

# State of Singapore Banks 2023

Fighting declining non-interest  
incomes in times of record profits



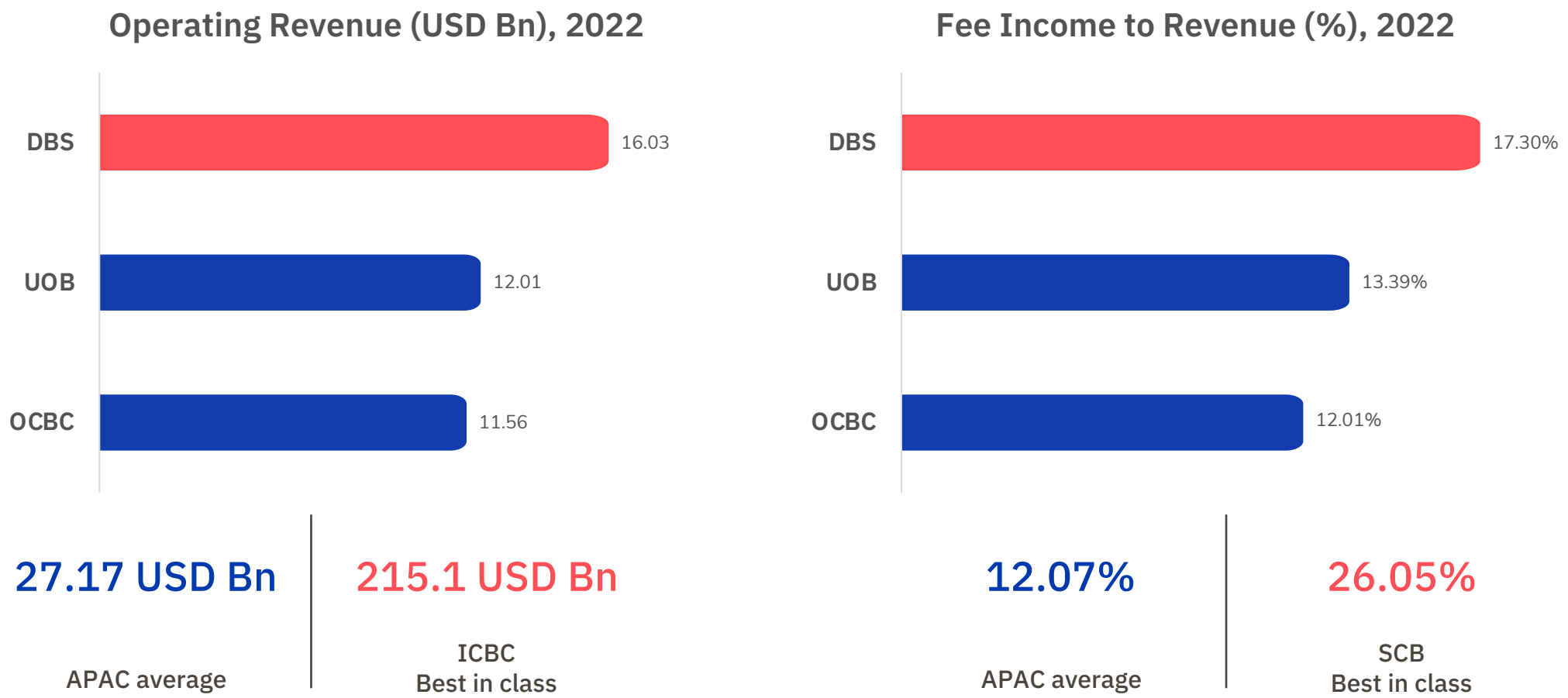
# Market highlights

1. Singapore's GDP is expected to grow between **0.5% to 2.5%** in 2023 as compared to 3.6% in 2022.
  - The banking industry contributes **~20%** to Singapore's GDP
2. Inflation is expected to slow down in the second half of 2023 and will average between **3.5% to 4.5%**.
3. Singapore banks are at the forefront of technological innovations and are exploring the realms of blockchain and distributed ledger technology (DLT), artificial intelligence and big data & analytics.
4. Earnings for Singapore banks are expected to grow at a slower pace as the net interest margins (NIMs) reached their **peak in October 2022**.
  - NIMs are the highest in the past decade driven by widening asset spread which resulted in banks reporting record-high net profits
5. Non-interest income is declining due to a **fall** in wealth management and investment banking fees.
  - The wealthy clientele of Singapore banks is either spending their money or investing it through their own private investment advisors
  - The average decline in income from wealth management stood at **29.12%** compared to 2021
  - DBS recorded a **45% decline** in its fee income from investment banking, UOB recorded an increase of **6%**, whereas OCBC didn't witness any change

