

An isometric illustration on a blue background with green grid lines. It features a large computer monitor displaying a banking interface, a payment terminal, a credit card, and a hand holding a smartphone with a 'PAY' button. Several orange shield icons with padlocks are floating around the devices. A white rectangular frame on the right contains the title and the Visa logo.

GOING DIGITAL: **THE BANKING REVOLUTION**

VISA

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FOREWORD

In the last decade, Asia's banking sector has not only led the world in global banking profit pools, assets and market capitalisation but also in building new business models centred on digital innovations.

In Singapore, the future of banking will evolve beyond mere transactions as financial institutions and big techs shift their focus towards personalisation and engage with consumers' financial lives seamlessly through digital-first platforms.

Digital banking, although still nascent in Asia, represents a key opportunity in the region, with about half the population still unbanked or underserved. While the outlook seems positive, financial institutions and fintechs are presented with their own set of unique challenges.

The Visa Digital Banking Study will uncover key insights from consumers and small and medium-sized enterprises (SMEs) as we move into an era of digital banking.

In Singapore, interest in digital banking services is high and more consumers are expecting digital-first experiences and want banking and payment services to match the speed and convenience of their user journeys.

On the commercial banking front, the SME sector is an important segment and a key driver of Singapore's economy. Despite the diverse and dynamic business landscape, SMEs in Singapore share common financial needs, such as better cash flow management, access to external financing and desire to have a more efficient payments system.

As the government continues to push Singapore towards greater digitisation, with digital economy being one of the three pillars of the Smart Nation initiative, the stage has been set for a digital revolution in several business sectors, with banking and financial services at the forefront.

Although SMEs play a significant role in the economy, about half have limited access to financing or are underserved due to factors such as low-risk appetite and lack of convenience. SMEs also demand greater control over their banking services.

As a network business, Visa is leading the charge in the digital revolution to enable the movement of money in the world for everyone, everywhere. We connect and work closely with banks and fintechs to redefine banking, make consumers' lives simpler and more convenient, and equip SMEs with the right tools to succeed.

We hope that this whitepaper will provide useful insights to the industry as we continue to broaden our capabilities and provide both consumers and businesses with seamless, intuitive, intelligent, and secure commerce experiences in this new digital age.

DRIVING
DIGITAL-FIRST
EXPERIENCES
FOR CONSUMERS

VISA



DRIVING DIGITAL-FIRST EXPERIENCES FOR CONSUMERS

In Singapore, the payments landscape has become fragmented and we are fast approaching what we believe will be the Fourth Payment Revolution. This is where the increased adoption of digital payments and continued growth of eCommerce is set to drive greater interoperability amongst payment providers and transform user experiences.

In Singapore, the arrival of digital banks is set to liberalise the banking sector and spur new competition. By the end of 2020, the Monetary Authority of Singapore (MAS) is set to issue five digital banking licences to non-banks.¹ Singapore's foray into the digital banking realm has attracted a diverse group of applicants and these neobanks will further drive Singapore's digital economy of the future.

There has also been a steady shift towards all things digital, including payments. Using digital payments is already the norm in Singapore, where 89 per cent of respondents use credit and debit payments. Contactless payments usage is also high and Singapore is one of the leading markets globally when it comes to contactless payments usage and penetration. The study indicated that 84 per cent of Singapore respondents use contactless payments, which is aligned with our data, where we see nine in 10 Visa transactions being contactless payment transactions.

More consumers are expecting digital-first experiences and want banking and payment services to match the speed and convenience of their user journeys. We see that over three in five (64%) are interested in digital banking services. There is, thus, an opportunity for digital banks to be at the forefront of this shift, by providing digital-powered banking solutions that enhance consumers' lives.



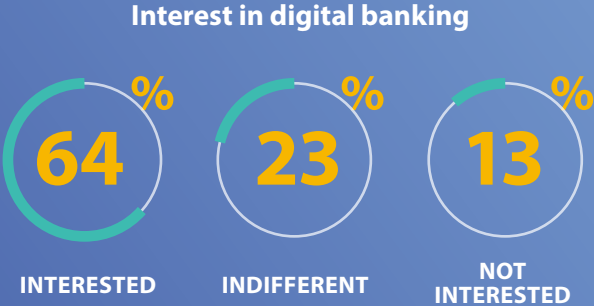
[1] [MAS to Issue up to Five Digital Bank Licences](#), Monetary Authority of Singapore

MOVING INTO AN ERA OF DIGITAL BANKING

It is found that three in four (75%) Singaporeans are aware of the concept of digital banking. Also, nearly two in three (64%) are interested in adopting digital banking services. Factors such as 'round the clock' convenience (54%) and 'faster way of banking' (52%) are key reasons for interest in adopting a digital bank.



Meanwhile, over four in five Singapore respondents (84%) indicated that they would be interested in using digital banking services offered by an existing bank. Three in four (75%) are keen to bank with companies in the financial services industry and reputable companies that may not be in financial services. Three in five (63%) of respondents also highlighted that they are keen to bank with startups.



