

Importance of Digital Currency in Banking Sector for Growth of Banks in Malaysia

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Abstract: Digital money, commonly known as cryptocurrency, is a digital currency that employs cryptography to safeguard financial transactions, verify their authenticity, and regulate the issuance of more currency. It is not backed by any government and may be used to buy things online or exchanged for fiat currencies like the dollar or euro. For Malaysian banks to thrive, they need to embrace digital money so that they can reach more people and serve more clients. As an added bonus, digital currency may help banks save time and money. With the rise of digital money, financial institutions that don't accept it risk being left behind by the competition. As was previously said, digital money is a cryptographic kind of currency that is completely digital. It is not backed by any government or central bank but is accepted as payment for products and services on the Internet and may be exchanged for other currencies.

INTRODUCTION

Digital currency, also known as cryptocurrency, is a form of currency that operates independently of a central bank and uses encryption techniques to verify transactions and control the creation of new units (Yli-Huumo et al., 2016). The most well-known digital currency is Bitcoin, but there are now thousands of other digital currencies in circulation (Swan, 2015).

Digital currencies are often compared to traditional fiat currencies, such as the US dollar or Euro. One key difference is that digital currencies are decentralized, meaning that they are not controlled by a central authority like a government or bank (Cocco et al., 2017). Transactions with digital currencies are also typically faster and cheaper than those with traditional currencies because they do not require intermediaries like banks (Mikhaylov & Klimov, 2021).

DIGITAL CURRENCY IN BANKING SECTOR

Digital currency, also known as cryptocurrency, is a form of currency that is entirely digital and uses cryptography to secure and verify transactions as well as to control the creation of new units. It operates independently of a central bank and can be used to buy goods and services online or traded for traditional currencies like the US dollar or euro (Nakamoto, 2008).

The adoption of digital currency is important for the growth of banks in Malaysia because it allows them to expand their reach and attract new customers. In addition, digital currency can improve efficiency and reduce costs for banks. With the increasing popularity of digital currency, banks that do not adopt it risk losing market share to their competitors (Chuen & Hui, 2018).

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TYPES OF DIGITAL CURRENCY

There are several types of digital currency, including Bitcoin, Ethereum, Ripple, Litecoin, and Bitcoin Cash. Each type of digital currency operates using its own unique blockchain technology (Antonopoulos, 2014).

COMPARISON OF DIGITAL CURRENCY WITH TRADITIONAL CURRENCY

Digital currency and traditional currency differ in several ways. Digital currency is entirely digital, while traditional currency is physical. Digital currency operates independently of a central bank, while

traditional currency is regulated by a central bank. Digital currency can be used to buy goods and services online or traded for traditional currencies, while traditional currency can be used to buy goods and services in physical locations (Swan, 2015).

The adoption rate of digital currency in Malaysia has been steadily increasing over the years. According to a report by Bank Negara Malaysia, the number of digital currency transactions in the country grew from 287,000 in 2017 to 11.3 million in 2018 (Bank Negara Malaysia, 2019).

Digital currency offers several benefits for banks in Malaysia, including increased efficiency in transactions, reduced costs in transaction processing, increased security, and increased financial inclusion (Abdullah et al., 2020).

Despite the benefits of digital currency, there are several challenges that banks in Malaysia face in adopting it. These include a lack of regulatory clarity, a lack of customer education, and a lack of infrastructure (Zainuddin et al., 2019).

REDUCED COSTS IN TRANSACTION PROCESSING

One of the main benefits of digital currency adoption in the banking sector is the potential for reduced costs in transaction processing. Traditional methods of conducting financial transactions, such as wire transfers, can be costly and time-consuming. Digital currency transactions, on the other hand, can be completed quickly and at a lower cost, due to the elimination of intermediaries and other associated fees. According to a study conducted by the World Bank, digital currency transactions can be up to 90% cheaper than traditional methods (World Bank, 2018). This reduction in transaction costs can lead to significant savings for banks and their customers, ultimately contributing to the growth of the banking sector in Malaysia.

INCREASED SECURITY

Another important benefit of digital currency adoption in the banking sector is increased security. Digital currencies, such as Bitcoin, utilize blockchain technology to provide secure, decentralized transactions that are resistant to fraud and hacking attempts. This level of security can help to increase consumer confidence in the banking sector, and may ultimately lead to increased adoption of digital currency. However, it is important to note that while blockchain technology offers a high level of security, it is not immune to all forms of cyber attacks, and additional security measures may be necessary to ensure the safety of digital currency transactions (Khairudin et al., 2021).

