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The Value of Digital Currency in The Banking Sector for Malaysian Bank Growth

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Abstract

Cryptography is used to protect financial transactions, confirm their authenticity, and control the issuance of new currency in digital money, also known as cryptocurrency. It can be exchanged for fiat currencies like the dollar or the euro and is not backed by any government. It can be used to make online purchases. To succeed, Malaysian banks must accept digital money so they can reach more people and provide services to more customers. Additionally, digital currency might enable banks to save time and money. Financial institutions that don't accept digital currency run the risk of falling behind the competition as it grows in popularity. As was previously stated, digital money is a completely digital form of cryptographic currency. It is accepted as payment for goods and services on the Internet and can be exchanged for other currencies, but it is not backed by any government or central bank.

Keywords: Digital currency, fintech, cryptocurrency, financial institutions, cryptographic currency

Introduction

Cryptocurrency, or digital currency, is a type of money that operates without a central bank and relies on encryption to control the creation of new units and verify transactions (Yli-Huumo et al., 2016). Although Bitcoin is the most well-known digital currency, there are now thousands of others in use (Swan, 2015).

Traditional fiat currencies like the US dollar or the euro are frequently contrasted with digital currencies. One significant distinction is that digital currencies are decentralised, not under the control of a single entity like a bank or government (Cocco et al., 2017). Because they do not need middlemen like banks, transactions with digital currencies are typically quicker and less expensive than those with traditional currencies (Mikhaylov & Klimov, 2021).

Digital currency in banking sector

Cryptography is used to control the creation of new units of currency as well as to secure and verify transactions in digital currency, also referred to as cryptocurrency. It runs independently of a central bank and can be exchanged for conventional currencies like the US dollar or euro to purchase goods and services online (Nakamoto, 2008).

The adoption of digital currency is crucial for the expansion of Malaysian banks because it enables them to broaden their customer base. Digital currency can also help banks operate more profitably and cost-effectively. Banks that do not adopt digital currency run the risk of losing market share to rivals given its rising popularity (Chuen & Hui, 2018).

As was already mentioned, digital currency is an entirely digital form of money that uses cryptography to secure and verify transactions. It runs independently of a central bank and can be exchanged for conventional currencies like the US dollar or euro to purchase goods and services online (Nakamoto, 2008).

Types of digital currency

Digital currencies come in a variety of forms, including Bitcoin, Ethereum, Ripple, Litecoin, and Bitcoin Cash. Each type of digital currency uses a distinct blockchain technology to function (Antonopoulos, 2014).

Comparison of digital currency with traditional currency

Traditional money and digital money are different in several ways. Traditional currency is physical, whereas digital currency is entirely digital. Unlike traditional currency, which is controlled by a central bank, digital currency is self-governing. While traditional currency can be used to purchase goods and services in person, digital currency can be used to make purchases online or be exchanged for it (Swan, 2015).

In Malaysia, the rate of adoption of digital currency has been rising over time. In Malaysia, there were 11.3 million digital currency transactions in 2018, up from 287,000 in 2017, according to a Bank Negara Malaysia report (Bank Negara Malaysia, 2019).

For banks in Malaysia, digital currency has a number of advantages, including improved transaction efficiency, lower processing costs, increased security, and greater financial inclusion (Abdullah et al., 2020).

Despite the advantages of digital currency, there are a number of obstacles that Malaysian banks must overcome before implementing it. These include a lack of infrastructure, unclear regulations, and inadequate customer education (Zainuddin et al., 2019).

Reduced costs in transaction processing:

The potential for lower transaction processing costs is one of the main advantages of the adoption of digital currency in the banking industry. Traditional financial transaction methods, like wire transfers, can be expensive and time-consuming. However, since there are no middlemen and other associated fees, transactions involving digital currency can be completed quickly and at a lower cost. A World Bank study found that transactions using digital currency can be up to 90% less expensive than those using more conventional methods (World Bank, 2018). By lowering transaction costs, banks and their clients could save a lot of money, which would ultimately help Malaysia's banking industry grow.

Increased security:

Increased security is a key advantage of the adoption of digital currency in the banking industry. Blockchain technology is used by digital currencies like Bitcoin to provide safe, decentralised transactions that are resistant to fraud and hacking attempts. This degree of security may eventually result in a rise in the use of digital currency by increasing consumer confidence in the banking industry. Although blockchain technology provides a high level of security, it is important to remember that it is not impervious to all types of cyberattacks, and additional security measures may be required to ensure the security of digital currency transactions (Khairudin et al., 2021).