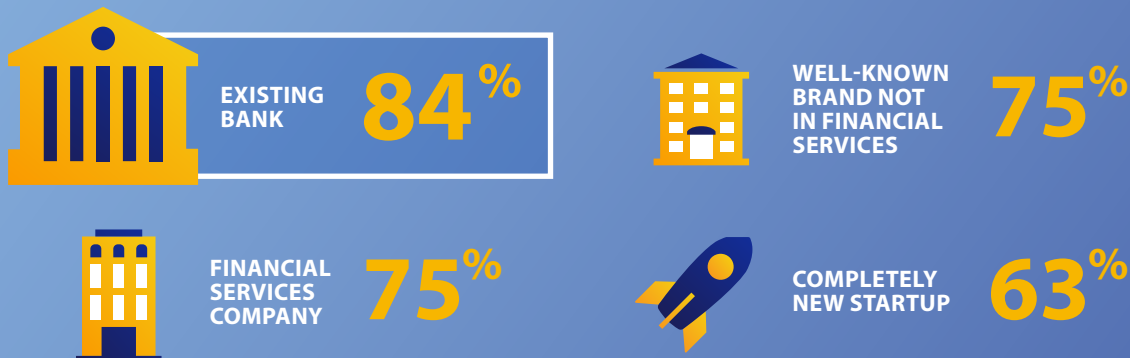
THREE IN FOUR SINGAPOREANS ARE AWARE OF THE CONCEPT OF DIGITAL BANKING – WHILE NEARLY TWO IN THREE WOULD BE CURIOUS OF ADOPTING DIGITAL BANKING SERVICES.





IT COMES AS NO SURPRISE THAT IF CONSUMERS WERE TO ADOPT A DIGITAL BANK – INTEREST IS HIGHEST FOR AN EXISTING BANK GIVEN THE TRUST ALREADY ASSOCIATED

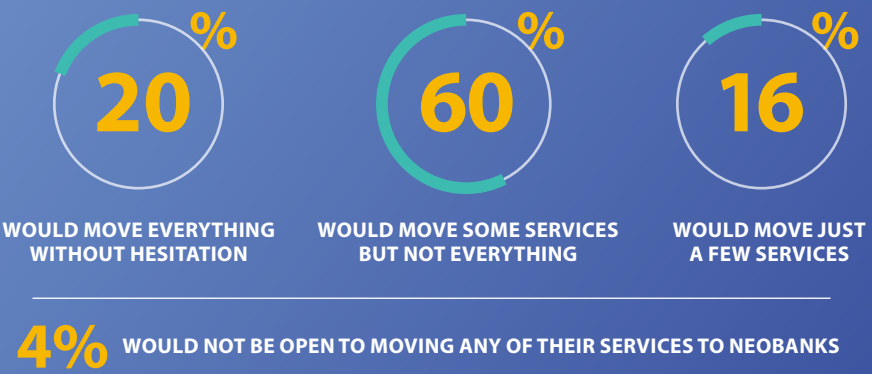
Interest in types of digital banking providers



Some notable ones include a joint venture between ride-hailing giant Grab and telecommunications company Singtel², as well as a consortium comprising AMTD Group, SP Group, Xiaomi Finance and Funding Societies³. Another would be a consortium led by local gaming fintech firm Razer, consisting of retailer Sheng Shiong Holdings, insurer FWD, internet company LinkSure Global, vehicle marketplace Carro, and Insignia Ventures Partners. Internet group Sea was also among the applicants⁴.

While majority of Singaporeans (60%) would be open to moving some services to digital banks, only one in five (20%) would move all services without hesitation. Key reasons to switch over to neobanks include the possibility of better promotions and offers on signing up (52%), more innovative services (41%) and access to better banking rewards (41%). The top services that respondents would use a digital bank for include money transfers to family and friends (64%), paying bills (63%) and payments at retail shops (56%).

Among those open to digital banking services offered by non-banks...



[2] Grab says it will apply for Singapore digital bank license with Singtel, CNBC
[3] 14 out of 21 digibank contenders in Singapore move to the next round, Tech in Asia
[4] Here Are The Contenders to Singapore's Digital Banking Race, Fintech News Singapore

