



Digital Banks

get real in Singapore

Crafting the winning strategy

August 2019





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# I. Singapore opens doors to digital-only banks

## Background

The Monetary Authority of Singapore (MAS) announced on 28 June 2019 that it will grant up to five new digital bank licences. There will be up to two digital full bank licences to provide financial services and allow deposits to be taken from retail customers. Another three digital wholesale bank licences may be issued, catering to small and medium-sized enterprises (SMEs) and other non-retail segments in Singapore. Ahead of the further guidance to be issued by MAS in the coming days, we explore in this paper the underlying drivers and considerations underpinning the interest in digital banks.

Digital banks are catalysing change across the global banking sector with their keen focus on hyper-personalisation, adoption of new technologies and the willingness to embrace new business models.

Singapore has jumped into the fray and the timing is just right. The country is positioning itself to capture the ASEAN potential, given nearly half the people and many small businesses in the region remain under-banked.

## Changing dynamics of the banking sector in Singapore

Singapore's banking sector has evolved significantly since 1999, when the MAS embarked on a major programme to liberalise the industry. Today, as a leading financial hub in Asia, Singapore is playing a key role in financing the region's growth.

Buoyed by evolving trends such as the mass adoption of smartphones, the use of big data and the rise in seamless mobile internet connectivity, the financial services sector is transforming. Amid the explosion of data through a wide variety of sources, the use of advanced data analytics and machine learning promises to unlock deeper and richer insights into customers' financial needs. Customers are expecting more: greater access, better accessibility, more integrated experience, addressing their global/regional needs and integrating personal and business financial needs.

Singapore's decision to open doors to digital-only banks comes close on the heels of the Hong Kong Monetary Authority who has issued eight digital banking licenses this year. Taiwan's Financial Supervisory Commission followed suit with three digital banking licenses recently and we saw the European Central Bank start to issue digital banking licenses late last year as well. Additionally, neo banks in Australia have been on the rise. Bank Negara Malaysia is expected to announce digital banking license requirements by end of this year.

This new regime promises to strengthen Singapore's banking sector with innovative business models and strong digital capabilities, while ensuring it stays resilient, competitive and vibrant in the digital future. The focus is on the underserved or unbanked market segments, for example SMEs and millennials, as well as providing further impetus for existing banks to accelerate the innovation of their digital offerings.

### Engaging with customers differently

Digital banks put customers at the heart of what they offer – moving away from the product and channel approach associated with established banks. They aim to be more relevant to how people live their daily lives and are willing to embrace partnerships in order to achieve this.

For example, when planning a holiday, your journey as a customer will involve engaging in multiple transactions with a range of parties including your bank: from buying foreign exchange and travel insurance, booking flights and hotels, to making overseas payments or renting a car. These transactions will generally be undertaken on a range of platforms – including within a bank branch – and may be dealt with separately across and within organisations.

On the corporate front, SMEs, especially owner-managed ones, are looking to technology and services platforms that are integrated with banking solutions to attend to their non-core activities including book keeping, payroll, procurement and HR, allowing them to focus on their core business.

Digital banks will aim to offer a seamless experience through an ecosystem of partners that enables you to interact with different service providers through a single platform. They will remove pain points (e.g. having to supply information repeatedly) and will look for opportunities to reward loyalty and add value, such as eliminating the need to visit a bank branch to convert foreign exchange.

### Technology as an enabler

Digital banks will utilise the latest technologies to better target and then service precise customer segments – resulting in enhanced customer experiences. They will also make use of data analytics, artificial intelligence, machine learning and intelligent automation to improve and accelerate lending decisions and to flag up suspicious transactions much more reliably.

### Democratising financial services

Digital banks are looking to make financial services products more accessible. This could include offering lower ticket sizes for wealth management products, more innovative forms of returns on investment (e.g. retail benefits), quick and easy loans or pay-as-you-go insurance. They will educate and empower their customers to take greater control of their finances.

Traditionally, banks have mainly offered static data (e.g. your account balance) and opportunities to buy investment products. Your digital bank could predict how your balance will look at the end of the month and how you are progressing towards your monthly savings target. It can offer advice on how to reduce your outgoings and what investment products most closely match your goals. Similarly, for businesses, greater insights into underlying transactions and funds flow enable banks to lend more confidently.

