The Association of Banks in Singapore 45th Annual Dinner
Speech by Mr. Piyush Gupta, ABS Chairman
20 June 2018

Guest of Honour: Minister Ong Ye Kung, Minister for Education

Mr. Ravi Menon, Managing Director, Monetary Authority of Singapore

Fellow Council Members

Distinguished guests, ladies and gentlemen

Good evening and a warm welcome to everyone.

A. Global Outlook

Synchronised global growth

2017 was a good year for the global economy. After several years of listless growth, the global economy rebounded in 2017, with its best performance in a decade.

However, six months into 2018, the world seems to be in turmoil. Latin America is going through severe depression. In Europe, Italy has fallen into an abyss and Germany has stalled inexplicably. The only country with unexpected momentum seems to be Russia. Closer to home, one silver lining continues to be Japan. I'm talking of course about the World Cup.

More seriously, the overall upward trend for the economy has strengthened. We are seeing synchronised global growth and expect overall growth of 3.7% this year.

Singapore’s economy has been a key beneficiary of global growth, registering robust economic growth of 3.7% in 2017 and 4.3% in the first quarter of this year. The troubles of the oil and gas sector also seem largely behind us.

But even as we have reason to be relatively sanguine on economic growth, there are risks on the horizon that may pose as stumbling blocks.

Let me outline three potential risks:

The 9-year bull market

The question on many minds is whether the bull run will come to an end. Since the height of the global financial crisis, the Dow has quadrupled and the S&P 500 has had a corresponding run – second only to the run in the 1990s which started and ended with technology stocks. With the rally now entering the 9th year and valuations already stretched, some analysts are sounding words of caution with markets looking for an excuse to sell off.

Major bourses took a tumble last week, as the Fed raised rates by 25-basis points. The sell-off occurred despite the hike being in line with market expectations, mainly over concerns that interest rates were heading north faster than expected. It looks like we’re in for more volatility with 2 more additional hikes being projected in the next six months, which means that we will close the year with 4 hikes!

The potential of a global trade war

The spectre of a potential trade war involving the US’s major trading partners is another economic threat on everyone’s minds. The recent G7 summit failed to resolve the tariff disputes with America’s closest allies such as UK, Canada, France, Germany and the EU.

US-China trade tensions have escalated in recent weeks. In tit-for-tat measures, both countries have already implemented tariffs on each other's' products.

In addition to trade tariffs, technology is also emerging as a battleground. Spurred by President Trump's alleged concerns about China stealing American Intellectual Property, the US is moving forward with a plan to stop US telecommunication carriers from using Chinese hardware.

As the world's two largest economies exchange retaliatory tariffs and threaten to escalate tensions further, the rest of the world is closely watching for any knock-on repercussions. Already, we are seeing a destabilising impact on the global economy and in particular the technology sector.

Rumbles of a Eurozone crisis

The issue of immigration continues to divide the European bloc, with France and Italy clashing just last week over the turning back of refugees, while also triggering an uncomfortable domestic political crisis for Merkel in Germany.

Fears of a eurozone crisis have also resurfaced. Financial tremors are rumbling in Italy. At 2.5 trillion euros, Italy's sovereign debt is larger than the combined debt of Spain, Portugal, Greece and Ireland – the 4 countries that needed financial bailouts during the GFC.

In the event of a crisis, Europe is simply unable to afford a debt haircut (like Greece) or a vast bailout package for the Italian economy. The first warning signs are already visible with climbing yields on 10-year Italian, German, Spanish and Greek bonds.

As bankers, we need to keep a watchful eye on the situation in Europe as it could unravel quickly and threaten the stability of the Euro and roil global financial markets.

B. Digital Transformation

Even as the global economy chugs along, the pace of digital disruption in our business has accelerated. Competition from nascent platforms like Grab Financial serves as a reminder that we must double-down on our efforts to transform our industry. It has been very encouraging to see that as an industry, we have remained steadfast in staying on top of the digital agenda.

