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KEYNOTE SPEECH BY MR HENG SWEE KEAT, MINISTER FOR FINANCE, AT THE 44TH ANNUAL DINNER OF THE ASSOCIATION OF BANKS IN SINGAPORE, HELD AT THE FAIRMONT BALLROOM, RAFFLES CITY CONVENTION CENTRE, ON 27 JUNE 2017 AT 2000HRS

Chairman and Council Members of the ABS,
Ladies and Gentlemen,

1. Thank you for inviting me to join you tonight.
2. I last addressed the ABS in 2006. At the time, Singapore's economy and financial services sector registered robust growth. We successfully hosted the IMF-World Bank Annual Meetings that September. Then came the global financial crisis in 2008.
3. It was tumultuous worldwide, but in Singapore, our banks were well-capitalised and our system remained healthy throughout the crisis.
4. Fast forward to today, Singapore is one of the top international financial centres¹ and our regulation and supervision is rated as "among the best globally."²
5. Our banking system continues to be anchored by strong, well regulated banks which are ranked among the world's ten safest³ commercial banks.
6. Singapore's current standing as a respected and innovative global financial centre is a shared success – one that MAS and the industry have earned through your partnership.

Innovation – a key trait of Singapore's Financial Sector

7. Innovation is at the heart of Singapore's economic and financial sector transformation. As Mr Hon Sui Sen said, back in 1972, to have a successful financial services sector, we must have an

¹ Z/Yen and CDI (2017), "Global Financial Centres Index 21."

² IMF (2013), "Singapore: Financial System Stability Assessment."

³ Global Finance (2016), "The World's 50 Safest Commercial Banks in 2016."

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environment that is “conducive to both growth and innovation in financial activities.”⁴

8. Two episodes come to mind in which innovation figured prominently: the launch of our financial sector and the liberalisation of the banking sector during the Asian financial crisis.
9. In the book “From Third World to First,” Mr Lee Kuan Yew recounted Dr Albert Winsemius’ story on Singapore’s improbable start to become a financial centre.
 - a. In 1968, Dr Winsemius was in London where his friend, Mr Van Oenen, the vice-president of Bank of America Singapore, pointed to a globe and highlighted the gap in global trading hours. Zurich handed over to London, and London to US markets, with global trading stopping once San Francisco’s market closed. Nothing could happen until the next day 9.00am Swiss time when Zurich reopened.
 - b. At Dr Winsemius’ request, Mr Van Oenen presented the concept of creating a financial centre in Singapore to Mr Hon Sui Sen, then-Chairman of the EDB and Mr Lee. Mr Lee decided that Singapore must capitalise on our geographical location and the available technologies to build a financial centre here. Singapore thus filled the gap in the trading hours and ushered in “for the first time, a 24-hour-round-the-world service in money and banking.”⁵
 - c. We started modestly, building an offshore Asian Dollar Market to intermediate the flow of global and regional funds. Over time, we enhanced our position as a foreign exchange centre, reviewed our policies to remove unnecessary controls, and transformed into an international financial centre.
10. The second episode was when I was PPS to Mr Lee in the late-1990s. Mr Lee held extensive consultations with the industry and came away impressed at how other regulators and financial

⁴ Mr Hon Sui Sen, International Chamber of Commerce Luncheon Speech, 5 May 1972.

⁵ Lee Kuan Yew (2000), “From Third World to first; The Singapore story.”

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institutions welcomed innovation. Mr Lee appreciated how globalisation and technology were changing, and would continue to change, the global banking landscape.

- a. Our practice of protecting our banking system from competition was too domestically focused and would be detrimental in the long run. Mr Lee recognised that for Singapore to become a global financial centre, our banking system must adapt and be exposed to competition.
 - b. With this goal in mind, MAS, under then-DPM and Chairman MAS Mr Lee Hsien Loong, took the bold steps to liberalise the banking sector in 1999.
11. We have not looked back. Singapore's financial sector has grown to become a key economic driver and will continue to be a lynchpin of Singapore's future economy.

Technology – Transforming our Economy and Society

12. To maintain our competitive edge, we must ready ourselves for the next wave of change. Maintaining our innovation edge and harnessing technology will be key.
13. When I last spoke to the ABS, most of us would have had a mobile phone. But a smart phone? That came a year later in the form of the iPhone. It has changed our view on what it means to be 'connected.'
- a. Singaporeans now spend on average, 3 hours and 12 minutes a day on our smart phones.⁶
 - b. We are one of the most connected societies in the world. Our mobile phone penetration rate is 150%. For wireless broadband, it is 200%.⁷

⁶ Straits Times (2017), "Digital habits in Singapore."

