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BANK 2.0

The banking landscape is rapidly evolving, driven by artificial intelligence, emerging growth areas, and shifting consumer behaviour. How should banks respond?

Banking on **change** to **thrive**

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CHANGE is constant, and this is especially evident in Malaysia's banking sector, where various factors are driving significant evolution.

The sector is transforming largely through the accelerated adoption of artificial intelligence (AI), new growth areas and evolving behaviours of consumers and clients.

This essentially means that old-school banking models are going out of the window, only to be replaced by fresher concepts like flow banking – which refers loosely to the act of managing all the transactions of a customer through digital efficiency.

Only a few years ago, we were still heading to bank branches for deposits, withdrawals, payments, loans, foreign exchange and the like.

Today, most of this is done on our mobile phones, aided by a host of new tech companies.

Another obvious change has been within the investment banking (IB) sector, once touted as one of the most sought-after job segments, especially for young, wannabe bankers.

IB has declined in prominence mainly because capital market activity locally has been sluggish, with initial public offerings or IPOs, mergers and acquisitions (M&A) and even bond issuances decreasing due to the lack of investment and deal-making appetite.

Some reasons for this include higher compliance which ironically may have stemmed from the other factors which dampened deal appetite, such as political uncertainties and mega financial scandals.

Competition and greater innovation from Singapore, Indonesia and other countries in the region is also why Malaysia has lost its IB momentum and to a certain extent, its relevance as a deal-making hub.

Industry observers reckon with IB becoming less important, the void is slowly being replaced by newer areas of growth, including wealth management.

A former foreign bank CEO points out that when local securities companies were forced to merge with IBs about 15 to 20 years ago, it was to boost the business activities of IBs.

"Much has changed since then. Retail equity participation is much lower now. and most of the equity trading does not require IB networks.

"Additionally, given the lacklustre performance of the local equity market, the level of M&A activities is limited for IBs," he tells *StarBiz 7*.

He says the most important factor in M&As is financing. Clients will likely first go to commercial banks where relationships managers will initiate a transaction.

"Most local banking groups have their different product expertise, including IBs, assisting in the structuring of an M&A and dealing with Bursa Malaysia or Bank Negara for compliance. Therefore, independent IBs (without a banking group) have little opportunity to make it."

He agrees that wealth management, which encompasses investment advisory and products for affluent clients is becoming increasingly important. "If it can generate volume, there's a lot of more money to be made there," he says.

Wealth management – choice market segment?

Former external member of Bank Negara's Monetary Policy Committee, Yeah Kim Leng, says wealth management has become a "choice market segment" due to recurring fee income such as unit trust sales and insurance.

Yeah, who is also economics professor at Sunway University and a member of the Policy Advisory committee to the prime minister, says that with sustained economic growth, the country's affluent population is also growing rapidly, thereby raising the demand for wealth management services.

"The fee-based income derived from wealth management improves the bank's return on equity as well as reduces reliance on the more volatile income from net interest margin.

"Concurrently, in the flow banking space, the use of AI in automating high-volume, low-margin transactions such as trade finance and cash management help to reduce costs and enhance the banks' bottom-line.

"Technology and AI adoption have also reduced operation costs as well as boosted cross-sell ratios in AI-driven customer segmentation,"
Yeah adds.

He agrees that deal flows within the IB space have been shrinking. "The volume of M&As and large-cap IPOs has been volatile due to the Covid pandemic slowdown and rising geopolitical risks."

If one were to look at the new blueprints of Malaysian banks, there is a focus on areas such as wealth management, flow banking and the usage of tech and AI.

This means other areas such as IB could be reduced, especially for the big banks.

Former investment banker Ian Yoong notes that the advisory business in IB has evolved into a cookie-cutter industry.

Yoong says a large portion of the advisory business to listed companies is provided by boutique advisories which usually engage in hard-selling tactics.

The companies advised by boutique advisors will appoint IBs for submissions to the authorities for paltry fees.

"The unflattering term for IBs appointed merely for submissions is 'post office'," he quips.

He notes wealth management is potentially a "major profit centre" as high-net-worth and ultra-high-net-worth customers are less price-sensitive than the average banking client.

"Wealth management clients can be charged a multitude of fees such as annual fee for assets under management, placement fees and so on, making this more lucrative than stockbroking."

Are IB jobs at risk?

All said, industry observers reckon IB roles are not expected to become extinct – at least not so soon. This is despite market talk that many IB jobs at certain Malaysian banks are at risk.

Yeah thinks the jobs will more likely "evolve" in line with changing market dynamics, rising automation and AI-driven digitalisation.

PwC Malaysia financial services leader Kelvin Lee agrees, saying that the accelerated adoption of AI within the banking industry, including IB, will see new jobs emerge, as others evolve.

"PwC's 2025 Global AI Jobs Barometer reveals that AI can make people more valuable, not less – even in the most highly automatable jobs," he says.

Citing PwC's research, he says the impact of AI on jobs can be categorised into three areas – AI-exposed jobs or jobs that contain many tasks in which AI can be used, for instance, financial analysts and data entry workers; augmentable jobs, being AI-exposed jobs in which AI enhances or supports human judgment and expertise on various tasks, such as credit underwriting analysis; and lastly, automatable jobs, being AI-exposed jobs in which AI can carry out many tasks, such as software coders and customer service representatives.