The best digital banks will be able to offer the intuitive customer journey experience and ease of functionality that customers have grown used to with the leading consumer technology companies.

### Rewarding loyalty

Digital banks will reward customer loyalty differently. They will seek to offer rewards from their partner ecosystem that match the interests of their client's demographic – rather than a one-size-fits-all reward points model. Loyalty could also be rewarded through better rates or more innovative forms of investment returns.

A “digital bank” is defined as a bank which primarily delivers banking services through the internet or other forms of electronic channels without the presence of physical branches.

## Trends shaping digital banking



### Customers

Digital banks can capitalise on burgeoning consumer trends by participating in ecosystems and getting access to a broader customer base. There is greater availability of customer data, hence, service providers are able to customise offerings to better fit the needs of unbanked or underserved individuals and businesses. The digital channels provide cheaper and greater access to the younger and more digitally savvy consumer, as well as less established businesses. Regional customers feature prominently in this search for new banking customer base.



### Products

Digital banking is getting the boost from innovative payment solutions that simplify financial transactions. Players in the digital banking space are attracting the young and digitally savvy consumers by embedding financial services seamlessly within non-banking end-use journeys. For instance, booking and paying for a car ride on the same interface, getting access to personal credit while browsing an online store or buying travel insurance while booking air travel. Simple trade finances and invoice discounting products, alternative credit scoring methods and integrated cash management platforms are also appealing to SMEs.



### Partnerships

Strategic partnerships will be the fastest route to delivering financial innovation in the future. It is emerging as the quickest way to build new digital banks at substantially lower capital expenditure (capex) than established banks. Moreover, a successful new digital bank launch requires quick acquisition of customers to create critical mass. This support can come in from partnerships with organisations that have large numbers of digital customers, for instance, the lifestyle players or e-commerce marketplaces that offer loyalty points. Logistics companies, e-commerce value chain ecosystems and businesses with large SME customers are entering the fray.



### Technology

New banking technologies are transforming the financial sector. For instance, blockchain technology is set to fundamentally transform banking and financial services. It decentralises financial management from a central authority to a widespread network of computers. Open banking is about building and integrating an ecosystem of digital products, designed for one purpose – to create a seamless user experience. API integration is the function that allows third party apps to speak to each other. Vast amounts of data could power a new era of digital banking. The ability to better understand customers, providing the right product at the right time and to the right person, will be increasingly driven by data.



## Impact analysis

Established banks are experiencing tough competition from FinTech companies offering standalone products at low costs. These agile technology companies, with the potential to emerge as digital banks, are actively expanding their product portfolio with focus on deep technical expertise besides aggressively seeking collaboration opportunities to invest in more customer-centric products.

In response, established banks are digitalising their core business processes, reassessing organisational structures and retraining internal talent to brace for the future. They are embracing new technologies to provide better customer journey experiences. The importance of innovation and new solutions development using data, advanced analytics, digital technologies and new delivery platforms has never been more significant for established banks.

We observe that these established banks are challenging themselves and making efforts to continue to be the bank of choice within their chosen core segments. Some of them are also capitalising on potential partnerships to acquire, retain and grow their customer relationships.

The established players must continue to rapidly reconfigure their branch networks to become more focused on experiences and use technology to make the transition between physical much more seamless. Understanding different customer segments and how to best utilise technology to provide hyper-personal services and products will be key for a successful banking strategy.

For the consumers in Singapore, digital-only banks will bring in more choice and elevate the banking experience by making it more easy and seamless. We may look forward to more end-to-end customer journey experiences from retailers, travel companies and other service providers.

Singapore's move to welcome digital-only banks will create new job opportunities. At the same time, the new players' hunt for talent will drive a potential churn within the industry. The move will also raise the capabilities of Singapore's SMEs by helping them adopt digital services. Moreover, the new players are likely to use Singapore to test innovation and, once matured, the products could be replicated across the region. From the regulatory point of view, there must be a need to balance technology innovation towards open banking with consumer protection, rights to privacy and prudential integrity.

