# News Release

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## Digital revolution for Malaysia and China

China's consumers are by no means the wealthiest in the world. But they are years ahead of their counterparts in many developed economies in terms of *how* they shop and pay for what they buy – and they are revolutionising the way consumer finance is conducted in the world's second-biggest economy.

Like so many of the changes sweeping China, the uptake of internet and digital technologies has happened with head-spinning speed.

As recently as 2000, a mere 1.7 percent of mainland Chinese were online. By December last year, that number had risen to 53.2 percent, or more than 730 million internet users.[1] Visit any Chinese city these days, and you will find pretty much everyone toting a smartphone or tablet – or both. China's e-commerce sales have soared from practically zero in 2003 to nearly USD 600 billion in 2015,[2] and now top those in the United States. Alibaba's annual "Singles Day" shopping event generated a massive USD 17.8 billion-worth of sales on its online marketplaces last November, up 32 percent from a year earlier.[3]

Put another way, mainland China's consumers – like those in Malaysia and many other Asian nations -- have gone from (nearly) no-tech to high-tech within just a few years, largely bypassing clunky fixed-line telephony to leap into a world where and online shopping smartphone ownership have become the norm.

This transformation is explained by a powerful combination of factors.

First, mainland China's retail and telecommunications networks – again, like those in other developing economies – were for decades underdeveloped and inconvenient. So China's consumers eagerly embraced the speed and choice that the internet and mobile phones brought to buying clothes, hotel stays or movie tickets, and swapping shopping tips with their friends.

By now, a generation of Chinese has grown up with a different concept of "convenience": Residents of, say, Shenzhen or Guangzhou are perfectly likely to buy items via the smartphone in their pocket, rather than walk one block to the store that stocks them.

This is the world that anyone doing business in China needs to adapt to: an e-commerce environment that is one of the most developed in the world, and that is growing rapidly. Research company eMarketer estimates that China e-commerce sales will top USD 2.4 trillion by 2020. [4] Already, 55.5 percent of that is done via mobile devices; by 2020, that will have risen to 68 percent, according to eMarketer.[5]

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[1] https://www.chinainternetwatch.com/19697/top-stats-2017/?awt_l=EJ.9k&awt_m=3me7tItESYRcP7G
[2] https://www.internetretailer.com/2016/01/27/chinas-online-retail-sales-grow-third-589-billion-2015
[3] http://www.alibabagroup.com/en/news/article?news=p161112
[4] http://www.emarketer.com/Article/China-Eclipses-US-Become-Worlds-Largest-Retail-Market/1014364
[5] http://www.emarketer.com/Article/China-Eclipses-US-Become-Worlds-Largest-Retail-Market/1014364

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Meanwhile, the mainland authorities want to continue to develop the Chinese economy, and have supported the build-out of internet-related technologies.

All this has massive implications for the financial and e-commerce sectors in China, which have raced to adapt to Chinese consumers' ravenous appetite for digital innovation. Just as buying behaviour has changed from traditional over-the-counter to online/mobile, so too financial interaction is rapidly becoming paperless, wired and digital.

Alibaba, for instance, has capitalized on the popularity of its own online marketplaces by creating its own payment system, Alipay. In 2015, Alipay had 451 million active users conducting on average 153 million transactions per day. By comparison, PayPal's 180 million active users conducted just 16 million transactions a day.[6]

And Tencent in 2014 set up an electronic wallet – which allows people-to-people payments via mobile phones – for users of its massively popular social messaging apps.

The uptake of such technologies has been immense.

Within just 72 hours of ApplePay's launch in mainland China in February, three million payment cards had been registered to the service. That's three times the total registered in the US. [7] More than 410 million Chinese now regularly use e-payment methods -- nearly 90 percent of them via mobile devices – according to official data.[8]

Traditional banks also are responding to China's e-commerce/e-payment ecosystem, and are rushing to introduce new digital tools for their customers.

Virtual teller machines, for example, allow customers to interact with bank staff by video, scan documents and provide e-signatures, meaning that things like opening an account becomes simpler and quicker.

Mobile apps are increasingly common and making it easier for customers to check their accounts or make transactions, wherever they happen to be.

Thumbprint ID and voice-recognition technologies are already available and will before long be commonplace, adding an extra layer of security and convenience for online and mobile customers.

"Bricks and mortar" bank branches and people-to-people interaction is still highly valued, although their role is rapidly changing to focus on meeting customers' wealth management and more complex needs. Paperless, branch-less "clicks and apps" banking allows banks to service most of their customers' transactional needs more efficiently and quickly, around the clock -- whether they are in Shenzhen, Shanghai, rural Sichuan, or in Malaysia.