⁷ Infocomm Media Development Authority (2017), "Mobile Penetration Rate."

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14. The advent of mobile apps and e-commerce platforms have disrupted traditional business models and transformed consumer preferences.
 - a. For instance, social media and messaging apps have usurped the traditional modes of communication. In Singapore, the volume of SMS fell by 70% between 2011 and 2016.⁸
 - b. 60% of Singaporeans consumers surveyed in 2016 said they would make purchases online at least once a month.⁹
15. Technology is also transforming financial services and the way banking customers consume these services.
 - a. Non-financial companies, like WeChat, have created platforms that enable customers to chat, purchase and pay for goods and services, including financial products, all within one application.
 - b. Financial and technology firms are leveraging on application program interfaces (APIs) to create customised solutions to serve their customers better.
16. Singaporeans have embraced these changes.
 - a. 94% of Singaporean survey respondents have used mobile and internet banking to access their financial accounts.¹⁰
 - b. 1 in 5 consumers in the Asia-Pacific are using digital wallets, and Singapore is the top adopter in ASEAN.¹¹
17. I am pleased to see MAS and the industry working closely together to promote innovation and use of technology. There is indeed strong interest to test-bed new ideas in Singapore.

⁸ Infocomm Media Development Authority (2016), "Total SMS Messages sent and received over mobile network."

⁹ PwC (2016), "Total Retail 2016 – Southeast Asia and Singapore Highlights."

¹⁰ McKinsey (2015), "Digital Banking in ASEAN."

¹¹ MasterCard (2016), "Mobile Shopping Survey."

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- a. MAS has received more than 20 applications, and over 70 enquiries from financial institutions and FinTech players, to test their innovations in the MAS Regulatory Sandbox.
 - b. More than 20 global banks and insurance companies have set up innovation labs in Singapore.
18. These are the right moves for us to keep pace with changes in the global economy.
19. **Let me now focus on two important changes we are making to position our financial sector for a technology-driven future.**
- a. First, MAS will be streamlining the anti-commingling framework.
 - b. Second, to accelerate e-payments, we will establish a Payments Council to explore strategies and address cross-cutting issues. ABS will also be launching *PayNow* this evening.

Streamlining the Anti-Commingling Policy

20. MAS introduced the anti-commingling framework in 2001 to separate the financial and non-financial businesses of banks. It was a pre-emptive move to ensure that banks remained focused on their core financial businesses and competencies. This policy has served the industry well.
21. But the policy has not remained static.
22. In 2011, MAS took a first step to give banks greater allowance to carry on non-financial businesses that are related or complementary to the bank's core financial businesses.¹²
23. Since then, the outlook has changed further.

¹² MAS Banking Regulations 23G

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- a. The growing ease of accessing financial services over the internet and smartphones presents new channels for banks to deliver value added services to customers.
 - b. The line between financial and non-financial business is blurring. Banks are facing increasing competition from online and non-financial players that have leveraged their large user base to provide digital wallets, payments and remittance services.
24. MAS recognises that we can simplify our requirements to enable banks to embed banking services into consumers' day-to-day activities.
25. **First, MAS will streamline regulatory requirements for banks seeking to conduct or invest in permissible non-financial businesses that are related or complementary to their core financial businesses.**
 - a. Currently, banks seeking to conduct or invest in non-financial businesses must comply with specific conditions and obtain approval from their parent supervisory authority.
 - b. **Going forward, banks will not need to seek prior regulatory approval before conducting or acquiring major equity stakes in permissible non-financial businesses.**
 - c. **MAS will also remove detailed requirements such as conducting regular stress tests or external audits.** However, MAS will continue to require banks and their boards to put in place the necessary risk management governance arrangements.
26. It remains important for banks to focus on their core financial businesses. Hence, MAS will limit such non-financial businesses to **10% of a bank's capital funds.**

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27. Second, MAS will allow banks to operate digital platforms that match buyers and sellers of consumer goods or services, as well as to conduct the online sale of such goods or services. These activities must be related or complementary to banks' core financial businesses and will be subject to the cap I mentioned earlier.
- a. Banks are currently prohibited from selling consumer goods. But non-bank digital players are now offering a seamless transactional experience in the sale as well as payment of consumer goods.
 - b. Under MAS' proposal, banks may be involved in the sale of consumer goods and services on these platforms in a way that provides synergy to the provision of banking services.
 - c. Beyond digital platforms, banks would need to seek case-by-case approval, as we do not want banks to engage in the sale of consumer goods and services as a business in its own right.
28. MAS will provide the operational details of these policy changes in a consultation paper that will be released by the end of September.