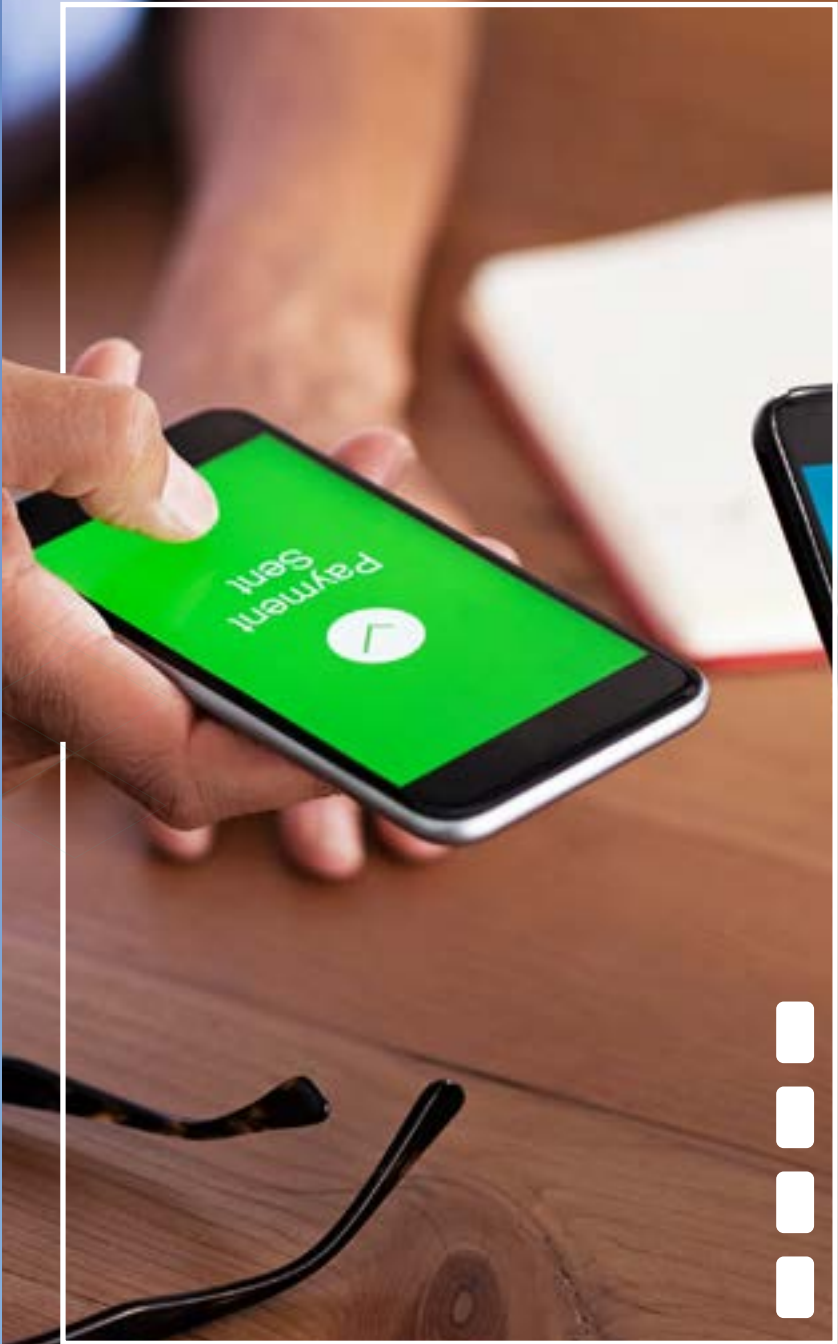
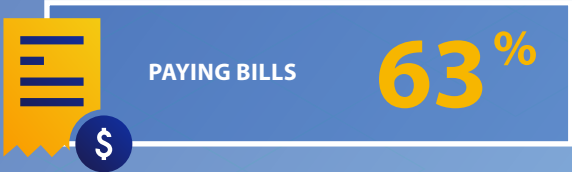
Reasons to bank with a non-traditional provider

Top reason

Other reasons



Services desired with a digital bank



REDEFINING
BANKING
FOR **SMEs**

VISA



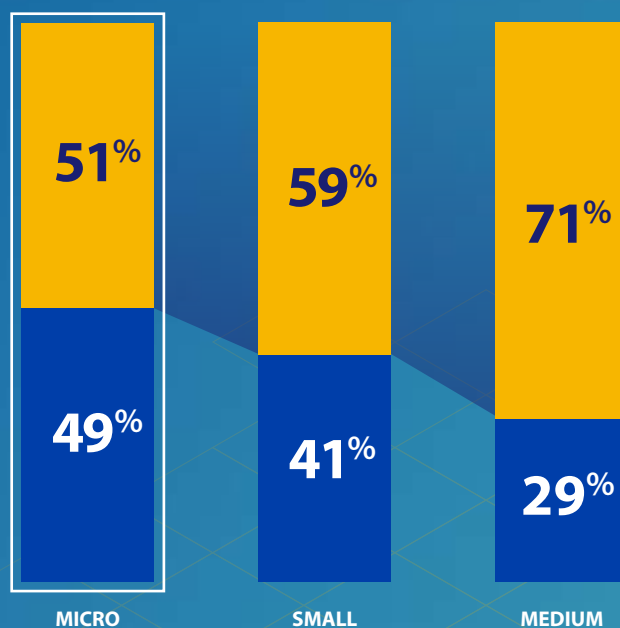
REDEFINING BANKING FOR SMEs

Ranging in size from micro (less than SGD1 million annual revenue) to small (SGD1 million to SGD10 million annual revenue) to medium (SGD10 million to SGD100 million annual revenue), SMEs represent a diverse group of businesses that have driven the growth of Singapore's economy. Yet, despite making up a large proportion of businesses in the market, SMEs remain underbanked, due to a variety of challenges that continue to impact their banking experiences. To meet changing demands, traditional banks have been transforming to include more digital services in their offerings, while new digital banking players emerge. With the constant development of new tech-powered financial services, traditional and digital banks have the potential to address and solve such challenges, redefining banking experiences for SMEs to help them achieve their business goals.

Despite 68 per cent of SMEs expecting to increase their use of digital processes in the next year, SMEs have varying attitudes towards the adoption of new technology. Medium-sized SMEs are more likely to become leaders in the adoption of new technology (71%), compared to small SMEs (59%) and micro SMEs (51%).

