

VISA



Going Digital: The Banking Revolution

Contents

Foreword	3
Digital banking – the new normal	4
- The future of banking: Digital banking	6
Addressing the needs of SMBs through digital banking	8
- Financing and loan challenges faced by SMBs	10
- SMBs’ interest in digital banking is high, but varied	11
- Digital banks seen to solve SMBs’ banking challenges	12
Key levers to increase SMBs’ interest in digital banking	13
- Higher level of interest among micro SMBs	14
- Islamic banks cater to different needs of SMBs	15
- Importance of sustaining online banking among less-digitised SMBs	17
About the report	20

Foreword



Ng Kong Boon

Country Manager, Malaysia

The financial services sector has significantly evolved over the past decade, with the pace of technology driving the way forward for a digital-first ecosystem.

As a relatively new entrant to the ecosystem, digital banking can be seen as either a disruption or a value contributor to the financial system. At Visa, we view digital banking as a game changer that can deliver untapped benefits to consumers, businesses and market players who are ready.

We're pleased to share this report **Going Digital: The Banking Revolution** that showcases key insights from Visa's Digital Banking Study for SMBs and Visa's Consumer Payment Attitudes Study, to highlight consumers and businesses' payment behaviours on digital banking and opportunities on the future of commerce.

In 2021, 90 percent of Malaysian consumers use digital banking at least once per month compared to 62 percent during 2017. Sixty two percent of them also use fintech or e-wallet services compared to 15 percent in 2017¹. This implementation of a digital banking system is

seen as an opportunity to increase financial inclusion and accessibility.

On the commercial banking front, many small and medium businesses (SMBs) have been hard hit by the pandemic. Shared challenges such as complicated application procedures and high-interest rates were reported, while interest in digital banking services rose, with convenience and physical safety being perceived as the advantage.

As the world's leader in digital payments, Visa is leading the charge in the digital revolution to enable the movement of money anywhere in the world for everyone. We connect and work closely with banks and fintech partners to redefine banking, making the lives of consumers simpler and more convenient, and equipping SMBs with the right tools to succeed.

We hope that this report will provide useful information to the industry as we continue to broaden our capabilities and provide consumers and businesses with seamless, intuitive, intelligent, and secure commerce experiences in this new digital age.

1. APAC Personal Financial Services Survey, 2021

Digital banking – the new normal



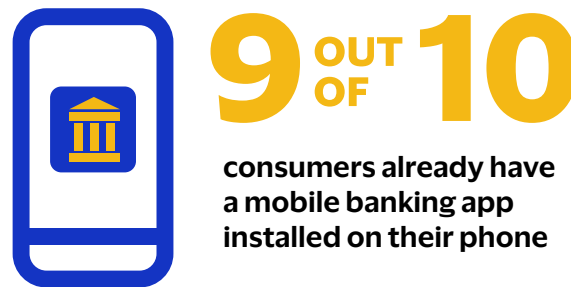
Digital banking – the new normal

In 2021, Malaysia’s central bank, Bank Negara Malaysia (BNM) issued its Exposure Draft on Licensing Framework for Digital Banks, paving the way for one of the biggest disruptions to the country’s banking industry in decades.

Malaysia’s decision to open doors to digital banks positions it as one of the leaders in Southeast Asia, alongside neighbouring state Singapore. With the announcement from BNM on the five digital banking licences issued in April 2022, the digital financial services ecosystem in Malaysia is shaping up at pace.

As a society, Malaysians are already familiar with banking through digital platforms. The Visa Consumer Payment Attitudes Study revealed that nine out of 10 consumers already have a mobile banking app installed on their phone, with mobile banking and online banking being the most frequented banking method.

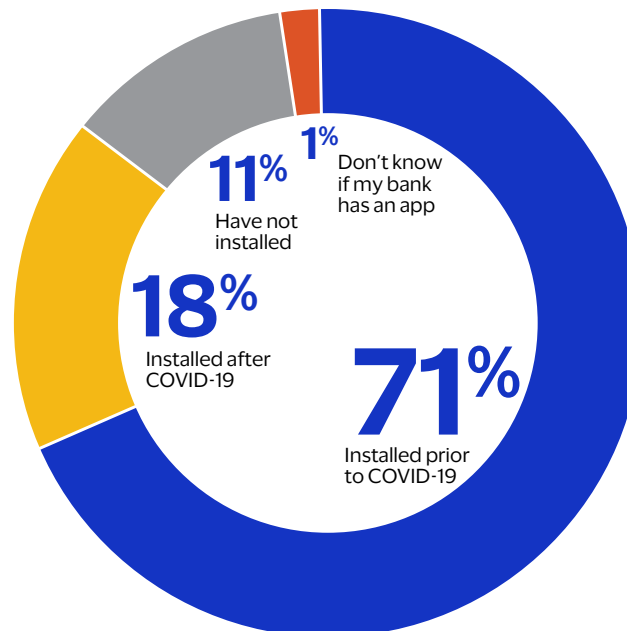
Digital payments are also increasingly gaining traction since the onset of COVID-19. While cash is still used by the wider population, cashless payments are catching up. This is led



