

Unlocking Public and Private  
Finance for the Poor



# HOW DO LOW- AND MIDDLE- INCOME PEOPLE IN MALAYSIA EXPERIENCE AND USE DIGITAL FINANCIAL SERVICES?



## About the UN Capital Development Fund

The UN Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and localized investments that show how fiscal decentralization, innovative municipal finance and structured project finance can drive public and private funding that underpins local economic expansion and sustainable development.

UNCDF's work in Malaysia is funded by the MetLife Foundation through the i3 Program.

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# 1 Introduction

The i3 Program, funded by the MetLife Foundation and implemented by the UN Capital Development Fund (UNCDF), works to catalyse the use of digital technology to achieve the financial inclusion of people with low-to-moderate income in Bangladesh, China, Malaysia and Viet Nam. In Malaysia, the programme enables service providers, including financial institutions and fintech start-ups, to introduce products and services that promote inclusive finance and improve the financial health of low- and middle-income Malaysians across the country.

As part of this work, the UNCDF team conducted primary research with low- and middle-income customers in different parts of Malaysia in order to understand their digital and financial lives and needs. The team spoke with a wide variety of population segments, of different ages, locations, genders and employment status. One area of the research focused on people's awareness and usage of the digital financial services (DFS) that are currently available in Malaysia, as well as the barriers and pain points they may face, in order to understand how to develop and design DFS that best suit low- and middle-income Malaysians' needs.

UNCDF will publish a series of snapshots of particular population segments in Malaysia as well as financial products such as savings or insurance over the next few months; however, this blog shares a number of insights into low- and middle-income customers' awareness, adoption and use of DFS in Malaysia gathered from the research.



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## 2 Are low- and middle-income people aware of digital financial services that are currently available in Malaysia?

In the research sessions, the UNCDF team asked participants about any DFS of which they had heard or were aware. The main insights that emerged from the discussions included the following:

- **Overall awareness of DFS in Malaysia is low.** Very few participants spontaneously mentioned DFS when they talked about their day-to-day financial activities.
- **Younger urban Malaysians are more aware of DFS, but actual usage is low.** Younger people aged 21–25 in Kuala Lumpur were the most aware of DFS and often were the only ones that had actually used DFS. Even so, they were not regular users. Older people and those from rural areas were the least aware of DFS; many had never heard of, let alone used, DFS before.
- **Malaysians are most aware of payments services and wallets that have been heavily advertised.** There was much greater recognition and awareness of payment services and wallets. In fact, they were the only DFS that research participants spontaneously named (e.g., Boost, GrabPay, Touch 'n Go and WeChat Pay as well as banking apps). There was no mention of more advanced services for insurance. The services that participants mentioned tended to be those that have been heavily advertised in visible areas or the ones with clear use case such as Touch 'n Go.

## WORD ON THE STREET

*"We don't use this kind of things here in Sabah. You have to transfer money into these things/e-wallets first. We can just use cash or our debit cards—so much easier." (Female, 30–39, Eastern Malaysia)*

*"Their marketing about this is not as strong. [I don't think] this has really been introduced in Sabah yet." (Male, 21–25, Eastern Malaysia)*

### 3 Are low- and middle-income people using any of the digital financial services that are currently available in Malaysia?





UNCDF explored people's use of the most prominent DFS in Malaysia, which are mostly payment systems and wallets, and their experiences of using them (if any). The team found the following ([see table 1 for product-specific feedback](#)):

- People were somewhat aware of the most prominent DFS in the country but rarely used them; if they used them at all, it was often for trial only.
- Those few who used them more than once were not regular users, and they used bank apps for payments more than anything else.
- Relevance of the DFS was important to people—if there was no clear need for or benefit of DFS over other methods, people did not use them.
- People needed to perceive multiple benefits for using DFS, not just one.
- DFS with more visibility in relevant channels had created greater awareness overall and a perception of popularity, which in turn may result in some interest in trialling and using DFS.



