FINANCE

Banking on cloud and digitalisation

Technology to chart new revenue streams

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IN the race to transform the banking industry, especially in light of the journey up the value chain, much has been said and done about how the industry is adopting digitalisation in its approach.

This is especially relevant considering the government's move last year to award digital banking licences to five successful applicants, paving the way for the automation process to take place on a much larger scale throughout the sector.

Of course, amid the furore on wages and with the unity government mulling over the implementation of the Progressive Wage Model initiative, there has also been discussions on how moving business sectors and their employees up the value could contribute to more productive work, and hence higher incomes.

One essential digitalisation process that the banking sector, along with several other segments in the financial industry, uses is cloud migration technology. To state it simply, cloud migration is the moving – or migrating – of data storage onto an online application.

For example, a personal banker or financial consultant could store customer's documents and data on an online portal such as DropBox instead of having to keep physical folders, which are susceptible to wear-and-tear and are a hassle to search through when information is required.

For anyone who is still unfamiliar with how banks are utilising cloud technology, vast customer data such as account details and transaction history can be stored on the cloud for quick and accessible retrieval, ensuring seamless banking experiences.

The potential benefits that can be gleaned from cloud technology has led group managing director of Singapore Stock Exchange-listed software services and solutions firm Silverlake Axis Ltd, Andrew Tan, to believe that cloud would open up new avenues for Malaysian banks to deliver a more innovative banking experience.

He tells *StarBizWeek*: "Adopting cloud-based core banking systems enables banks to respond swiftly and efficiently to changing regulations, streamlining tedious reporting processes and enhancing overall regulatory compliance."

Depending on a single core system may limit a bank's capabilities to supporting modern customer engagement modalities, he believes.

Tan points out that embracing cloud technology would allow Malaysian banks to open up new revenue streams while running traditional banking operations, paving the way for enhanced customer experiences and personalised services.

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>
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"By adopting cloud-based core banking systems, banks can modernise their operations, enhance efficiency and offer innovative services.

"Having a dual core banking system enables traditional banks to compete more effectively with newly arising digital fintech players, better addressing new generation consumers while maintaining their current business," he says, adding that cloud-based applications enable employees to access essential tools from anywhere, paving the way to better operational efficiency and superior customer service.

Tan says the technology allows banks to handle the increasing customer demands at ease, process vast amounts of data securely with complete visibility over every transaction, and adapt to changing needs efficiently – all while reducing operational costs associated with maintaining physical hardware.

He envisions that the immediate future of banking will see a deeper fusion of technology and customer-centric strategies with focus especially shifting to enhancing the use of data to better understand customer needs, operational efficiency and overall competitiveness.

This would be riding on the remote operations and digital customer interactions for business continuity that have been set up during the lockdowns.

At the same time, Tan says embedded finance, insuretech and micro-lending are reshaping the way financial services are delivered, making them more accessible, efficient and personalised for consumers and businesses alike.

"As the innovations continue to evolve, they are likely to have a profound impact on the financial landscape, driving further digital transformation and disruption in the industry," he opines.

Meanwhile, commending the speed at which the Malaysian banking industry is adopting digital transformation, Asia-Pacific general manager for software solutions firm Provenir Ltd Bharath Vellore says Malaysian banks, especially those in tier-1, had moved very early to provide digital banking services.

He notes that despite the lockdowns having accelerated the percentage of population that uses digital services, the government only issued the first fully-digital banking licences in early 2022.

"With this context, while mobile banking apps have been available to Malaysian customers for a long while, the range and quality of financial services being provided through these apps is seeing dramatic improvement only in the recent years.

"Adoption of advanced technologies like biometrics, Big Data, artificial intelligence (AI), machine learning and chatbots has led to an enhanced customer experience with real-time, on-demand financial service," he says.

Vellore says the digital transformation journey has not been easy for traditional banks to embark on, especially over the short term, due to the well-entrenched older legacy systems and processes.

He reveals that other significant challenges are around interoperability of banking systems, cybersecurity and regulations, and particularly with a wide array of third-party applications providing specialised features, it is important for banks to ensure that their systems can seamlessly interact with internal or other third-party applications.

He says: "With increased digitalisation, cybersecurity and fraud prevention has also become a big area of concern for the banks to maintain customer trust.

"Digital banks will need to find the right balance between innovation and compliance by investing in robust systems while staying proactive on the latest regulatory requirements."