DRIVERS OF DIGITAL PAYMENTS



MOBILE APP INSTALLED



by consumers using mobile wallets, contactless cards and payment cards for eCommerce. More than half of consumers have increased their mobile banking usage and this trend is expected to continue in the future.

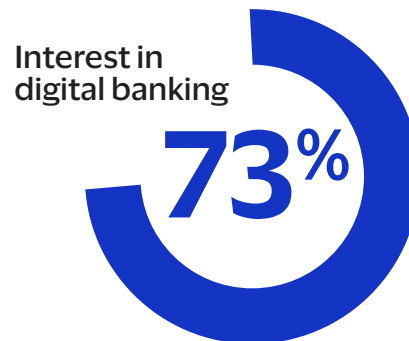
Digital payments are gaining popularity amongst consumers as less than a quarter of consumers prefer cash payments. They cite convenience, security of transactions, and safety from infection as the main drivers. At the current pace of adoption, nearly half of consumers expect Malaysia to be a cashless society within the next four years, accelerated by the ongoing pandemic.

The future of banking: Digital banking

Digital banking is slated to grow in Malaysia.

Digital banking awareness in Malaysia is near universal, while interest is relatively high among consumers. A traditional bank is still most preferred by consumers for their main banking services, but four out of 10 are open to using digital banks as their main bank. They highlighted convenience and 24/7 availability of digital banking as top reasons for selecting digital banks. Though open to different providers, there is higher receptiveness from consumers in using their existing banks that offer exclusive digital banking services. Top services that they are keen to use from digital banks include bill payments and peer-to-peer transfers.

LEVEL OF AWARENESS AND INTEREST IN DIGITAL BANKING



Gen Z	77%
Gen Y	77%
Mass	73%
Affluent	68%
Boomers	65%
Gen X	64%

INTEREST LEVELS IN DIGITAL BANKING SERVICES

65%	Paying bills
61%	Transferring money to family and friends
58%	Deposits and withdrawals
52%	Making payments for purchases at retail locations
48%	Investments
41%	Loans
37%	Making international money transfers

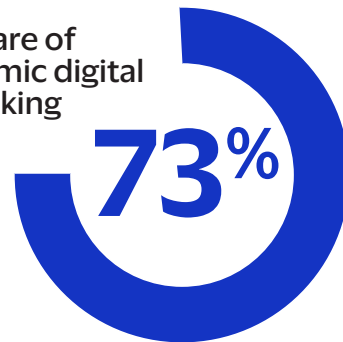
The future of banking: Digital banking

Digital banking is up and coming for Islamic banking.

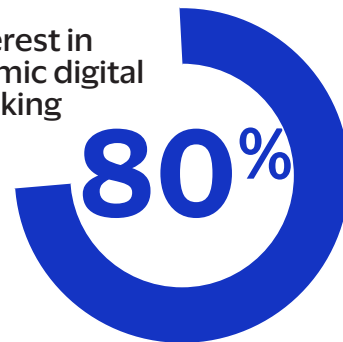
There has been significant growth in digital Islamic banking over the last few years, with at least four out of 10 consumers owning a virtual Islamic bank account. Consumers are most receptive to using services from an existing Islamic bank that offers digital banking services compared to other providers. Interest in virtual Islamic banking is high, with eight in 10 consumers eager to open a digital banking account. Gen Y and mass segments in Malaysia are most interested in using Islamic digital banking.

