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THE FUTURE OF DIGITAL BANKING IN ASIA 2022

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THE FUTURE OF DIGITAL BANKING IN ASIA 2022

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01 INTRODUCTION

After the 2008 crisis, the financial services industry faced low interest rates, low credit growth, increased regulation, increased compliance requirements and a lack of trust from customers. This paved the way for banks in Asia to dominate the sector, surpassing the European and US banks that were formerly the largest by assets in the world.

The financial crisis and the Asian boom threatened the traditional financial services industry and allowed fintech startups and platform-based companies, that prioritised competition to provide better services for the retail consumer, flourished. Alongside consumers opting to forego visits to bank branches, the more innovative players in banking focused their digital transformation efforts on the utilisation of information technology and big data to offer digital payments and advisory services.

The speed at which these digital technologies were adopted was at a remarkable rate and this continued to accelerate amid the Covid-19 pandemic. Of course, Asia was ahead of the curve. While financial players in the region exhibited true disruption and extended banking services to previously underbanked segments of the population, traditional institutions on other continents were left with potentially obsolete legacy technologies, unable to serve the customers they had.

To thrive in the future, incumbent banks must keep pace with the fintech newcomers and Big Tech players that have already started to gain market share in Asia. They can do so by leveraging application programming interfaces (APIs) which have enabled faster payments, simplified unbundling of services and improved data sharing for open banking. Also, cloud computing has supported the storage and sharing of data with the aim of improving customer experience and financial accounting in areas such as payments and credit scoring.

Integration with mobile devices and digital wallets is equally crucial. In Asia, payment apps serve billions of users across the e-commerce, chat, delivery, food ordering and ride hailing industries. Globally, although Visa and Mastercard retain their lead in the transaction space, the likes of PayPal, Apple and Google are blossoming in the financial services industry. Further, as usage of cash declines, interest in digital currencies is increasing – with Alipay and WeChat Pay facilitating the introduction of cryptocurrencies and stablecoins in the corporate market.

Banks now recognise that the route to digital transformation starts with digital payments and digital currencies, and the evolution of digital banking in Asia provides the blueprint for other regions searching for successful paths to innovation. The Future of Digital Banking in Asia, in association with Infosys Finacle and OneSpan, explores these themes with commentary from Citi, DBS, livi bank and Mox Bank.

02

LAYING REGULATORY FRAMEWORKS OVER DIGITAL BANKING FOUNDATIONS

From Singapore to Mumbai, the digital banking landscape across Asia is as diverse technologically, as it is culturally. The one consistent factor, however, is the region's increasingly recognised reputation as a leader of banking innovation.

McKinsey's recent Personal Financial Services (PFS) Survey shows that adoption of digital banking in emerging markets has caught up with that in developed markets. Additionally, almost nine in 10 consumers across the emerging and developed markets of the APAC region actively use digital banking, and most are open to purchasing more services through digital channels.

The Covid-19 pandemic has served to reinforce the strength of digital banking across the region and provided the necessary impetus for the sector to mature. This has been assisted by a new wave of regulatory involvement in the space, building trust and credibility which both consumers and banking technology providers are leveraging with success.

Jayant Bhatia, chief product officer, Mox Bank, explains that the banking industry in Asia is in the "midst of an evolutionary change." Bhatia cites demanding consumers and the pressure to provide easy access to daily banking, payments, lending or investments, as key factors in this evolution. Further, because of Covid-19, "digital demands have accelerated with how customers shop, work and bank. The key differentiation would be personalisation rendered digitally and with a simplified customer experience."

While the region has developed a broad range of regulatory approaches to digital banking, the introduction of digital banking across Asia can be seen as being driven largely by two key forces: the regulation-led approach exemplified with great success in Singapore, and the market-led regimes seen in Indonesia and Malaysia.

The issuance of digital banking-licences by governments including Malaysia and Singapore - among others has paved the way for non-bank challengers to step into the market, introducing a new layer of competition for financial incumbents.