Driving the cashless agenda

To reduce the social costs of cash and cheques, we have to offer our customers a seamless digital payments experience for them to change the way they pay for goods and services. In 2017, PayNow was launched at this dinner, and in 1 year – there have been more than one million registrations totalling more than SGD 900 million.

NETS QR code was also launched which simplified digital payments for small purchases – with NETS QR code transactions doubling every month since launch.

Beyond the consumer space, "Project Ubin" was launched to enable more efficient interbank payments without a single trusted intermediary and the concept was successfully tested with banks. The feasibility of a settlement system using distributed ledger technology to enable the instantaneous settlement of cross-border transactions, 24/7, was also tested. This paves the way for cross-border payments and settlements to be re-imagined for the future.

Just today, ABS also announced that PayNow Corporate will be available from August onwards and this means that businesses, corporates and governments will be able to pay and receive Singapore Dollar funds instantly by linking their Unique Entity Number (UEN) to their bank account.

It may be some time before Singapore becomes a truly cashless society, but early indications are positive.

Exploring industry utilities

We continued to explore initiatives such as The National Trade Platform which looks to digitise the largely paper-based trade finance business, easing access for companies to tap into trade finance while allowing banks to unify their current screening processes. KYC remains one of the biggest pain points in the financial industry and MAS continues to work closely with banks to explore a Banking KYC shared-services utility that will streamline end-to-end KYC.

Fostering a culture of innovation

The industry's fintech journey continued to make headway as we looked to foster a pervasive culture of innovation.

MAS partnered ABS to organise the second edition of the Singapore FinTech Festival. The festival drew more than 30,000 participants from across 100 countries, making it the largest gathering globally of the FinTech community.

The ABS is also involved in the ASEAN Financial Innovation Network (AFIN), a joint initiative of the MAS and the International Finance Corporation. AFIN aims to be a platform for banks and Fintechs in ASEAN to collaborate to broaden and deepen access to digital financial services. In the past year, MAS and the Bank of Thailand have agreed to work together to link PayNow and PromptPay, which allows Singaporeans to send money to someone in Thailand, and vice versa, using just their mobile phone numbers. Beyond ASEAN, India's RuPay digital payments are now linked into Singapore's own Network for Electronic Transfers (NETS).

Recognising that people are at the heart of our transformation efforts
Ultimately, people are at the heart of banking and it is imperative that we provide the tools for our people to remain competitive. In March 2018, the ABS, NTUC and Singapore National Employers Federation issued a Tripartite Advisory on Human Capital Practices for Banking, laying out best practices for banks to re-skill their people. Banks will proactively assess the likely impact of technological changes on their workforce and work with MAS, IBF and Workforce Singapore to reskill and redeploy their professionals into areas of job growth through professional conversion programmes.

The IBF has also expanded its mandate to provide career advisory and job placement services for the financial sector, setting up a dedicated Career Centre. The Centre will provide a comprehensive suite of services ranging from setting competency standards and promoting skills development, to career advisory, job matching and placements.

C. Challenges

While we made progress on re-skilling our people, the impact of digitisation on our industry will only accelerate in years to come. In my speech last year, I spoke not only about the tremendous opportunities that digital transformation will bring to our industry, but also the potential challenges. One year on, not everything is rosy even as our society grapples with the pace of transformation.

Challenge of jobs

A recent Financial Times article reported that between 2007-2017, nearly 60,000 jobs were slashed by 8 of the top 10 investment banks. While the article focused on large global investment banks, the fact is that with digitalisation and automation, job roles in our sector is rapidly changing. The jobs and skills agenda is central to the transformation of our financial sector and we need to manage the pace of transition for our incumbent workforce with urgency and sensitivity.

Challenge of data

The potential for the misuse of data has certainty been in the headlines.

Major firms such as Uber and Facebook are under fire for data breaches. It is no wonder that public trust in large corporations has been eroded. Regulators are stepping up to try and minimise public harm from identity theft, cyberattacks, hacking and unethical usage. An example would be the GDPR regulations recently introduced by the EU.