One key concern preventing SMEs from embracing new technology is the opportunity cost of onboarding new technology — especially when finances are limited and business survival is crucial. Hence, to encourage them to embark on the digitisation journey, traditional banks and neobanks looking to enter this segment must address key SME concerns. Digital banks need to give more control to SMEs in ways that are currently not met by traditional banking services, and they need to establish trust and look towards building long-term relationships with these businesses.

Attitudes of SMEs towards technology



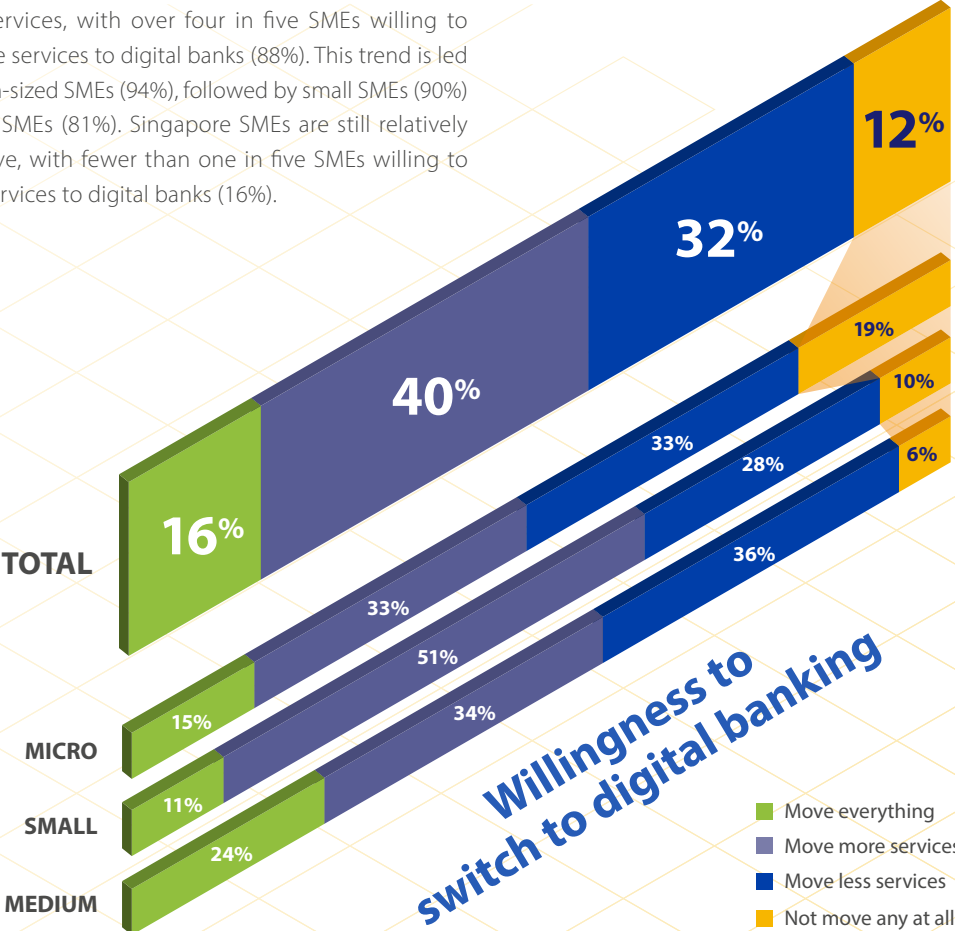
Tech leader:
typically among the first
to adopt new technology

Tech follower:
typically adopts new technology
only after successful case studies



SMEs OPTIMISTIC ABOUT THE DIGITAL BANKING REVOLUTION

SMEs have shown a strong willingness to adopt digital banking services, with over four in five SMEs willing to move some services to digital banks (88%). This trend is led by medium-sized SMEs (94%), followed by small SMEs (90%) and micro SMEs (81%). Singapore SMEs are still relatively conservative, with fewer than one in five SMEs willing to move all services to digital banks (16%).