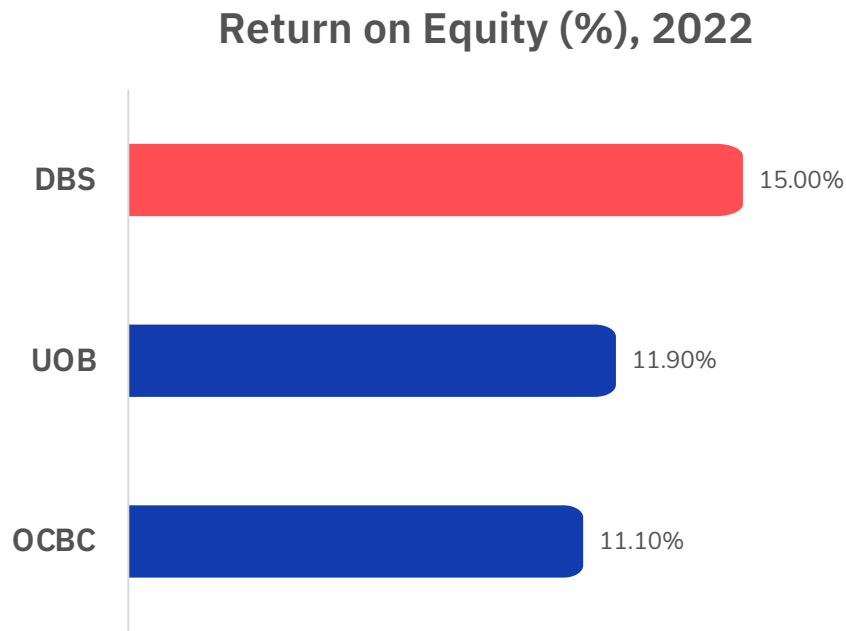
# Top priorities for Singapore Banks

1. **Purpose Bound Money (PBM)** – DBS collaborated with Open Government Products (OGP) to launch a live pilot, enabling real-world transactions through OGP's voucher platform using tokenized SGD-based vouchers
  - PBM is digital money governed by logical rules and can be transferred once specific programmable conditions are met
  - The tokenized cash is limited to its designated purposes, which may include a specific time period and designated recipients.
2. **Technology and innovation centre** – UOB is investing USD 375.3 (SGD 500) million to build an innovation centre in Singapore's first upcoming smart business district in Punggol as part of its digital transformation strategy
  - The innovation centre will aid in developing features for UOB's digital mobile banking app, TMRW, as well as regionally piloting and launching new digital products
  - UOB's innovation accelerator, FinLab will also be located at PDD to help tech firms, small businesses and startups to grow their digital initiatives
3. **Open source** – OCBC's decision to embrace open source is driven by the necessity for flexibility and innovation
  - The bank uses Red Hat's OpenShift platform to modernize applications, reduce reliance on proprietary software, enhance resilience, and introduce new business capabilities.
  - OCBC also utilizes the platform to enhance its enterprise data science capabilities, scale AI deployment, and drive AI technology scalability.
  - DBS also utilises Red Hat OpenShift and Kubernetes for handling burst loads in the public cloud, enabling acces to unique native services unavailable on-premise.

