News Release

3 November 2017

Collaboration is the way forward for Malaysian financial institutions and fintech companies

The financial services industry is going through a period of extraordinary transformation. After centuries in which pen, paper and physical cash ruled banking interactions, digital technology is now bringing a new level of analysis, connectivity and transaction power literally to customers' finger tips.

These changes have happened in just the last few years – and they serve a new generation of customers, who have grown up in the digital world. They demand convenient services and new ways of accessing them, wherever and whenever they want. They need agile, rapid services operating in real time that are competitively priced and personalised. And all this needs to happen in a safe environment, where their data is protected.

Financial technology– or "fintech" -- can now offer all of that. Whether it is nimble start-ups or technology giants such as Google, Apple, Facebook, Amazon and Alibaba – they will all draw upon their expertise in technology to deliver personalised and interactive financial services and products for their highly engaged and tech-savvy customers.

Relations between these emerging fintech players and the established banking industry are sometimes portrayed as challenging, even combative. Some traditional banks worry that the fintech wave will disrupt the banking industry in the same way that music downloads disrupted the record industry and Uber is disrupting established transport industries.

But the reality could not be further from the truth. In fact, banks and fintech companies are entering partnerships of collaboration, giving banks access to new and exciting technologies, and giving fintech companies access to funding and scale of market opportunity.

"Financial institutions which can adapt and utilise technologies offered by the fintech industry stand to reap new opportunities, new business and even extend their share of the market. Fintech will complement rather than threaten banking institutions as banking has always been about technology, so today's financial-technology innovation boom represents an evolution for traditional banking to another level," said Mukhtar Hussain, Chief Executive Officer, HSBC Bank Malaysia.

So far, the banks that have digitised have focused on the most routine customer transactions, such as mobile banking and contactless payments, which have taken off massively. There is a substantial shift of transactions from branches and ATMs into mobile banking, along with a decline in both cash and cheque transactions.

In order to improve speed and efficiency, and better understand customers' needs, banks are also actively using data to analyse customers' purchasing behaviour, and then channel tailored suggestions to them on their smartphones.

Using HSBC as an example, we are investing almost US$2 billion to do this, and have adopted a mobile-first strategy. The goal is to completely redesign our customers' experience through mobile channels.

We have launched Apple Pay, Android Pay and have a WeChat integration underway to address the Chinese market. We have also introduced a voice-ID login that is available for our more than 20 million customers. And we are piloting touch ID across major markets, as well as other new identity verification projects. This isn't only about launching apps and adding convenient features. It's about our giving customers more direct control over their financial lives.

As the world becomes increasingly more digital, the number of passwords people have to manage has become a serious challenge for many customers.

To help with this, banks have in recent years begun investigating biometric solutions for authenticating mobile banking users that balance both security and simplicity.

The vast majority of financial institutions that have implemented biometrics today have done it for mobile banking password replacement. We will see more launches of biometrics for other functions, such as step-up authentication for riskier activities (payments or money transfers), out-of-band/second-factor authentication (replacing the current SMS-based second-factor authentication), card-less cash withdrawal and more in the coming years.

Fintech innovation and adoption will continue to bring big changes in the coming years. The best way for banks and fintech start-ups to succeed in this journey is if they create a strong ecosystem of partners.

“In Malaysia for example, the financial sector blueprint has considered fintech as a new initiative to achieve the objectives of the country’s ten-year plan as it will extend the provision of financial services beyond the traditional purview of banks. The financial sector blueprint sets out a ten-year strategic plan to increase the resilience, efficiency and competitiveness of Malaysia’s financial sector.

Bank Negara Malaysia (BNM) has been pushing fintech for financial institutions to collaborate and offer the best product and solutions for customers. In fact, BNM has even set-up a team that looks after fintech, called the Financial Technology Enabler Group (FTEG) which would oversee the entry of technological innovations in financial services,” added Mukhtar.

Banks can more easily and quickly adopt new technologies to offer customers cutting-edge, added-value digital services. Fintech companies can collaborate with established firms to integrate themselves into the existing value chain to address a lack of market experience or regulatory expertise.

Fintech collaboration is not about grabbing for the ‘next shiny object’, it’s about intuitive product design, ease of use, and 24/7 accessibility. These partnerships will become a way to fill in the gaps, so banks and fintechs can complement each other.

A cultural fit and a deep understanding of the partnership is key, as is the avoidance of unnecessary dependence.

Our approach at HSBC was to set up a Strategic Investments team, which scouts the start-up landscape, identifying companies which are potentially good investments, and which provide technology we can use.

We believe that when we act as both investors and customers, we get more value from new companies, and they get more value from their relationship with us. This is critical to nurturing the kind of technological innovation that is necessary to make financial markets and systems more efficient, and to improve the overall customer experience.

Over time, there will be a move to more of an ecosystem model, where more people will be working together, with new relationships.

The disruption and evolution of financial services is not a zero sum game. The innovations introduced by new start-ups or technology giants are not existential threats to traditional financial institutions.

Instead they are opportunities for banks that continue to evolve towards a customer-driven digital model. It's a win-win for all.

"Fintech has opened new opportunities such as the potential to serve untapped markets in market segments which would not otherwise be cost-effective, provide value added and customer focus services through the delivery of customised solutions and improve market and system efficiency for back-end operations, among others. It is definitely beneficial for both customers and banks in this new fin-tech era," concluded Mukhtar.

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About HSBC in Malaysia

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