LEVEL OF AWARENESS AND INTEREST IN ISLAMIC DIGITAL BANKING

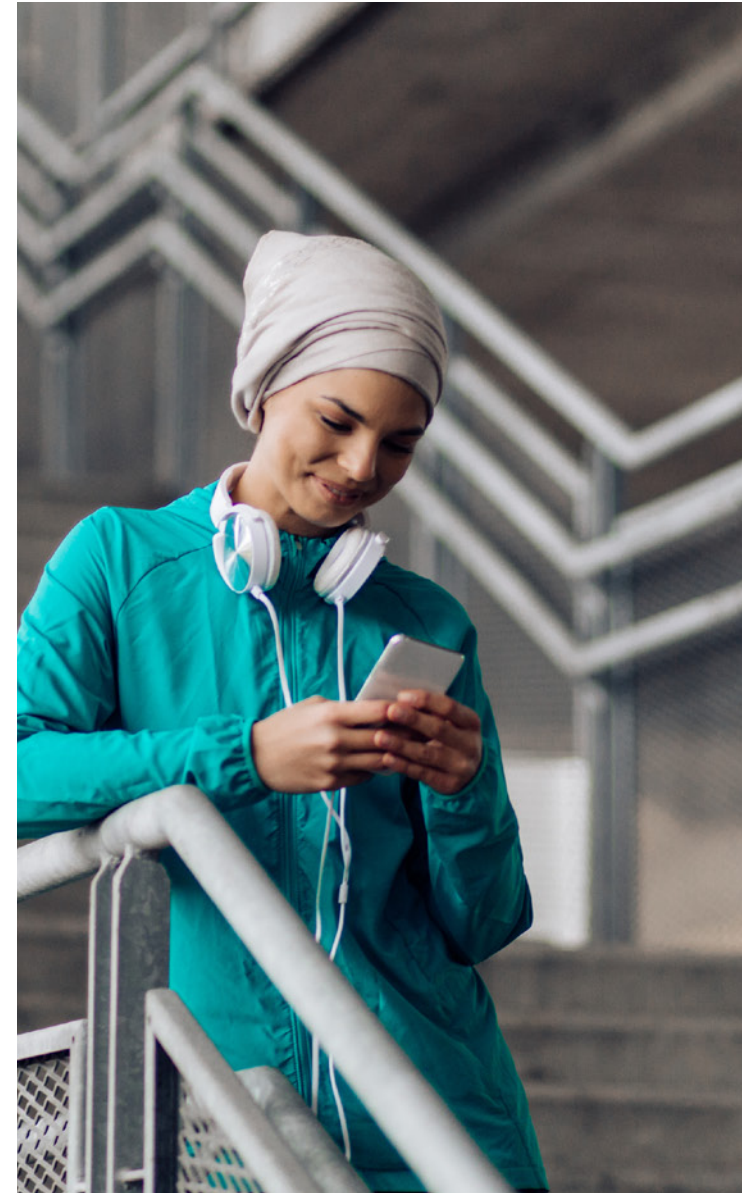
Aware of Islamic digital banking



Interest in Islamic digital banking



- Gen Y **84%**
- Mass **80%**
- Affluent **78%**
- Gen Z **77%**
- Gen X **74%**
- Boomers **67%**



Addressing the needs of SMBs through digital banking



Addressing the needs of SMBs through digital banking

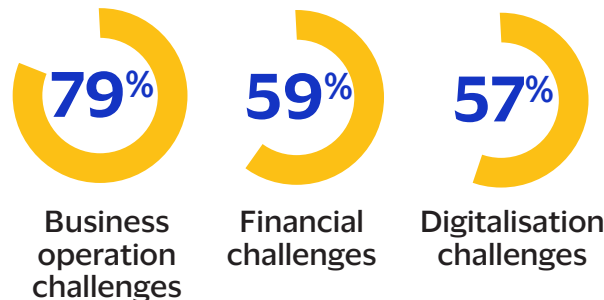
According to the Department of Statistics Malaysia², close to 98 percent of the country’s businesses are SMBs. In 2020, SMBs contributed 38.2 percent to Malaysia’s GDP, with the primary contributor being the services sector, followed by manufacturing and construction.

Despite making up a substantial proportion of the economy, SMBs remain underbanked and underserved, due to a variety of challenges that continue to impact their banking experiences. Nationwide lockdowns in the past year have caused over 37,000 SMBs to shut down, with more than a third of SMBs experiencing a significant decrease in sales of more than 20 percent .

According to Visa’s SMB Digital Banking Study in Malaysia, 79 percent of SMBs faced business operation challenges, while 59 percent and 57 percent experienced financing and digitisation challenges.

