Tharman Shanmugaratnam: Banking liberalisation's next chapter - digital banks

Keynote address by Mr Tharman Shanmugaratnam, Chairman of the Monetary Authority of Singapore, at The Association of Banks in Singapore's Annual Dinner, Singapore, 28 June 2019.

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Chairman and Council Members of the ABS,
Ladies and gentlemen,
Thank you for inviting me to join you this evening.

Our objectives in liberalising banking

2. I would like to talk this evening about our next steps in liberalising our banking system, and in taking advantage of the ongoing digital revolution in finance. 3. It will be a new phase in our banking system. But the spirit of what we intend to do, and the calibrated way in which we will move forward, is similar to the approach we have taken over the last twenty years, from the time we began liberalising the industry.

4. MAS embarked in 1999 on a major programme to open up and liberalise Singapore's financial sector across the board, in banking, our securities markets and in insurance.

5. We did so to ensure we remained a competitive and growing centre for finance in Asia and globally. But enhanced competition was also a way to spur our local banks themselves to upgrade and innovate so that they remained strong anchors in our banking system, and to expand into markets abroad.

6. We took a calculated risk. The risk was not trivial, as we began opening up in the midst of the Asian financial crisis. The changes in banking in particular had to be paced out, to ensure that confidence in our local banks and the system as a whole was not shaken, and to give the banks time to regear and to grow new capabilities.

7. The liberalisation of the banking industry to date has achieved its key objectives. Singapore is one of the leading financial centres in Asia, and plays an enhanced role in financing the region's growth. We have also retained a core of strong and increasingly innovative local banks, as anchors of the banking system. Critically, trust in our local banks and the MAS as regulator remains high. We have avoided the sharp decline in trust seen in many financial centres.

8. MAS has consistently held the view that banking systems need strong anchor players, competitive and well-supervised, who can take the long view and have interests closely aligned with both the growth and stability of the system as a whole.

- The experience of the global financial crisis and its aftermath vindicated our view. A common feature of jurisdictions with systemically important financial centres that held up well through the crisis – notably Canada, Singapore, Hong Kong and Australia - was the presence of a handful of strong anchor banks in each of their systems.

9. We have continued to liberalise the system, a decade after the first major steps that introduced QFBs and enhanced the space for wholesale banks.

- In 2012, we took steps to encourage foreign banks to deepen their roots in Singapore. MAS will allow a significantly rooted QFB to operate an additional 25 or up to 50 places of business, as part of an overall FTA package negotiated with the home countries of these QFBs.

- In September 2018, we announced that FinTechs and other non-bank financial institutions will be granted access to the FAST network for real time payments. This is a major step towards making our payments system open, accessible and competitive.

10. But we are in fact at the threshold of a further and more fundamental transformation in banking. The far reaching effects of digitalisation are stimulating a fundamental re-think of the role of banks, in most advanced financial centres. The ramifications go well beyond those ushered in by the technologies and business models of a decade or two ago.

11. We must take advantage of these opportunities that digital finance brings, and not be overtaken by the wave of changes taking place globally.

12. We must **allow for greater competition and spur greater innovation in finance** – competition between new and traditional business models, new players and incumbents, and different ways of using technology to serve business and individual customers better. We must also **retain strong local anchors and trust in the banking system. These dual objectives have guided our past liberalisation initiatives, and motivate our next moves.**

13. As we embark on this new phase, however, it is worth reminding ourselves of our real purposes in finance. Innovation in finance is not an end in itself. And **competition in finance has to be more than a zero sum game** - it has sometimes looked like that, as trading desks compete against each other to be a fraction of a second faster and to knock the other out. Competition and innovation has to be aimed at serving the needs of society and the economy better, here in Singapore and abroad. So it is worth reminding ourselves of these larger purposes and opportunities. I will highlight five:

- First, **financing the growth of infrastructure in emerging Asia, and increasingly of climate-resilient, low-carbon investments**. Both banking and capital markets should seek to meet what is still a huge financing gap in the region for critical and sustainable infrastructure.
- Second, financing **growth enterprises and SMEs**. SMEs are the backbone of all our economies. Besides finding new ways to meet their financing needs, banks can also help to raise their productivity by helping them adopt digital services.
- Third, **reducing costs and improving convenience for consumers**. We are already seeing major changes here, especially in cheaper, more convenient and seamless payments.
- Fourth, in **helping people to plan early and achieve financial security in their later years**. Singapore has recently come up top in the world for life expectancy. It is to be celebrated, but it also increases the need for good financial advice, and for those with savings outside their CPF accounts to be able to invest in products that will help them achieve greater retirement security. This is in fact going to be a growing challenge in much of Asia too.
- Finally, **creating good jobs**. In Singapore, the financial industry employs close to 200,000 people, most of them in relatively well-paying jobs. Technology will replace many tasks and even whole jobs in finance. But with proactive upgrading of skills to keep pace with new technologies, and with the continuing growth of our financial centre, we must and will provide good jobs in finance for many years into the future.