While technological advancements mean that digital banks are able to expand at break-neck pace across Asia, concerns around their ability to manage risks while maintaining profitability have been circulating, and supervisors appear unbending in their expectation of firms meeting regulatory requirements.

Despite this apparent hard-line approach, Deloitte argues that regulators ultimately wish to support new entrants as these players will serve to enhance competition to the benefit of consumers. This mirrors the UK's Competition and Markets Authority's (CMA) desire to open the door to open banking and inject competition into financial services.

Australia's approach to open banking is arguably the APAC region's most similar to that taken in the UK, mandating the sharing of consumer data by financial institutions, compared to Singapore and Hong Kong's focus on the creation of 'open API playbooks' for instance.

This injection of competition must be balanced however, and regulators are focused on ensuring that any competition or evolution must not emerge at the expense of financial instability.

McKinsey states that by the second quarter of 2021, over 500,000 customers had signed on to the eight virtual banks of Hong Kong, with momentum building and the impact of digital banking services likely to further shape the overall dynamic of the financial services sector.

Through the example of Mox, Bhatia explains that the bank is able to provide "Hong Kong residents with the ability to open a banking relationship along with a credit card in less than 5 minutes."

"Future of banking is all about redefining and simplifying client experiences. We see that as customers see the value, they are more active with you and increase their share of wallet accordingly. As regulators open up licenses to virtual banks across geographies, these banks will be faster to roll out services with differentiated experiences as they are not burdened by legacy technology. Digital Banks can also generate high revenues at low costs and have the advantage to scale up if backed with a captive customer base."

BCG explains that APAC is home to around 50 digital banks, most of these being "consortium players backed by technology giants and nonfinancial institutions such as tech and telecom companies." Additionally, 13 of the 249 digital banks worldwide are profitable, and a whopping 10 of these are based in APAC.

Echoing the statistics, Bhatia adds that active digital banking users have grown rapidly across Asia and the banks that will succeed "are those with better user experience, better use of partnerships and ecosystem players, ability to leverage data to customise offerings and adopt emerging technologies to drive safer, faster experiences."

The region's high internet penetration plays a significant role as a foundational factor allowing digital banking services to reach their market with ease and more efficiently than ever before.

Bhatia notes that in the near future, digital banking will need to embrace emerging technologies across open banking to review and make financial decisions in one app. "One can leverage digital KYC towards faster onboarding, harnessing data with a cloud first approach across touchpoints to customise offerings. Simplifying investments through robo-advisory services is an area which is expected to see massive growth. Adopting emerging payment technologies making payments invisible and a seamless part of the shopping experience would be a key play."

03
THE ASCENT AND IMPACT OF DIGITAL PAYMENTS

Banks of the Asian region enjoy a particular advantage when it comes to digital payments. As a result of customers' familiarity with app-based services, uptake is likely to remain strong in the coming years.

Sanjeev Jain, Citi's Asia Pacific payments and receivables head, treasury and trade solutions, says: "The digital payments revolution continues to lead the way in Asia Pacific. The pace of transformation is quickening on the back of advances in technology, progressive regulation, a range of competitive participants including traditional providers and new fintech entrants, evolving consumer needs, and the accelerated digitisation on the back of the pandemic."

What's more, real-time payments - both domestic and cross-border - are increasingly becoming a reality. Transactions that are frictionless, global, and ubiquitous in nature will define digital banking in Asia, with capabilities being agnostic to payment methods or forms of storage across cards, digital wallets, bank accounts, and open banking. "We at Citi are already working to connect clients to wallets, and enable our corporate clients to accept consumer payments," says Jain.

Given these rapid upgrades in the region's digital payments, Asia is likely to remain at the vanguard of electronic, mobile, and social commerce. This phenomena will be catalysed by the continued penetration of the internet in Asia, thanks to the roll out of 5G across South Korea, Taiwan, Japan, China, and Thailand. Countries such as India, Indonesia, Vietnam, the Philippines, Malaysia, Sri Lanka and Pakistan, meanwhile, will implement their own policies in the near-future.