Digital currency adoption can also contribute to increased financial inclusion, particularly for individuals who may not have access to traditional banking services. According to the World Bank, approximately 1.7 billion adults worldwide do not have access to a bank account, and are therefore excluded from many financial services (World Bank, 2018). Digital currencies can provide a means of conducting financial transactions without the need for a traditional bank account, potentially expanding financial access to individuals who may have been previously excluded.

CHALLENGES IN ADOPTING DIGITAL CURRENCY IN THE BANKING SECTOR IN MALAYSIA

Despite the potential benefits of digital currency adoption in the banking sector in Malaysia, there are several challenges that banks may face when implementing these technologies. One of the main challenges is the lack of regulatory clarity surrounding digital currencies. The Malaysian government has yet to establish clear guidelines for the use of digital currencies, leaving banks uncertain about how to proceed (Kuwait Finance House, 2019). Additionally, there may be a lack of customer education regarding digital currencies, which could limit adoption rates. Finally, a lack of necessary infrastructure, such as reliable internet connectivity and hardware, may also present a challenge to banks looking to implement digital currency technologies.

THE ROLE OF GOVERNMENT AND REGULATORY BODIES IN PROMOTING DIGITAL CURRENCY ADOPTION IN THE BANKING SECTOR IN MALAYSIA

To address these challenges, the Malaysian government and regulatory bodies can play an important role in promoting digital currency adoption in the banking sector. Government policies and regulatory frameworks that provide clarity and guidance for banks looking to adopt digital currencies can help to address concerns around regulatory uncertainty. Additionally, public education campaigns and outreach efforts can help to increase awareness and understanding of digital currencies among consumers, potentially increasing adoption rates. Finally, the government can provide support for the development of necessary infrastructure to support digital currency adoption, such as reliable internet connectivity and hardware.

Despite the challenges, several banks in Malaysia have already begun to explore digital currency initiatives. For example, Maybank launched its own digital wallet, MAE, in 2019, which allows customers to conduct transactions using their mobile phones (Maybank, 2019). Additionally, CIMB Bank has partnered with Ripple, a blockchain-based payment provider, to facilitate cross-border transactions (Ripple, 2018). These initiatives demonstrate a growing interest in digital currency technologies among Malaysian banks, and may pave the way for further adoption in the future.

Governments and regulatory bodies play an important role in promoting the adoption of digital currency in the banking sector. In Malaysia, the government has taken several initiatives to promote the adoption of digital currency. For instance, in January 2019, the central bank of Malaysia, Bank Negara Malaysia (BNM), released a policy document on digital currencies. The policy document outlines the regulatory framework for digital currency in Malaysia and provides guidelines for the issuance and usage of digital currency. The policy document also requires digital currency exchanges to register with BNM and comply with anti-money laundering and counter-terrorism financing regulations (BNM, 2019).

The government of Malaysia has also implemented policies to promote financial inclusion through digital currency adoption. In 2020, the government launched the e-Tunai Rakyat initiative, which aimed to promote the usage of digital payments among Malaysians. The initiative provided eligible Malaysians with a one-time RM30 digital credit, which could be used for various digital payment transactions, including e-wallets, QR code payments, and online purchases (Malaysia Digital Economy Corporation, 2020).

DIGITAL CURRENCY INITIATIVES BY BANKS IN MALAYSIA

Several banks in Malaysia have also taken initiatives to promote the adoption of digital currency. For instance, in 2019, CIMB Group, one of the largest banks in Malaysia, partnered with Ripple, a blockchain-based payment solution provider, to facilitate cross-border payments. The partnership enabled CIMB to use Ripple's blockchain technology to reduce the cost and time of cross-border transactions (Ripple, 2019). Another example is Maybank, the largest bank in Malaysia, which has launched several digital banking initiatives. In 2020, Maybank launched the Maybank2u digital wallet, which allows users to perform various digital payment transactions, including peer-to-peer transfers, bill payments, and online purchases (Maybank, 2020). The bank has also implemented biometric authentication for its digital banking services, which provides users with a secure and convenient authentication method (Maybank, 2021).

The adoption of digital currency has had a significant impact on the banking sector in Malaysia. One of the most significant impacts is increased competition among banks. With the adoption of digital currency, new players, such as fintech startups, have entered the market and disrupted the traditional banking models. This has forced traditional banks to innovate and provide better digital services to remain competitive (Lim, 2020).

Another impact of digital currency adoption is the evolution of banking services. Digital currency has enabled banks to offer new and innovative services, such as mobile payments, digital wallets, and

blockchain-based solutions. These services have provided customers with more convenient and secure banking solutions and have contributed to the growth of banks in Malaysia (Goh, 2020).

