

Singapore or Hong Kong. Who will win the virtual banking race?

In Singapore, virtual banks are on the way. Will they change the landscape faster than their Hong Kong rivals?



By **Carol Huang**
July 15, 2019

Singapore is following in the footsteps of Hong Kong with its disruption of the city's banking system. The development of virtual banking is likely to bring vitality to the economy and could even surpass changes in Hong Kong.

Several months after Hong Kong released [the first eight virtual bank](#) licenses, Singapore has announced that it soon intends to issue as many as five virtual bank licenses. "The new digital bank licenses mark the next chapter in Singapore's banking liberalisation journey." said Tharman Shanmugaratnam, head of the Monetary Authority of Singapore (MAS).

The MAS said on June 28 that it would issue a total of five licenses, three for digital wholesale banks, and two for digital full banks that target retail customers. A minimum deposit of S\$250,000 (\$184,000) is required to open a fixed account in a wholesale digital bank.

For digital full bank candidates, a base in Singapore is required which is managed by Singaporeans. Foreign companies are eligible for three full bank licenses if they form a joint venture with a local company.

The requirements are similar to Hong Kong's virtual bank policy, but some say that Singaporeans will run faster in this virtual banking race.

“Hong Kong virtual banks are all waiting for others to make the first move,” an unnamed manager close to one Hong Kong virtual bank told *FinanceAsia*. “You can see they are quiet after getting the licenses.”

The hesitation among Hong Kong virtual banks may give an edge to their Singaporean competitors, especially tech companies. “The framework (that was issued by the Monetary Authority of Singapore) does not target incumbent Singaporean banks; they have been able to create what the MAS refers to as internet-only banks,” Abraham Tachjian, Standard Chartered Hong Kong’s head of risk in virtual banking, wrote in a [Linkedin post](#). “Technology and e-commerce companies are the intended audiences.”

Southeast Asian super-app Grab is widely rumoured to be one candidate for a virtual bank license in Singapore. “We will study the digibank licensing requirements closely,” Reuben Lai, Grab Financial Group’s senior managing director said in an email. “And we are keeping an open mind as we assess how best to pursue this, including whether to work with suitable partners.”

“Grab is surely sitting on rich data to make a substantial difference to financial services,” said Venky Srinivasan, group vice president of Oracle Financial Services. “The advent of new digital-only virtual bank options has created a sense of urgency for Singaporean banks to build better digital engagement for retail, corporate and SME customers to ensure customer retention.”

Apart from Grab, Hong Kong-listed Razer has also expressed an interest in a license in Singapore, along with telecom company Singtel, fintech firm InstaReM, and peer-to-peer lending platform Validus Capital.

It is still unclear which city will implement virtual banking policy faster. But, as Tachjian said in his post, once the MAS is convinced of an ability to manage risk properly, full-fledged bank status is granted and initial restrictions will be lifted. Singapore may start with few more constraints on virtual banks, but it has the potential to develop at top speed.

Hong Kong's banking system is in urgent need of reform. Although the government has been promoting small and medium-sized enterprises in the region for a long time, Hong Kong startups still suffer from slow and restrictive financial services. Even startups with government funding still face headaches when trying to open a bank account. While most risk controls are still completed offline, Hong Kong needs to speed up access to financial services for SMEs.

But Singaporean virtual banks face a high entry barrier. The government has set a minimum paid-up capital requirement of \$1.1 billion, which is higher than Hong Kong’s \$38 million. “It might be more difficult for virtual banks to compete in Singapore’s banking landscape,” said Grace Chong, of-counsel at Simmons & Simmons JWS. “Nevertheless with strong regulatory support from MAS, virtual banks should add value to the fintech ecosystem.”