# Singapore banks are among the top banks with highest fee income to revenue contribution



# Net interest margins are settling as policy tightening ends

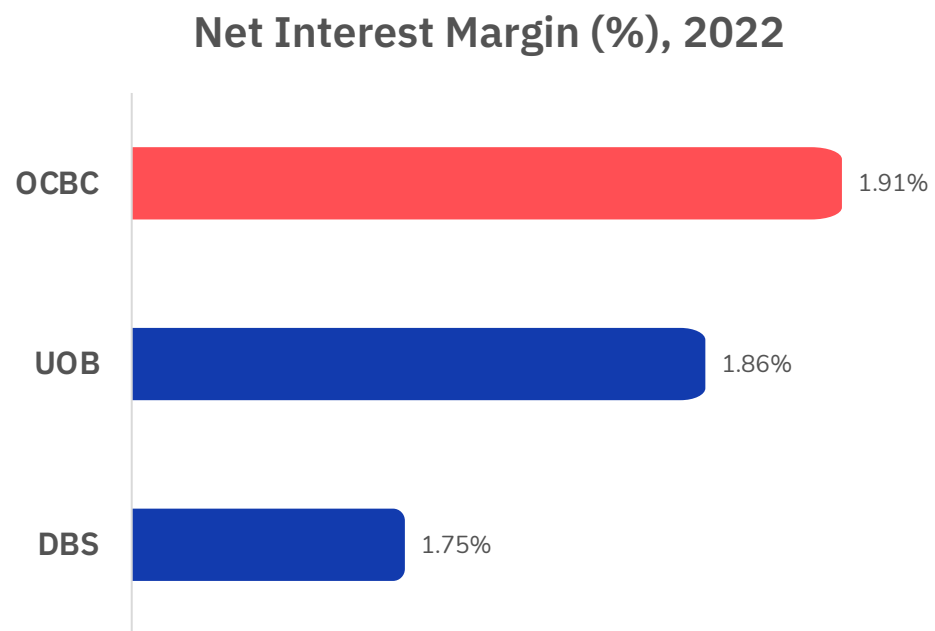


11.77%

APAC average

21.7%

BCA  
Best in class



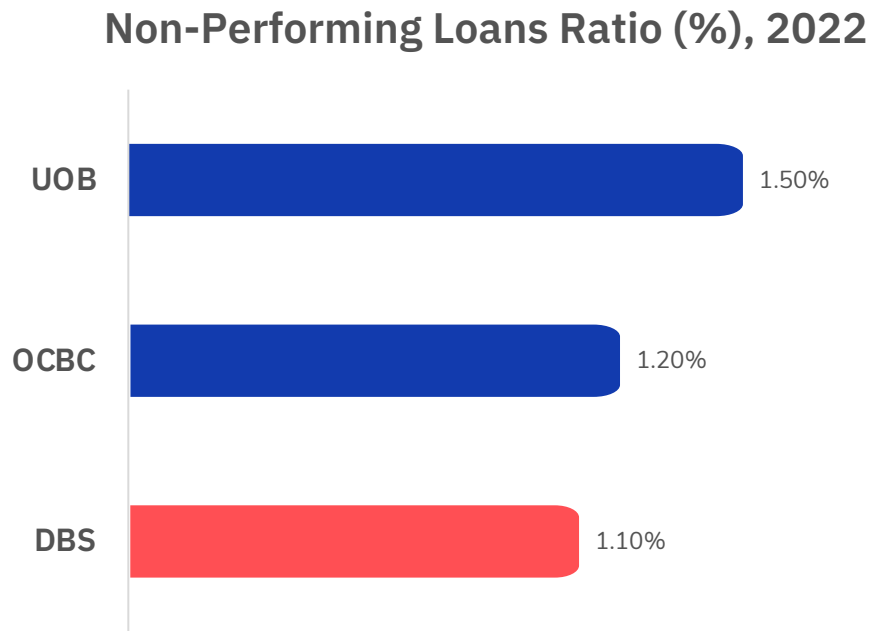
3%

APAC average

7.85%

BRI  
Best in class

