The Association of Banks in Singapore 44th Annual Dinner

Speech by Mr. Piyush Gupta, Incoming ABS Chairman

27 June 2017

Guest of Honour: Minister Heng Swee Keat, Minister for Finance

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.

Thank you Ee Cheong for highlighting the strides we have made as a sector, and for ably leading the charge as Chairman of ABS these past two years amid challenging times.

I last had the opportunity to serve as Chairman of ABS between 2011 and 2013. I remember reflecting in one of my speeches at that time that our industry was at the cusp of great change. Some five years on, I have to say that my forecast of that time has indeed been borne out. We are today well advanced in a fundamental transformation, a transformation that will only gather more pace, and one that brings with it immense opportunities but also potentially immense challenges.

The opportunities for our industry are obvious. Asia continues to grow strongly, and is now growing off a much larger base, almost one third of global GDP. Rapidly growing middle classes, a relentless growth in consumption demand, increasing urbanisation, mass affluence, infrastructure build-out … each of these mega trends creates a significant need for financing and for financial services, which is for us to cater to. The region continues to integrate in respect of trade and capital flows, and while there are some winds of nationalism and protectionism in parts of the world, our region and our industry has so far been spared from the worst effects of this. Finally, technology has the potential of being an extraordinary force for good in our line of business, providing hope for financial inclusion at scale, greater customer convenience at lower cost, and a range of data driven services that we could not even have imagined just a few years ago.

However, today I want to reflect on some of the challenges that accompany these opportunities, especially for us in Singapore, and highlight some of the issues that we – industry participants and regulators – must collectively address in the coming years to ensure that the sector stays robust, and the people in this room, and our broader community, continue to share in its prosperity.

I want to highlight four challenges in particular:

a. The challenge of new avenues of growth

Singapore's growth as a global financial centre has been spectacular, and well diversified. From FX to asset management to wealth management to commodities finance, we have made great strides. However, as we look ahead, some of these traditional pillars are facing headwinds, for structural or cyclical reasons. Structurally, the democratisation of capabilities, and the erosion of pricing power through technology, such as in the case of e-advisory, e-FX and e-trading, have created headwinds in respect of top-line revenue growth. Cyclically, the end of the commodities super cycle, and especially the issues in the offshore marine space are posing challenges. Even in wealth management, the impact of AEOI is somewhat uncertain. It is therefore critical that we explore new opportunities to complement our traditional business lines as we seek further growth.

On the back of Asia's megatrends, some of these new growth areas can be found in insurance, asset management, capital markets and infrastructure finance.

For example, within insurance, we can explore new emerging areas like catastrophe insurance and cyber risk insurance. Venture capital / private equity is also an early stage industry with huge growth potential that we can do more to harness. In capital markets, while our stock exchange has faced challenges, there are competitive niches we can pursue, including positioning ourselves to attract fintech listings. We can also seek to establish Singapore as a leading centre for green bonds, as well as an Asian infrastructure hub to finance some USD 1.7 trillion of infrastructure this region needs every year until 2030.

However, none of these will be easy, and each one of the opportunities will require collective effort to make it real.

b. The challenge of potential hollowing out

Bill Gates had this famous quote: people don't need banks, they need banking. In the face of the digital revolution, what is the future of banking? What is the face of a future bank?

At its core, banking is fundamentally about raising money, moving money and putting money to work. In so doing, banks help facilitate economic development. Going by this definition, some of companies we know as fintechs today are in effect no different from banks.

Think about this: Alibaba is one of the biggest payment companies in the world. They transfer more money through Alipay than many banks. They do hundreds of millions of transactions. They are also one of the fastest fund gatherers in the world. Yu'e Bao hit USD 100 billion in just over a year, and today, it's the world's largest money market fund. Finally, they have a rapidly growing loan book. They extended RMB 50 billion of loans to SMEs and provided credit lines to over 100 million individuals for Single's Day. Their cost of credit is lower than many banks. Question: are they a techfin company or a bank?

Take TransferWise. This fintech unicorn moves over GBP1 billion every month and claims a 10% market share of the international transfer market in the UK, more than any other bank besides the major four. Are they a fintech or a bank?

Robo-advisors – fintechs who are a new breed of financial advisors. They managed AUMs of USD 300 billion last year and likely will hit USD 500 billion this year. By 2020, they are expected to manage AUMs of USD 2.2 trillion (close to the size of China's FX reserves). Are they a fintech or a bank?

The key point is this: as new players enter our industry, they operate much like banks, but are often benefitted from a more favourable regulatory regime, often in the desire to spur innovation and competition. This, of course, has the possibility of bringing tremendous benefit in terms of customer outcomes. However, the impact this has on economic value capture within the system is somewhat less clear. This can be partly because the value chain itself shrinks, and partly because the value capture happens outside our national borders. In either case, this can have serious implications for Singapore, where financial services are 13% of GDP.