Broadening the reach of internet access are smartphones - the **penetration** of which, especially in China, holds a lot of potential. And, thanks to social media apps, consumers are connected to online retailers more readily than ever before.

These factors, combined with increasingly efficient last-mile delivery infrastructures - such as **drones** in more rural areas - will have a big role

to play in boosting the prevalence of Asia's e-commerce, m-commerce and s-commerce spheres. According to **Statista**, 2.15 billion people used e-commerce in Asia in 2020. By 2025, e-commerce user count in the region will increase to 3.13 billion people.

"Digital payments are at the heart of e-commerce, which has hit almost 50% of card purchases from where it used to be 3 years ago," says Bhatia. "Customers can now do one-click checkouts with Apple Pay. Peer-to-peer and merchant payments have also soared, with rapid adoption of these services across Unified Payments Interface (UPI) in India, and Faster Payment System (FPS) in Hong Kong."

Evidently, technological innovation holds the key to the continued success of e-commerce in Asia. Better mobile internet access and widespread smartphone ownership - along with the roll out of cloud native-enabled technology architecture - will also turbocharge Asia's uptake of Quick Response (QR) codes. These machine-readable matrix barcodes make transactions seamless by transferring information instantly between mobile phones and other devices.

Helped along by the pandemic-induced hyper-awareness of health and safety, as well as the proliferation of 5G, QR code usage is likely to take off in a big way in Asia in the near-future – particularly in countries with comparatively low **adoption rates**, such as India, Vietnam, Thailand, Singapore, South Korea, and the Philippines.

This trend will oversee the Asian market's transition to a cashless, contactless world - already being witnessed in traditionally cash-based economies, such as Japan. Indeed, as everyday payments become increasingly seamless, mobile transactions will soar.

But QR codes offer a near-endless number of applications beyond pure payments. They may, for instance, enable customers to interface easier and safer with automated teller machine (ATM)s and shared kiosks, by triggering their mobile banking apps. Once the user enters a pin code on their smartphone, they could remotely control an ATM and receive all the services that would be expected from a physical bank branch.

However, the real clincher of the QR code's success in Asia will be the quality of the user experience and user interface design. The process must be seamless and feel low-tech in order for widespread usage to reign supreme. The ubiquity of smartphones also means that digital banks will be able to onboard customers faster and cheaper than ever before. David Sun, CEO of livi bank says: "Digital banking is playing an increasingly important role in Hong Kong, accelerated by Covid-19, with consumers growing ever more familiar with transacting online."

Already, **97%** of Asia–Pacific consumers either consider the digital channel the best of several ways to interact with their bank, or use it as one of several channels in a multichannel or omnichannel offering. This percentage will only increase in the coming years.

However, in the future, there is even more land for digital banks to grab. Financial institutions in Asia should do more to convert customer interest in digital products into digital sales. A September 2021 **McKinsey survey**, for example, revealed that while 70% of respondents expressed an openness to using digital channels for services beyond transactions, only 20-30% of respondents report they have purchased a banking product – for example, a savings account, loan, or credit card – via a mobile app or online.

The future of digital banking in Asia, therefore, will see banks extending more tailored products to a broader range of customers, with the help of smartphones. This will support financial inclusion prospects on the continent - a prominent enabler of the United Nations' **Sustainable Development Goals**.

So, not only will the future provide more business opportunities to seize when it comes to existing customers, but brand new customers will be more easily reached. Indeed, it is easier than ever before for banks to bridge the financial inclusion gap, thanks to the continued roll out of technology.

