

The Association of Banks in Singapore 46th Annual Dinner
Speech by Mr. Piyush Gupta, Outgoing ABS Chairman
28 June 2019

Guest-of-honour: Mr Tharman Shanmugaratnam, Senior Minister and Coordinating Minister for Social Policies,

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.

We are gathered here at a time of uncertainty, both on the geo-political and the macro-economic fronts. In fact, if I were to take the pessimistic view: the glass half-empty view, I would suggest that we are in for some difficult times ahead, not just in the short but also the medium term.

At the forefront of my concerns has to be the tensions between China and the US. While generally characterised as trade tensions, I worry that the differences are borne of more deep rooted and substantive issues, of which three are significant:

- a) the dominant power/rising power rivalry, which the Greek historian and political scientist Thucydides reflected on in the context of the rise of Athens in the face of a dominant Sparta two thousand five hundred years ago;
- b) the drive for technology supremacy - 5G, IoT, AI, which will be the foundation of military and economic power in the coming century and;
- c) a clash of socio-political systems, with a grudging realisation among US policy makers that contrary to expectation, China's economic development will not necessarily be accompanied by an accompanying evolution towards a liberal democratic order anytime soon. If it is indeed true that the tensions are more than captured in the size of the trade deficit, then it is also possible that the answers will not be found in trade talks and negotiations. We could in fact be heading for a new cold war, an economic iron curtain, and what some people

have called as splinternet, to reflect a world with two distinct technology standards and protocols. I don't need to amplify to this audience how detrimental such a world would be to our region and especially to an open economy like Singapore. Our success has come in an environment of geopolitical stability and an ability to partner with all sides; any form of instability, and in the worst case, the need to choose sides, will be a big challenge for us.

A second concern would have to be the slowdown in the global economy. This is a concern I flagged last year as well, since the bull cycle is long in the tooth. Interestingly, all markets, except for the US have corrected since then. But today, even in the US, growth appears to be slowing. We have quite clearly seen the end of the tightening cycle, rate cuts are being anticipated by the market, and there is already talk of a fresh round of quantitative easing in regions like Europe. A global slowdown will clearly pose challenges which might be amplified in our sector by the high levels of corporate leverage that has built up around the world in the last few years.

The impact of the slowdown is already evident in Singapore macro aggregates. While some may be more pessimistic than others about the Singapore economy, it is clear that full year GDP growth is going to be weaker than earlier predictions (official forecast of 1.5%-2.5% is being reviewed by MTI & MAS). In manufacturing, the drag lies in electronics and precision engineering. For services, trade related services are weighed down by uncertainties in the external environment but offset by domestic oriented services. The silver lining is that construction is back up from recession and is currently enjoying a healthy run.

A third challenge is that of ongoing technology disruption, and more specifically, the awakening of the US technology giants in the past year. Apple with Apple Card, Google with Google Pay and Facebook with Libra – have all announced their entry into our domain, and it is clear that between them, the Chinese techfins and other regional players, and possibly new “virtual banks” we are in for an increasingly competitive future.

Fortunately for this gathering, I am an optimist at heart... so I can take recourse to the “glass half full” view instead of the half empty one!

My first cause for optimism is the 4th of July – or more specifically, the fireworks used in the US on their Independence Day. I read recently that 95% of these fireworks come from China, and if the trade tensions escalate, these will also be subject to tougher tariffs. While the stock of crackers for next week is safe, the 2020 celebration could be muted – and if President Trump wants to go with a bang in the final year of his term, wiser counsel would have to prevail.

The more serious point is simply this – the world is today just too integrated for a two bloc system to take meaningful root in the long term. Therefore, the odds favour a return to a multilateral world sooner than later.

On the economic front, even with the specter of the negative geo-political and economic sentiments, we can all agree that Asia has seen secular growth over an extended period, anchored on increasing domestic consumption, robust infrastructure spend, and increasing intra Asia trade. I do not believe that these trends will be dislocated anytime soon. In addition, most Asian governments have kept enough dry powder to use fiscal and monetary policies to cushion any short-term cyclical challenges. Robust capital and liquidity buffers are underpinning the resilience of financial institutions, even as global financial conditions tighten.

On competitive intensity, I have always believed in fighting fire with fire. Our financial industry's initiative to transform itself is continuing to bear fruit. From my perspective, Singapore banks are in a good position to compete in the new competitive landscape as we started our digitalization journey early enough and have made steady progress.

Take, for example, our drive to go cashless. PayNow, Singapore's main peer-to-peer funds transfer service, continues to be widely adopted, driven by growing demand for convenient, quick and secure fund transfers.

Since its launch in 2017, PayNow Retail now has 2.6 million registered users, with more than SGD 6 billion in cumulative transactions.

In 2018, PayNow Corporate was launched, extending the simple and convenient e-payment service to businesses, government agencies and associations that collect fees and payments on a regular basis. PayNow Corporate is catching on among corporate Singapore - more than 100,000 businesses have signed up and there has been approximate cumulative transactions of SGD 300 million in the last 10 months.

