

A deep dive into what digital banking will bring to Singapore

Singapore's monetary authority will issue up to five new digital bank licenses, three of which will be for entrants to serve SMEs and other non-retail sectors

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By Tom King

The Monetary Authority of Singapore recently announced that it will issue up to five new digital bank licenses.

The goal is to facilitate greater competition and heighten financial innovation within the local banking industry, while tackling segments underserved by the incumbents.

There will be up to two digital full bank licenses which will let the holders operate as restricted banks prior to graduation. Up to three wholesale bank licenses will be available for new entrants to serve the small and medium enterprise segment (SME) and other non-retail sectors.

The Asset spoke to Venky Srinivasan, group vice president, Japan and Asia Pacific Sales, Oracle Financial Services, on what the latest move by the regulator will mean for the banking industry in the Lion City.

What is the value of new virtual bank licenses in Singapore?

Firstly, the issuance of virtual bank licenses helps balance possible global disruption with local innovation. It provides a new angle to Singapore's effort to develop a dynamic financial services ecosystem.

The ecosystem has been growing with fintech players in the payments space and other related areas, but a virtual bank license will enable a new level of innovation.

Secondly, it helps keep Singapore's regional leadership as a financial hub. Application for the digital full-bank licenses are open to companies headquartered and controlled by Singaporeans.

Foreign companies can apply for these full-bank licenses if they form a joint venture with a Singapore company.

Thirdly, the initiative helps accelerate Singapore towards a cashless society. Cash and cheques account for roughly 40% of payments in Singapore, Singapore is still far behind peers like

Australia. Cash is still king in Singapore but in Australia, contactless accounts for the majority of credit/debit card payments.

Finally, by focusing on the SME segment and clearly defining a mandate of operations associated with the license, Singapore is also ensuring this segment which has traditionally been underserved gets enough focus and attention as well.

While customer satisfaction with local banks is high (they have done a lot towards digital payments and banking), given the short innovation cycles, the time gap when innovation becomes available for mass use has been very small.

New virtual banks, which are born digital and agile, are more likely to bring innovation mainstream. This will help bring customer behavior change faster and drive the move to a cashless society with innovative products such as for example, AI-driven products and services and smart contracts (as cryptocurrency enters mainstream use).

Why are new virtual banking licenses becoming a trend globally?

Virtual bank licenses are a regulatory initiative to help bring a new level of competition into the banking industry.

The move towards virtual banks and usage of open APIs helps to boost customer value by giving customers choice and understanding consumers' needs more deeply at every stage of the financial lifecycle. It addresses the following:

- **Changing the needs and demands of today's customers**

According to a recent global survey conducted by Oracle, today's consumers are demanding deeper, smarter and more relevant digital experiences:

- o 69% of consumers want their entire financial lifecycle on digital channels.
- o 30% of consumers are open to trying a fintech or challenger bank.

- **Financial inclusion and meeting the needs of underserved segments/niches**

Virtual banking licenses create a banking environment that is more inclusive, especially for market segments that have not traditionally been addressed by incumbent banks, such as SMEs, freelancers, underbanked, millennials, or those without a credit history.

- **Propelling the growth of fintechs and delivering a more collaborative environment**

This brings together an ecosystem and delivers frictionless experience to customers by being able to anticipate customer needs and to respond faster and more accurately to new demands.

What are the critical success factors in running a virtual bank?

While a perfect storm supporting the growth of virtual banks is brewing, success is not guaranteed unless new banks are able to transform into a data-driven, high-performance and profitable organization.

Firstly, there is a need to establish an efficient operating model which underpins the core value proposition that a specific virtual bank is trying to bring to the market. This will ensure virtual banks are able to bring in efficiency at every layer of the organization and keep cost of operations low.

Secondly, there is a need to exceed your customer's expectations consistently and across the financial lifecycle. Virtual banks globally have done well in the onboarding process but must prove themselves across the financial lifecycle as they expand into more complex product areas such as SME banking, mortgages, and business banking.

Existing customers of traditional incumbent banks are ready for churn not at the beginning of the lifecycle but when more complexity appears in the relationship. This is where the rubber meets the road.

Finally, there is a strong need to use data as a core asset across the business. Virtual banks can leverage data insights via agile technology stacks to reshape business models and offer the customer unique personalization.

To grow market share and reduce churn, it is critical to implement an analytical architecture and automate using artificial intelligence and machine learning. This is the potential of AI, which also could change how we address risk management, compliance and fraud detection.

To ensure long-term profitability, data-driven tools should be used to optimize on capital allocation, customer data management and to mitigate risks.

How has progressive regulation become a driver of innovation?

Progressive regulation globally is changing the financial services landscape, creating one of the world's most open and collaborative ecosystems with the growth of new digital banks and issuance of virtual banking licenses.

There is an opening up of the financial services industry at two levels:

1. Issuance of virtual banking licenses, increasing competition and expanding the number of players in the industry;
2. Open banking regulation will make it a mandatory requirement for existing banks to open up to third parties or fintechs.

Numerous regulatory initiatives have risen in Australia, Hong Kong and Singapore (which are leading the Asia-Pacific charge) that help to support competition and innovation, leveling the playing field for fintech firms and banks while securing the safety of the financial system as a whole.

By lowering the barriers to entry for new non-bank players, it allows for the implementation of new technologies resulting in banking innovation, more competition and the development of new products and better pricing for banking clients.

What is the impact of virtual banking licenses for traditional banks?

The advent of new digital-only virtual bank options has created a sense of urgency for traditional banks to build better digital engagement and customer experience for both retail, corporate and SME customers to ensure customer retention.

Banks in Singapore have been the early adopters of technology to deliver innovation in financial services.

Increased competition from virtual banks could push incumbent banks to move much faster into data-driven strategies that look to monetize data among participants of new financial services ecosystems beyond the traditional boundaries of the bank itself.

We see a move by traditional banks to further accelerate their IT spending and challenge the digital banks thus creating a win-win proposition for customers in Singapore.

The result is better digital services that boost customer value by giving them a choice and understanding their needs more deeply at every stage of the financial lifecycle.

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