According to the World Bank, the market size for unbanked and underbanked individuals and enterprises is estimated to be between $55 billion and $115 billion in the Asia Pacific region. With these figures in mind, digital banks in Asia will compete to dominate the underserved portion of the market - developing increasingly bespoke and sophisticated financial services and products to win over consumers. Regulators, in turn, will move to support this trend through the supply of new licenses that foster competition, accelerate innovation, and broaden financial inclusion.

Financial inclusion, however, does not stop at the individual. If the pandemic taught us anything, it is that businesses – particularly small and medium-sized enterprises (SMEs) – need support with their liquidity and working capital management; especially during economic downturns.

According to **McKinsey**, China's digital banks already have more than a 7% share of the country's online SME loans. This percentage will steadily rise in the coming years as banks recognise the potential of this market, and seek to deliver better, tailored products to small businesses.

Informed by transactional and sentiment data, artificial intelligence (AI) engines will be leveraged by digital banks to generate alternate credit underwriting models. Sales channels operated by consortium partners will provide instant financing at the point of sale, via APIs. These innovations will enhance financing success rates for many enterprises.

Malaysia-based MyBank's new financing solution for SMEs, for example, helps small businesses in the region to secure financing online, in under ten minutes. Over the next three years, the bank will disburse over RM35 billion through the platform.

One of these many 'possibilities' includes the Buy Now Pay Later (BNPL) scheme. Already thriving in southeast Asia, uptake is likely to continue at pace across the continent in the short term. **Coherent Market Insights** predicts it will hit $33.6 billion by 2027 – having been just above $7 billion in 2019.

A recent example of the BNPL scheme is livi bank's 'PayLater' initiative. "livi PayLater is a great example of a smart digital tool leveraging our technology," says Sun. "As the first bank in Hong Kong to offer this new payment concept, we are meeting a proven need of our millennial customers to manage their finance in a simple, flexible and controlled manner, while benefiting from personalised features."

Payments are just the first step for digital banks. As with livi, the range of digital products and services available to make customers' lives easier will only grow. These fundamental and unprecedented transformations are changing Asia's digital payments landscape forever.

Looking ahead, Bhatia notes that while certain digital payments in most domestic and certain cross border corridors are now instant in Asia, there is still a lot of room for improvement. Indeed, digital payments are more important now than ever before "as the world recovers from Covid. Fast and convenient cross border payments will be key to reviving business."

"With new technologies like 5G coming to the fore, there is potential for many more possibilities in the area of financing and payments for corporates," comments Jain.

04

MOBILE FINANCIAL SUPER APPS: WHAT'S YOUR STRATEGY AND HOW ARE YOU APPLYING SECURITY?

Samuel Bakken, Director of Product Marketing, OneSpan

Prior to the onset of Covid-19, mobile apps were already the touchpoint of choice for millions of banking customers worldwide. The pandemic has only amplified this trend toward digital banking on the mobile device. To meet consumer demands and stay competitive, financial institutions, neobanks, and fintech companies are increasingly offering more useful services via the mobile channel in their quest to attract and retain banking customers.

Industry leaders are disrupting traditional methods for engaging underserved market niches and retaining current customers with mobile super apps that provide functionality beyond traditional financial services, such as issuing new credit cards and debit cards and opening new bank accounts.

According to CNBC, "There are already many popular super apps, including China's WeChat and AliPay, India's Paytm, Singapore's Grab, Indonesia's GoTo, Vietnam's Zalo and South Korea's Kakao." **KBC Mobile, Bel ius Bank**, and PayPal's **Venmo** are also other examples. When protected with mobile app security technologies, these apps propel brands to new heights by strengthening consumer trust. Banks in particular can be especially well positioned to increase adoption of expanded services because their customers trust in the bank's fraud prevention, privacy, and security expertise. Combined with supporting customers quickly, conveniently and securely through mobile financial services apps, this is bringing the customer experience into a new era.

What is a financial super app?

A super app is a mobile application that combines many of the most popular apps a person might use – from social media to shopping, payments and financial services, to streaming media and entertainment – into one, all-encompassing app. It can be described as a closed ecosystem of many apps, or a marketplace of several different mobile services all wrapped up into one uber-popular app.