At the same time, cross-border partnerships like Project Ubin are also showing some traction. For example, Canada and Singapore recently conducted a successful experiment using Distributed Ledger Technology to successfully experiment using cross-border and cross-currency payments using central bank digital currencies.

All in all, I am confident that Singapore banks can today hold their own even against new competitors, with one caveat – we must have a level playing field. There are three areas I would like to draw the regulators attention to:

- 1) Capital and liquidity requirements for all competitors should be alike.
- 2) The supervisory burden should also be equal. I worry that new players are accorded a regime of proportionate regulation and supervision whereas incumbents are faced with “entity level” supervision for the entire range of our activities.
- 3) The expectations of running a profitable business model should be identical. Predatory pricing behaviour, with an eye to “winner takes all”, should be subject to the same Anti-Competitive scrutiny as has always been the case in the capitalistic system.

In addition to the digital agenda, the industry is also transforming on another front: the Sustainability agenda. I believe this transformation is critical, given the challenges facing our planet, and will stand the industry in good stead.

In June 2018, updates to the ABS Responsible Finance Guidelines and Haze Diagnostic Toolkit were published and the revisions were the result of a periodic review and to contextualise the guidelines with recent international developments, such as the Paris Agreement.

A key effort to embed responsible financing principles involved the capacity-building workshops and masterclasses that the ABS organised, in collaboration with the World Wide Fund for Nature (WWF).

In addition, ABS joined the Asia Sustainable Finance Initiative (ASFI), a multi-stakeholder platform that brings together the finance industry, academia and science-based organisations to help deepen the sustainable finance expertise of Singapore-based financial institutions. Launched on 21 January 2019 by WWF, the ASFI is aligned with the ABS' mission to collaborate with stakeholders on developing and implementing sustainable financing that benefits customers, communities, the environment and banks.

While we transform the industry, I am encouraged that we continue to stay focussed on our principal stakeholders – our customers and employees. On the customer front, we made progress in ensuring that our customers are not disadvantaged by new technologies. As we go forward, our capacity to aggregate and harness all kinds of data, whether credit-related or customer-related, will be huge. But that also means that we need to use data and AI wisely and respect the privacy of our customers. Late last year, MAS issued a set of principles to promote Fairness, Ethics, Accountability and Transparency or FEAT in the use of artificial intelligence and data analytics in finance. The FEAT principles provide guidance to firms on responsible data use and focus on requiring firms to strengthen their internal governance around data management and use.

We also continued to work on promoting desirable industry norms in the culture and conduct of financial institutions and are pleased to partner MAS to form the ABS Culture and Conduct Industry Steering Group. Established in March 2019, the Group comprises the senior management of 13 banks and serves as a platform for the industry to come together to exchange views and share best practices on culture and conduct, building on existing codes and governance structures.

Finally, we are continuing to make progress in focussing on our people. In the last two years, we have collectively helped to shape a new role for the Institute of Banking and Finance or IBF, transitioning from an educational institution to one that is more developmental in nature by helping to identify and build competencies and

reskilling people to be future-ready. IBF has worked with financial institutions to systematically and proactively identify and re-skill mid-career hires and existing workers in the financial industry. These professional conversion programmes have borne fruit. At the MAS Annual Report media conference, it was mentioned that in 2018, more than 20,000 individuals have gone through MAS/IBF-supported upskilling programmes. 19 financial institutions have committed to reskill close to 4,000 finance professionals and redeploy them in new or expanded roles over the next two years. 1,700 have already started this journey and 800 have successfully transitioned into new roles.

This is very encouraging and is testament to effective cooperation amongst MAS, IBF and the banking industry in transforming Singapore's workforce to meet with technological changes.

We must ensure that these changes benefit our people, that they have the skills necessary to keep up with change and that the best talent continue to build meaningful careers in banking. In this regard, the ABS worked with MAS and the National Trade Union Congress (NTUC), as a member of the Financial Sector Tripartite Committee, on various SkillsFuture initiatives.

Ladies & Gentlemen, I took on chairmanship of ABS two years ago and in line with our rotation policy, I must now pass on the baton. How time has flown!

Two years ago, I had pointed to challenges such as identifying new avenues of growth, the hollowing out of talent in the industry, the responsible use of data and the need for thoughtful regulation and cementing relevant public private partnerships to ensure the industry had a path forward. I am pleased that on my watch, we have been able to negotiate the terrain with some success. But the challenges haven't gone away. In some ways, they loom larger than ever.

They say the best way to judge a leader is by the period after his tenure. So to ensure my legacy as ABS Chair, I am being very clever – passing on the baton to someone more gifted than I am to take us through the choppy waters ahead. Sam, welcome to the hot seat!

Before I close, I would like to take this opportunity to thank and appreciate my fellow Council Members and Member Banks. In particular, I would like to commend the Chairpersons of the Standing Committees and Task Forces for their invaluable contributions. To Ai Boon and staff of the ABS, your dedication, hard work and support is deeply valued.

I would now like to invite Sam to give his address as incoming Chairman.

Sam please.

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