**Table 1**

Awareness levels, usage drivers and feedback regarding digital financial services currently available in Malaysia

DFS NAME AND TYPE	AWARENESS AND USE	MAIN DRIVER OF USE	LIKES	DISLIKES
<b>Electronic payment system used for highways and tolls</b> 	This DFS has the highest awareness level among all the services. Some, mostly in urban areas, use it.	It is mostly used for transport, for paying road tolls. Those who do not live in an area with toll roads have not used it. Other usage includes public transport systems, parking fees, purchases at designated shops and bill payments (e.g., cable).	There is no queue for the bus. It makes it faster to go through a toll.	Unless the customer uses an ATM, there are charges for top-ups.
<b>Mobile wallet</b> 	There is some awareness but little use.	Participants said that people around them use it, and they see it advertised in many shops. Those who have tried it did so out of curiosity, as they perceive it to be popular.	It allows the customer to earn rewards/ redemption points, cashback and discounts.	There is no clear reason to use it, as it is perceived as only being available in supermarkets in urban areas and in higher-end shops, where low- and middle-income people do not shop.
<b>Mobile wallet</b> 	There is some awareness but little use.	n/a—little use	It has promotions, such as an RM5 discount at restaurants as well as free or discounted coffee at Starbucks and Tealive.	There is no clear reason to use it, particularly for people in rural areas who tend to prefer cash. Low- and middle-income people feel the rewards are less relevant for them, as they do not go to places like Starbucks.
<b>Online payment system</b> 	There is some awareness, but there is little knowledge of the benefits. The main usage is for online transactions; however, usage is primarily forced by vendors or sites rather than triggered by interest.	Some have used it to buy games online.	It allows the customer to earn points quickly, and it is seen to have better security features and greater data protection.	It is perceived as difficult to use, with a complicated activation process. People still use it, though, when they have no choice and are forced to do so by a vendor.

**WORD ON THE STREET**

*"Discounted coffee at Starbucks? I don't go there because I cannot afford it. So, if the benefits are not relevant to us, there is no point. It cannot attract us."*  
 (Female, 30–39, Kota Bharu)

## 4 What drives low- and middle-income people to adopt and use digital financial services in Malaysia?

UNCDF identified six main drivers for adoption and usage of DFS in Malaysia:

- a Push from vendors, either through verbal suggestions or at point-of-sale**
  - Making DFS compulsory (e.g., if a vendor only accepts this method of payment), with no alternative offered, can increase usage. For example, some adopted Touch 'n Go for paying tolls, PayPal for buying merchandise from overseas and MOLPay for gaming because they had to do so.
- b Perceived popularity and high visibility**
  - DFS are often more appealing when they are highly visible and accepted by many vendors.
  - When used and endorsed by many people and companies, DFS are likely seen as better options and thus are more likely to be adopted.
- c Clear perceived benefits and relevance to user needs**
  - DFS are even more appealing if customers receive benefits quickly, such as a getting an RM5 discount when reloading or a discount when shopping at a favourite vendor. Besides discounts, benefits include cashback options, redeemable points and free gifts at places where low- and middle-income people often frequent.
- d Reduced risk of (physical) theft and robbery compared to cash**
- f Obvious practicality**
  - DFS can eliminate the need to carry a lot of cash or different cards as one DFS can serve multiple functions (e.g., customers can use Touch 'n Go for paying tolls, purchasing petrol and purchasing items at certain merchants).
- e Simplicity and user friendliness**
  - If DFS are too complicated, or seen as too complicated, people will trial DFS but then not adopt them.

### WORD ON THE STREET

*"When we pay through Boost, for example, we reload RM10 [and] they give us discount RM5 something. We get to save from there. I'll look for rewards and benefits." (Female, 30–39, Eastern Malaysia)*

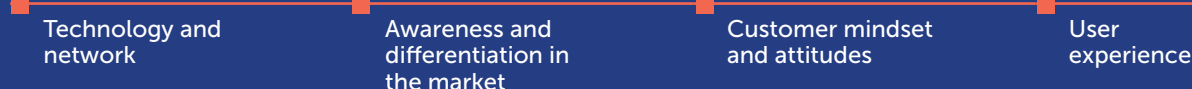
*"If I have knowledge I would, as long as it's safe and easy to use and quick. And, [it] needs to be trending and viral. It should give benefits like cashback and vouchers and rebates, like for GrabPay, so you can get Starbucks." (Female, 21–25, Kuala Lumpur)*



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## 5 What are the barriers to adoption and usage of digital financial services for low- and middle-income people in Malaysia?