How finance is being transformed

14. The digitalisation of finance is picking up pace, and will transform banking.

15. There are essentially three key forces driving this transformation: pervasive mobile internet access, the rise of big data, and the growth of platform ecosystems as a major new business

model in finance. The three forces are also reinforcing each other, and together transforming banking in more fundamental ways than we have seen before.

16. Smartphones and tablets are ubiquitous. Pervasive broadband access has coupled mobility with connectivity – so interaction is real-time and unconstrained by where you are. The smartphone is now our grocery store, our restaurant, our bank, and much more.

17. Second, big data. We have unprecedented computing power, coupled with cloud technologies that allows us to store and retrieve large volumes of information at low cost and on-demand. Firms are also gathering a lot more data from a wide variety of sources, including social media and e-commerce platforms. Advanced data analytics and machine learning are allowing them to analyse this data to derive much richer insights into customers' financial needs. Incorporating big data into lending decisions, for example, can in fact help SMEs access finance more easily.

18. These first two forces - mobile connectivity and big data - have enabled the rise of platform ecosystems as a major new business model in finance. Armed with the goldmine of data generated by millions of connected users, these technology platforms are able to exploit huge network effects. They operate an ecosystem of diverse services, from retail to healthcare, savings to lending. They are providing integrated, end-to-end solutions, often customised to individual preferences. And the more users that engage with the platform ecosystems, and more extensively to meet their needs, the more data is generated. The platform ecosystems are using this competitive advantage to expand into new markets.

19. The march towards digitalisation is having a profound impact on consumers, who themselves have become a force for change. Younger or 'digital-native' consumers have come to expect the same lower costs, greater convenience and more customisation from financial services as they already obtain from other services, from online shopping to transport to food delivery. The days when transferring a bit of money involved taking a brisk walk to the bank's branch during lunch hour are now a quaint memory.

Embracing a Digital Future with Strong Anchors

20. The changes we are already seeing in banking will very likely accelerate in the next 10 years. We must take advantage of these changes, and **guard against the risks**. Cyber risk is foremost among them, as cyber incidents are growing in number and sophistication in banking.

21. MAS welcomes the innovation and competition from new models. We are doing so while ensuring that we maintain the trust and stability that are the hallmarks of the Singapore banking system.

22. First, we have been working with the industry and other government agencies to put in place the enabling infrastructure to help banks to better harness the benefits of new technologies.

23. In payments, we have built up the national electronics payments infrastructure to provide instant, seamless digital payment services that is more convenient and intuitive to users.

- FAST allows fast and secure payments for both consumers and businesses.
- Building on the FAST infrastructure, we were able to introduce further initiatives such as PayNow, which allows real time payment with the convenience and speed of mobile texting for the customers of all major retail banks, including the three local banks and 6 Qualifying Full Banks (QFBs).[1]
- As mentioned, MAS has also announced that it will be working with the industry to open FAST access to non-bank players.

24. In customer identification, MAS has worked with the Ministry of Finance and GovTech to introduce MyInfo for the financial industry.

- The MyInfo platform allows banks to more effectively and efficiently obtain authenticated and updated information for account opening and other applications, doing away with the tedium of manual physical authentication and resulting in time saving of as much as 80% for banks and their customers.

25. Second, we are reviewing our regulatory framework to balance the tension between encouraging innovation and managing risk.

- The Payments Services Act is a forward looking and flexible framework for the regulation of payment systems and payment service providers in Singapore. It gives regulatory certainty to new players to pursue innovation and growth, while at the same time providing sufficient safeguards for consumers.

26. Third, we are creating more channels to promote the exchange of ideas and collaboration among financial and technology firms.

- Since 2016, MAS has partnered industry players to bring together financial and technology players from all over the world in the week-long Singapore FinTech Festivals. Turnout has more than quadrupled over the past three years with 45,000 participants from 130 countries in 2018.
- It is early days yet, but the results of our efforts are encouraging. Singapore is widely regarded as one of the leading FinTech hubs in the world. A report by Ernst & Young finds that nearly 7 out of 10 Singaporeans have made use of FinTech solutions in 2019, making us a leader in the Asia-Pacific region.

27. Another important development has been among our local banks themselves. They have been expanding their digital platforms to better cater to customers' needs, and grow markets abroad.

