BERITA ONLINE

THE STAR

TARIKH: 7 MEI 2022 (SABTU)

Serving the ‘unserved and underserved’

By GANESHWARAN KANA

BANKING

Saturday, 07 May 2022

Related News

BANKING 13h ago

IT did not take long for a senior opposition politician to question the rationale behind Bank Negara’s award of digital banking licences.

He questioned whether the winners, being five major consortia, would assist ordinary people operating micro businesses at night markets or road-side food stalls in small towns like Baling, Padang Terap, Bachok and Hulu Terengganu.

While one may contend that the politician’s concern was merely a political gimmick, it cannot be denied that there are expectations on the digital banks to target the population often “overlooked” by brick-and-mortar banks. After all, the digital bank licensees have consistently spoken about serving the unserved or underserved.

The Boost-RHB Banking Group consortium, for example, wants to create greater access for financial inclusion digitally among the underserved and unserved segments.

Another licence winner, super-app Grab-led consortium, says it will assist local micro businesses as well as other financially underserved segments such as gig economy workers."In particular, small and medium-sized enterprises (SMEs) are expected to be key beneficiaries of digital banking," it said.

There is no doubt that "unserved" and "underserved" have become the latest buzzwords in the business environment. But with big players eyeing for the same market segments, one may wonder whether the market is big enough to accommodate all digital banks? Most importantly, are such market segments lucrative?

A certain section of the population is considered "unserved" or "underserved" for several reasons. The lack of accessibility to a bank is a factor. Another key reason is the low credit worthiness of an individual.

Speaking with StarBizWeek, Celebrus Advisory managing partner Edmund Yong points out that the underserved market or "thin file" segment is generally 15% to 20% of the working population or about one million people in Malaysia.

However, the segment is already adequately served by the existing shadow banking system, including Bank Rakyat, Angkatan Koperasi Kebangsaan Malaysia Bhd and the money lenders.

With digital banks coming into the picture, the underserved market segment would be "quite crowded", according to Yong.

"It will be interesting to see how the digital banks seek to grow within the brief window given and defend asset quality at the same time, amid a credit downcycle. Are the alternative scoring and lending models going to be recession-tested? Are they going to collect non-performing loans digitally or fall back on conventional non-digital channels?"

MoneyMatch co-founder Naysan Munusamy believes that the unserved or underserved market has a big unexplored potential."Without a doubt or else startups like us at MoneyMatch wouldn't even be in existence. Over RM4bil has been executed through MoneyMatch's books to date since we started a few years ago.

"We have outrightly disrupted traditional banking services to the micro, small and medium enterprises (MSMEs) market sustainably. We are simply cheaper and faster than the banks at executing cross border payments using our leading-edge technologies such as digital onboarding and blockchain integrations, which makes our disruptive business still lucrative.

“This is the same concept and model that our digital bank will be taking up to the next level across multiple products as we vastly improve the financial services offered to these underserved segments such as the MSME segment,” he says.

MoneyMatch is an equity partner in the KAF Investment-led consortium, which was one of the digital banking licence winners.

It is noteworthy that MoneyMatch was the first graduate of Bank Negara’s regulatory sandbox.

“We will also look at leveraging certain elements of blockchain technologies to enable and power certain payments products of the digital bank. This would give us a sustainable advantage in terms of pricing and speed as compared to the existing players,” he says.

RHB Banking Group managing director and chief executive officer Mohd Rashid Mohamad believes that the underserved segment can be commercially attractive.

He adds that underserved customers who have access to basic banking services such as savings, may still face challenges in obtaining other financial services to facilitate wealth creation and protection, including credit facilities, insurance and investments.

“The digital bank will enable this customer segment to benefit from a non-conventional operating model, such as using alternative data to supplement credit underwriting, creating more efficient self-service channels and developing appropriate and inclusive financial solutions,” he says.

A big question is, why would a major banking group like RHB want to pursue digital banking when it can already offer digital solutions using its existing technology and capacity?

Expanding offerings

Rashid says it has traditionally been more difficult for incumbent banks to serve the MSMEs and the underserved retail individuals. The digital bank, however, offers an opportunity to RHB to expand its offerings to them.“These customers will easily gain access to credit and financial services that are digital, nimble, and secure. We also anticipate rapid growth of these segments, and in time, they will seek more complex financial solutions offered by the RHB.

“At the same time, the innovative value propositions and technology solutions tested in the digital bank would provide valuable learnings that could be adapted within RHB,” he says.

RHB's digital bank, which will be undertaken in partnership with Axiata Group Bhd's fintech arm Boost, will be run separately from RHB's existing business.

Looking ahead, competition will likely get stiffer in the domestic banking landscape with the entry of new digital-based players.

Interestingly, it would also be relatively easy for the existing banks to replicate solutions offered by their digital counterparts. This would further increase the competition.

Hence, there are concerns on whether the digital banks would stand a chance competing with the much-larger traditional banks.

An optimistic MoneyMatch's Naysan says that all digital banks will dominate the banking scene over time.

"Traditional banks simply cannot compete because all they do is just copy and replicate our innovation and maybe throw on their own colours in their attempts. But they don't innovate internally on their core fundamentals or focus on helping the customer by lowering fees and prices and that is why they will always lose out," he says, adding that existing banks are bogged down by a huge cost infrastructure from their legacy technologies, physical branch costs as well as talents and human resources.

Increasing convenience

"Startups like us who are fully focused on our end-customers are driving down the price point and increasing convenience for the customers, rather than just chasing profits like traditional banks," he says.

With the licence winners only announced on April 29, it would take some time before the five digital banks are up and running in Malaysia.

An industry insider tells StarBizWeek that it may take about 12 or more months to commercialise the digital banking platform. It will depend on how fast the regulators can finalise the due diligence with the licence holders.

Regulations play an important role in ensuring that the digital banks do not damage the soundness of the local financial system.

CTOS Digital Bhd, the country’s leading credit reporting firm that has been working closely with traditional banks, says it is ready to assist the new digital banks.

“We look forward to helping power the new digital banking players with our immediately available technology, data and analytics services to facilitate wider access to financing and provide convenient, cost effective services to their customers,” says CTOS deputy group CEO Eric Hamburger.