Fostering Innovation in Payments

29. As Singapore progresses to become a Smart Nation, the country needs a robust electronic payments system that allows individuals and businesses to send and receive money easily.
30. Let me recap the progress we have made to-date in our e-payments journey and provide an update on latest developments.
31. Unified Point-of-Sale, or UPOS, terminals are being deployed at major supermarkets and convenience stores across the country. They make payments easier for customers, and help frontline service staff be more productive and efficient.
32. Going beyond the established merchants, MAS and NEA are working to trial various electronic payment solutions in a few

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hawker centres, with a view to achieving mass adoption in subsequent years.

- a. For instance, hawkers can accept contactless cards or QR codes which consumers can scan with their phones to make payments.
33. MAS is also reviewing the regulatory regime for payments. Last year, MAS proposed an activity-based regulatory framework for payments that will right-size requirements to the specific payments activities that new players are undertaking.
- a. MAS is carefully reviewing the industry feedback provided in the first round of consultation, and aims to respond by November.
 - b. MAS will also be conducting a second round of public consultation.
34. **We will also establish a forum for the payments industry and businesses to come together to discuss payment strategies and cross-cutting issues as well as promote interoperable payment solutions.**
- a. MAS has invited 18 senior leaders representing banks, payment companies, industry associations, and businesses to form a Payments Council under MAS' leadership.
 - b. This is a unique opportunity for stakeholders in the payments ecosystem to collaboratively chart the future of Singapore's e-payments journey.
35. **But the most significant development in our e-payments journey begins tonight with the official launch by ABS of *PayNow*.**
36. I congratulate ABS and Banking Computer Services (BCS) for the many months of hard work, and also the seven participating banks for making *PayNow* a reality.
37. *PayNow* will make use of Singapore's real-time 24x7 Fast and Secure Transfers (FAST) payment system to allow *PayNow*

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users to, securely and seamlessly, transfer funds to each other using only their recipient's mobile or NRIC numbers.

38. The Government is also looking into the use of *PayNow* to make payments directly to citizens' bank accounts using their NRIC numbers. In the future, we would no longer need to update each government agency one-by-one when we change banks. We will just need to link our new bank account to our NRIC via *PayNow*.

Conclusion

39. I have recounted in brief the innovations that enabled us to develop as an international financial centre, from providing 24-hour trading to the liberalisation in the late '90s.
40. Change is our constant now. The financial sector must be able to transform and adapt in time with changes in the economy and society.
- a. The Global Financial Crisis prompted regulators around the world to strengthen financial regulations, underscoring the significance of safety and soundness.
 - b. Structural changes are happening in economies in our region, and around the world, in response to technological, demand-driven and demographic changes. In the midst of these changes, Asia remains well-positioned to grow.
 - c. To enable growth, investment by firms and government will be critical. We just celebrated the 50th anniversary of the founding of the Asian Development Bank. Just before that, we witnessed the setting up of the Asia Infrastructure Investment Bank or AIIB. It is a recognition of the importance of infrastructure in development. In my discussions with the leaders of these banks, I am encouraged that they appreciate the importance of catalysing funding from private sector funders.
41. This is the very dynamic, fluid context in which we set up:

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- a. first, the Committee on the Future Economy – to better appreciate the changes around us;
 - b. and now the Future Economy Council – to move with these changes, adapt and innovate, and create value for and stay relevant to the world.
42. I am happy to see MAS and our financial sector responding swiftly and creatively to changes around us. Effective intermediation of the growing pool of savings to productive uses to yield sustainable returns will remain a key goal for financial system.
43. How we navigate these two currents – one, the urgency for innovation in a world of flux and disruption; and two, the timeless goal of maintaining the safety and soundness of our financial sector – will be critical to our future. This will require all of us to work in close partnership.
44. The key is to watch the horizon for and adapt to changes, remember and honour our duty to our stakeholders, and work together in a spirit of collaboration. The government will do our best to facilitate and support the industry in making these changes.
45. I wish you all success in working together in the years ahead.
