

Changes to Finance Company Regulations to Enhance their Ability to Finance SMEs

Singapore, 14 February 2017... The Monetary Authority of Singapore (MAS) announced today regulatory changes to strengthen the resilience of finance companies and enhance their ability to provide financing to small and medium sized enterprises (SMEs).

Relaxation of business restrictions with enhanced prudential standards

2. Finance companies fill a useful niche in SME financing, complementing the role of banks. They often provide more personalised and customised solutions for smaller-sized businesses in particular. To enhance finance companies' role in SME financing, MAS will relax some business restrictions that currently apply to them.
3. The limit on a finance company's aggregate uncollateralised business loans will be raised to up to 25% of its capital funds, from the current 10%. The limit on uncollateralised business loans to a single borrower will also be raised to up to 0.5% of capital funds, from the current S\$5,000. These changes will better enable finance companies to serve their SME customers, many of whom require unsecured credit for working capital needs.
4. Finance companies will be allowed to offer current account and chequing services to their business customers. They will also be allowed to join electronic payment networks, including Inter-bank GIRO, Fast and Secure Transfers (FAST) and Electronic Funds Transfer at Point of Sale (EFTPOS). These changes will enable finance companies to provide more comprehensive credit and deposit services to SMEs.
5. MAS will retain other regulatory restrictions on finance companies, such as restrictions on foreign currency exposures and derivatives trading. These restrictions will help to limit the business risks borne by finance companies and encourage them to remain focused on serving the domestic SME market.
6. To safeguard prudential standards as finance companies grow, MAS will also require finance companies to enhance their corporate governance and risk management. This will include stricter rules on related party transactions and limits on exposures to the property sector.
7. MAS will phase in the above regulatory changes starting from this year.

Liberalisation of shareholding policy

8. MAS will liberalise its existing policy of not allowing a foreign takeover of a finance company. This will accord finance companies greater flexibility to explore strategic partnerships and innovative business models that can strengthen their SME financing business.
9. Specifically, MAS is prepared to consider an application for a merger or acquisition if the prospective merger partner or acquirer commits to maintaining SME financing as a core business of the finance company. In addition, the merger partner or acquirer must be able to demonstrate expertise in SME financing and present proposals to enhance the finance company's SME lending activities with new technologies, methodologies or business models.
10. Ong Chong Tee, Deputy Managing Director, MAS, said: "The liberalisation of finance companies will facilitate their efforts to invest in new capabilities to enhance their core SME financing business. These changes are part of MAS' ongoing efforts to ensure that our financial sector continues to be able to support enterprise development."

Notes to editor:

1. There are three licensed finance companies today with around S\$16 billion in combined assets. Finance companies are allowed to accept retail deposits and are significant providers of loans to SMEs. In Q2 2016, finance companies accounted for just under S\$7bn of outstanding SME loans.

2. Finance companies are subject to prudential requirements and restrictions to ensure their safety and soundness. For example, they are generally disallowed from accepting current account deposits and providing chequing facilities. They also face limits on, inter alia, unsecured lending and foreign currency exposure. These were originally designed to limit the risks borne by small finance companies. In view of the consolidation and strengthening of the finance companies sector since the Asian Financial Crisis, MAS is recalibrating some of the regulatory requirements on finance companies.

Last Modified on 14/02/2017