Adoption of digital currencies can help more people become financially included, especially those who might not have access to traditional banking services. The World Bank estimates that 1.7 billion adults worldwide lack access to a bank account, making them ineligible for many financial services (World Bank, 2018). Financial transactions involving digital currencies can be made without the need for a traditional bank account, potentially opening up the world of finance to people who might not have had access before.

Challenges in Adopting Digital Currency in the Banking Sector in Malaysia:

Despite the potential advantages of adopting digital currency in Malaysia's banking industry, banks may encounter a number of difficulties when putting these technologies in place. The lack of regulatory clarity surrounding digital currencies is one of the major problems. Banks are unsure of how to proceed because the Malaysian government has not yet established clear guidelines for the use of digital currencies (Kuwait Finance House, 2019). Furthermore, there might not be enough customer education about digital currencies, which might lower adoption rates. For banks looking to implement digital currency technologies, a lack of necessary infrastructure, such as dependable internet connectivity and hardware, may also be a problem.

The Role of Government and Regulatory Bodies in Promoting Digital Currency Adoption in the Banking Sector in Malaysia:

The Malaysian government and regulatory bodies can make a significant contribution to promoting the use of digital currencies in the banking industry in order to overcome these difficulties. Concerns about regulatory uncertainty may be alleviated by government regulations and policies that offer banks seeking to adopt digital currencies guidance and clarity. Additionally, consumer awareness and comprehension of digital currencies can be raised through public education campaigns and outreach initiatives, which may result in higher adoption rates. Finally, the government can support the creation of the necessary hardware and internet connectivity to support the adoption of digital currencies.

Despite the difficulties, a number of banks in Malaysia have already started to investigate initiatives involving digital currency. For instance, Maybank's own digital wallet, MAE, which enables users to conduct transactions using their mobile phones, was released in 2019 (Maybank, 2019). In order to facilitate cross-border transactions, CIMB Bank has also partnered with Ripple, a blockchain-based payment provider (Ripple, 2018). These initiatives show that

Malaysian banks are becoming increasingly interested in digital currency technologies and could open the door for expanded adoption in the future.

Governments and regulatory agencies are crucial in encouraging the use of digital currency in the banking industry. The government of Malaysia has launched a number of initiatives to encourage the use of digital currency. For instance, the Bank Negara Malaysia (BNM), the central bank of Malaysia, published a policy document on digital currencies in January 2019. The policy document provides guidelines for the issuance and use of digital currency as well as the regulatory framework for digital currency in Malaysia. In accordance with the policy document, digital currency exchanges must also register with BNM and adhere to anti-money laundering and counter-terrorism financing laws (BNM, 2019).

The Malaysian government has also put policies into place to encourage the use of digital currencies and financial inclusion. The e-Tunai Rakyat initiative, launched by the government in 2020, sought to encourage Malaysians to use digital payments. The programme offered qualified Malaysians a one-time RM30 digital credit that could be applied to a variety of digital payment methods, such as e-wallets, QR code payments, and online purchases (Malaysia Digital Economy Corporation, 2020).

Digital Currency Initiatives by Banks in Malaysia

A number of Malaysian banks have also launched initiatives to encourage the use of digital currency. For instance, to enable cross-border payments in 2019, CIMB Group, one of the biggest banks in Malaysia, partnered with Ripple, a provider of blockchain-based payment solutions. Through the partnership, CIMB was able to use Ripple's blockchain technology to speed up and lower the cost of international transactions (Ripple, 2019).

Another illustration is Maybank, the biggest bank in Malaysia, which has started a number of initiatives in digital banking. 2020 will mark the launch of Maybank's Maybank2u digital wallet, which enables users to make a variety of digital payments, such as bill payments, peer-to-peer transfers, and online purchases (Maybank, 2020). Additionally, the bank has implemented biometric authentication for its online banking services, giving customers a safe and practical authentication method (Maybank, 2021).

The banking industry in Malaysia has been significantly impacted by the use of digital currency. Increased competition among banks is one of the most important effects. With the acceptance of digital currency, new competitors have entered the market and are upending established banking models, such as fintech startups. Due to this, traditional banks are now forced to innovate and offer better digital services in order to compete (Lim, 2020).

The development of banking services is another result of the use of digital currency. Banks can now provide cutting-edge services like mobile payments, digital wallets, and blockchain-based solutions due to the rise of digital currency. These services have given customers more convenient and secure banking options, which has helped banks in Malaysia expand (Goh, 2020).