How does a financial super app benefit financial services providers?

Super app technology is highly relevant to financial services, where many new competitors, especially in the digital realm, are entering the market and vying for the business and loyalty of consumers.

One of the biggest challenges traditional financial institutions face is forcing too much cognitive load on the consumer. Part of the goal of a financial super app is to make it easier to get financial tasks done.

The degree of complexity is even higher when it comes to business banking. Forrester found that, on average, business owner operators have to use more than a dozen different apps, websites, and services every month to manage their business and finances. In this scenario, for example, a bank or other financial services provider could consolidate these tasks into a single experience, saving time for commercial customers while also differentiating their offering in the marketplace.

The world of super apps allows a financial institution to grow their brand, increase adoption, and strengthen customer loyalty by adding more and new products and services for customers to interact with and use. Financial super apps offer the ability for financial institutions to go beyond traditional banking and cross over into a lifestyle platform – but for the most part, banks and other financial institutions don't have to. They don't need to establish ride-hailing, taxi or food delivery services. Instead, banks should think about making their app the single go-to resource for people who need to complete financial tasks. Look at why customers come to your bank now, and build a platform on that.

What to consider when developing a super app strategy

No matter what strategy is considered, when considering a financial super app, it's critical that financial institutions be willing to explore, measure, iterate and be open to embracing flexibility. The considerations that need to be addressed before developing a super app strategy include:

What role are you trying to play in consumers' lives? Start by deciding on your target audience. For example, are you focusing on regionally-based consumers? Are you taking more of a lifestyle approach? Additionally, consider what value you want to offer your audience in their digital journey. It's important to have a clear view and definition of the desired outcomes at every stage of the journey.

1. What is your unique value? What do your users perceive as compelling about the value your brand and/or services deliver? How can you authentically give them more of what they want from you?

2. What is realistically feasible? This entails identifying what are the limitations, such as resources, talent, and technology. What are the biggest hurdles within the business? Is there a lack of brand awareness, data infrastructure, security, etc.?

3. What existing partners do you have that you can leverage? What new partners should you seek out?

What's the best approach for the security of your financial super app?

One of the key things to keep in mind when financial institutions (FIs) are looking to add more services to grow their own ecosystem is that it increases the attack surface and adds more potential vulnerabilities for criminals to take advantage of. For example, attackers who learn of a new feature that the FI will be rolling out may begin strategizing about how to take advantage of that service. Therefore, it's extremely important to ensure the security of such services.

To mitigate these security risks, it's necessary to work with experienced security partners, particularly experts in mobile super apps. Partners that have a mobile-first mentality is essential since this is where the vast majority of people prefer to engage with their financial institutions on a daily basis.

At the same time, security needs to be executed in a way that doesn't impede the user experience. Because mobile apps are unique in that they execute in a potentially hostile environment (FIs don't have any control the security hygiene of the mobile device, whether the user makes the security updates, whether the user has jailbroken their phone, etc.), mobile app security must be approached differently than it would be for a web application. That's why protecting the app on the client-side with mobile app shielding is imperative.

The opportunity for super apps will continue to grow

Innovative FIs are leading the way in providing greater value to consumers, and in turn, creating more valuable channels for revenue. As more financial institutions work to expand the relevant services they offer their users, there are going to be a lot of hybrid variations in the market as organisations become more willing to experiment.

The experimentation will be worth it. By offering mobile apps that go beyond traditional banking, super apps will be able to provide customers with access to financial services as well as third-party services such as cardless fuelling, cryptocurrency trading, on-street parking, bus ticket purchasing, and more – without compromising on user convenience.