## II. Cracking the code to digital banking success

### Guiding principles

As organisations weigh their options, we believe the focus should be on addressing key questions anchored on 5 guiding principles.



Who is the target customer?

#### Principle #1

Digital banking customers will expect hyper-personalised and connected experiences across the end to end journeys to fulfil their needs



What is the customer proposition?

#### Principle #2

The digital bank proposition will need to align with the organisation's capabilities whilst driving differentiation



Who should we partner with?

#### Principle #3

Partnering with other organisations is essential to develop ecosystems which can attract customers and deliver end to end customer journeys



What technology is required?

#### Principle #4

Digital banks need to be built in the cloud with customer-centric systems and data models to enable the agility to meet customers' evolving expectations and needs



How can we install a 'digital' mindset?

#### Principle #5

To deliver on the digital bank brand and customer proposition, the organisation will need to foster a born in the cloud, digital startup mindset from day 1

## Lessons learnt from the Hong Kong experience

We have leveraged our Hong Kong team's recent experience in successfully obtaining digital banking licenses to put together some of the key lessons learnt.



### Business strategy

As a first step, it is essential to clearly identify target customers and value propositions for which a robust business plan should be designed. It must strike a fine balance between the desire to build market share and the need to earn a reasonable return on assets and equity.

The other key elements of the strategy include customer protection and financial inclusion - the initiatives around which should be well defined.



### Technology

Digital banks need to embark on a technological innovation journey as the source of innovation would be a critical factor to increase market share and its competitiveness. There must be robust technology and outsourcing risk management in place whereby proper governance and stakeholder management is ensured with the outsourced service providers.

Technology-related risk, especially information security, system resilience and business continuity management, is of vital importance to a digital bank. A well-documented exit plan must be in place, articulating how the business model is equipped to manage the business closure if required under potential unfortunate circumstances.



### Risk and control

Like conventional banks, a digital bank applicant must understand the types of risk to which it is exposed and must put in place appropriate systems to identify, measure, monitor and control them. It should be aware that certain types of risk such as liquidity, operational (including protection of customer data) and reputation may be accentuated in the case of digital banks because of their nature of operation.

The organisation must recognise and follow sound practices of compliance including anti-money laundering and countering of financing terrorism.



### Background

Capital strength and commitment are vital - digital banks must maintain adequate capital commensurate with the nature of their operations and the banking risks they are undertaking. A background check of the controllers, directors and chief executives of the digital bank is a must.

The board of directors and senior management of digital banks should have the requisite knowledge and experience to enable them to discharge their functions effectively.



### III. Crafting the winning strategy

Based on our experience assisting digital banking licence applicants globally, one thing is clear: the winning formula is one that is an impactful mix of business strategy, innovation, new technologies, data management and appropriate risks and control frameworks, led by experienced management teams with strong financial strength and commitment.

Key differentiators with innovative and unique offerings to address consumer pain points will lead the game in the long run. Customer empowerment, product simplicity and speed of execution are features that define successful digital banks.

Singapore is all set to kick-start the digital banking licence application process. It will be a beauty parade of sorts, clearly setting apart potential winners with strong strategies based on the demonstration of cutting-edge market insights and detailed customer journey understanding, unique service offerings and a solid foundation cemented by new technologies and financial strength. The ability to have catalytic injection of ready customers and banking deposits and assets into the digital bank may be an added advantage.

## 5 essentials of a digital banking strategy for new digital banks

1. **Formulate a business strategy with innovative value propositions.** Create a customer journey thinking culture. Constantly seek how to enhance customer value and experience through new products and services creation.
2. **Build a robust banking architecture and functionality to be integrated within the existing digital platform.** Opportunities to design and deploy new technologies to support digital services to customers must be identified and leveraged.
3. **Leverage alliances and partnership opportunities to develop a fully digital ecosystem.** The consortium in play would open up to more customer bases, better technologies and innovations to serve the bankable customers.
4. **Ensure key regulatory obligations in relation to establishing a digital bank are adequately understood and develop a sustainable and robust business plan to be in line with prevailing regulations.**
5. **Set up a risk management framework with strong governance.** Digital banking brings about a new spectrum of risks. A robust risk management framework must be put in place to identify and mitigate potential threats. Define the controls for eliminating or minimising the impact of these risks, as well as the mechanisms to effectively monitor and periodically evaluate measures taken.