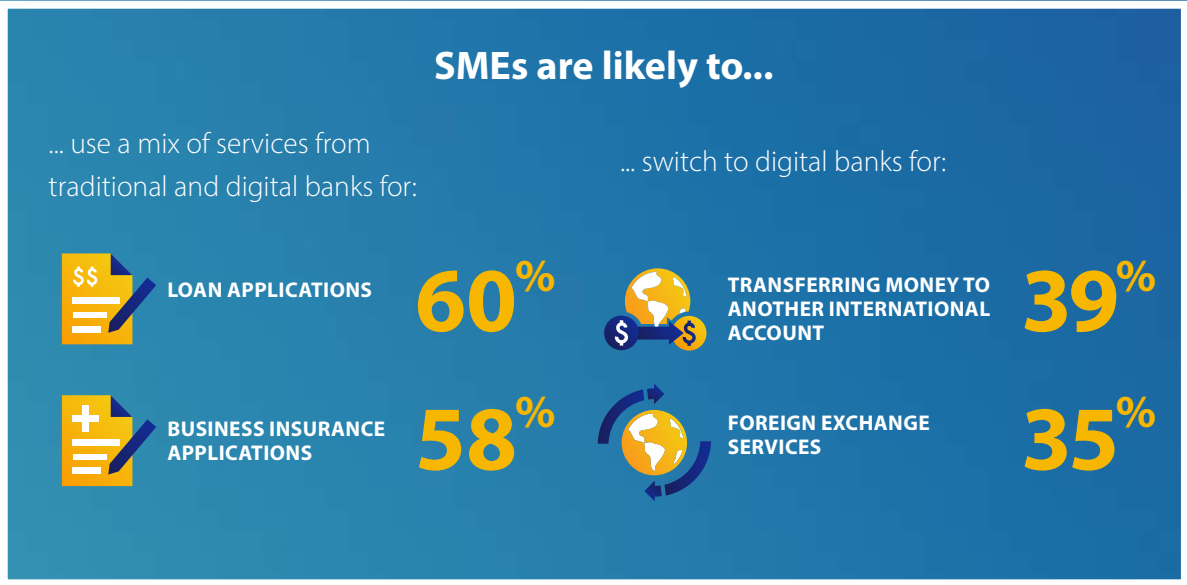
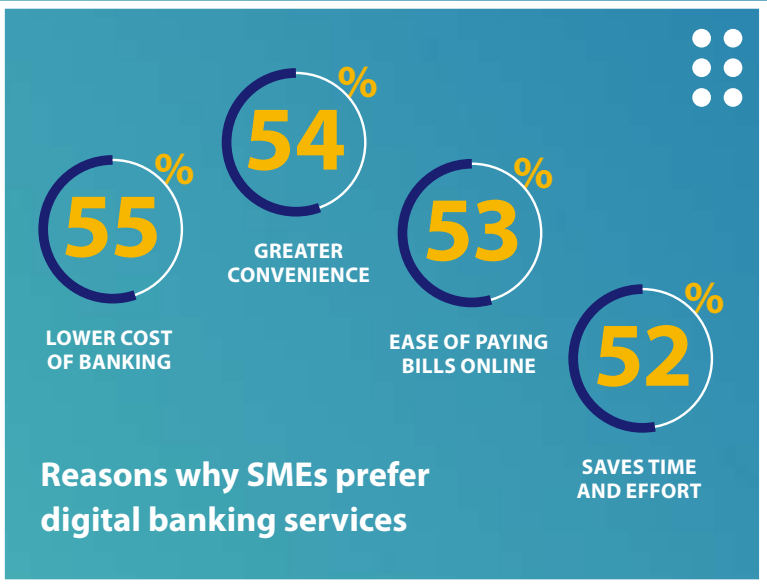


The attractiveness of digital banks largely stems from their 24/7 availability (58%), convenience in making digital payments and transfers (56%), and perceived efficiency when transferring money, which would allow businesses to receive payment and goods faster (55%).

More than half of SMEs prefer digital banking services due to expectations of lower costs of banking (55%), greater convenience (54%), and increased ease in paying bills online (53%). They also value the time and effort saved in performing their banking transactions (52%).

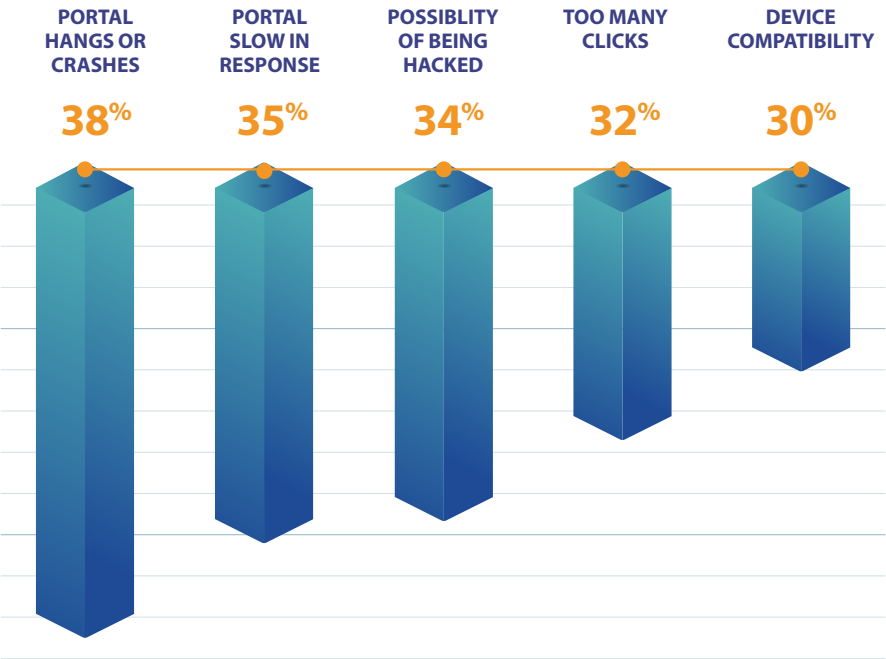
That being said, most SMEs are likely to use a mix of services from traditional and digital banks, particularly for loan applications (60%) and business insurance applications (58%). SMEs are most likely to switch to digital banks for services such as transferring money to another international account (39%) and foreign exchange services (35%).