With the emergence of more digital banking players, traditional banks have been transforming the banking experience to include more digital services in their offerings. Both traditional and virtual banks have the potential to deliver the solutions needed in addressing the unmet needs of SMBs.

CHALLENGES FACED BY SMBs



2. Data from the Malaysia Statistical Business Register (MSBR) released by Department of Statistics, Malaysia (DOSM) in 2020.
 3. Survey conducted by the Small & Medium Enterprises Association Malaysia (SAMENTA) on its members from June 19 to June 23, 2021.

Financing and loan challenges faced by SMBs

Almost all SMBs encountered issues on financing and loans.



SMBs faced issues for financing in the past 12 months

This challenge is consistent across SMBs of different sizes and industries, regardless of whether they bank with an Islamic or non-Islamic bank. Ninety-two percent of small businesses faced financing and loan challenges in the past 12 months. SMBs in the financial services industry reported the highest issues (94%) followed by manufacturing/construction (90%) and professional services (78%) sector.

Ninety-two percent of SMBs who bank with an Islamic main bank reported financing issues, while 85 percent of Islamic SMBs who bank with non-Islamic main banks face the same challenge.

SMB CHALLENGES WITH FINANCING AND LOANS IN THE PAST 12 MONTHS

37% Complicated application procedure

36% High interest rate

29% Not able to qualify for loan

29% Difficult to compare across banks for best offer

28% Need to provide guarantors

Complicated application procedure is cited as the top challenge faced.

Thirty-seven percent of SMBs cited complicated application procedures as the top challenge faced in the past 12 months. High interest rates (36%), followed by difficulties in qualifying for loans (29%) were the other top challenges highlighted by SMBs. Micro businesses found it especially difficult to qualify for loans, while SMBs from the professional services sector faced difficulty when comparing the best offer across banks.

Forty-eight percent of Muslim SMBs who used non-Islamic banks as their main banks reported complicated application procedures as a top challenge, compared to 39 percent of Muslim SMBs who banked mainly with Islamic banks.

SMBs' interest in digital banking is high, but varied

More than two-thirds of SMEs are interested in using digital banks.

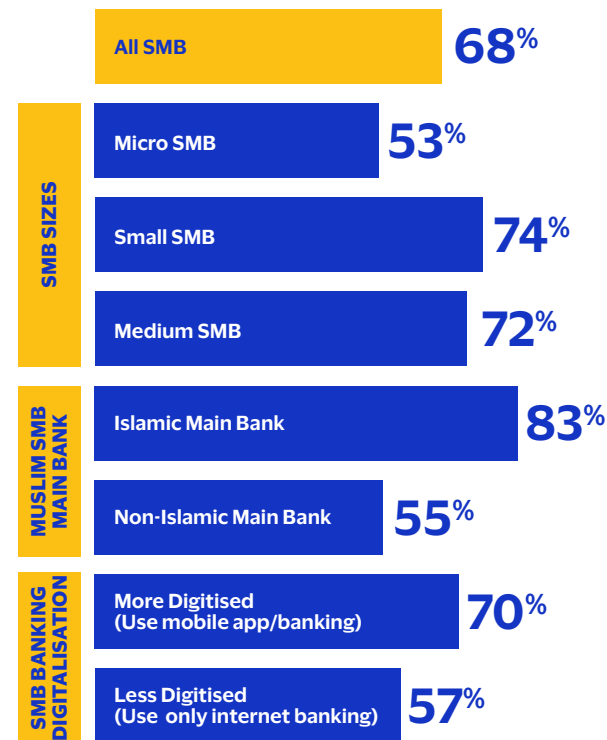
Majority of SMBs are interested in using services offered by digital banks. On average, 68 percent of SMBs reported being interested in digital banking. The industries that showed most interest in using services offered by digital banks include financial services (76%), manufacturing and construction (71%), and professional services sector (69%).

Only eight percent of SMBs are not interested to use services from digital banks, citing data security and credibility as their top concerns.

INTEREST IN DIGITAL BANKING



INTEREST ACROSS SMB SEGMENTS



Interest varies across SMB segments.

Based on the study, interest in using digital banks is lower for micro businesses, and SMBs that have not embraced any digital banking solutions.

Compared to small SMBs (74%) and medium SMBs (72%) who show higher interest, micro businesses (53%) reported lesser interest in digital banking. When comparing SMBs' levels of digitisation, 70 percent of SMBs who use both mobile and internet banking are interested in digital banking, compared to 57 percent of SMBs who use only internet banking.