05
FACILITATING THE UTILISATION OF DIGITAL CURRENCIES

There has been an increasing global interest in digital currencies, with Asia being no exception. Jain comments that "digital assets will be a part of financial services. The application of technologies including blockchain, DLT and use of tokenisation continues to grow with various advantages including transparency, fractionalisation, and instant processing to name a few. Exactly how digital assets, including digital currency, and more generally decentralised finance will evolve and impact the financial services industry remains to be seen."

However, while fintech companies and Big Tech firms gain market share in financial services by bypassing regulation and not being forced to comply with the same regulations that traditional players must, regulators are now working to detect new threats to financial stability. One potential new threat is the cryptocurrency industry. In 2021, after being put under the cosh by financial regulators in Japan, Hong Kong, Italy and the UK, Binance called for a global regulatory framework governing the cryptocurrency market.

Around the same time, China's central bank announced a clampdown on cryptocurrency trading, calling all digital currency activities illegal, and vowing to crack down on the sector. Other countries in Asia have varying views. Areas such as Singapore and Hong Kong are, in a sense, open to institutional adoption of digital currencies as a result of rapid digitisation, fears of inflation and Covid-19-led depreciation.

On this, Jimmy Ng, group chief information officer and head of technology and operations at DBS, says: "With the adoption of blockchain nearing a tipping point, the future of digital banking is already upon us. At DBS, we're deeply involved in pursuing a number of industry-leading initiatives to realise the potential of a blockchain-driven world, and these include our DBS Digital Exchange to support the global digital asset value chain, as well as Partior, for cross-border payments and settlements."

It is evident that while the value of blockchain is appreciated, concerns around the volatility of cryptocurrency persists and industry sentiment dictates that regulated digital currency is perhaps the best route to success.

In the future, there is expectation for central bank digital currencies to break ground, especially with Singapore, Japan and Malaysia already developing prototypes for retail and corporate applications.

Jain adds: “Regulations around digital currency are still evolving and security concerns will need to be adequately addressed. There is also the question of scalability. For new technologies or digital assets to fundamentally transform the way we bank in the future, the industry will need the active participation of all stakeholders and much more collaboration between different parties. With multiple countries and jurisdictions globally, including in Asia Pacific, working towards introducing CBDCs, it will be interesting to see how this area develops, including what learnings may apply to the broader financial services industry.”

Bhatia agrees: “We also see regulators driving CBDCs to supplement fiat currencies, which will lead to faster transfer and transaction times and make transaction costs cheaper. A digital focused bank will have to keep pace with the adoption of these currencies as a transfer of value while ensuring the right security protocols as that’s the key element from a customer point of view. How customers pay is already being used by banks to learn more about their customers.

“Looking at the payment trends of customer segments gives a day to day read on their needs, and can be used to design customised saving, borrowing and investment solutions. We continue to see this as a major driver of partnership ecosystems and challenging traditional ways of handling finances. The consumer expectations have shifted and future of digital banking in Asia is in embracing the technologies and harnessing data to differentiate value propositions, customise solutions and bring in innovation.”

06

THE IMPLICATIONS OF CBDCs ON CASH MANAGEMENT

Peter Ryan, Senior Product Manager, Infosys Finacle

Just when we all thought that cash management could not get any more complex central banks have begun introducing a new type of money – Central Bank Digital Currencies (CBDCs).

CBDCs are a form of electronic money issued by a central banks like the Monetary Authority of Singapore (MAS) or Reserve Bank of India (RBI). Currently there are three types of money:

- **Physical money** or cash which is money in the form of notes and coins
- **Commercial bank money** which is electronic money people and businesses hold in their accounts at banks such as ICICI or Citi
- **Central bank money** which is electronic money that commercial banks hold in accounts at central banks to enable movements of money between banks.

The difference between a CBDC and the existing electronic central bank money is that the existing electronic central bank money is only available to financial institutions such as direct participants in the payment system, whereas a CBDC would be available to businesses or individuals.

