

Tharman Shanmugaratnam: Singapore – a widely respected centre of Asian and global finance

Keynote address by Mr Tharman Shanmugaratnam, Chairman of the Monetary Authority of Singapore, at the Association of Banks in Singapore (ABS) Annual Dinner, Singapore, 30 June 2015.

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Chairman and Council Members of the ABS,

Ladies and gentlemen,

1. Thank you for inviting me to join you this evening.
2. We meet at a time of renewed uncertainty in global finance. Greece has imposed capital controls and declared a banking holiday to stem a full-blown financial crisis.
3. No one has been able to predict each step in the game of brinkmanship that we have seen over the last few weeks. But the underlying reality of a sharply deteriorating economy in Greece, and the prospect of bankrupt Government, has not been a surprise. It is too early to say if some form of Grexit becomes a reality, but it is a contingency that Eurozone governments and financial institutions have been preparing for.
4. The direct impact of a collapse of the Greek economy is not significant, even in the Eurozone. The ECB and the EU are also likely to take all steps necessary to safeguard the Eurozone financial system in the coming weeks. Markets have hence not shown great panic, with credit spreads widening only slightly in the Eurozone periphery.
5. But there are downside risks we should be mindful of. Economic distress may give way to political and social turmoil in Greece, with an unpredictable interplay with the broader dynamic of geopolitical tensions. Any setback in confidence could hurt a still tentative economic recovery in Europe, which will have spill-over effects on the rest of the world economy.
6. We should therefore not be alarmed, notwithstanding the drama of recent days, but we should stay alert and vigilant. Although the risk of a sudden brake in global growth remains low, we are closely monitoring developments and their potential impact on Singapore.

50 Years of Singapore's Financial Centre

7. This year's ABS annual dinner also comes as we mark our 50th year of nationhood in Singapore. Our financial centre has been both beneficiary and driver of the nation's progress over the five decades.
 8. We can take quiet pride in how it has evolved, from its beginnings in the financing of merchant trade with our neighbours, into a well-diversified, vibrant and widely respected centre of Asian and global finance.
 9. It was never a given that Singapore would be a major financial centre. We started at a time when Hong Kong had a major head start, as the Asian outpost of the City of London. There was no natural reason why a broad range of global financial institutions and services had to be located in Singapore, a small island state separated from its Malayan hinterland.
 10. It took a certain boldness to stake a place in international finance, constant supervisory vigilance, and sound leadership of the local banks which have been the anchor in the financial system. We earned the respect of both markets and regulators internationally.
- As Mr Lee Kuan Yew put it, "We had to fight every inch of the way to establish confidence in our integrity, competence and judgement."

11. This evening, I will talk about two important initiatives for Singapore's financial sector, that will buttress the foundations for its future progress:

- First, MAS will rationalise the regulatory framework that has distinguished the domestic and international banking operations, taking into account market developments over the years and global regulatory changes over the last half decade.
- Second, we will introduce several manpower and talent development initiatives to ensure a strong Singaporean core across the range of activities in the financial sector.

Removing the DBU-ACU Divide

12. Let me start with the regulatory framework that has distinguished domestic from international banking in Singapore.

13. The creation of the Asian Dollar Market (ADM) in 1968 was a path-breaking step. It put Singapore on the map of international finance. It also enabled our financial sector to serve as a major source of funding for the investment, trading and risk-management needs of a growing region and beyond.

14. Financial stability has however been a paramount objective from the time we established the ADM. Banks have been required to segregate their domestic and offshore operations into domestic banking units (DBU) and Asian Currency Units (ACU), as separate accounting entities.

- The DBU of a bank holds its domestically-focused operations, which are predominantly denominated in Singapore dollars.
- The ACU of a bank holds its offshore operations, which are (entirely) denominated in foreign currency.

15. This framework has in the initial decades provided a way to safeguard domestic financial stability, without unduly impinging on the regional activities of banks in Singapore. For example, MAS imposed liquidity requirements on banks' Singapore dollar liabilities (i.e. only within the DBU). In addition, DBU activities were subject to large exposure and equity investment limits.

16. The Asian Dollar Market was hence regulated along broadly similar lines as the Eurodollar market in London. Foreign banks had to meet high standards before they were admitted to Singapore, but once in, their offshore operations were regulated in the same way as in other reputable financial centres. Much weight was placed on the foreign banks having reputable home regulators exercising oversight of their global operations. However, MAS imposed an additional overlay of prudential requirements on the banks' domestic businesses in Singapore.