Top five benefits of digital banking perceived by SMEs



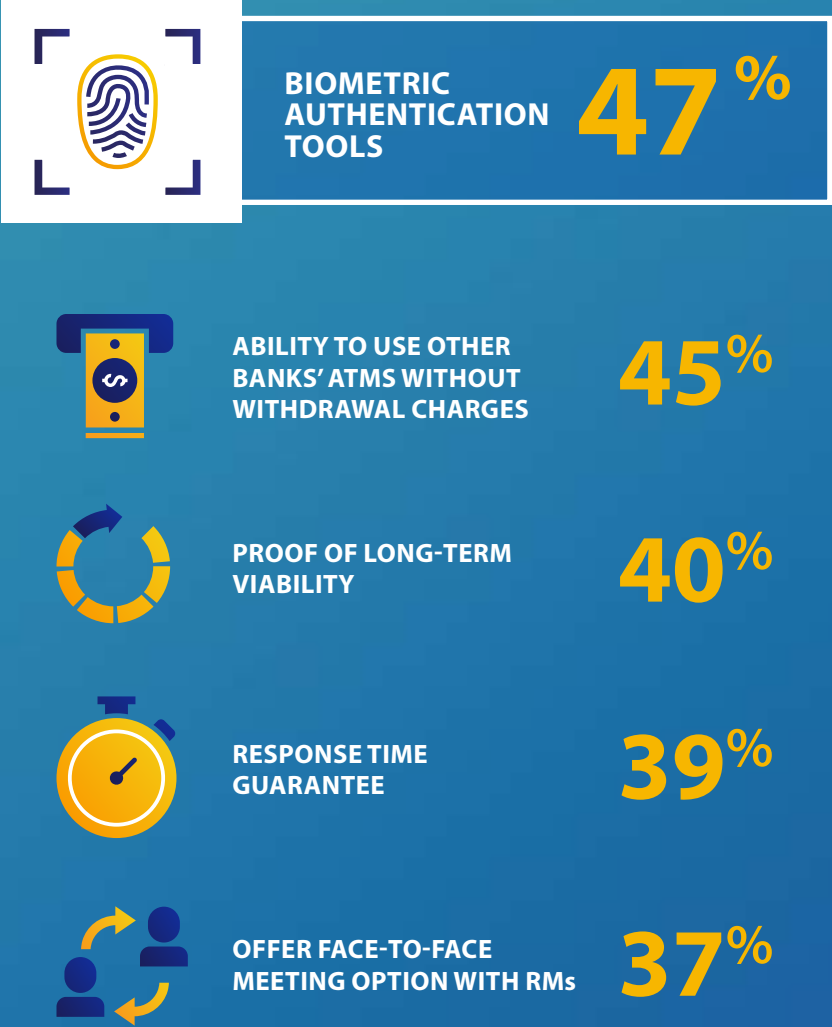
Majority of SMEs are confident in the services provided by digital banks. Concerns mostly revolve around technical errors such as platforms crashing (38%) or being slow to respond (35%), and the possibility of being hacked (34%).

Concerns about digital banking services



Digital banks thus need to ensure that their digital infrastructures are well-designed to maximise user convenience and minimise any possible form of disruption, while ensuring layers of security. SMEs' concerns can be managed by incorporating safety measures such as biometric authentication tools (47%), maximising convenience through tactics such as guaranteeing the use of other banks' ATMs without additional charges (45%), and having digital banks show more proof of long-term visibility (40%) to establish trust.

Potential steps to overcome concerns



SMEs have seen greater digitalisation for:



ACCOUNTING
49%



PAYROLL
48%



INVOICING
47%



CLAIMS
PROCESSING
46%



HR PROCESSING
46%

SMEs have seen greater usage of cashless transactions for:



SUBSCRIPTIONS
TO THIRD-PARTY
SERVICES
51%



PAYING FOR
UTILITIES
50%



OVERSEAS
TRAVEL
EXPENSES
49%



PAYING SALARIES
AND BONUSES
49%



PAYING FOR IT
SOLUTIONS
49%

SMEs have seen greater digitalisation across a wide range of activities, most notably accounting (49%), payroll (48%) and invoicing (47%). However, SMEs have yet to go fully digital with their payments, as cash continues to dominate their transactions. Nevertheless, SMEs have seen increase in usage of cashless transactions, particularly for subscriptions to third-party services (51%), payment for utilities, (50%), salaries and bonuses (49%), purchase and maintenance of IT (49%) and overseas travel expenses (49%). Digital banking services that seamlessly integrate with other business activities may further encourage the adoption of cashless transactions, and push the entire business towards greater digitalisation.