UNCDF identified a number of different barriers to the adoption and usage of DFS in Malaysia, which fell into four main categories (see table 2)



**Table 2**

Barriers to adoption and usage of digital financial services by low- and middle-income people in Malaysia

<b>TECHNOLOGY AND NETWORK</b>	<b>Limits of network and connection:</b> <ul style="list-style-type: none"> <li>• DFS are unusable outside urban areas or in areas with poor network connection; they are only effective with good Internet connection.</li> <li>• Customers worry that their money will be lost if the connection drops midway through a transaction.</li> </ul>	<b>Limits of device storage:</b> <ul style="list-style-type: none"> <li>• Customers do not have enough phone space for apps, as they tend to have lower-end phones.</li> </ul>	<b>Effect on device speed:</b> <ul style="list-style-type: none"> <li>• Customers worry that DFS apps will slow the operation of their phone.</li> </ul>
<b>AWARENESS AND DIFFERENTIATION IN THE MARKET</b>	<b>Lack of visibility:</b> <ul style="list-style-type: none"> <li>• Many have never heard of prominent DFS since their peers do not use them, they are unaware of the benefits offered, and they are unaware of many vendors that endorse the technology.</li> <li>• There is a lack of advertising in relevant media.</li> </ul>	<b>Crowded market:</b> <ul style="list-style-type: none"> <li>• They are overwhelmed and confused by the many DFS offered in the market.</li> <li>• They are not clear on the differences between services.</li> <li>• Many opt not to bother looking for additional information and tend to stick to what they know.</li> </ul>	—
<b>CUSTOMER MINDSET AND ATTITUDES</b>	<b>No clear compelling reason or opportunity to use them:</b> <ul style="list-style-type: none"> <li>• They do not see a real reason to use them.</li> <li>• Many transactions, especially in rural areas, are still completed with cash.</li> <li>• Many vendors and merchants do not accept DFS.</li> </ul>	<b>Worries about trust and security:</b> <ul style="list-style-type: none"> <li>• The lack of a personal approach and face-to-face interaction makes them wary of the system overall.</li> <li>• They tend to prefer a 'human face' when using unfamiliar things.</li> <li>• They are concerned about whether their financial transactions are secure.</li> </ul>	<b>Worries about control:</b> <ul style="list-style-type: none"> <li>• They worry that they will have less control over spending.</li> <li>• They think that they will spend without realizing it and will not be able to easily track their spending.</li> </ul>
<b>USER EXPERIENCE</b>	<b>Too complicated:</b> <ul style="list-style-type: none"> <li>• They see DFS as too complicated and difficult to use (e.g., the account registration process requires them to provide many details and complete numerous steps, the reward system is complicated).</li> </ul>	<b>Too many platforms:</b> <ul style="list-style-type: none"> <li>• They find it challenging to have money in different places and wallets, rather than on a consolidated platform.</li> </ul>	<b>Low levels of digital literacy:</b> <ul style="list-style-type: none"> <li>• It is particularly difficult for older people and people with lower levels of education from rural areas to understand DFS.</li> </ul>

## 6 How can these barriers be overcome and drive adoption and meaningful usage of digital financial services in Malaysia?

Using the same four categories, UNCDF identified some potential strategies to overcome barriers and to encourage increased adoption and meaningful usage of DFS among low- and middle-income people in Malaysia (see table 3).

**Table 3**  
Strategies to overcome barriers to adoption and usage of digital financial services in Malaysia

### TECHNOLOGY AND NETWORK

#### Internet connection:

- Ensure (and communicate) the safety and security of transactions, especially that customers do not lose their money when the connection is lost.
- Make sure apps do not use a lot of data when opening so that they can be used in areas with poor Internet connection or even work offline.
- Form strategic partnerships with government and mobile operators to improve the supporting infrastructure (i.e., faster, more stable and more affordable Internet connection in rural areas).

#### Device storage:

- Ensure apps are lightweight and do not take up too much storage space.