# Singapore banks maintain a strong loan book with the lowest NPLs

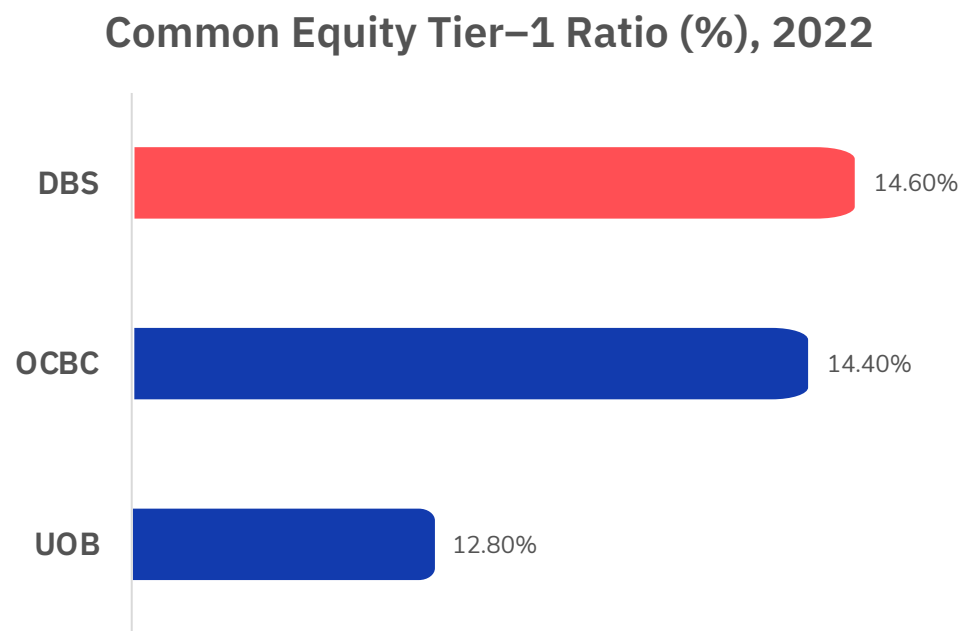


2.14%

APAC average

0.17%

Bendigo  
Best in class\*



15.56%

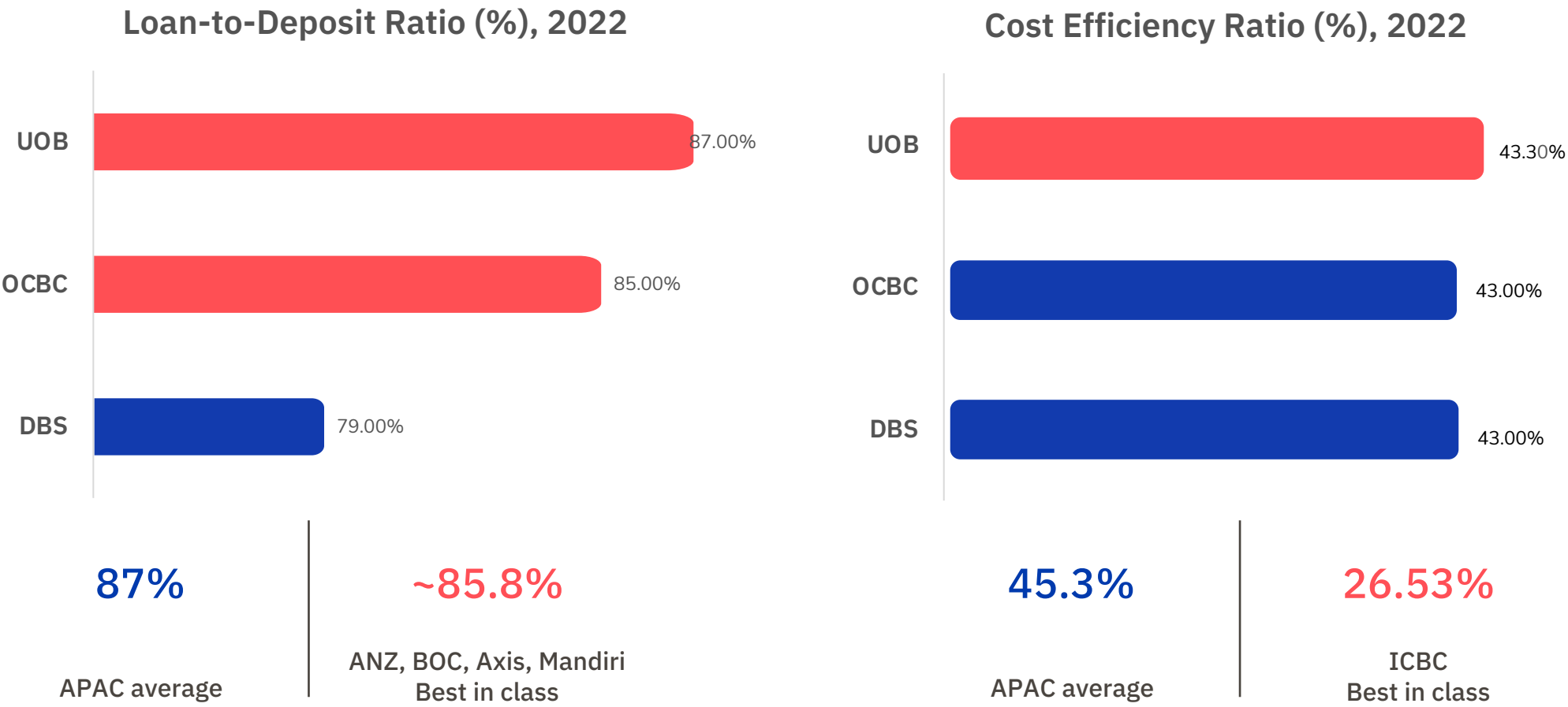
APAC average

26.7%

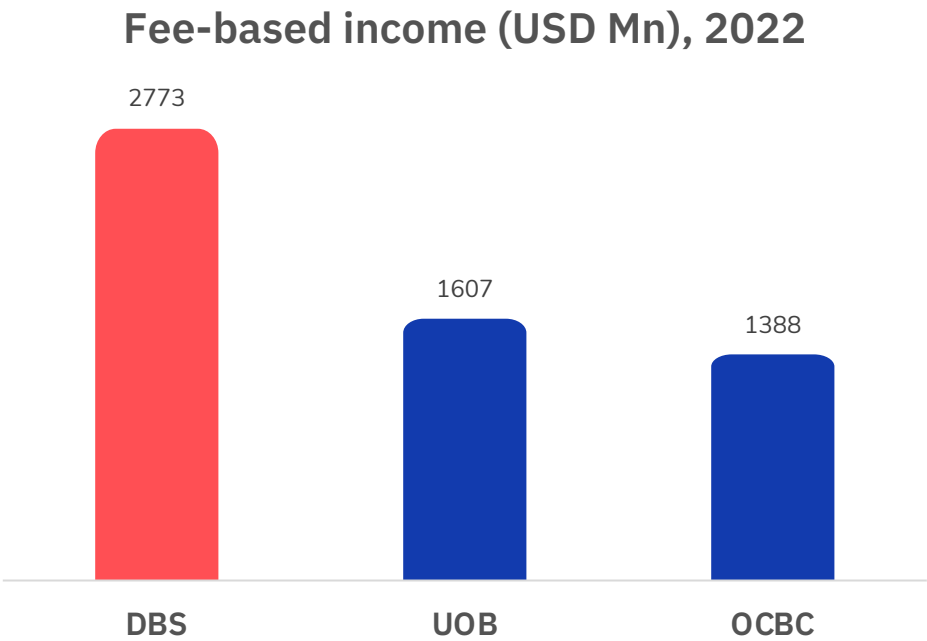
Danamon  
Best in class

\*Note: When compared to banks with similar operating revenues, Singapore banks have the lowest NPLs and are the best in class.