Money is interoperable. This means ₹500 in an individual's bank account can be converted to a ₹500 note at an ATM. Similarly paying for a coffee worth S$1.50 can be made with a contactless debit card or with coins and the cost is the same. A CBDC would be another form of interoperable money. Therefore, ¥10,000 held in a commercial bank account would be worth the same as ¥10,000 held in a Bank of Japan issued CBDC.

Central bank money (such as a CBDC) is a safer form of money than commercial bank money (money held in a bank account). This is because a central bank can always create more money if it needs to, whereas a commercial bank can go bust. So, if a business has a CBDC deposit account, then as the central bank has the liability for the CBDC this money is completely safe. As a result, there is a risk to the commercial banking system from introducing CBDCs. If they are introduced, and they are safer than commercial bank money, there is a risk that people and businesses will simply withdraw money from commercial banks and deposit it with the central bank. This could lead to a run-on commercial banks, particularly in the event of a banking crisis.

Even if the introduction of a CBDC does not trigger a run on a bank, the movement of money from commercial bank accounts to a CBDC would have an impact on the commercial banking system. If a bank has less deposits it needs to look to other sources to fund its loans. As a result, loans could become more expensive following the introduction of a CBDC. For this reason, central banks are looking to have a zero-interest rate on CBDC balances (effectively making them digital cash) to dissuade individuals using them as a store of value.

Given the downsides, why are central banks introducing CBDCs?

The main reason is that central banks are worried about losing control of the monetary system. With the rise of stablecoins and other forms of cryptocurrencies, there is a danger that individuals and businesses will stop using national currencies and instead use other forms of money. For example, the People's Bank of China want to avoid commercial companies, such as Alipay and TenCent, dominating retail payments. Similarly, Big Tech companies such as Facebook are looking at introducing their own stablecoin, which could become systemically important and disintermediate national payment rails. An alternative business case comes from the Eastern Caribbean Bank who have introduced DCash, a CBDC equivalent to the Eastern Caribbean Dollar, as a financial inclusion project, allowing citizens who may not have bank accounts access to digital money.

One important use case for CBDCs is cross border payments. Settling cross border payments in CBDCs through direct connections on a blockchain would avoid the delays and costs associated with cross border payments being processed through a correspondent banking network. In fact, a recent **paper** from the BIS Innovation Hub on Project Inthanon-LionRock suggests that using a CBDC for cross border payments could reduce the transfer speed from multiple days to seconds – effectively introducing real-time cross border settlement in a fiat currency.

How do CBDCs affect cash management?

Obviously if a CBDC balance attracts a zero interest, it would not be useful as a long-term investment or deposit position. Indeed, it may be that commercial banks need to increase the interest rates they offer on deposits to ensure they have sufficient funding for their loan positions, so keeping cash in a commercial bank makes sense as a medium- to long-term investment. However, there are advantages both in speed and cost in using CBDCs for payments. Therefore, it looks like using the best of both worlds would mean keeping money deposited at a commercial bank to enable the best return but exchange that for CBDCs when moving the money to reduce the time and cost of payments.

As a result, corporate treasurers will be looking for commercial banks that can automatically switch from a position that attracts a return to an equivalent CBDC amount when making a payment and of course when receiving a payment in CBDC moving the money received to an asset where the corporate customer can get a return on their balance, be that a deposit account, fund position or some other asset.

Most central banks are at an experimental stage with CBDCs. So, it is not yet time for corporate treasurers, or their commercial banks, to make any immediate plans. However, given the potential impacts of CBDCs, it is a subject both banks and their customers need to keep under review.

07 CONCLUSION

As DBS's Ng explores: "With the adoption of blockchain nearing a tipping point, the future of digital banking is already upon us." The Covid-19 pandemic has only magnified this shift towards digital banking and advancements in technology are and will continue to be leveraged to offer innovative services and strengthen customer relationships. However, beyond digital payments and digital currency, a digital, decentralised world is forming beyond the reality we know today – known as the metaverse.

08
ABOUT FINEXTRA RESEARCH

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