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While South-east Asia has witnessed a mobile wallet and payments revolution in recent years, regulatory approval for standalone digital banking has been somewhat slow in coming. PHOTO: MCI

Digitalisation of banks in Asean holds allure, but...

There are regulatory challenges, and the authorities must manage the risks arising from interconnected activities across the various jurisdictions. **BY RAMKISHEN S RAJAN AND BHAVYA GUPTA**

THE coronavirus pandemic has precipitated several structural changes to the economy, one among them being a boom in fintech and the rise of digital banking to navigate various facets of the new post-Covid reality. This trend has been particularly pronounced in South-east Asia, owing to a tech-savvy working population, increased accessibility of the population to smartphones, the expected rollout of high-speed 5G Internet, and a strong push to accelerate financial inclusion. These factors have been complemented by a slew of supply-side measures, including a conducive regulatory environment and a relatively benign approach to fintech and associated technologies.

In South-east Asia, Singapore clearly leads the way, with the award of four digital bank licences (two full banks and two wholesale banks) announced by the Monetary Authority of Singapore (MAS) last December. The full digital banking licences (awarded to Internet company Sea Limited and a consortium of Grab and Singtel) enable licensees to engage in the full scale of banking services offered by traditional banks, while the wholesale licences (awarded to Ant Group and another mainland China/Hong Kong consortium) are geared towards facilitating provision of credit to small and medium-sized enterprises (SMEs).

The dominant legacy banks in Singapore have geared up to this industry disruption and have undergone quite significant digital transformations themselves. In fact, DBS has been proclaimed the "World's Best Digital Bank" by *Euromoney* twice, in 2016 and 2018; UOB has combined its digitisation strategy with that of regionalisation as it aims to become a bona fide Asean-centric bank.

While the rest of South-east Asia has witnessed a mobile wallet and payments revolution in recent years, regulatory approval for standalone digital banking has been somewhat slow in coming. Singapore's nuanced approach to digital banking and the regional consortium-led business model is being watched closely by other regional economies. Malaysia and the Philippines have recently approved licensing frameworks for digital banks for up to five digital bank licences.

While Vietnam, Thailand and Indonesia are readying their respective ecosystems to be able to grant fully digital bank licences, they already have several existing commercial banks, both domestic and foreign, operating in the digital space either as partnerships or through wholly acquired fintech firms (so-called neobanks). In fact, Singapore's UOB has launched a mobile-only bank (TMRW) in Thailand and Indonesia. Cambodia, Laos and Brunei so far do not appear to have any plans to introduce digital-bank licences.

Asean has generally been cautious in liberalising its brick-and-mortar banking sector. In December 2014, the regional economies took an important step towards opening up when the central bank governors of Asean members signed the Asean Banking Integration Framework (ABIF). This agreement had an ambitious aim of regional banking integration by 2020. Recognising the varying levels of readiness among Asean members to open up their respective banking sectors, the ABIF rolled out first among the middle- and high-income Asean economies (Indonesia, Malaysia, Philippines, Singapore and Thailand) with the remaining members (Brunei, Cambodia, Laos, Vietnam and Myanmar) to follow later.

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The ABIF also contained separate bilateral and multilateral tracks for implementation so that a common set of standards could develop more organically from bilateral agreements, culminating in a region-wide framework. Under the bilateral track, the ABIF allows "qualified Asean banks" (selected on mutual agreement between countries) to be treated on par with domestic banks in another Asean member state. Despite these steps, de facto progress regarding cross-border entry of traditional banks to date has been uneven and patchy.

While the ABIF is yet to extend to digital banking, it appears that the advent of digital banks will propel greater de facto banking-sector liberalisation within Asean, especially for those countries that have lower minimum paid-up capital requirements for digital banks than for foreign full banks. This could help them attract more regional players primarily through the channels of consortiums or partnerships with domestic players.

Despite noteworthy progress towards financial development in many Asean economies, the share of unbanked population remains high in several countries in the bloc.

The World Bank's Global Findex database says that fewer than 30 per cent of the populations in Cambodia, Vietnam and the Philippines have bank accounts; Indonesia reports that under half its population holds bank accounts.

At the other end of the spectrum, Thailand and Malaysia report more than 80 per cent of their populations are being served by the banking sector. In Singapore, the figure is close to 100 per cent.

Digital banking in particular and fintech in general can deliver a wide array of advantages over conventional banks. They serve the unbanked and under-banked sections of the population, thereby furthering improvements in bank account penetration and usage. They increase competition within the banking sector, thereby enhancing options for consumers. They facilitate a widening of financial services and products available to customers by leveraging new-age technologies.

These advantages notwithstanding, the amalgamation of fintech with big data, artificial intelligence (AI) and the Internet of Things (IoT) is a double-edged sword and needs careful regulatory oversight to preserve market competition, data privacy and financial stability.

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Particular regulatory challenges are also posed by Big Tech and fintechs backed by established corporates competing for digital bank licences and expanding beyond their home countries by partnering with, or acquiring domestic startups or mid-size banks. Large transnational entities and conglomerates controlling a larger share of the digital financial-services market could lead to cartelisation of this space and could also at some stage exacerbate the "too big to fail" threat.

Regulators need to recalibrate their policy frameworks to better equip themselves to deal with particular types of systemic and contagion risks arising from the interconnected activities of Big Tech traversing multiple industries and sectors across various jurisdictions. Enhanced regional cooperation may be needed to develop a framework for dealing with regionally systemically important institutions with greater cross-border presence in the digital arena.

■ The writers are from the Lee Kuan Yew School of Public Policy, National University of Singapore. Ramkishen S. Rajan is Yong Pung How Professor and Bhavya Gupta, a PhD candidate. Views expressed are personal.

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