DIGITAL BANKING LICENCES HAVE ARRIVED FOR NON-BANK PLAYERS IN SINGAPORE

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Legal Briefings – By **Natalie Curtis and Kenneth Lo**

On 28 June 2019, the Monetary Authority of Singapore (**MAS**) announced that it will issue up to five new digital bank licences, which will effectively open digital banking business to non-bank players in Singapore. Announcing the measures at the 46th Annual Dinner of The Association of Banks in Singapore, Mr Tharman Shanmugaratnam, Senior Minister and Chairman of MAS, said that "the new digital bank licences mark the next chapter in Singapore's banking liberalisation journey. They will ensure that Singapore's banking sector continues to be resilient, competitive and vibrant." MAS expects to invite applications for the licences in August 2019.

Similarly, the Hong Kong Monetary Authority (**HKMA**) granted eight virtual banking licences (from 29 applications) earlier this year and sees the introduction of virtual banks in Hong Kong as a key pillar supporting Hong Kong's entry into the "smart banking era".

WHAT ARE DIGITAL BANKS?

Digital banks (also known as virtual banks) will not need to maintain any bricks-and-mortar presence, although, generally, they do have the option of having a customer service centre. They can provide loans, and operate savings accounts with no minimum account balance or low-balance fees. Generally, they can also issue credit cards or offer online payment services.

MAS' DIGITAL BANK LICENCES

MAS' five new digital bank licences will comprise of:

a. **up to two digital full bank licences**, which will allow licensees to provide a wide range of financial services and take deposits from retail customers; and

b. **up to three digital wholesale bank licences**, which will allow licensees to serve small to medium enterprises and other non-retail segments

MAS' DIGITAL FULL BANK FRAMEWORK

Am I eligible?

Application for a digital full bank licence will be open to:

a. **Singapore headquartered companies**, which are controlled by Singaporeans; and

b. **foreign companies** if they form a joint venture with a Singapore company, and the joint venture meets the headquarter and control requirements referred to in (a).

What is the application process?

The applicant or its parent group must:

a. **have a track record** in operating an existing business in their respective technology or e-commerce fields;

b. **provide clear value propositions** on how it can serve existing unmet or underserved needs;

c. **demonstrate that it has a sustainable digital banking business model**. MAS will assess the reasonableness of the applicant's business plans and financial projections such as cost-to-income ratio and net interest margin;

d. **incorporate in Singapore**;

e. **participate in the deposit insurance scheme** provided by the Singapore Deposit

Insurance Corporation (this will protect deposits of up to S$75,000 per depositor in the event of the bank's failure);

f. **comply with the same suite of prudential rules** as incumbent banks; and

g. **submit a viable exit plan** to facilitate an orderly wind-up if necessary.

What are the phases of permissible activities?

The table below illustrates MAS' two-stage process for digital full banks with the corresponding permissible activities and requirements at each stage.

	First stage: Restricted Digital Full Bank	Second stage: Digital Full Bank
Minimum paid-up capital	• At entry point: S$15 million	• S$1.5 billion
Deposit caps	• Aggregate deposits capped at S$50 million • Individuals' deposits capped at S$75,000 each	• None
Capital and liquidity rules	• **Capital**: Same as local banks • **Liquidity**: 16% minimum liquid assets	• Capital: Same as local banks • Liquidity: Same as local banks
Business restrictions	• Can only offer simple credit and investment products • Will not be allowed to offer complex investment products such as structured notes • Unable to engage in investment banking activities such as derivatives • Cannot establish banking operations in more than two overseas markets	• Full functioning bank
	• 1 physical place of business only • No minimum account balance and fall below fees • Compliance with unsecured credit rules • Allowed to offer cashback services through electronic funds transfer at point of sale (EFTPOS) terminals at retail merchants, but no access to automated teller machines (ATM) or cash deposit machines (CDM) network	

MAS' DIGITAL WHOLESALE BANK FRAMEWORK

Am I eligible?

Application for digital wholesale bank licences is open to both Singapore and foreign companies. The applicant will need to meet similar eligibility criteria as a digital full bank applicant.

What is the application process?

The applicant or its parent group must:

a. be locally incorporated; and

b. provide a viable exit plan.

What are the phases of permissible activities?

The table below illustrates the permissible activities and requirements for digital wholesale banks.

Digital wholesale bank	
Minimum paid-up capital	• S$100m
Deposit restrictions	• Unable to take Singapore dollar deposits from individuals, except for fixed deposits of at least S$250,000
Capital and liquidity rules	• Same as existing wholesale banks
Business restrictions	• 1 physical place of business • To only conduct activities within the proposed business scope

ASSISTANCE

We have called on our deep understanding of the commercial drivers of IT procurement and outsourcing, our financial services regulatory expertise, our corporate structuring experience, and our broad geographical footprint through Singapore, Hong Kong, China and beyond to establish a team capable of delivering complete, accurate, and commercial advice in relation to assisting our clients obtain virtual banking licences and work towards a successful launch.

In Hong Kong in particular, our team has been advising several virtual bank licence holders on all aspects of the process, including:

a. applications to the regulator to obtain a virtual bank licence;

b. corporate structuring;

c. procurement of the IT infrastructure necessary to support the virtual bank; and

d. compliance with the regulations governing virtual banks (including in relation to financial services regulatory, data protection, information security and cloud computing arrangements etc).

Should you have any questions or require any assistance, please contact us.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

NATALIE CURTIS
PARTNER,
SINGAPORE
+65 6868 9805
Natalie.Curtis@hsf.com

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