17. The DBU-ACU divide also provided a simple basis for offering developmental incentives to encourage the growth of offshore banking activities out of Singapore. The incentives were in the past focused on the ACU.

18. The DBU-ACU divide served us well for decades, but has been losing its relevance. There are a number of reasons for this development. First, since 2004, our developmental incentives have no longer been based on the domestic vs offshore distinction. Second, the divide between domestic and offshore banking has in practice become increasingly porous.

19. Third, and most importantly, there have been major global regulatory developments in the last five years, that have resulted in banks' offshore activities being subject to rules that are broadly similar to those governing the domestic banking business in Singapore.

- New global rules have increased the amount and quality of capital as well as the liquidity buffers that banks need to hold
- Global regulators have also agreed on a common framework to control large exposures to a single counterparty

20. These global regulatory reforms have put all banks on a sounder footing. It has also reduced the relevance of MAS rules that distinguish between offshore and domestic banking activities of foreign banks, since home regulators will now be requiring their banks to meet enhanced standards on a group-wide basis.

21. Post-global financial crisis, we have also seen a strengthening of co-ordination among home and host regulators. MAS is an active member of the global Crisis Management Groups of regulators of foreign banks with significant operations in Singapore. This aims to enhance regulators' preparedness and coordination in crisis management.

22. A fourth reason why the DBU-ACU divide is of less relevance today has to do with the significant changes in MAS' own banking regulations, aimed at reducing systemic risks.

- All banks will be required to meet enhanced liquidity requirements that apply to the entirety of their operations by January 2016.
- Banks which are designated as domestic systemically important banks (D-SIBs) in Singapore will be subject to additional supervisory measures over both their domestic and offshore businesses¹
- In addition, where a foreign bank branch has significant retail presence in Singapore, it will also be required to locally incorporate its retail operations. The subsidiary will be subject to the same suite of regulation as the local banks, and the same supervisory regime aimed at minimising risks to local depositors.

23. Together, the enhanced global and domestic regulatory standards mean that the DBU-ACU divide is no longer useful. If we continue with the divide, it would merely impose undue administrative burden on banks, without materially enhancing prudential soundness or systemic stability.

24. Hence, MAS will be removing the DBU-ACU divide in its banking regulations. The details will be released in an MAS consultation paper by August. There is no rush. We will implement the changes in close consultation with the banking community, and phase them in over time.

25. This is a significant rationalisation in our banking regulation landscape. But I have to emphasise that one thing remains unchanged, and that is Singapore's commitment to promoting the growth of the Asian Dollar Market, and the international business of banks based in Singapore.

Establishment of Financial Centre Advisory Panel (FCAP)

26. Indeed, a strong partnership between the MAS and industry leaders and practitioners has been key to the development of Singapore's financial sector, and how we got to where we are today. It will be even more important in the coming years, with changes accelerating in the financial world.

27. MAS will therefore strengthen its dialogue with the financial industry. We will set up a Financial Centre Advisory Panel (FCAP) comprising senior leaders from the banking,

¹ For example, as a D-SIB, the foreign bank will be required to conduct recovery and resolution planning to reduce the potential for failure and promote their resolvability for an orderly winding-down.

insurance and asset management industries. The Panel will provide guidance in two broad areas:

- First, overall financial sector developmental strategies. Industry leaders and experts will provide advice on opportunities across the various financial activities, and propose initiatives to ensure continued vibrance in Singapore's financial centre. This includes building synergies across different activities – for example, spurring the development of the capital markets by building on the asset management sector to catalyse equity, fixed income and FX trading activities.
- Second, we have to build deep skills and expertise relevant to the future and harness technology. These 'horizontal' skills and technology will be the key drivers in the next phase of our financial centre's growth.

28. Mr Ravi Menon, MD MAS, spoke just yesterday about the new technologies that are transforming financial services and how MAS and the industry could work together to take advantage of these technologies. I will talk now about how we can build the depth of skills and expertise, across all levels of the financial sector workforce, and how we aim to achieve quality jobs for Singaporeans in a rapidly-changing financial environment.

SkillsFuture in Financial Services

29. The next 10 years will be both disruptive and transformative for financial institutions and markets. New technologies will have a significant bearing on the scale and nature of financial sector jobs – everywhere from the front-end of consumer transactions and advice, to the middle and back-end business of processing, risk management and data analysis.