Muslim SMBs who bank with an Islamic main bank also reported a much higher interest in using digital banking (83%) compared to Muslim SMBs who use non-Islamic main banks. The stark difference in perception is worth exploring further, to ensure non-Islamic banks can develop offerings that truly address their customers' needs.

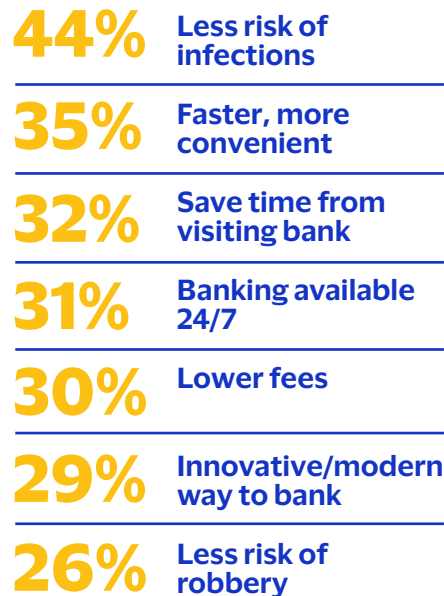
Digital banks seen to solve SMBs' banking challenges

Physical safety and convenience drive interest in digital banking.

With the ongoing pandemic, hygiene concerns due to physical contact are driving customers to conduct their banking transactions online in the safety of their homes. As a result, less human interaction (44%) was cited as the top reason for SMBs' interest in digital banking. The other key reasons contributing to the interest in using digital banks include convenience and speed of transaction (35%), time saved from travelling to the bank (32%) and ability to conduct transactions anytime, anywhere (31%). Customers have also cited interest in digital banking services such as fully-digital account opening, contactless kiosks, and instant cross-border transfers.

In contrast, personalisation and tailored services was one of the least considered reasons for using digital banks, which could be an opportunity for digital banks to address.

TOP REASONS FOR INTEREST IN DIGITAL BANKING

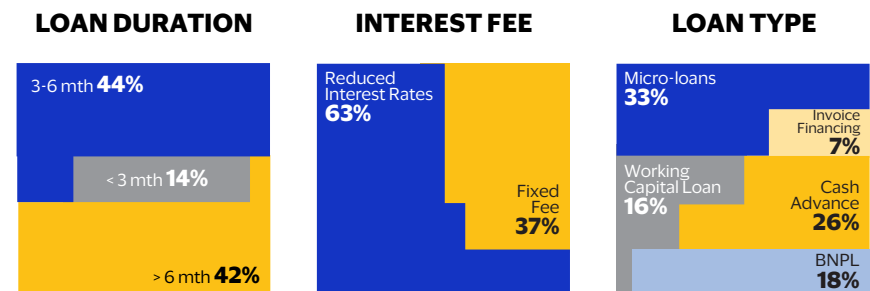


Top financing solutions preferred by SMBs.

Majority of SMBs (44%) indicated a preference for a loan duration of three to six months, if given the chance to customise their loans offered by a digital bank. Forty-two percent are more interested to take up a loan longer than six months, while 14 percent want a loan duration of less than three months.

Sixty-three percent of Malaysian SMBs also prefer reduced interest rates, while 37 percent choose to go with a fixed fee. In terms of loan type, majority of SMBs prefer micro-loans (33%), followed by cash advances (26%), Buy Now Pay Later (BNPL) (18%), working capital loan (16%), and invoice financing (7%).