"As well as boosting productivity, our research found that AI is reshaping certain mid-level roles rather than replacing them outright – and that is also creating new roles," Lee adds.

A former policymaker for the banking industry says technological and communication advancement will continue to disrupt industries, including IB.

> ■ Flow banking, which involves the use of AI and digitals to automate high-volume, low-margin transactions, is gaining prominence within the banking space

> ■ Wealth management is increasingly replacing investment banking as one of the main revenue segments for lenders

> ■ Banking jobs will have to evolve in line with changing market dynamics, some are at higher risk of becoming obsolete

"It's a given. In response, industries must innovate and re-invent themselves, failing which, they will be replaced by more innovative and client-focused upstarts," he says.

He doesn't completely discount IB yet. "The IB industry can still flourish but it needs to offer highly specialised services that banking clients still require. Advice in M&A, independent assessment of projects or turnaround of businesses will continue to be in demand," he says.

He believes IBs should expand their scope of business beyond Malaysian shores as expansion into regional markets should be a natural progression.

KPMG Malaysia head of financial services Kevin Foo says to stay relevant, IBs today are increasingly leveraging technology to streamline their core functions.

He notes that internationally, there has been some scale back within traditional IB divisions, particularly in areas like equity research and M&A advisory.

However, new roles are emerging in areas such as data science, ESG advisory and digital asset management, reflecting the industry's ability to adapt to evolving client needs and regulatory changes, he says.

"So, while the classic image of the jet-setting investment banker may no longer reflect industry realities, IB jobs are far from extinct," Foo says.

In terms of job security, roles in the back and middle office are the most susceptible to automation. Meanwhile, front-office jobs are being redefined, placing greater emphasis on strategic thinking and client relationships, he adds.

MBSB Research director and head of research Imran Yassin Yusof says he doesn't foresee the possibility of IB jobs being extinct in Malaysia – yet.

"For now, customers still prefer associating with humans rather than machines. Furthermore, IB products are more tailor-made to customer's needs and this requires interaction and some creativity."

Major changes ahead

PwC's Lee notes that over the next few years, the impact of AI will be felt at local banks.

"We have already seen the significant impact of AI on large financial institutions (particularly in the West), and also on AI-native fintechs.

"In Malaysia, banks are experimenting with GenAI use cases – however, we have not seen AI being embedded within local banks' operations yet," he says.

The technology operating models of local banks are currently not set up to take advantage of Gen AI or agentic AI's potential for speed and scale.

This may be contributed by an insufficient understanding of responsible AI practices, ineffective data management, a need for more cloud-based banking architecture, a lack of engineering capabilities and a general lack of specialised data science skill sets, according to Lee.

"What is clear is that Gen AI and agentic AI's applications are expanding at pace – and it's impossible to ignore its profound effect on business model re-invention in the banking sector."

Yeah says similar to other countries, Malaysia is likely to witness a gradual but significant transformation of traditional banking due to technological disruption, shifting customer expectations and rising competition from bank and non-bank institutions.

"Digitalisation is expected to pick up with accelerated adoption of mobile banking, AI-driven chatbots and automation of routine loan and payment transactions.

"Consequently, bank branches are likely to decline and pivot from transactional services to advisory roles such as wealth management and SME banking."

He notes lenders are also expected to deploy regulatory technology to ensure compliance with the use of AI for fulfilling know-your-customer or KYC requirements, fraud detection and regulatory reporting.

"The trend towards traditional banks partnering with BigTechs for embedded finance such as micro-investments and Buy Now Pay Later schemes is expected to continue."

Yoong says traditional banks have been fighting off the threat of digital banks by improving their online banking services in recent times.

"It is a matter of time when banks rationalise their branch networks by reducing the number of branches and the headcount. In my view, the headcount of bank staff can be reduced by 25% to 35% with little impact on service."

Foo points out that even before Bank Negara announced the five successful digital bank applicants in 2022, traditional banks had already been pushing to re-invent themselves to stay relevant in Malaysia's changing financial landscape.

"The next few years will be even more crucial, as there will be challenges and opportunities coming in the form of AI-enabled technology, changing customer expectations and the onset of non-banking competition."

Like others, he notes the rise of non-banking platforms is disrupting services previously only available through banks, such as forex and brokerage services – often with faster transactions and lower fees.

"As a result, traditional banks are losing out on fee-based income and must move quickly to match the agility or risk losing younger, tech-savvy customers.

"Crucially, banks will need to move beyond siloed product offerings and instead deliver a unified, integrated experience."

He reckons, though, that the human touch in banking is not obsolete – it is evolving.

"It continues to play a vital role in building trust, offering empathy and navigating complexity in ways that technology alone cannot fully replace."

It remains to be seen whether the human touch in banking will one day be completely unnecessary, but for now, the industry will continue to undergo significant changes.

Not only AI, but the most fundamental of all factors – the constant change and evolving needs of humans – will continue to play a key role.