For us here, the Personal Data Protection Act (PDPA), considered an equivalent to GDPR, already incorporates the majority of the EU's regulations – many of the terms, including the need to seek customer consent and requirement to delete customer data that is no longer needed, also exists under the PDPA.

Closer to home, China's central bank has stopped pilot programmes run by Tencent and Alibaba to create and use social credit scores from data on citizen's purchases and social behavior amidst worries that these techfins could use the lure of better scores to cross-sell unnecessary financial products.

It remains unclear whether these regulations will have the intended impact that our society needs. The world of personal data still lacks the rules, norms and frameworks that exists for other assets. Our industry is taking steps to move to systems with the concept of Privacy by Design embedded into operating ideologies. Internal governance processes are also needed to build a robust framework to ensure ‘responsible data use’, versus the ‘creepy use of data’.

Challenge of the Cashless ‘pushback’

There is a cost to cash – yet the move to cashless is seeing pushback from segments of society and even central banks, who caution about the pace of abandoning physical cash.

Take the case of Sweden. Only 2% of the total value of transactions consist of cash and even this is expected to decline to less than 0.5% by 2020. On the surface, Sweden is well-positioned to go completely cashless.

However, the transition to digital payments is taking place so fast that authorities worry that it will become unviable for banks to maintain the infrastructure for handling cash. There are also concerns about the financial exclusion of certain sections of society such as the elderly or lower-income citizens. A parliamentary review in Sweden is now working on new measures designed to stop the decline of cash and to maintain a basic cash infrastructure. Plans for a government-back virtual currency (E-krona) may also be scuppered due to concerns such as the ability to handle the demand for physical cash in the event of crisis or bank run. The Bank for International Settlements has also warned that a central bank digital currency could create the risk of digital runs on central banks.

Closer home, NUS was forced to scale back its plans of making the campus entirely cashless after students signed online petitions calling NUS to continue supporting cash payments. The pushback came even as 60% of current transactions in the university are cashless. Despite the benefits, some remain concerned that going entirely cashless would unfairly exclude those with no bank account, no funds on their stored-value card, or those without a compatible mobile device.

D. Sustainability

Laying the foundations for a sustainable future

Another challenge that society and our industry is grappling with is the issue of sustainability. The bare facts are before us: climate change is one of the biggest challenges facing mankind. As an industry, we must be committed to taking a leadership role in promoting sustainable development, including sustainable production and a transition to a low-carbon economy.

We've made some progress together. Singapore banks have established internal policies on responsible financing with environmental, social and governance issues criteria now part of their credit evaluation and approval process. In addition, the local banks have also committed, at a minimum, to discontinue new financing of green-field coal-fired power plants which use less efficient sub-critical combustion technologies. Local banks are also actively pursuing financing of renewable energy and energy efficient projects; and influencing clients to adopt sustainable business practices through continued engagement and education. The banks are also expanding their offerings of green products and services such as green bonds/loans and sustainability performance linked loans.

At the same time, it would be foolhardy to assume that the transition can happen overnight. In ASEAN, 65 million people remain without electricity today. Even with efforts to adopt low-carbon energy, coal will still account for 40% of the generation mix to support the region's economic and population growth. Similarly, palm oil accounts for the livelihoods of millions of small-scale farmers and the accompanying supply chain in some of the most populous countries in our neighbourhood. Even as we move forward to tackle these issues, we need to do it in a way that makes a meaningful impact while managing the pace of transition.

E. Conclusion

In the face of these monumental global shifts, I believe that if we work together, Singapore has what it takes to lead the charge and shape the future of the world of finance. Afterall, we are 'goldilocks' sized: big enough to matter, but small and agile enough for all stakeholders to come together and meet the challenges of tomorrow head-on. It is incumbent on us to do so, not only for our sakes, but for the next generation of bankers that will come after us.

With that, I would like to invite Minister Ong to address us. Minister Ong, please.

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