### AWARENESS AND DIFFERENTIATION IN THE MARKET

#### Advertising and promotion:

- Use highly visible posters or logos at relevant vendors and invest in advertisements in relevant media, especially in social media (e.g., Facebook for older segments, Instagram and YouTube for younger segments).
- Advertise in a variety of languages—not just English—to achieve greater outreach.
- Enlist local/community ambassadors to inform, educate and encourage uptake of customers.
- Work with multiple partners to achieve wide coverage and multiple functions (e.g., a service that is accepted by a large number of shops/vendors in many areas and can be used for multiple functions instead of just one specific function).
- Collaborate with small-scale merchants who can help explain benefits and offer support to low- and middle-income customers.
- Form strategic partnerships with merchants and vendors (e.g., collaborations with supermarkets and shops that low- and middle-income people are likely to frequent) to increase the prevalence of locations that promote and use DFS.

#### Market differentiation:

- Ensure that there is a clear strategy to differentiate any new offering.
- Clearly communicate functions and unique benefits.

### WORD ON THE STREET

*"Actually, to be frank, in Sabah the Internet is VERY SLOW! In Kota Kinabalu, we may have 4G, but outside Kota Kinabalu [in Sabah state], we only have 3G or H+. So this will be a concern we have about using these services."*  
(Male, 30–39, Eastern Malaysia)

*"Malaysia has too many such services—not focused. Remember, 10–15 years ago, every highway used a different machine. Only now, it's consolidated as Touch 'n Go and SmartTAG. Here we have a similar problem — GrabPay, WeChat Pay, Alipay, Boost, plus many that we have never heard of."*  
(Male, 30–39, Kuala Lumpur)

*"[I'm] not using [these DFS] because [they] have not gone viral yet in Sabah. My friends are not using them. I haven't seen any advertisement, and I don't know how to use them."* (Female, 21–25, Eastern Malaysia)



## CUSTOMER MINDSET AND ATTITUDES

### User need and relevance:

- Create the need; make sure low- and middle-income customers realize there is a better way to manage finances, with increased benefits (e.g., relevant, usable rewards such as cashback and discounts).
- Identify core services that people need and that are linked to DFS, like Touch 'n Go does with toll payments.
- Involve small-scale merchants and sellers, as they are key contacts to reach low- and middle-income people (currently they only accept cash, so they might need incentives to accept DFS).
- Remove any additional costs or hidden charges for top-ups (currently there is a charge applied at certain top-up stations, such as Touch 'n Go that has free top-ups at ATMs but charges fees at other places), which will encourage more low- and middle-income people to use DFS.

### Trust and security:

- Provide a guarantee to safeguard user identity and protect customers from hackers and scammers (e.g., offer clear, easy-to-understand information on safety measures and data security).
- Invest in customer education (e.g., around trust issues and safety measures).

### Spending control:

- Add notifications that are clear (i.e., visual and easy-to-read) and regular (i.e., each time customers interact with the app) to remind them of how much they have spent and inform them of how much they have left.
- Invest in financial management and literacy training for low- and middle-income people.

## USER EXPERIENCE **Simplicity and user friendliness:**

- Ensure that any DFS developed is easy-to-use (e.g., has clear instructions in a relevant language like Malay or Chinese) and has a short user journey (i.e., does not have too many steps).
- Invest in regular user testing to make sure it is simple and user-friendly enough.
- Enlist local/community ambassadors to teach new users.
- Train vendors to promote and teach new users.

## WORD ON THE STREET

*"It should not be too heavy. It should not need a strong Internet connection to connect—like WhatsApp, [there is] no need for strong Internet connection. I should be able to use [it] in the kampong [rural areas]."*

**(Male, 30–39, Kuala Lumpur)**

*"When all the shops have started using it, when it is famous [and] easy-to-use, [and] offer[s] free gifts and vouchers by collecting points."*

**(Female, 21–25, Eastern Malaysia)**

*"It should be universal. It should be convenient. You can go anywhere and it won't be a problem—widely usable and convenient. It should be user friendly. It should not be complicated—not too many buttons."*

**(Male, 21–25, Kota Bharu)**



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April 2019  
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