INTEREST IN FINANCIAL LOAN FEATURES FROM DIGITAL BANKING



Key levers to increase SMBs' interest in digital banking

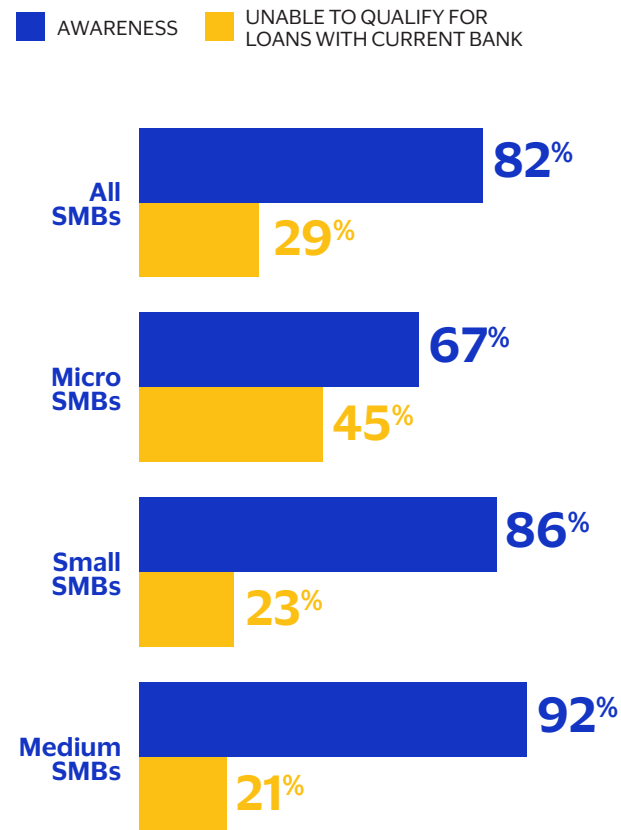


Higher level of interest among micro SMBs

Awareness lowest among micro-businesses, despite high need for financing options.

Although micro-businesses stand to benefit the most from digital banks' financing options, their level of awareness on digital banks is lowest. Micro-businesses are also concerned about the credibility of digital banks despite their need for financing solutions.

NEED AND AWARENESS OF DIGITAL BANKING



Islamic banks cater to different needs of SMBs

SMBs who bank with Islamic Banks as their primary bank are more likely to be interested in digital banking.

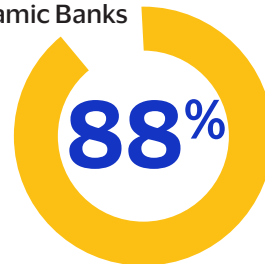
Majority of SMBs are agreeable that digital banking is possible for Islamic Banking, especially Muslim SMBs who mainly bank with Islamic Banks. Muslim SMBs who mainly bank with Islamic Banks cite speedier online experience and flexible financing options as key drivers to using digital banks. The need to check Shari'ah compliance delays fund transfers, and virtual banks' automated processes may reduce the time needed for making these transfers.

Based on the research, Muslim SMBs who mainly use Islamic Banks have a higher need for access to loans. Digital Banks that provide Islamic Banking should focus on providing flexible financing options to cater to the needs of these Muslim SMBs.

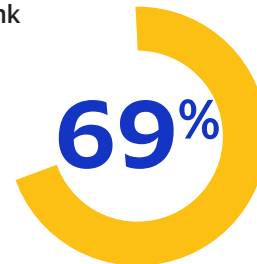
PERCEIVED COMPATIBILITY AND INTEREST IN ISLAMIC DIGITAL BANKING

DIGITAL BANKING IS POSSIBLE IN ISLAMIC BANK

Muslim SMBs who mainly bank with Islamic Banks

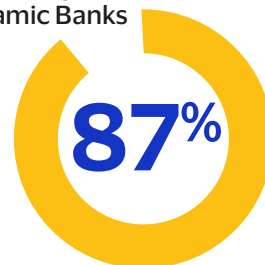


Muslim SMBs who mainly bank with non-Islamic Bank

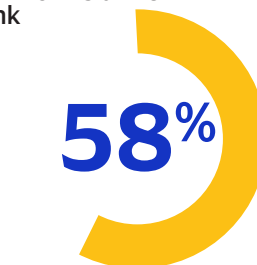


INTEREST IN ISLAMIC DIGITAL BANKING

Muslim SMBs who mainly bank with Islamic Banks



Muslim SMBs who mainly bank with non-Islamic Bank



Islamic banks cater to different needs of SMBs

Convenience is a key driver of interest in using digital banks for SMBs who mainly bank with non-Islamic Banks.

Being able to bank at their own convenience is the top driver for Muslim SMBs who mainly bank with non-Islamic banks. Compared to those who use Islamic Banking, Muslim SMBs have relatively less need for flexible financing. Instead, they focus more on the functional benefits of virtual banks. Digital banks who want to work with Muslim SMBs should focus on convenience and efficiency as part of their key value propositions.