- They have partnered with FinTechs to harness the capabilities of new technologies and deliver more customised solutions. For example, UOB has partnered with Personetics to use artificial intelligence to identify individual transaction demands and enable UOB to provide customers with real-time and personalised guidance on their financial decisions.
- Second, they have built digital banks in overseas markets, leveraging a lower-cost operating model to quickly acquire new customers. For example, DBS launched digibank in India and managed to acquire over 2.5 million customers in its initial two years of operations. The bank has also recently replicated its digibank strategy in Indonesia. DBS was ranked by Euromoney as the world's best digital bank last year.
- Third, they have adopted more customer-centric approaches, integrating solutions for their financial and non-financial needs. For example, OCBC has built a niche marketplace to provide curated products and services for mothers and their babies. The bank also launched the OCBC Silver Years programme to provide seniors a one-stop solution for financial advice, insurance products and lifestyle options.

28. Digital challengers with innovative business models can add diversity and choice to banking systems. They can often serve the needs of traditionally underserved segments, such as the credit gap faced by young and micro-enterprises. They could also bring with them deep digital know-how and insights from operating non-bank businesses.

- In China, for example, MYBank, has broadened financial inclusion, with 80% of its clients being first time borrowers like mom-and-pop shops. 99% of its customers repay on time.
- In Korea, Kakao Bank has in its first year of operations attracted more than 6 million users.

29. The success of our banking liberalisation to date gives us the confidence to manage the entry of digital banks in our next phase of liberalisation. In time, successful digital banks in Singapore can also complement the local banks in anchoring domestic financial stability.

New Digital Bank Licences To Facilitate New Business Models

Eligibility conditions

30. MAS will therefore issue up to **five new bank licences to digital players that can add value** to the Singapore banking sector and the economy. This is **in addition to any digital banks that the local banking groups may also establish**. The local banks are already allowed to set up standalone digital banks under our internet-only bank framework.

31. We welcome firms with innovative value propositions to apply for the new digital bank licences, even if they have not yet established a track record in banking. They may apply for a digital full bank licence or a digital wholesale bank licence, as follows.

32. **MAS will issue up to two digital full bank licences, to companies headquartered in Singapore and controlled by Singaporeans. Foreign companies are eligible for these full bank licences if they form a joint venture with a local company, and the joint venture meets our headquarter and control requirements.**

33. We are starting with two digital full bank licences, so as not to fragment Singapore's small domestic retail banking market. We are also restricting the new licences to players anchored in Singapore for two reasons. First, so that we maintain a strong local core in our banking system, which must remain our objective as I explained earlier. Second, to avoid an unintended unilateral liberalisation of our full bank regime as a result of our WTO commitments.

34. MAS will also issue **up to three digital wholesale bank licences, which will be open to both local and foreign players**. The digital wholesale banks will be introduced as a pilot, and MAS will review whether to grant more such licences in the future.

Safeguards

35. To ensure high-quality applicants, MAS will set prudent baseline requirements on track record and sustainability of business models. MAS will not allow value-destructive competition to the detriment of long-term financial system stability. We will also put in place safeguards to protect depositors, mitigate the risk of untested business models, and minimise costs to the financial system in the event of a failure. We will also ensure that digital banks will compete with incumbents on a level playing field.

36. As digital full banks will have access to retail deposits, MAS will phase in their permissible activities via a two-stage process to minimise risks to retail depositors. It will also be required to be a member of the deposit insurance scheme.

- A digital full bank will commence as a restricted digital bank to build up its business model and internal processes, and gradually progress to become a full functioning full bank. MAS will not prescribe a time period within which graduation to a digital full bank must be achieved.
- When the restricted digital bank first commences operations, it will be subject to an initial deposit cap of S$50 million, an individual depositor cap of S$75,000, and generally be allowed to accept deposits from only a small group of depositors such as business partners, staff, related parties and selected customers.

37. MAS is prepared to award up to five new digital bank licences - two full and three

wholesale. We will only award all five if the applicants meet the eligibility and admission criteria, including demonstrating a tangible proposition that is innovative and sustainable.

38. MAS is working on implementation details, and expects to invite applications in August this year.

39. Today in 2019, we are continuing the process of transforming our banking sector with a progressive opening to new digital banks. We are in a strong position to do so today, as local banks have responded well to changes in the competitive landscape and have in fact become leaders in some areas of innovation. I am confident that they will hold their own against the new competition. This new phase of banking liberalisation will add diversity and help strengthen the resilience of our banking system in a new digital era in finance.

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[1] These include Bank of China, Citibank Singapore Limited, HSBC, Industrial and Commercial Bank of China, Maybank, and Standard Chartered Bank.