At the end of the day, Vellore says practicality would dictate how successful the digital transformation and cloud technology transfer would be, highlighting user experience (UX) as a key function.

The most important objective of the UX function is to make the digital app, be it through mobile or website, easy and pleasant to use, he notes, especially since the lockdowns had forced the reliance on digital apps upon the public for their day-to-day needs.

"Banks would need to continue building on this significant transformation by making user experience on their apps so intuitive that all of the products and services could be easily accessed and used by the most non-tech-savvy segment of the population," he says.

Offering an alternate view to Silverlake Axis' Tan about the next step in the digitalisation of banking, Vellore believes that hyper-personalisation will be what the banks would be working towards in their digitalisation journey.

Defining the term, he says hyper-personalisation is the specific tailoring of services and products to individual customers, in near real time, by processing a customer's statements, recent interactions and external data signals from social media accounts or their mobile devices.

He says banks would need to implement an AI-powered, data-driven decisioning platform to be able to orchestrate internal and external data, perform micro-segmentation of their customers and then execute advanced AI and machine learning models to then proactively offer a personalised financial products to their clients.

Power stocks surge as renewable energy takes centrestage

TECHNOLOGY

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POWER stocks, usually kept for their steady dividends, appear to be garnering increased interest from investors not only locally but also from abroad.

Some of the counters are among the better performing stocks in the year-to-date (y-t-d) period as investors move into them in anticipation of unfolding catalysts: the much talked about wider and broader move by the country to renewable energy (RE).

They include Tenaga Nasional Bhd (TNB), YTL Power International Bhd and Malakoff Bhd, which have seen gains of some 9%, 36% and 5%, respectively, in the last one month.

According to high-net-worth investor and former investment banker Ian Yoong Kah Yin, the power sector's appeal is due to the transition to clean energy that has been set out by the government.

"The government has set out its targets in the Malaysian Renewable Energy Roadmap (MyRER) an ambitious target for RE to supply 31% (or 13 gigawatts) of the nation's energy needs by 2025 and 40% (18 gigawatts) by 2035," Yoong tells *StarBizWeek*.

He expects these will benefit the solar engineering, procurement, construction and commissioning companies such as Samaiden Group Bhd, Solarvest Holdings Bhd, Sunview Group Bhd as well as construction and engineering companies such as Sunway Construction Group Bhd, Gamuda Bhd and HSS Engineers Bhd.

"It can only get better for RE players as they move up the learning curve in engineering expertise and cost efficiency," Yoong adds.

Rakuten Trade head of equity sales Vincent Lau says that apart from the increased environmental, social and governance (ESG) and RE catalyst, these companies have been delivering solid financial numbers and are fundamentally sound.

"I think their financial numbers are expected to do well and while the stocks have gone up, they still have further upside potential. For the YTL group, the market expects it to report a good set of numbers soon," Lau says.

"TNB also benefits from the higher electric-vehicle adoption locally and has seen increased foreign purchases."

Analysts have recently been upgrading their estimates on YTL Power, for example, and the stock, along with its parent company YTL Corp Bhd, have been near the top of the most active trades on Bursa Malaysia in recent weeks.

Kenanga Research says in a report that it expects YTL Power's fourth-quarter net profit to rise by up to 12% from the previous consecutive quarter to between RM585mil and RM590mil.

"YTL Power's share price has more than doubled in the y-t-d period, thanks to a nine-time year-on-year jump in its nine-month core profit to RM955.4mil," the research firm says in a note to clients.

Apart from its strong organic growth, the group is also exposed to the data centre sector, which had garnered quite a fair bit of investor attention due to the recent foreign direct investment inflows in data centres locally.

These data centres, which are part of the new economy, are powered by RE, which also helps to solidify YTL's ESG credentials.

YTL Power is developing the YTL Green Data Centre Park in Kulai, Johor, which will be the first data centre campus in Malaysia that will be co-powered by on-site renewable solar energy.

The group says its Data Centre Park will be powered by up to 500 megawatt (MW) of RE through a solar power-generating facility on the site.

For TNB, the company has also been at the focus of investor attention of late, especially with the National Energy Transition Roadmap (NETR) that was announced end-July.

The incumbent power group would be hosting the Energy Transition Conference in Kuala Lumpur at the end of this month.

Under the first phase of the NETR, TNB is a major beneficiary and this will accelerate its investments into energy transitioning to diversify earnings base while realising commitment towards elevating its ESG profile.

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