# Digital forwardness of Singapore banks helped to bring cost to serve below APAC average



# DBS generates the highest fee income at 22.40% of total revenue



DBS' fee income reduced drastically; however, the decline was partially moderated by record growth in card fees at 20% from USD 536 Mn to USD 644 Mn

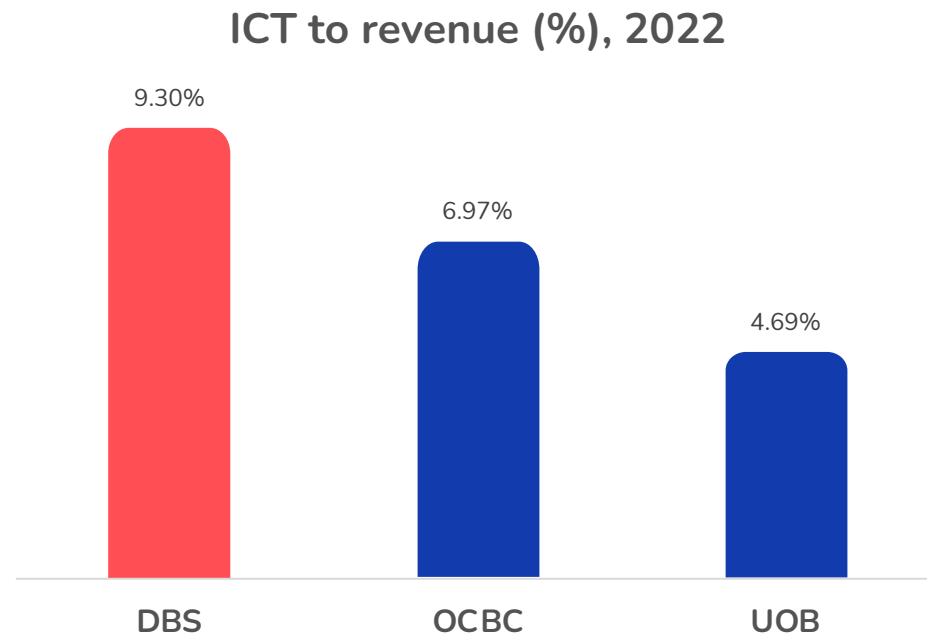
DBS generates 36% of its fee income from wealth management services

Gross fee income	2021	2022	YoY
Investment banking	163.50	90.75	-44.50%
Wealth management	1339.50	997.50	-25.53%
Loan-related	309.75	344.25	11.14%
Cards	536.25	643.50	20%
Transaction services	693.75	696.75	0.43%
Consolidated total	3042.75	2772.75	-8.87%

The fee income for DBS decreased by 9% from USD 3043 Mn to USD 2773 Mn due to lower wealth management and investment banking fee income



