

Digital banks a new era for Asia's financial sector

A NEW wave of digital banks is arriving on Asia's shores as regulators seek to transform the financial sector to become more diverse, innovative and competitive. Stand-alone digital banks, with their tech capabilities and lack of legacy architecture, are expected to meet the needs of under-served segments such as small and medium-sized enterprises, startups, gig workers and millennials.

This batch of digital banks is likely to be nimbler and provide a more seamless, personalised experience for users through the use of technology and alternative data for credit assessments.

However, incumbent banks are also not sitting still, with players such as DBS and UOB having set up stand-alone digital banks in the region. This adds even more choices for consumers as competition heats up.

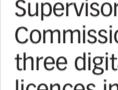
Even as the Asia-Pacific or Asean region is said to be the end game for many of these digital banks, there are certainly differences across these diverse markets which they will need to cater to. The following is a timeline of the changing digital banking landscape in Asia, as well as a comparison of the digital bank requirements in Malaysia, Singapore and Hong Kong. **BY VIVIEN SHIAO**



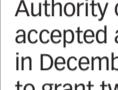
South Korea's Financial Services Commission accepted applications in 2015, and by 2017, the first batch of new digital banks was launched



The Hong Kong Monetary Authority accepted applications in 2018, issued eight licences and by December 2019, the first new digital bank "ZA" was launched



Taiwan Financial Supervisory Commission granted three digital banking licences in 2019; to launch in 2020



The Monetary Authority of Singapore accepted applications in December 2019 to grant two full and three wholesale bank licences in 2020



Bank Negara Malaysia released the Exposure Draft in December 2019 to accept digital banking applications by the end of 2020



Thailand is said to be laying the foundation for standalone digital banks, according to its central bank governor



Key comparisons for digital bank licences

	MALAYSIA	SINGAPORE	HONG KONG
Key dates	Exposure draft issuance in Dec 2019, and finalised document expected by H1 2020	Guidelines out in June 2019; submission of applicants by end-Dec 2019	Revised guidelines issued in May 2018; first licences granted since March 2019
Number of licences	Five to be issued	Five to be issued – two digital full banks (DFB) and three digital wholesale banks (DWB)	Eight issued
Asset size limitation	RM2 billion (foundation phase)	N/A	N/A
Touch points/physical presence	<ul style="list-style-type: none"> Access to shared ATM network, cash-out services by Paynet Maintains one registered office 	<ul style="list-style-type: none"> No access to ATM network or cash deposit machine network but allowed to offer cashback service through point of sale terminals One physical presence for DWB 	<ul style="list-style-type: none"> Not expected to maintain physical branches; Virtual bank applicant must have physical presence in Hong Kong, and be locally incorporated
Scope of services	Products offered should explain how they will address target segment needs	Only simple capital market products for investment of individuals (early stage)	No specifics but virtual banks primarily target retail (including SME)
Phasing in	3-5 years "foundational phase"	For DFB, includes restricted and full DFB; restricted DFB is further divided into entry stage and progression stage	N/A
Capital adequacy	Common equity tier one (CET1) ratio of 8% (foundation phase)	Same as domestic systemically important banks (DSIB)	Capital commensurate with nature of operations and banking risks
Minimum paid up capital	<ul style="list-style-type: none"> RM100m (foundational phase) RM300m (by end of 5th year) 	<ul style="list-style-type: none"> S\$15m with progressive increase to S\$1.5b upon becoming full DFB S\$100m for DWB 	HK\$300 million
Supervisory environment	Equivalent to licensed banks, save for capital/liquidity leeway during foundation phase	DFB and DWB are subject to same regulatory requirement of full and wholesale banks respectively	Similar to conventional bank
Liquidity	Simplified liquidity requirement and may impose liquidity coverage ratio/net stable funding ratio (LCR/NSFR) during foundation phase	Minimum liquid asset or LCR requirement; abide by LCR if internationally active/designated as DSIB	HKMA highlights liquidity, operational and reputation risk could be accentuated. Appropriate controls to be set up for 8 basic risk types
Deposit taking	No specifics	Retail & non-retail deposits for DFB, with deposit cap (initially S\$75,000 per individual and S\$50m in aggregate), applicable during restricted phase. SME and non-retail for DWB, or retail fixed deposits above S\$250,000	No specifics
Operating conditions/restrictions	Asset size limit during foundation phase	Some phased in corporate governance for restricted DFB during restricted phase, proprietary trading prohibited, while unsecured lending credit limit capped at 2x of individual's monthly income	Should not impose minimum balance requirement or low-balance fees on customers and must play an active role in promoting financial inclusion
Shareholding conditions	Shareholder of virtual bank that owns >50% may be required to organise financial and financial-related entities under a licensed institution or financial holding company	DFBs limited to applicants anchored and headquartered in Singapore and controlled by Singaporeans. DWBs are open to foreign companies as long as they are locally incorporated	If virtual bank is not owned by bank/financial institution, applicant to be held by intermediate holding company in Hong Kong, under regulator purview
Expected start of operations	Reportedly mid-2021	Reportedly early 2021	Reportedly early 2020