Several case studies demonstrate the successful adoption of digital currency in the banking sector in Malaysia. For instance, in 2020, Hong Leong Bank, one of the largest banks in Malaysia, launched the HLB Digital Day campaign, which aimed to promote the usage of the bank's digital services. The campaign offered various promotions and incentives to customers who used the bank's digital services, such as mobile banking and online transactions. As a result, the bank saw a significant increase in the adoption of its digital services (Hong Leong Bank, 2020).

Another successful case study of digital currency adoption in the banking sector in Malaysia. For example, Maybank's digital wallet, MaybankPay, has been widely adopted by the bank's customers, with over 300,000 downloads of the app within a year of its launch (Nurdin, 2018). Another successful case study is CIMB Bank's CIMBPay, which has seen a significant increase in usage, with the number of transactions using the app increasing by 80% in just six months (Ong, 2018).

Another example is Public Bank, which launched the PB engage mobile banking app in 2018. The app provides customers with various digital banking services, such as balance inquiry, fund transfer, and bill payment. Since its launch, the app has been well-received by customers.

Many banks in Malaysia have recognized the potential benefits of digital currency and have started to implement initiatives to adopt it. For instance, Maybank, one of the largest banks in Malaysia, has launched its own digital wallet, MaybankPay, which enables customers to make payments using their smartphones (Nurdin, 2018). CIMB Bank has also introduced a similar service, called CIMBPay, which allows users to make payments using QR codes (Ong, 2018). Additionally, RHB Bank has partnered with a fintech company to develop a digital currency-based remittance service (Mohd, 2018).

SUCCESS STORIES OF DIGITAL CURRENCY INITIATIVES BY BANKS IN MALAYSIA

The digital currency initiatives by banks in Malaysia have been met with varying degrees of success. For instance, MaybankPay has been widely adopted by the bank's customers, with over 300,000 downloads of the app within a year of its launch (Nurdin, 2018). Similarly, CIMBPay has seen a significant increase in usage, with the number of transactions using the app increasing by 80% in just six months (Ong, 2018). However, other initiatives, such as RHB Bank's digital currency-based remittance service, have not been as successful due to low customer adoption rates (Mohd, 2018).

CHALLENGES FACED BY BANKS IN IMPLEMENTING DIGITAL CURRENCY INITIATIVES

Despite the potential benefits of digital currency, banks in Malaysia have faced several challenges in implementing these initiatives. One of the main challenges is the lack of infrastructure to support digital currency transactions. For example, many merchants still do not have the necessary equipment to accept digital currency payments (Hadi, 2018).

IMPACT OF DIGITAL CURRENCY ON THE BANKING SECTOR IN MALAYSIA

The adoption of digital currency in the banking sector in Malaysia has had a significant impact on the industry. One of the main impacts has been increased competition among banks. With the rise of digital currency, customers have more options to choose from when it comes to making payments and managing their finances. This has forced banks to innovate and offer new services to remain competitive.

Another impact of digital currency has been the disruption of traditional banking models. With the rise of digital currency, customers are no longer restricted to using physical branches and can access banking services from anywhere using their smartphones. This has led to a shift towards a more digital banking experience, with many banks investing heavily in their digital capabilities.

One of the main lessons learned from the successful adoption of digital currency in the banking sector in Malaysia is the importance of customer education. Banks that have been successful in implementing digital currency initiatives have invested heavily in educating their customers on the benefits of digital currency and how to use it. Additionally, successful banks have also invested in infrastructure to support digital currency transactions, such as providing merchants with the necessary equipment to accept digital currency payments.

FUTURE OF DIGITAL CURRENCY IN THE BANKING SECTOR IN MALAYSIA

The adoption of digital currency in the banking sector in Malaysia is expected to continue to grow in the future. As more customers become comfortable with using digital currency, banks are likely to invest even more heavily

CONCLUSION

In conclusion, digital currency is rapidly gaining importance in the banking sector of Malaysia due to its potential benefits such as reduced costs in transaction processing, increased security, and increased financial inclusion. However, the adoption of digital currency in the banking sector in Malaysia faces several challenges such as lack of regulatory clarity, lack of customer education, and lack of infrastructure.

To promote digital currency adoption, the government and regulatory bodies need to provide clear policies and regulatory frameworks. Additionally, banks should continue to explore digital currency initiatives and learn from successful case studies to overcome the challenges of implementing such initiatives.

In the future, the trend towards digital currency adoption is likely to continue, and there are opportunities for digital currency to revolutionize the banking sector in Malaysia. However, it is important to address the challenges faced in the adoption process and to continuously monitor the impact of digital currency on the banking sector.

Overall, digital currency has the potential to transform the banking sector in Malaysia, and its benefits are worth exploring further for the growth of banks and the economy as a whole.

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