# Why does DBS have the best-in-class ICT spend ratio?

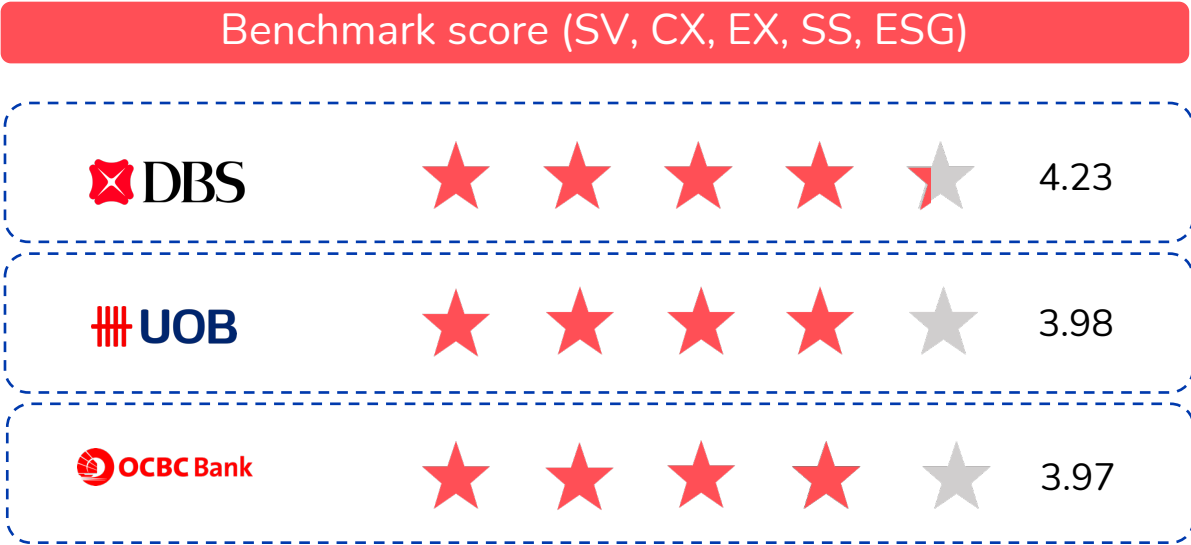


1. It has a spend of **9.3%** of revenue, with a cost-efficiency ratio of **43%**. (There are other banks such as BOQ (10.9%) and BPI (13%) which all spend more than \$ per cent of revenue on ICT. However, their cost to serve is above 50 per cent). DBS has the optimum mix with the investment outlay.
2. Its ICT spending excludes its large in-house team which is not captured in the 9.3% of revenues spend on IT. Including this, twimbit estimates effective IT spending could be as high as **16%** of revenues.
3. It employs **12,000 technologists** – twice the number of bankers. Particularly significant investment in data and AI with 1000 employee team.
4. Its ICT budget has helped deliver an effective cloud-first strategy; **99%** of DBS apps migrated from physical servers to the cloud in the last 3 years.



- Singapore bank benchmarks
- Best practices

# Twimbit purpose scores for top 3 banks in Singapore



# DBS continues to be the CX banking leader across all customer touchpoints

## DBS RAPID

- A digital solution that leverages DBS' application programming interface (API) capabilities
- It offers 180 types of APIs and facilitates business transactions within an ecosystem by integrating real-time processing of payments, receivables and information enquiries into business workflows



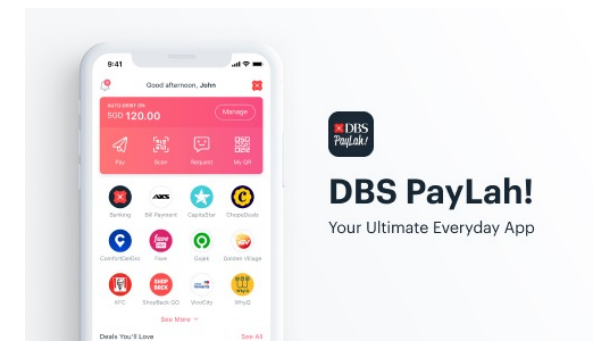
## DBS Betterworld

- Interactive metaverse experience in partnership with Sandbox
- The bank plans to harness it as an additional innovative engagement platform to spread the word on important ESG issues and to shine a spotlight on communities and partners doing good work to address them



## DBS PayLah

- A lifestyle app for customers to conduct their everyday transactions (separate from the Digibank app)
- The app can be used to book tickets and rides, pay expenses, access rewards, order meals and scan to pay at more than 180,000 points
- Customers can earn and manage their card rewards points seamlessly and collect stamp cards within the app that give them cashback which can be used to order means or book rides



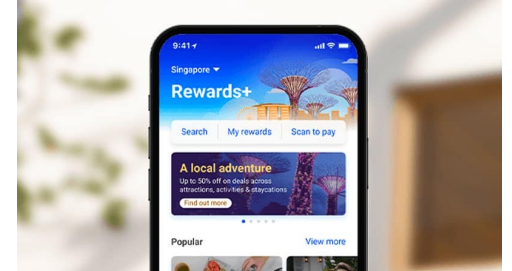
# UOB reimaged digital customer journeys to drive invisible banking (1/2)

**UOB Branches** – UOB has different branch styles for different customer segments:

- Lifestyle Branches for young professionals and young families
- Wealth Centres for emerging affluent and the affluent
- Business Centres for Entrepreneurs and Small Businesses



**UOB Rewards+** – UOB's reward programme is Singapore's largest rewards programme, with more than 1,000 deals, cashback and rewards at more than 20,000 merchant locations to encourage customers to spend with UOB cards



## **SkyArtverse**

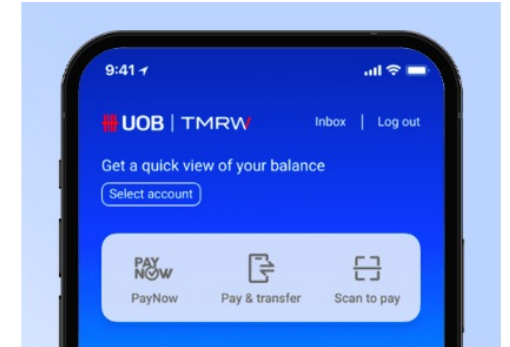
- UOB launched a virtual art gallery in Decentraland, a popular Metaverse platform
- SkyArtverse by UOB is the first Asian bank property to engage art lovers through the decentralized virtual reality platform
- The virtual gallery exhibits 37 winning artworks from the 2022 UOB Painting of the Year competition