Apart from GDP contribution, the other obvious impact is on employment. The reality is that advancements in technology will undeniably put several white collar jobs at risk in years to come. However, an important question is the pace of this disruption. By their very business models, most fintechs are not large job creators. For example, Ant Financial acquired 100 million new clients last year, taking its total to 500 million, but only employs around 7,000 staff. TransferWise has 10% share of the UK market but employs only 700 people. It is worth considering whether existing industry participants are likely to have a societal interest in working through the transition for their incumbent workforces with a greater degree of sensitivity than new players.

c. *The challenge of new forms of systemic risk*

Since the global financial crisis, the industry – often spurred by regulators – has worked hard to reduce systemic risk, principally through much higher levels of capital and liquidity. However, the changing nature of the industry structure suggests that the next crisis could well come from outside the regulated arena. As risk has been squeezed out to hedge funds, shadow banking and the fintech platforms that I mentioned earlier, the provisions of capital and liquidity that apply to the traditional sector do not apply anymore.

Take peer-to-peer lending. The collapse of such lending platforms in the US, UK and China underlines the fact that their credit underwriting models do not adequately capture the riskiness of their lending, as many were faced with capital and liquidity shortfalls when the credit cycle turned.

In addition, emerging technologies also create risks around Know Your Customer and client suitability. Take for example, robo-advisory. Robo-advisors using AI / machine learning may deem it fit to sell a Lehman type bond to an investor, which would then raise questions of how to deal with customer suitability.

Then, there are risks relating to new platforms including crypto currency exchanges. Bitcoin exchanges such as Mt. Gox have gone bankrupt, while customer withdrawal suspensions on such exchanges are common.

Finally, as more financial services are delivered over the internet, there will be growing security concerns from cyber threats. All these throw up issues around not just financial system stability but also customer protection.

Of course, there are solutions for all these risks, sometimes embedded in the technologies themselves. However, they need to be carefully thought through and adequately guarded against.

d. The challenge of data

With the ubiquity of data today, thanks to the Internet of Things and the advances in AI / machine learning, the financial industry is able to 'know' the customer and model behavioural patterns on a truly personal level. While this can be harnessed for good, there is also a potential dark side. Today, there are concerns about data impinging on customer privacy. What is less debated is that the use of Big Data could also lead to other adverse outcomes such as financial exclusion. For example, while insurance companies operate today on the principle of socialisation of risks, if they can predict a person's risk of contracting cancer compared to their peers, this can lead to the individual being priced out or even being unable to obtain insurance coverage.

Given this, there is an urgent need to think through the new rules of data. Currently, the world of personal data lacks the rules, norms and frameworks that exists for other assets. The existing method of “Notice & Consent” is an old paradigm where customers simply indicate consent when providing data to companies and organisations. The potential answer lies in the evolution of legal, ethical and social norms around usage rather than control of possession (at source). The notion of privacy is likely to move to a context and usage regime – where the intended use of data would be most important.

With these challenges, there is a need for a concerted and calibrated response from both regulators and industry players alike, working together to advance Singapore’s position as a leading financial centre, while managing the transitional impact on society.

This requires thoughtful regulation, private-public partnerships and developing the people agenda.

Thoughtful regulation

Whether it is raising money, making payments or lending money, big technology is redefining banking. While we embrace the positive impact technology can make to improve lives, we also need to be cognisant of their impact on society. Sandboxes are helpful, but I am reminded of a CBRC regulator who said of the conundrum relating to the regulation of fintechs, "first they were too small, now they are too big". Thoughtful and wise regulation is needed to manage the pace of the transition, and to ensure that that our industry is not hollowed out.

Private-public partnerships

Secondly, as an industry, we need to come together and build platforms to drive innovation, greater efficiency or better customer experience. The good news is that in many ways, banks in Singapore are not coming from a standing start. Some industry-wide initiatives are already in the works or being seriously explored. For example, the industry is leveraging a strong payment infrastructure on the back of FAST and the Central Addressing Scheme to propel Singapore's cashless agenda. An industry KYC utility to simplify and automate KYC processes, and a National Trade Platform to drive innovation for trade finance globally, are also in the pipeline. Close partnership between the public sector, the regulators and the industry will go a long way to ensuring that we create outcomes in the best interests of all participants.

Developing the people agenda

Thirdly, we need to step up on the people agenda. With the digital revolution, some jobs will inevitably be lost to automation. The nature of banking jobs is also changing, with the banker of the future likely to be proficient in areas such as user experience and user interface, cloud computing and data analytics. We have made some progress on this front with the work done by the Institute of Banking and Finance, Financial Sector Tripartite Committee and SkillsFuture schemes; however, we have barely begun to scratch the surface. We cannot underestimate what it will take to achieve this retooling, including the very big challenge of changing people’s mindsets.

Conclusion and a call to action

In the past, when facing digital disruptions, we have let technology lead the way and worried about the rules of the game later. But this time around, given the sweeping global changes upon us, I feel it would be wise to think about the new social compact and new rules in advance or alongside these monumental shifts.

Jack Ma recently warned of a dystopian future where “in the next 30 years, the world will see much more pain than happiness”, and in which “social conflicts … will have an impact on all sorts of industries and walks of life”.

I believe we can avoid such a dystopia if we come together to redefine the social compact, and to harness the tremendous good that technology can bring, while ensuring that society is protected from its ills.

Singapore is well-placed to lead this charge due to our ‘goldilocks’ size: big enough to matter, but small and agile enough for all stakeholders to come together and shape the future of the world of finance. It is incumbent on us to do so, not only for our sakes, but for those that come after us.

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