



Singapore's digital banking move

# Digital banks must click with customers' needs: Analysts

Products must be innovative to draw interest in well-banked city

Aw Cheng Wei

Digital banks will have their work cut out for them when they launch in Singapore, and their best shot for survival will be to have innovative products and snag a decent slice of the market, say experts.

They told The Straits Times that such financial institutions tend to do best in emerging markets where existing banks fail to provide citizens with ample services. But that is not the case with well-banked Singapore, they said.

The Monetary Authority of Singapore last week announced that it will issue up to five new digital bank licences for both full and wholesale banks to players who may not have an established record in banking.

Digital full banks can take deposits from retail customers while digital wholesale banks serve small and medium-sized enterprises and other non-retail segments.

Associate Professor Lawrence Loh of the National University of Singapore said: "It's going to be a big challenge for new banking players here."

Singapore Management University's Assistant Professor of Finance Hu Jianfeng said: "To steal customers from their banking relationships is generally more difficult and more costly than offering banking services to the unbanked."

"Experienced customers are more sensitive to the credibility and brand names of the service providers," he added.

"It can take some time for the digital banks to show that they know what to do in order to win the trust of customers."

But the seemingly tough playing field has not stopped emerging and established tech companies from indicating their interest in applying for a digital bank licence.

Remittance start-up InstaRem said plans to apply for a licence when applications open next month, The Business Times reported last week.

E-wallet operators such as Singtel, Grab and Razer have indicated their willingness to explore the feasibility of applying for the licences.

Similarly, a Gojek spokesman said: "We are open to exploring how we can expand our range of services, if they meet the diverse and developing needs of our users."

Prof Loh said that established tech companies need to make sure

they are not out of their depth when they fight to get a toehold in the financial sector here.

"The financial sector is heavily regulated," he said, pointing out that the entry costs to banking are higher compared with grocery, food delivery and transport sectors.

That is why new challengers must make sure the products they offer

SELLING POINTS

**The greatest selling point of digital banking is convenience and lower fees.**



ASSISTANT PROFESSOR OF FINANCE  
HU JIANFENG

the market are sustainable and innovative as well as suit customers' needs, said Prof Loh, who is director for the Centre for Governance, Institutions and Organisations.

"It cannot be a fight to blitzscale," he noted, referring to how tech companies are used to fighting to build the biggest customer base in the shortest amount of time, and may sacrifice the quality of their product offerings.

Prof Hu said: "The greatest selling point of digital banking is convenience and lower fees."

Prof Loh said lower operating costs – as digital banks need not have physical branches and tellers – will also mean that they tend to offer customers higher interest rates for their deposits.

Digital banks can also try to make their services more palatable to their target markets. For example, Monzo in Britain allows millennials to set monthly budgets for groceries and entertainment as well as split bills with their friends to help them keep track of their spending.

United Overseas Bank has come up with a game to encourage millennials to save in TMRW, its digital bank in Thailand.

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## How do digital banks work?

Digital banks, lauded for their lower fees and the higher interest rates they can offer, are set to heat up the local banking scene.

The Monetary Authority of Singapore (MAS) last week said it will issue up to two digital full bank licences in a move to diversify and strengthen the Republic's banking system.

Licencees can take deposits from retail customers and offer a wide range of financial services. Applicants need not have a track record in banking, the MAS said. It noted the new competitors would encourage existing banks to continue improving their digital offerings.

Customers who have digital bank accounts transact online – either via their mobile devices or computers. Digital banks tend not to have physical branches, which means that customers engage with the bank mainly through e-mail, online chat or phone calls.

The MAS said digital full bank licencees here should have only one physical place of business. The banks will be allowed to offer cashback services through electronic funds transfer at point-of-sale terminals at retail merchants but will not have access to automated teller machines.

The Straits Times explains what it might mean to be a customer of a digital bank.

### Q How do customers open accounts?

**A** DBS Bank has a digital bank in India which lets customers open accounts at designated places across the country, such as popular coffee chain Cafe Coffee Day. They need only their Aadhaar card, which contains the user's biometric information.

Customers who want to sign up for an account with Britain-based Monzo can download the start-up's app and provide a photo of a valid identity document such as a passport or driving licence and record a short video of themselves.

United Overseas Bank has kiosks in Thailand where customers can authenticate their identities to open an account with its digital bank TMRW. They need to upload a picture of their citizen identity card and fill in details on the bank app as part of the registration.

### Q How have customers deposited money in a digital bank?

**A** Many online banks can take deposits in electronic form, cheque or cash. Customers can transfer their money from their existing bank accounts to accounts they have opened with digital banks.

They can also choose to credit their salaries into their digital bank accounts.

Customers of digital banks in the United States can deposit funds through cash-taking automated teller machines.

Monzo customers can deposit cash at 28,000 shops in the UK through a partnership with payments provider PayPoint.

### Q Who are the digital banks targeting?

**A** Digital banks tend to target tech-savvy youth, who may prefer to chat with a banking professional online rather than visit a physical branch. UOB has specified that TMRW, its digital bank in Thailand, targets millennials, though it does not set age limits for customers.

National University of Singapore's Associate Professor Lawrence Loh tells The Straits Times that customers can learn to get used to digital banks.

The trick is to find incentives for those who are less tech-savvy to switch banks, adds Prof Loh, who is director of the Centre for Governance, Institutions and Organisations, pointing out that higher savings interest rates can be a good way to draw them.

### Q How can customers make the most of digital banks?

**A** Digital banks can offer higher savings interest rates as their operations are less expensive to maintain, according to Prof Loh.

DBS gives its digital bank customers in India 7 per cent interest – one of the highest in the market – according to a bank release in 2016.

Customers can open savings accounts with these banks to enjoy the higher rates, if they are not satisfied with the existing rates. A digital full bank licencee must take part in the deposit insurance scheme provided by the Singapore Deposit Insurance Corporation, which will protect deposits of up to \$75,000 per depositor in case the bank fails.

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