

Digital Banks get real in Singapore

Setting the playing field



29 August 2019

Singapore's guidelines for digital bank licence applications, announced on 29 August 2019, are carefully crafted, and make a couple of things very clear:

1. Retail consumer protection is priority even as we embrace innovation. There is clear recognition that the digital full banks model is untested locally, and as such restriction are necessary, which will eventually be lifted as and when success is proven.
2. Value creation for the Singapore society is paramount. The idea behind increased competition is to benefit customers, especially the underserved segments, as the new banks use technology to deliver more efficient banking solutions. Aside from this, it sets the scene around helping SMEs gain access to financial products as they digitise, internationalise and benefit from ecosystems. The overarching aim is to make Singapore a resilient, competitive and vibrant financial centre, anchored on skills and jobs as well as technology and intellectual property.
3. The business model must be robust - propelled by cutting edge technology, sound management, and validated customer value proposition so as to be sustainable.
4. Existing regulations are adjusted to make digital banks succeed. Attempts are made to create larger addressable markets for digital banks serving small businesses and existing guidelines are relaxed in the short term, to allow them to incubate and be successful*.

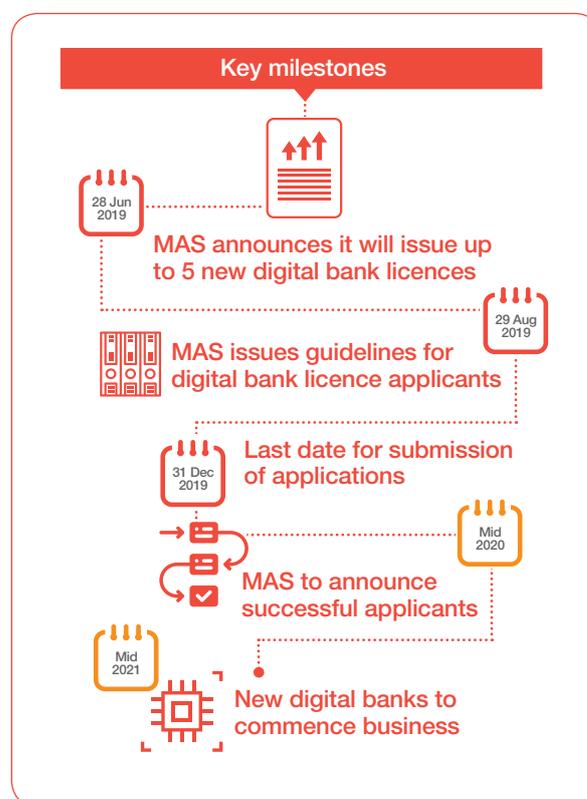
Relative to other jurisdictions, the requirements are more comprehensive and as such, perceived to be more prescriptive. The strategy clearly is to de-risk whilst encouraging innovation and entrepreneurship.

There is major focus on risk management and compliance, levelling the playing field between aspiring digital banks and the incumbents. The requirements mandating financial projections to be signed off by an external and independent public accountant, leave little room for window dressing. Aside from the financial sustainability of the digital banks, the ability to execute the business plan will also be evaluated. Quality of ideas, teams, finances, anchor on the long term commitments to Singapore are the other key areas prioritised.

A clear timeline is charted out from inception to business commencement. However, before commencement of business, the risk management framework and IT systems must be validated by an independent party (other than the advisor in the process of application). This clearly highlights MAS' attention to details in ensuring that the most robust and sustainable business models are introduced in the market.

Given all contenders will evaluate the opportunity with intentions to make profits, we believe that the formal requirement of a "path towards profitability" is not something that will turn away applicants. Aspirants now know the requirements to more accurately estimate the efforts and investments needed to decide whether to proceed.

In essence, the process and requirements have been tactically designed, to help the non-banks learn the ropes and to be viable alternative propositions whilst limiting risks to the banking system.



What's next?

We believe it isn't very difficult for new players with no banking parentage to get started, but, is certainly vital to get it right from the very start. To sustain is a much more challenging aspiration. The market is dominated by competitors much larger in size, experience and financial muscle. For the new entrants, aside from being successful digital banks, it is about leveraging the opportunity to chart out the next phase of their parent company's growth. Ultimately, they should aim to be seamlessly relevant to the financial and non-financial customer needs.

* Examples include: wholesale banks can now take Singapore dollar deposits from sole proprietors and partnerships; certain executives from the new applicant's parent group can be shared and board governance will only need to be enhanced over time.

For the established banks, on the other hand, there's no looking away. The rules of the game have changed forever. Many aspiring applicants are looking to work in consortiums or partnerships in order to bring in the relevant banking expertise. This may be seen as a window of opportunity for traditional financial institutions.

We expect to see tie ups between technology companies and consumer platforms that can use different data sets for more accurate credit assessments to cater to consumers as well as SMEs. New competitors from other industries will join in to command consumers' attention and strive to be the preferred interface. Unexpected alliances and partnerships will be created to provide more seamless and attractive propositions. All these factors will accelerate the trend towards a modularised, diverse and innovative banking market in Singapore.

There are powerful forces driving fundamental change in Singapore's banking landscape, particularly, consumer behaviour, technology, regionalisation and increased

regulatory scrutiny. Based on our experience of assisting digital bank licence applicants globally, we believe that 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. Customer empowerment, product simplicity and speed of execution are features that are defining successful digital banks across the globe.

How we can help?

We have global experience, diverse perspectives and 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 guide new applicants through the application process, all the way to implementing and launching the digital bank.

For more information, visit pwc.com/sg/digitalbanking

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