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Fintech revolution set to shape local banking sector	The Edge	Tuesday	12 July 2016

Fintech revolution set to shape local banking sector



Four local banks including RHB Bank are leading the charge in embracing technology to expand their customer reach and increase their presence in the digital world. The Edge file photo

Banking sector

Maintain overweight: The financial technology (fintech) revolution has been unstoppable and is set to shape the Malaysian banking sector in the years to come. While Bank Negara Malaysia will release its concept paper for the regulation for fintech in July 2016, we are presenting our views on its impact on banks based on our preliminary analysis. While fintech would help banks to expand customer reach and improve operating efficiencies, the fintech revolution could also create a new breed of non-financial institution competitors for banks.

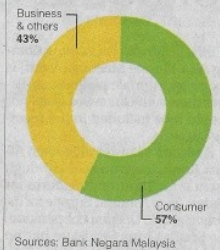
In our view, the digital revolution would have a relatively smaller negative impact on banks compared to other industries (like retailers and taxi drivers). This is because: i) the financial services sector is highly regulated and capital-intensive; ii)

financial transactions involve higher amounts of money, and hence customers prefer to deal with trusted parties; lack of control could lead to fraud and iv) fintech companies may not have the expertise to assess and control credit and other risks.

Based on the business models of existing fintech companies, most seem to focus on the consumer loan segment. In Malaysia, consumer loans account for 57.4% of the industry's total loans. However, not all the consumer banking business is at risk because the propositions of fintech companies are normally more appealing to the lower-income groups. Based on our understanding, Malaysian banks' exposures to these customers are generally small.

Four local banks, namely, Maybank, CIMB, RHB Bank, and Hong Leong Bank are leading the

Breakdown of the banking industry's total loans in Apr 16



charge in embracing technology to expand their customer reach and increase their presence in the digital world. The first three of the afore-

mentioned banks have even started bootcamp-type programmes to identify fintech companies they can work with. These first movers should see a smaller impact from the onslaught of fintech companies, or even benefit from the fintech revolution.

We continue to overweight Malaysian banks given the expected earnings recovery in 2016 and attractive valuations. While we concede that the emergence of fintech companies would exert some competitive pressure on the banks' businesses, the impact would only be felt gradually in the longer term (two to three years from now). Also, several banks have taken steps to reduce the threat posed by fintech companies by improving their digital banking capabilities and being involved in the incubation of fintech companies. — CIMB Research, July 9