Virtual banks face challenges in journey to profitability

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Issues include high capital requirements and tough regulatory compliance standards

Are digital banks set to take Singapore by storm?

The preferred outcome for the banks without branches would be to gain a respectable market share, with the existing brick-and-mortar banks embracing their disruptive innovation.

But tough regulatory compliance standards and high capital requirements mean it will not be smooth sailing, at least not in the early days.

There are 21 hopefuls seeking up to five digital-only banking licences to be issued in June.

The known line-up of applicants appears formidable.

They include a tie-up between Grab and Singtel; Razer Youth Bank; Beyond; a group comprising the iFast, Yillion and Hande groups; an Ant Financial group; a consortium with Sheng Ye Capital, PhillipCapital, and Advance.AI; and one with AMTD, Xiaomi, SP Group and Funding Societies.

Some of them are backed by deep-pocketed venture capital firms, while others are financial tech powerhouses in their own right.

Billionaire Jack Ma's Ant Financial Services Group is one of the world's largest online transaction platforms. Its payment app Alipay and its e-wallet partners have around 900 million annual active users in China and 1.2 billion globally.

Xiaomi's XWBank in China disbursed about 100 billion yuan (S$19.6 billion) of consumer loans in its first 20 months of operations.

The new entrants are expected to target small and medium-sized enterprises (SMEs) with highly compelling consumer propositions and real-time big data analytics, putting at risk a significant market share of the Big Three - DBS Bank, OCBC Bank and United Overseas Bank (UOB) - that dominate Singapore's banking landscape.

Some digital banks in Asia did come close to taking a big chunk of market share.

Months later, the country's second virtual bank - K Bank - accepted 35,000 accounts on day one.

But that is as far as the impressive account goes.

By 2018, KakaoBank and K-Bank were both reporting quite significant net losses, according to the Korea Federation of Banks.

The Korean experience is a reminder that the journey to profitability for virtual banks is likely to be long and difficult.

In the more mature markets of Europe and the United States, customers of legacy banks have persistently shown an inertia when it comes to migrating to a digital-only entity as their primary banker.

Virtual banks in Singapore will face strict licensing requirements, including for capital, prudential and risk management.

For example, the full banking licence will come initially with deposit caps, and later a $1.5 billion capital requirement. That is in addition to rules that exclude engagement in value-destructive competition to gain market share.

British challenger bank Revolut decided not to pursue a Singapore digital banking licence because of the high capital requirements.

The fintech payment platform that entered South-east Asia in October last year with Singapore as its regional headquarters is a success story otherwise, with more than seven million customers across Britain and Europe.

Still, within the licensing requirements there is hope.

The Monetary Authority of Singapore will assess applicants' plans for the headquarter functions they will be anchoring in Singapore, as well as their regional expansion strategies.

A regional base in Singapore has a clear value proposition for a digital entity.

First, Singapore is already an established financial and trading hub with an advanced information technology infrastructure that offers seamless connectivity to the fast developing global digital economy. It has also built a reputation as a strict yet forward-looking regulator.

Second, it sits in the middle of a region set to become the world's fourth-largest economy. South-east Asia's digital lending market is expected to more than quadruple to US$110 billion by 2025, according to Bain & Co, Google and Singapore's Temasek.

In Myanmar, about 74 per cent of the population lack a formal bank account. Indonesia, the region's most populous nation, has an unbanked rate of 66 per cent, while the rate in Vietnam is 69 per cent, and in the Philippines, 65 per cent of its people have no bank accounts.

Still, the hold of the Big Three banks on the market will be hard to crack as they are not really traditional or legacy banks per se.

They have been building up their online presence and offerings over the past two decades and some of them already run digital banking entities in the region and beyond.

DBS, for instance, was twice ranked by Euromoney as the world's best digital bank in the past few years. Its mobile-only DBS digibank has more than three million customers in India and Indonesia combined. UOB launched its digital bank TMRW in Thailand in March last year.

Oracle Financial Services said the Singapore applicants not only have the experience of having delivered technology-led innovation, but also bring in financial muscle.

"They now must prove themselves across the customer life cycle with complex products such as SME banking, mortgages, investments and finance management - where customer satisfaction drops significantly," said Mr Venky Srinivasan, Oracle's group vice-president for the Asia-Pacific and Japan.

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Ovais Subhani
Senior Correspondent

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In 2017, KakaoBank, South Korea's first digital bank, opened a quarter of a million accounts within the first 24 hours of its launch. In its first week, it lent the local currency equivalent of US$232 million (S$312 million) and took US$245 million in deposits.

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Three local banks' take on digital strategy

DBS BANK

Our digital strategy... includes making banking so simple, seamless and effortless, customers have more time to spend on the people or things they care about.

MR PIYUSH GUPTA, chief executive of DBS.

OCBC BANK

We are digitalising all aspects of banking, the way we operate and creating digitally led innovative services. OCBC has also brought many digital firsts to Singapore.

MR PRANAV SETH, head of digital and innovation at OCBC.

UNITED OVERSEAS BANK

Our digital strategy is part of our omni-channel strategy, which is to give our customers all the banking choices they need, prefer and want, whether online or in person.

A UOB SPOKESMAN

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