

Tharman Shanmugaratnam: Opportunities in Asia for long-term growth and a look at the role of Singapore's local banks

Speech by Mr Tharman Shanmugaratnam, Chairman of the Monetary Authority of Singapore, at the Official Inauguration of DBS Asia Central, Marina Bay Financial Centre (MBFC) Tower 3, Singapore, 17 October 2012.

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Mr Peter Seah Lim Huat, Chairman, DBS Bank Limited Mr Piyush Gupta, Chief Executive Officer, DBS Bank Limited

Distinguished Guests,

1. It is a real pleasure to be here with you for the official opening of DBS' new headquarters at the MBFC – DBS Asia Central.
2. Established in 1968 as the Development Bank of Singapore, DBS played a key role in helping to drive Singapore's industrialization efforts. As Singapore moved to develop into a key financial centre in the Asian timezone, DBS also evolved into a full-fledged financial services group, offering a comprehensive range of products and services.
3. Over the last few decades, DBS has also expanded strongly into Asia, and has established a strong regional footprint. Apart from its key markets in Singapore and Hong Kong, DBS is strengthening its franchise in Southeast Asia (SEA), China, India and Taiwan. Today, with its network spanning 12 markets in Asia, DBS is not only a leading bank in Asia Pacific but also ranked by some as one of the strongest banks in Asia¹.

Leveraging on opportunities in Asia to anchor long term growth

4. The global economy continues to face many risks and uncertainties. The US economy has not returned to pre-crisis levels of output, the Eurozone remains in recession, and emerging economies are starting to show more signs of weakness. Against this backdrop, Asia has been resilient but remains vulnerable to external shocks. Nevertheless, given the region's strong fundamentals, we continue to be confident about Asia's longer term growth potential.
5. One bright spot is demand for financing in Asia. Demand for almost every segment of Asian finance is also growing – trade and structured trade finance, cross-border corporate lending, infrastructure finance, capital-raising in equity and bond markets, corporate treasury services and wealth management. Trade finance is driven by burgeoning Asian trade, which is projected to grow at about 8.3% per annum. By 2020, 60% of global trade will have an Asian component.² Corporate funding needs in Asia are also growing, with 57% of Asia Pacific business leaders expecting their funding needs to increase over the next 2 to 3 years, compared to 32% in Europe³. On infrastructure finance, we are familiar with ADB's estimates that Asian infrastructure spending is expected to amount to US\$8 trillion from 2010 to 2020.
6. To meet this strong demand, there is scope to broaden and deepen financial intermediation in Asia. However, this is likely to take place against some headwinds caused by (i) European bank deleveraging (ii) banks' diminished ability to provide long-term financing

¹ According to Bloomberg Markets, DBS is 8th in the second annual ranking of the world's strongest bank in 2012.

² Source: "Trade Transformed: The Emerging New Corridors of Trade Power", Citibank (Oct 2011) & McKinsey.

³ Source: "Under Pressure: Funding in an Uncertain World", Allen & Overy (Oct 2011).

arising from revised Basel capital rules. Nevertheless, we are unlikely to see sudden dislocation in the Asian financing landscape because of the following:

- 6.1. First, Asian banks remain well-capitalised, and notwithstanding cost/deleveraging pressures, international banks will want to preserve their Asian franchises given Asia's stronger growth potential relative to other regions.
 - 6.2. Second, bank financing in Asia will adapt. Some banks have already begun to explore certain risk-transfer mechanisms (e.g. credit insurance) to continue extending credit, while complying with stricter capital rules. Other banks have shifted to "originate and distribute" models which allows them to play a role in long-term financing even as they scale back their provision of long-term loans. We expect banks in Asia to continually explore new models to remain relevant and constantly develop its expertise to meet Asia's financing demands.
 - 6.3. Third, growing role of non-bank capital to complement bank financing: The signs are very promising. From 2007-2011, the proportion of aggregate capital raised by private equity growth funds in Asia Pacific has almost doubled from 32% to 62%. On debt markets, we have seen strong issuance activity in Asia Pacific ex-Japan. Almost US\$800 billion of bonds were issued in the first three quarters of this year, establishing a new high when compared to the previous record of about US\$525 billion over the same period in 2011⁴. Over the longer term, emerging Asia's bond markets are expected to grow 18-fold from US\$5 trillion in 2009 to US\$90 trillion in 2030⁵.
7. There is therefore great scope for financial intermediaries in Asia to play a key role in financing Asia's future growth, channelling surpluses to meet the region's needs, and facilitating closer integration of trade and financial markets in the region. DBS, with its extensive network in Asia, is well-poised to be at the forefront of these trends. DBS has done well in this respect - for instance, DBS ranks amongst the top 5 mandated arrangers of Asia Pacific syndicated loans (ex-Australia and Japan). In Singapore, DBS is also part of a bank consortium led by Temasek Holdings to provide long-tenor financing to Singapore-based corporates in infrastructure projects in Asia Pacific.

Role of local banks in Singapore's financial system

8. Even as our local banks like DBS expand into the region to ride on Asia's growth, it is important that they remain deeply rooted in Singapore, their home market. They have been and will continue to be a crucial part of Singapore's financial system. Local banks have an important role to play in safeguarding Singapore's financial stability, particularly in times of crisis. To continue to play this role effectively, our local banks should continue to strengthen their systems of management, risk control, technology, operations and expertise as businesses evolve.

9. Local banks are also well-positioned to serve the local community, and in particular, support the development of small and medium-sized enterprises (SMEs). I was told that DBS launched an enhanced Social Enterprise Banking Package in July that offers social entrepreneurs virtually free banking transaction services and loans on preferential terms, giving them time to focus on building their businesses and pursue social causes. I have met some of these social entrepreneurs who have the opportunity to showcase their products and services in a dedicated DBS 'Social Enterprise Corner' here at DBS' MBFC headquarters.

⁴ Source: Dealogic.

⁵ Source: "Super Cycle Report", Standard Chartered Bank (2010). The numbers are quoted in nominal terms.

10. Singapore will continue to evolve and grow its role as an international financial centre. The development of the Marina Bay Financial Centre (MBFC) is a testament to Singapore's commitment to support the long-term growth of the financial industry. With today's opening of DBS Asia Central, DBS is now one of the largest tenants in the MBFC.

11. As one of the largest employers in Singapore's financial services industry with a headcount of over 8000 staff, DBS also has an important role to play in nurturing and developing talent. The current MBFC location has allowed DBS to introduce a number of initiatives, including its multi-market, multi-year strategic occupancy programme, which aims to consolidate relevant teams under one roof to facilitate greater efficiency and productivity, enabling the bank to be even more responsive to customer's needs. I also understand that DBS' new HQ is designed to foster a strong sense of community and collaboration amongst DBS' staff. There are spacious social hubs on each floor connecting the workstations and meeting areas to encourage staff interaction, and all staff get to enjoy 180 degree view of the Marina Bay area (not just senior managers). Importantly, such innovative spatial design is complemented by responsive workplace programmes such as flexi-work hours to promote work-life balance for DBS' staff.

Closing remarks

12. Let me again extend my heartiest congratulations to DBS Bank on the opening of your new headquarters. I wish DBS Bank success as you continue to play an active role in the local and Asian banking scene.