# 5 essentials

## of a digital banking strategy for established banks

Established banks can take no more time in shifting focus from products to user journeys and experiences that are relevant to how their customers today live, work and play. Not only must they retain existing customers by maximising value from their “usual delivery” channels, but also try to grab a share of the unbanked or underserved as much and as fast as they can via the digital route.

It is imperative to consider potential partnerships to acquire, retain and grow customer relationships. Digital fitness is sacrosanct in the face of unprecedented competition in the digital future.

- 1. Focus on customer journeys, not products.** Established banks are still built around products and channels. The customers that digital banks are targeting want integrated solutions, not the silo approach that the majority of established banks currently offer. They are seeking a seamless experience – not a series of products.

Financial institutions that have successfully embarked on a digital transformation have all moved from a product-centric approach to one that truly puts the customer at the centre of what they do. Create a culture of customer obsession to improve customer retention in the face of new competition.
- 2. Do the basics right, then iterate.** Some of the biggest new economy businesses – such as Amazon, Spotify or Uber – started with a very simple proposition and then perfected it before offering more complex services. This is also what we have seen with the most successful digital banks globally: going with something simple, but delighting the customers. And then, build up your menu of services from there.
- 3. Place collaboration and innovation at the heart.** In addition to being customer-focused, established banks need to be innovative, agile and collaborative. This involves improving everyone’s “digital fitness” – from the CEO to the bank teller. Established banks will no longer be able to build everything in-house – they need to look outside for opportunities to collaborate and partner.
- 4. Maximise customer value from the physical channel** in light of digital banking. Enhance customer value by building an effective and efficient offline-to-online banking platform that seamlessly integrate into customer’s normal usage. Our understanding is that physical branches still matters for all age groups, which means most banks may have room to reinvent certain branch benefits with an improved experience.
- 5. Enhance regulatory obligations management so that it is compliant by design.** Get it right from the start by establishing a strong assessment and control framework. Ensure that the development of new technologies and products adhere to regulatory requirements.



## IV. Singapore as a stepping stone to the region and the world

ASEAN is the third largest economy in Asia, with great business potential from the growing wealth in this region. Given its geographical diversity, technology provides an immense opportunity to reach the 650 million people living within the economic block comprising ten countries. Its emerging middle class makes it an attractive consumer market. With nearly half its population unbanked, ASEAN promises high growth opportunities to digital banks.

Aspiring digital banks may consider using Singapore as their base for regional headquarters and from here, tap into an aggregate economic base of nearly US\$3 trillion. Singapore has long been recognised as a strategic gateway to this region as well as to wider Asia. The nation attracts businesses through its open and transparent business environment, coupled with economic and political stability.

## How we can help

The winning formula is one that is an impactful mix of business strategy, innovation, new technologies, data management and appropriate risks and control frameworks, led by experienced management teams with strong financial strength and commitment.

With a proven track record in successfully helping digital banks excel across the world, including UK, Australia and most recently, Hong Kong and Taiwan, we can impart and leverage our winning global experience and diverse perspectives to be your trusted advisor in this exciting yet complex journey.

We can help you design and build a digital bank using new technologies and partnerships, providing end-to-end guidance from initial market sizing, application process through to the implementation and launch of your digital bank.

- Develop a sustainable business strategy fit for growth
- Develop financial modelling
- Guide applications through legal and regulatory requirements and approvals
- Accelerate customer acquisition and brand loyalty
- Enable client onboarding quickly
- Enhance customer experiences in a digital-first world
- Adapt a workforce for the future
- Simplify tax, finance and treasury functions
- Navigate through complex risk and compliance challenges
- Protect from cyber threats

Let us help you get it right.

For more information, visit [pwc.com/sg/digitalbanking](https://www.pwc.com/sg/digitalbanking)



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Our digital bank specialist partners are part of a global team of experts serving this sector.

In Asia Pacific, digital banking and open banking are on the uptrend, particularly with recent license announcements in Hong Kong and Taiwan. We have specialist partners around the region also available to discuss this topic in person with you locally:

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