TOP REASONS FOR INDIVIDUAL'S INTEREST IN DIGITAL BANKS

GOOD ONLINE USER EXPERIENCE

24% Confidence in automated processes

24% Digital interactions provide better banking experience

20% Fully digital processes

VALUE-ADDED SERVICES

27% Flexible loans/financing solutions

20% Ability to integrate services

19% Lower credit requirements for loans

CONVENIENCE

46% Can bank at any time of the day

41% Can avoid spending time going to/waiting at bank

35% Faster and more convenient way to bank

“ There is a shari’ah board to approve transactions, so there’s oversight to ensure that it is not haram (e.g. payments to banned categories).

Islamic Banking Expert

My main bank is Islamic but conventional banks are more flexible so I use them sometimes when my clients need us to make fast payments. This is because fund transfers between Islamic and non-Islamic banks take a longer time.

Medium SMB, Finance

Approval of loan will be faster as compared to conventional bank because of digitalisation.

Medium SMB, Manufacturing

When I call the bank during working hours, they may not be able to attend to me. And as I only have free time in the evening, I find it easier and more convenient to have my banking needs done digitally.

Small SMB, Professional Services

Note: above is for Muslim SMEs with non-Islamic main banks

Importance of sustaining online banking among less-digitised SMBs

Educate businesses with less-digitised banking practises.

SMBs who bank online across a wider array of banking activities are more likely to adapt to a fully digital banking experience, with mobile banking app users showing highest level of interest to use digital banking services.

SMBs with limited digitisation in their banking activities tend to be smaller sized SMBs from a variety of industries and own less digital financial products. These SMBs find it difficult to believe that banking can be done completely digital.

In general, SMBs still prefer traditional methods of banking and have not fully understood the concept of digital banking. Digital banks in Malaysia will need to provide more education to these SMBs and communicate the benefits that digital banking brings in order to increase their level of interest.

MALAYSIAN SMBs WITH LIMITED DIGITISATION OF BANKING ACTIVITIES

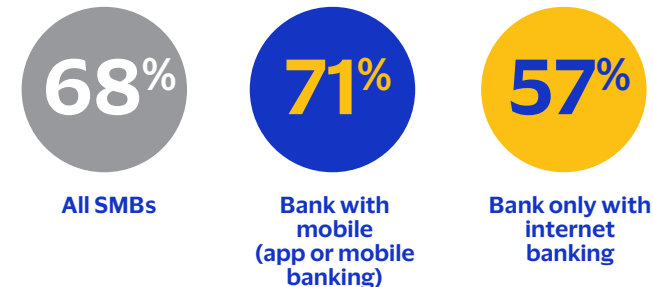
■ BANK WITH MOBILE BANKING ■ BANK WITH ONLY INTERNET BANKING

% of Micro SMBs with limited digitisation of banking activities

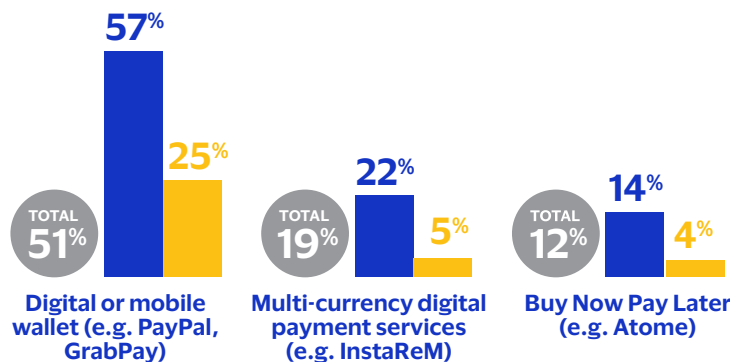
45%

Manufacturing/Construction	24%
Professional Services	18%
Retail	14%
Food Services	8%
Financial Services	7%

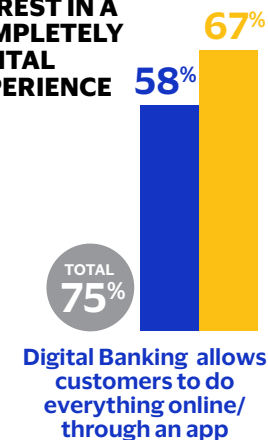
MALAYSIAN SMBs' INTEREST IN DIGITAL BANKING



OWNS DIGITAL FINANCIAL PRODUCTS



INTEREST IN A COMPLETELY DIGITAL EXPERIENCE



Some processes will still require physical presence at the bank. If possible, we will try to get the Relationship Manager down to avoid making the trip to the bank.