Few people could have imagined the changes sweeping China's retail and banking scene just five years ago. The next five years are sure to bring still more change. Banks and retailers will need to be nimble,

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[6] http://www.alibabagroup.com/en/ir/pdf/160614/12.pdf
[7] http://9to5mac.com/2016/02/22/apple-pay-china-bank-fees/ http://www.recode.net/2016/3/21/11587154/apple-pays-launch-in-china-was-three-times-bigger-than-in-u-s
[8] http://www.cnnic.cn/hlwfzyj/hlwxzbg/hlwtjbg/201601/t20160122_53271.htm
http://www.internetworldstats.com/stats.htm

and anticipate the future needs and preferences of China's 1.38 billion shoppers. Those who get it right will find the size of the prize is immense.

**Malaysia is also heading in the right digital direction**
Like China, Malaysia is using digital technologies to drive economic growth.

"Last year, the #MYCYBERSALE 2016, Malaysia's biggest online sale event organised by the Malaysia Digital Economy Corporation (MDEC), saw participation increase to 607 sites, 54 percent more than in 2015," said Mukhtar Hussain, Chief Executive Officer of HSBC Bank Malaysia Berhad.

This initiative, which is in its third year, aims to encourage small and medium-sized enterprises to embrace e-commerce and boost innovation while stimulating the domestic e-commerce market. It achieved RM211 million in gross merchandise volume in 2016, a 79 percent increase from last year. [9]

The success of the initiative shows that Malaysians are embracing the e-commerce culture. "We can definitely see a shift in the way Malaysians are shopping. It is good to see the e-commerce industry and digital economy growing so steadily," Mukhtar commented.

To highlight Malaysia's drive in digital technology, Malaysia earlier this year launched the world's first Digital Free Trade Zone, an e-hub established by Alibaba Group and MDEC. This initiative aims to allow small and medium-sized enterprises to capitalise on the exponential growth of the internet economy and cross-border e-commerce activities.[10]

Mukhtar added that Malaysia will tap on the expertise of Jack Ma, Alibaba's founder and executive chairman, who is also digital economy adviser to the Malaysian government, and at the same time learn from the technological advances that Chinese companies such as Alibaba, Tencent Holdings, Baidu Inc. and Huawei Technologies have made.

According to MDEC, the new Digital Free Trade Zone will boost the e-commerce roadmap that Malaysia introduced in 2016. This aims to double the nation's e-commerce growth and increase the GDP contribution to RM211 billion (about USD 47.68 billion) by 2020. It also has the potential to double the growth rate of Malaysian small and medium-sized companies' goods exports, and to create 60,000 direct and indirect jobs by 2025.[11]

"In 2016, 20.4 million people were accessing the internet in Malaysia. That figure is projected to grow to 24.6 million in 2021.[12] Increased internet access, coupled with increasingly widespread digital technology, is critical to amplifying productivity, innovation and living standards across the wider economy. Malaysia has realised this early, and is well on its way to creating an innovative and vibrant digital ecosystem," concluded Mukhtar.

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[9] https://www.digitalnewsasia.com/business/mycybersale-2016-records-rm211-mil-gross-merchandise-volume
[10] http://www.mdec.my/news/malaysia-launches-worlds-first-digital-free-trade-zone
[11] http://www.mdec.my/news/malaysia-launches-worlds-first-digital-free-trade-zone
[12] https://www.statista.com/statistics/553752/number-of-internet-users-in-malaysia/

**About HSBC in Malaysia**

HSBC Bank Malaysia Berhad was locally incorporated in 1984 and is a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited (a company under the HSBC Group). In 2007, HSBC Bank Malaysia was the first locally incorporated foreign bank to be awarded an Islamic banking subsidiary licence in Malaysia, and HSBC Amanah Malaysia Berhad, a full-fledged Islamic bank wholly owned by HSBC Bank Malaysia, commenced operations in August 2008. HSBC in Malaysia has a network of 68 branches nationwide, of which 26 are HSBC Amanah Malaysia Berhad branches. HSBC Amanah Malaysia Berhad also has offsite ATMs established in 25 locations nationwide. In 2006, HSBC was the first foreign bank to be awarded a Takaful (Islamic insurance) license in Malaysia. HSBC Amanah Takaful (Malaysia) Sdn Bhd, a joint venture between HSBC Insurance (Asia Pacific) Holdings Limited (49% shareholding), Jerneh Asia Berhad (31% shareholding) and Employees Provident Fund Board of Malaysia (20% shareholding) commenced operations in August 2006.

**The Hongkong and Shanghai Banking Corporation Limited**

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