# UOB reimaged digital customer journeys to drive invisible banking (2/2)

**UOB Mobile apps** – UOB has specialised applications for different customers, for example:

- UOB TMRW for consumers
- UOB SME for SMEs
- UOB Infinity for corporate clients



**UOB TMRW** – UOB’s flagship digital banking platform, the successor to the UOB Mighty application:

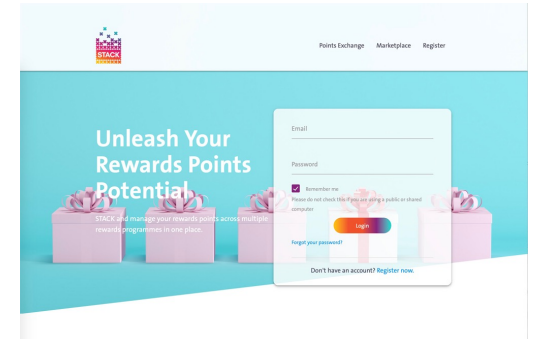
- AI-driven insights that are personalised to customers and provide benefits and perks through Rewards+.
- Made investing simple through SimpleInvest.
- Manage accounts, credit cards, investments, and transactions on the go.
- Allows access to bill payment, Buy Now Pay Later (BNPL) and various instant payment facilities locally and in Thailand.
- Features smart money management capabilities that provide;
  - a consolidated view of your finances across banks and government agencies,
  - And investment recommendations from SimpleInvest and SimpleInsure



# OCBC's innovative product propositions to support customer journeys

**OCBC STACK** – A digital platform that enables customers to fully utilise the potential of rewards points

- All the reward points together on one platform
- Customers can track and combine rewards points across various rewards programmes
- The points can then be used to redeem instant vouchers



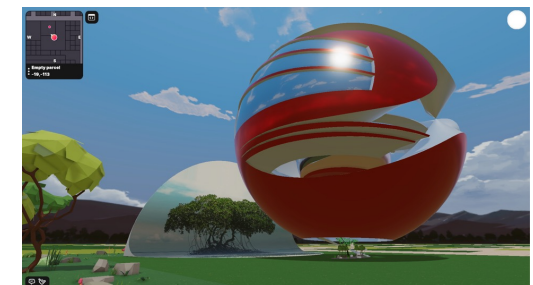
**OCBC RoboInvest** – A hassle-free robo-advisory platform that uses tested algorithms to provide intelligent investment plans without human intervention or constant portfolio monitoring.

- Customers can invest in 38 portfolios starting from USD 100
- No lock-in period
- Smart portfolio rebalancing



**OCBCx65Chulia**

- OCBC launched a virtual bank branch on the Metaverse platform Decentraland
- Customers gain an additional access point that represents a new way to engage
- The next phase will include gamification to enhance the customer experience further







## 6 growth Opportunities for Singapore Banks

- Wealth management fees
- New revenue streams
- Serving the underbanked
- Cybersecurity
- UPI and PayNow integration
- Rising competition from digital-only banks



# Build up wealth management offerings to improve fee income

- The net interest margins for Singapore banks have **peaked** and are likely to stay flat. This will **impact** the bank's interest income which will grow at a **slow** pace.
- The stagnant growth in interest incomes comes at a time when the fee income is also **declining**.
  - The fee income for DBS, xUOB and OCBC has declined by **9%, 9% and 18%** respectively between 2021 and 2022.
  - The primary driver for the declining fee incomes is the **decline** in wealth management income.
- To increase wealth management fees, banks can do the following:
  - **Enhance** the range of services offered to include estate planning, tax optimization and philanthropic advisory
  - **Introduce** performance-based fee structures where fees are tied to the **investment performance** and returns generated for clients
  - **Provide** comprehensive and specialized services to family offices
    - These ultra high net worth individuals and families prefer hiring their **own** investment advisors
    - Incentivize them to conduct their business with the bank by offering them dedicated experts who understand their complex needs

# Expanding into new revenue streams

Singapore banks are witnessing a **decline** in their non-interest income due to a decline in wealth management fees. Banks should explore **new realms** of non-interest fees to offset the decline in wealth management fees. Banks can also **learn** from their peers and try to emulate their success by offering similar solutions.

1. **Lending opportunities in the Indian SME sector** – DBS acquired Laskmi Vilas Bank Ltd. in 2020, the **acquisition** is allowing the bank to explore lending growth opportunities in the Indian SME sector
  - DBS aims to offer private credit to SMEs which typically have **difficulty** obtaining traditional loans
2. **Eco-Care Loans** – OCBC's offering aims to help customers reduce their long-term energy consumption through eco loans
  - Eco-Care home loans allow customers to enjoy **lower** interest rates and get **rebates** on their electricity plans
  - Since its inception in March 2021, the bank has extended USD **2.62 billion** in Eco-Care loans, accounting for **1 in 5** home, renovation and car loans
3. **Geographic expansion** – DBS is considering expansion into the middle eastern market starting with **Dubai**
  - The emirate's direct connectivity with Asia, Africa, the Middle East, and markets in Europe makes it a favoured destination for financial institutions.
  - The ease of trade and capital flows to and from the emirate to these regions further enhances its appeal as a desirable location for financial institutions.

