthen their network and expand the market reach
4. **Increased** revenue from offering the service and thereby improve profitability
5. **Utilise** customer data and insights from BNPL transactions and use them to cross-sell other products and services

A competitive Buy Now Pay Later (BNPL) offering (2/2)

Competitor's offering – Atome:

Atome is one of Malaysia's **biggest** players in the BNPL market.

- Delivers their BNPL service through the Atome app
- Offers a standard 3-month instalment plan for items purchased with their partners
- Zero-interest charge on the BNPL service
- Charges a flat fee of RM 30 to their customers for late payments
- Atome has partnered with more than 200 online and offline merchants in Malaysia, including Agoda, Zalora, Aldo, Lego and Apple products reseller Machines
- New users receive a USD 3.22 (RM15) voucher which is applicable to all shops
- The company generated USD 193 million in revenues in FY2021
- Customer base of more than 20 million registered users



Fee-based income generated through open banking (1/2)

As the net interest margins for Malaysian banks continue to **decline** with **slow** loan growth and **high** household debt, banks need to find new revenue streams from non-interest sources to **maintain** profitability.

Open banking can help Malaysian banks generate fee income in the following ways:

1. **Account aggregation** – Banks offer customers the ability to consolidate their financial information into a single platform or app. Customers can now view all their financial information in one place, helping banks become a central hub for managing finances.
 - PhonePe, **India** – The API-based account aggregation services enables users to manage their finances, track transactions, transfer funds, and make payments seamlessly from the PhonePe app.
2. **Streamlined payments and transfers** – Open banking simplifies payment processes and facilitates faster and more secure transfers. Banks can offer customers the ability to initiate payments directly from their accounts using open banking APIs. This self-serve capability eliminates the need for traditional payment methods and reduces transaction costs.
 - Paytm, **India** leverages open banking APIs for faster and real-time transactions, improving payment and transfer speed for users.



Fee-based income generated through open banking (2/2)

3. **Lending and credit scoring** – Banks can leverage open banking to enhance their lending processes by utilising customer financial data for accurate credit assessments and personalised loan products. This will provide secure access to customer financial information.



- Mybank, **China** uses open APIs and collaborations with other financial institutions to gain access to consumer financial information. This enables them to accurately assess the creditworthiness of borrowers.

4. **Identity verification** – Open banking simplifies the account verification and KYC processes for banks. Banks can verify customers' identities more efficiently and securely by accessing customer financial data through open banking APIs. It also enables secure sharing of customer data for identity verification purposes.



- CIMB Bank Philippines leveraged the AI-powered end-to-end identity verification and authentication solution offered by Junio.

5. **Real-time fraud prevention** – Open banking APIs enable banks to enhance their fraud prevention capabilities. By analyzing customer financial data in real time, banks can detect suspicious transactions or patterns and take proactive measures to prevent fraud.



Commonwealth Bank

- CommBank, **Australia** has a fraud detection engine, driven by AI which is equipped with real-time decline and hold intervention capabilities.



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