Numerous case studies show how Malaysia's banking industry has successfully embraced digital currency. For instance, one of the biggest banks in Malaysia, Hong Leong Bank, launched the HLB Digital Day campaign in 2020 with the goal of encouraging customers to use the bank's digital services. For customers who used the bank's digital services, such as mobile banking and online purchases, the campaign offered a variety of promotions and incentives. The bank noticed a significant increase in the use of its digital services as a result (Hong Leong Bank, 2020).

Another effective case study of the use of digital currency in Malaysian banking. For instance, Maybank's digital wallet, MaybankPay, has been widely used by the bank's clients; more than 300,000 people have downloaded the app in the first year since it was released (Nurdin, 2018). The CIMB Bank's CIMBPay app is another example of a successful case study. It has seen a significant increase in usage, with the number of transactions using the app increasing by 80% in just six months (Ong, 2018).

Public Bank is another illustration. In 2018, it released the PB engage mobile banking app. Customers can use the app to access a number of digital banking services, including bill payment, fund transfers, and balance inquiries. The app has been well received by users since its release.

In Malaysia, numerous banks have begun to implement initiatives to adopt digital currency after realising its potential advantages. For instance, one of Malaysia's biggest banks, Maybank, has introduced MaybankPay, a digital wallet that enables users to pay with their smartphones (Nurdin, 2018). A similar service called CIMBPay, which enables users to use QR codes to make payments, has also been launched by CIMB Bank (Ong, 2018). RHB Bank has also collaborated with a fintech business to create a remittance service based on digital currency (Mohd, 2018).

Success stories of digital currency initiatives by banks in Malaysia

Various degrees of success have been experienced with Malaysian banks' initiatives involving digital currency. For instance, over 300,000 people downloaded the MaybankPay app within a year of its release, demonstrating how widely used it is by bank customers (Nurdin, 2018). The number of transactions made through the app increased by 80% in just six months, which is a similar increase in usage to that of CIMBPay (Ong, 2018). However, due to low customer adoption rates, other initiatives, like RHB Bank's digital currency-based remittance service, have not been as successful (Mohd, 2018).

Challenges faced by banks in implementing digital currency initiatives

Despite the potential advantages of digital currency, Malaysian banks have had trouble putting these initiatives into practise. The absence of infrastructure to support digital currency transactions is one of the major issues. For instance, many businesses still lack the tools needed to accept payments in digital currency (Hadi, 2018).

Impact of Digital Currency on the Banking Sector in Malaysia

The banking industry in Malaysia has been significantly impacted by the adoption of digital currency. Increased competition among banks has been one of the main effects. Customers now have more options as it relates to making payments and managing their finances due to the growth of digital currency. In order to stay competitive, this has compelled banks to innovate and provide new services.

The upheaval of conventional banking models is another effect of digital currency. Customers are no longer limited to using physical branches due to the rise of digital currency; instead, they can use their smartphones to access banking services anywhere. As a result, many banks have made significant investments in their digital capabilities, resulting in a shift towards a more digital banking experience.

The significance of customer education is one of the key lessons discovered from Malaysia's successful adoption of digital currency in the banking industry. Banks that have been successful in putting digital currency initiatives into place have made significant investments in educating their clients about the advantages of using digital currency. Successful banks have also made infrastructure investments to support digital currency transactions, such as giving retailers the tools they need to accept payments in digital currencies.

Future of Digital Currency in the Banking Sector in Malaysia

Future growth in the use of digital currency in Malaysia's banking industry is anticipated. Banks are likely to invest even more as consumers grow accustomed to using digital currency.

Conclusion

Finally, due to its potential advantages like lower transaction processing costs, increased security, and greater financial inclusion, digital currency is quickly gaining importance in Malaysia's banking industry. However, there are a number of obstacles standing in the way of Malaysia's banking industry adopting digital currency, including a lack of infrastructure, unclear regulations, and a lack of customer education.

The government and regulatory bodies must offer clear policies and regulatory frameworks to encourage the adoption of digital currencies. In order to overcome the difficulties of implementing such initiatives, banks should also continue to research digital currency initiatives and learn from successful case studies.

Future adoption of digital currencies is expected to increase, and there are chances for them to completely transform Malaysia's banking industry. However, it's critical to address the adoption process's difficulties and to continually assess how digital currency is affecting the banking industry.

Overall, digital currency has the power to revolutionise Malaysia's banking industry, and its advantages warrant further investigation for the expansion of banks and the nation's economy.

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