# Making financial services accessible to the underbanked population

**UOB and NAC's partnership** – The bank has signed a three-year Memorandum of Understanding (MOU) with the National Arts Council to foster a vibrant arts scene in Singapore by collaborating and developing the financial and business competencies of the local arts community.

The MOU will focus on three areas:

1. **Empowering** Singaporean artists by uplifting the value of Art and enhancing their financial and business capabilities.
2. **Facilitating** the business of Art by expanding networks and helping artists reach new audiences.
3. **Promoting** community wellness through collaborative art activities and initiatives, benefiting the people of Singapore.

**DBS' Adopt-A-Hawker Centre** – DBS launched the program to support and safeguard the livelihoods of hawkers affected by the pandemic.

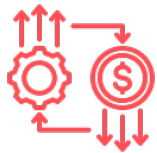
- The initiative aims to bolster hawkers' **earnings** by purchasing meals from them and distributing meal packs to front liners, families in need, and other beneficiaries.
- The bank will also help hawkers **improve** their online presence and explore digital tools to **digitize** their businesses.
- The program includes group buys and better online discoverability of hawkers to increase their monthly earnings by at least **10%**.

# Cybersecurity risks arising from the adoption of third-party services

DBS experienced disruptions in its online banking service on two occasions where customers were unable to use the banking services for a ten-hour period. Such disruptions are proof that banks need to do more in terms of their system availability and IT system resilience. Banks should do the following in order to strengthen their risk management systems:

1. Conduct **comprehensive evaluations** of third-party service providers, assessing their cybersecurity measures, policies, procedures, infrastructure, and incident response capabilities.
2. Implement a **vendor risk management program** to assess, monitor, and manage cybersecurity risks related to third-party services.
3. Regularly **monitor** the security controls and practices of third-party service providers, utilizing tools for continuous monitoring of networks, systems, and data handling.
4. Collaborate with third-party providers to **establish incident response protocols**, roles, and communication channels. Conduct drills to test response effectiveness.
5. Enforce **data protection and privacy standards** with third-party providers, defining handling requirements, encryption standards, access controls, and breach notification procedures in contracts.

# Fee-income generated through UPI and PayNow integration



Remittances from Singapore to India are on track to breach the USD 100 billion mark in 2023



Transferring USD 200 through platforms like Singtel Dash costs USD 3.95 and takes up to two days

## How can Singapore banks capitalize on this integration?

The integration of UPI and PayNow can help Singapore banks generate fee income through the following:

1. **Transaction fees** – Banks can charge a nominal fee for processing UPI transactions. This amount can be a portion of the transaction or can be a fixed amount.
2. **Merchant Discount Rate (MDR)** – This is a fee which banks charge to the merchant for accepting the UPI payments. This fee is usually shared between the acquiring and the issuing banks.
3. **Interchange fees** – This is the fee charged by banks to process the transaction between different banks. This fee is paid by the acquiring bank to the issuing bank for settling the transaction.
4. **Cross-selling financial products** – UPI transactions offer valuable customer spending data. Banks can utilize this data to gain insights into customer behaviour and provide personalized products and services.

# Rising competition from digital-only banks

## Trust Bank:

1. It is among the newest online retail banks attracting customers by providing reduced fees, enticing incentives, and waivers on minimum account balances.
2. The bank offers a fundamental interest rate of **1.5%**, providing the opportunity to earn a maximum of **2.5%** on deposits up to USD 56,250.
3. New credit card customers are provided with **vouchers** valued at USD 25 dollars to be utilized at FairPrice supermarkets.

## GXS Bank:

1. The digital-only bank is a **joint venture** between Southeast Asian super app Grab Holdings and Singaporean telecoms giant Singtel.
2. The bank offers a daily accrued interest rate of **0.08% p.a.**
3. Customers can create up to eight '**savings pockets**' with a goal and earn a daily interest rate of **3.48% p.a.**
4. The maximum deposit limit is up to **USD 3750**.

## Learnings for traditional banks:

1. No minimum balance requirement – Customers are **not** required to maintain a minimum monthly average balance
2. Interest rates – Digital banks offer **higher** interest rates as an incentive to open a virtual savings and deposits account, while traditional banks offer **lower** interest rates due to the cost of maintenance
3. Microloans – GXS launched **flexible loans** that let customers borrow as little as **USD 150**, the payback tenure starts at **two months**, while customers have the option to pay off early **without** incurring any fees



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