Small SMB, Professional Services

Importance of sustaining online banking among less-digitised SMBs

Improve user interface

COVID-19 has forced SMBs to switch to using online banking when conducting their day-to-day transactions but some face-to-face banking activities have resumed. Some SMBs continue to use offline channels for their banking activities such as application of cards, customer service and card application. Customer service, card application and loans are banking services that businesses leverage on offline channels.

Improving user interface will encourage continued usage of online/mobile banking post-COVID-19. Businesses are most likely to use online banking for transferring money between their bank accounts, checking their account balances, and getting their bank statements.

“ I would make a trip to the bank when I want to clarify some banking information.

Medium SMB, Manufacturing



BANKING SERVICES DONE ACROSS DIFFERENT CHANNELS IN P12M

MOST COMMON SERVICES USED, IN DESCENDING ORDER	DIGITAL BANKING CHANNELS		PHYSICAL BANKING CHANNELS		
	Mobile banking	Online banking	Physical bank branch	By phone via service hotline	Transact at ATM
Checking account balance	52%	61%	9%	10%	17%
Transferring money to other local account	45%	59%	12%	8%	22%
Getting bank statement	34%	58%	21%	10%	17%
Making utility bill payments	46%	59%	11%	7%	14%
Transferring money between my bank accounts	50%	62%	10%	8%	19%
Settling card bills	38%	53%	13%	8%	16%
Checking business dashboard	32%	49%	15%	10%	16%
Helpdesk/customer care	22%	27%	22%	33%	13%
Applying for cards	23%	27%	33%	10%	13%

Importance of sustaining online banking among less-digitised SMBs

Digital banks must tailor services to meet customer needs.

For customer service, larger sized SMBs feel that the human touch from Relationship Managers will be hard to replace in a digital bank. Ninety percent of medium SMBs feel that Relationship Managers are crucial drivers for virtual banking.

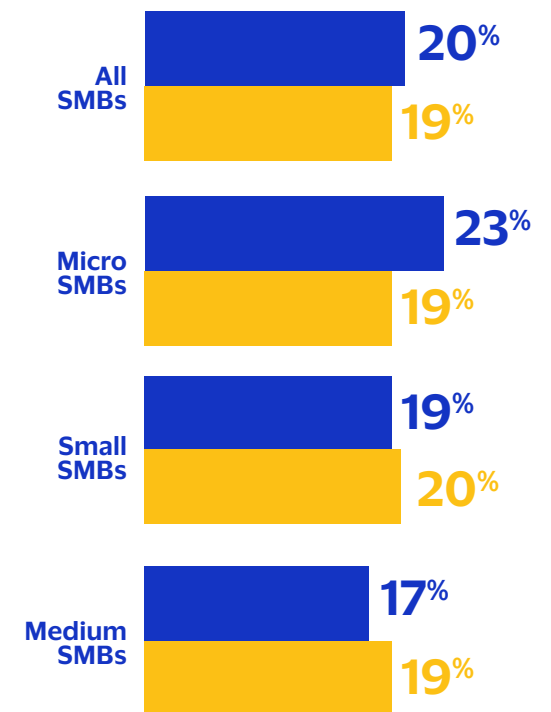
Therefore, digital banks need to ensure that they cater to these SMBs' needs by providing good customer service and being responsive to customer requests.

BANKING SERVICES THAT SMBs WILL CONTINUE USING POST-COVID

CONTINUE USING	CONTINUE IF USER INTERFACE IS BETTER	STOP USING
71% Checking account balance	41% Applying for loans	20% Foreign exchange services
68% Transferring money to other local account	41% Applying for business insurance	19% Buying/selling investment products e.g. funds, shares, etc.
67% Getting bank statement	38% Buying/selling investment products e.g. funds, shares, etc.	18% Applying for loans
67% Transferring money between my bank accounts	37% Foreign exchange services	18% Transferring money to international accounts
65% Making utility bill payments	36% Applying for cards	17% Applying for business insurance

DIGITAL BANKING RESPONSIVENESS

- DIGITAL BANKS ARE MORE TAILORED TO CUSTOMER NEEDS
- DIGITAL BANKS ARE MORE RESPONSIVE TO CUSTOMER REQUESTS



About the report

The Visa SMB Digital Banking Study was conducted by CLEAR to understand the needs of SMBs in the digital age and identify new opportunities for digital banks. The study combines insights from Visa's annual Consumer Payment Attitudes study, which was conducted amongst 1,000 consumers in Malaysia in September 2021.