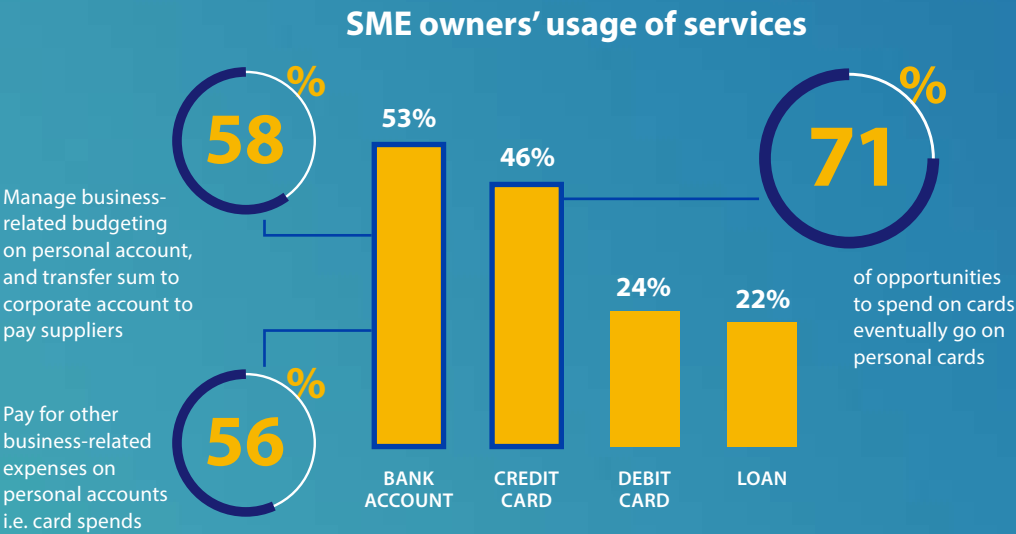


SMEs DEMAND GREATER CONTROL OVER BANKING EXPERIENCE

SMEs demand greater control over their banking experience, particularly in terms of convenience, value, management of cashflow and tracking of payments.

Although personal banking products may not be tailored for business use, more than four in five SME owners prefer using them over corporate alternatives (85%). This is because they believe personal products grant them greater convenience and value. More than half of SME owners use personal bank accounts for their business activities (53%) as they believe that interest rates on corporate accounts have not kept pace with increase in the rates of personal accounts over the last few years.

Nearly half of SME owners have used personal credit cards for business purposes (46%), and transactions that they would normally spend on cards. Seven in 10 SME owners would opt to pay with a personal card than a corporate card. This is largely due to SME owners placing great emphasis on the convenience of using a single card (50%), and higher cashback values and attractive rewards (40%) that they earn.



Advantages of receiving payments in cash



With cash continuing to retain a sizeable role in SME transactions (52%), SMEs place great importance on managing cashflow, and desire greater control to track their payments. Cash continues to be preferred for receipt of payments as SMEs believe that cash is the quickest form of transaction (41%). Moreover, as cash is widely accepted as a mode of payment, receiving cash also makes it easier for SMEs to pay suppliers and partners, ensuring better management of their cashflow (37%). In terms of supply chain and trading on credit, SMEs experience cashflow challenges where there is reluctance among suppliers to offer favourable credit terms, which require SMEs to pay by cash. Some customers may also insist upon credit terms for their own payments, creating extended cash-to-cash cycle times and delaying the availability of funds to pay suppliers. However, as cash transactions lack records, SMEs face the challenge of tracking payments. As many SMEs are still in the process of moving towards digitalisation, it is unlikely they have their records catalogued systematically, which would further compound the challenge of accurately and comprehensively tracking payments.

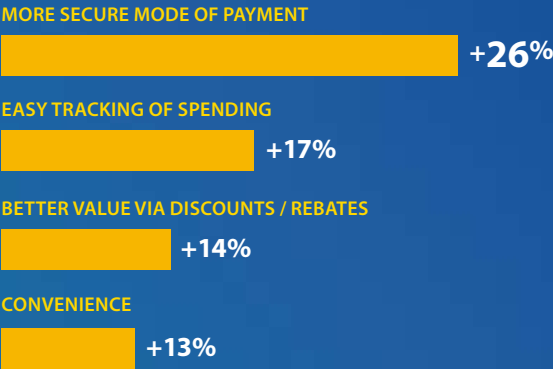
BETTER CORPORATE OFFERINGS TO ADDRESS SME CHALLENGES

To better address the challenges that SMEs face, traditional banks and digital banks need to offer corporate products and services that will provide SMEs with greater control over their banking experience, particularly in terms of value, convenience, tracking of payments and greater overall visibility.

Seamlessly integrating credit card and digital payment methods into banking services would benefit SMEs, as they perceive those modes to be more secure (26% of micro SMEs). Credit cards and digital payments would also enable SMEs to better track their transactions (17% of micro SMEs), provide them with better value through more discounts and rebates, and provide them with greater convenience from not having to regularly deposit cash into their accounts (13% of micro SMEs).

To SMEs, an ideal corporate card is one that would provide them with greater value in terms of better rewards, specifically, greater cashback (49%) and greater ease of tracking, with a way to effortlessly catalogue and distinguish between private and business spends (45%).

Advantages of paying by card for Micro SMEs



Attractive business card benefits



Traditional and digital banks should also look at incorporating an integrated business dashboard into their services. This would benefit SMEs by providing them with greater visibility of their transactions, which is a sorely needed function that is currently missing in the market. Seven in 10 SMEs have cited a dashboard and card controls as attractive features which would make them interested in opening an account with a digital bank (70%). Digital banks would be able to take banking services to the next level with integrated platforms, giving SMEs even more control over their businesses. This would enable digital banks to provide SMEs with immediate visibility, giving them more control over business health. Invoicing reminders would also give SMEs more control over business activities and help them preserve trust and ensure good relations with their partners by taking over the task of reminding customers about outstanding payments.

