

Digital banks to transform S'pore landscape for better, say experts

They will advance smart nation drive, benefit all, especially small businesses, low-income

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Digital banks will transform Singapore's financial landscape and benefit all stakeholders, experts said yesterday.

They will accelerate the city state's advance towards its ambition of becoming a smart nation and be of help to everyone from depositors to savers, borrowers and investors, industry specialists told The Straits Times.

They said low-income earners and small businesses will probably benefit the most as digital banks, unencumbered by the cost pressures of a brick-and-mortar presence, will be able to offer cheaper loans and higher returns on deposits.

Mr Wong Nai Seng, regulatory risk leader at consultants Deloitte South-east Asia, said the award of digital bank licences is a key milestone in the Monetary Authority of Singapore's plan to develop a smart financial centre.

"The market will be watching closely in the coming months as the digital banks announce their visions of how they will serve Singapore customers," he said.

The digital banks are likely to commence operations from early 2022, after meeting all relevant prudential requirements and licensing preconditions.

Mr Wong said they will also need

to contend with an uncertain economic environment, low interest rates and competitive responses from the incumbent banks and other financial services players.

The Grab-Singtel consortium, one of the winners of a digital full bank (DFB) licence, was the strongest contender among the applicants, given that both the companies are well capitalised and have a substantial footprint in the South-east Asia region, said Professor Foo Maw Der of Nanyang Technological University's Nanyang Business School.

Singapore-based Sea, owner of Shopee, has a substantial e-commerce presence in the region and has already started to provide some fintech services, said Prof Foo.

Mr Varun Mittal, Ernst & Young's global emerging markets fintech leader, said the MAS had chosen not to break with the norm when it awarded DFB licences to Singaporean entities and digital wholesale banking (DWB) licences to foreign contenders. These are Ant Group and a consortium comprising Greenland Financial Holdings Group, Linklogis Hong Kong and Beijing Co-operative Equity Investment Fund Management.

He said that at present, there are 99 banks in Singapore's wholesale banking industry and, excluding the three local banks, they are all foreign.

But digital banks will change a lot of things, said Mr Mittal. They generally provide their services from a single platform, available to everyone who owns a mobile phone. "Digital banking will democratise the access and offerings of financial products and services," he added.

Prof Foo said: "We expect digital banks to adopt technologies such as artificial intelligence to determine whether to make a loan and the loan quantum. Unencumbered by legacy systems, digital banks should be able to approve loans in a shorter period of time."



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Assistant Professor of finance Aurobindo Ghosh of the Singapore Management University's Lee Kong Chian School of Business said bringing in China's fintech and e-commerce giant Alibaba, the parent company of Ant Group, may be a catalyst for standardisation and interoperability in fintech services such as payments. "The Chinese companies for DWB could potentially increase investment opportunities from China in small and medium enterprises (SMEs) in Singapore," he said.

Prof Ghosh said this bodes well for Singapore SMEs to tag along with not just the world's second-largest economy, but one of the fastest recovering major economies since the start of the Covid-19 pandemic. He said the need for digital banks or brick-and-mortar banks with a digital presence has been deeply felt in the light of the pandemic worldwide.

"The fintech revolution that started before the pandemic has already created the stage to make the banking experience more customisable and personal," he said.

"I believe digital banks would be able to provide a customer-oriented cost-effective solution and a wider product mix for Singaporean depositors, savers, borrowers and investors for both businesses and individuals."

Mr Mittal of Ernst & Young said that given digital banks have financial technology in their DNA, they will seek partnership with local fintech firms, which will also be wooed by traditional banks as they speed up their own digitalisation.

Prof Foo said that while the traditional banks have digitised many of their offerings over a number of years, competition from digital banks will prompt them to re-envision the purpose of bank branches.

"Many previously bread-and-butter banking transactions such as deposits, withdrawals and money transfers would increasingly move online," he said. However, branches still assist in more complex and complicated financial and investment transactions, he added.

Mr Sam Kok Weng, financial services leader at PwC Singapore, said some people still prefer a high-touch personal service.

"Just as there is a place for traditional supermarkets alongside e-commerce supermarkets, we can also expect traditional banking to evolve on their relevance and experiences," he said. "There will be fewer branches, but traditional branches would look very different to what we have now."

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MR VARUN MITTAL
Ernst & Young's global emerging markets fintech leader.