Top potential digital bank features



REDUCED
RATES FOR
SERVICES

72%



DASHBOARD

70%



ADVICE ON
GOVERNMENT
GRANTS

72%



CARD
CONTROLS

70%



ALERTING TO
GOVERNMENT
GRANTS

72%



PAYMENT
EASE

69%

LACK OF HOLISTIC DASHBOARDS
IS A HUGE PAIN POINT...

“ I have been using Seedly all along, but banks recently revoked permission rights, so my dashboard isn’t as complete anymore, even though I know why [banks] need to do that. ”

— SMALL SME, PROFESSIONAL SERVICES

... CAUSING WASTE OF EFFORT RECONCILING BETWEEN
DASHBOARDS – AND CONVERSELY, LESS CONTROL

“ I have to go to Wave dashboard to see the invoice status, and then I have to go to my bank account to see if the funds have gone out... It’s a waste of time but I want to be sure. ”

— MICRO SME, PROFESSIONAL SERVICES

“ It’s always the small claims and expenses, like stocking on the Polar water, that slips my mind...
... Of course I can pay the \$80, I just forget as there are so many other things to do. ”

— SMALL SME, RETAIL





ESTABLISHING TRUST AND BUILDING LONG-TERM RAPPORT

Traditional and digital banks can establish trust with SMEs by providing adequate and trusted personnel support. This is especially critical considering that SMEs do not like frequent changes in relationship managers. Although SMEs value the relationship manager's expertise, they become sceptical if a meeting is scheduled out of the blue with the intent of product pushes that may not be aligned with their interests.

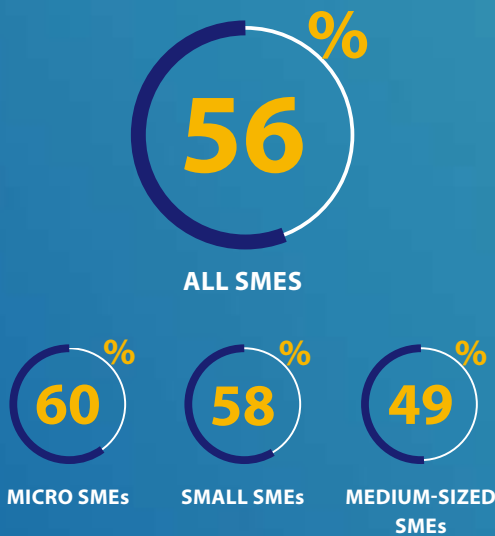
In addition, digital banks must provide reassurance on contactability. Only having an online presence also means that SMEs do not know who to turn to when they need help. For smaller SMEs who do not normally contact banks, such interactions are critical. Furthermore, the reassurance of speaking to specialised staff trumps having chatbots address customer service queries, as SMEs may see that as a cumbersome and ineffective way of communication.



To encourage trial, digital banks need to be backed by institutions with the expertise to provide basic banking services and the credentials to offer extra non-banking services. Digital banks can rely on the strong trust that businesses have in regulation authorities. More than half of SMEs (56%) are happy that digital banks are governed under MAS’ regulations. This is particularly important to micro SMEs (60%) and small SMEs (58%), and less so for medium-sized SMEs (49%). Thus, the best way to boost trust is for digital banks is to collaborate with regulators on as many government-related initiatives as possible.

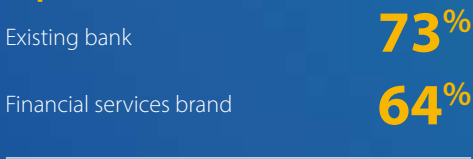
SMEs know that there are many government grants available but are less sure of what they qualify for and how to apply for them. More than seven in 10 (72%) SMEs would like advice on government grants and alerts about such grants. Providing such guidance and advice will help traditional and digital banks boost their reputation with SMEs.

It is good that digital banks are being governed under MAS’ regulations

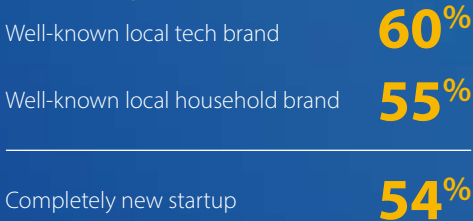


SMEs’ preferred digital bank brands

Expertise



Familiarity



In addition to establishing trust, digital banks must also demonstrate their expertise. They must be able to prove that they are able to function well and meet the needs of SMEs. A digital bank with a good track record in the financial sector — such as an existing bank (73%) or financial services brand (64%) — or in adjacent sectors such as technology (60%), will beat digital banks riding only on their familiarity with Singaporeans (55%). It was found that only 54% of SMEs would be willing to bank with a completely new startup.

In addition, choosing the right partner can also help digital banks to deliver on trust. Visa’s expertise in secure payments would enable digital banks to ensure an efficient payment process, with proper keeping of all transaction records.





ABOUT THE REPORT

The Visa Digital Banking Study was conducted to understand the needs of consumers and SMEs in the digital age, and identify new opportunities for digital banks. The study combines insights from our annual Consumer Payment Attitudes study, which was conducted with ENGINE Insights among 511 consumers in Singapore in August 2019, as well as our SME Digital Banking study, which was conducted with CLEAR among 513 SME owners in Singapore in April 2020.