30. Many jobs in finance will be at risk around the world. But if we prepare well for the changes reshaping global finance, there is significant opportunity in this for Singapore and for Singaporeans working in finance.

31. Our vision is to be a financial centre that is among the leaders globally in workforce skills and expertise, and one with a strong core of Singaporeans at every level.

32. MAS has been engaging the top leadership of key financial institutions, here in Singapore and in headquarters overseas, on our initiatives. Their response has been positive. They recognise and support our desire to develop deep skills and a strong pipeline of Singaporean talent, as part of a vibrant and competitive global financial centre. It is in our collective interest that we do this, and in the interests of each financial institution over the long term.

33. As part of the national SkillsFuture effort, MAS in partnership with the industry and educational and training institutes is now embarking on further initiatives. We will strengthen support for every finance professional to learn continuously, develop his or her expertise, and have a good career. This includes developing Singaporean leaders in finance, with the capabilities to take on responsibilities in Asia and further afield.

Continual Learning and Deepening Specialist Skills

34. Let me describe these initiatives briefly, starting with our efforts to promote continual learning and to develop deep pools of financial sector expertise in Singapore.

Finance Scholarship Programme (FSP)

35. First, under the Finance Scholarship Programme (FSP), MAS supports early-career Singaporeans in developing specialist capabilities through post-graduate studies. This includes specialisations in quantitative finance, risk management, actuarial science and specialty insurance, and emerging priorities such as cyber security, data analytics and fraud risk detection. Since the scholarship's inauguration in 2006, more than 150 FSP scholarships

have been awarded. MAS will provide 30 scholarships per year to add to the pipeline of specialist talents in the financial sector.

SkillsFuture Study Awards

36. Second, MAS will offer up to 70 SkillsFuture Study Awards each year for financial sector professionals. These awards aim to equip Singaporeans, especially those in the early to mid-stages of their careers, to develop and deepen their skills through a wide range of programmes, including shorter courses, especially in areas where industry expertise remain in short supply.

Subsidies for Continual Learning

37. Third, and most broadly, we will also provide generous subsidies to support Singaporean finance professionals in continual learning related to financial sector competencies. MAS currently funds up to 70% of the costs of financial sector training courses. In addition, as announced in this year's Budget, subsidies for all Singaporeans aged 40 and above will be enhanced to a minimum of 90% of training costs for approved courses. This is a significant subsidy from the Government, as we recognise there are opportunity costs that mid-career Singaporeans face when they go for further education and training.

Earn and Learn Programmes

38. The initiatives I have just described are aimed at all Singaporeans in the financial sector, and especially to help our PMEs stay on top of a changing world of professional jobs. Regardless of whether they start their careers with a master's degree or diploma, we must help them learn continuously, and pick up the skills needed for new jobs in finance.

39. Our fourth initiative is more specific, and is aimed at providing fresh polytechnic graduates with good opportunities early in their careers. MAS will be introducing the Financial Sector Earn and Learn Programmes for this purpose.

40. For the prospective polytechnic graduate, this 12–18 month work-study programme will allow him or her to gain valuable employment experience at a financial institution and to receive training which counts towards a Specialist or Advanced diploma upon completion of the programme. These work-study programmes will be designed in collaboration with financial institutions, the polytechnics and the Singapore Workforce Development Agency (WDA).

41. I am pleased to see that the major banks in Singapore have committed to provide at least 200 places for polytechnic graduates in the coming year, through the Earn and Learn Programmes or their in-house structured programmes. (They include all three local banks – DBS, OCBC, UOB – as well as ANZ, Barclays, BNP Paribas, Citibank, JP Morgan, Maybank and Standard Chartered Bank.) These will be in the banks' core functions of technology, consumer banking, operations and risk management.

42. Wherever you start, we will help you progress. To give an example, Oryan Ang, graduated from Nanyang Polytechnic and joined DBS in 2004 as a Home Advice Specialist. He was given opportunities to learn on the job, demonstrate his abilities and rise through the ranks, and is today a Vice-President in Consumer Banking (Deposits and Secured Lending) at the bank.

Developing strong core of Singaporean Leaders in Finance

43. Let me turn finally to the second thrust of our initiatives to develop professional talent and skills, which concerns leadership development. This too is a key priority under SkillsFuture. The development of a strong core of Singaporean leaders in finance, working in diverse global teams, will define our continued success as a financial centre. MAS takes this very seriously.

44. We have in recent years introduced several initiatives to promote the development of Singaporean leaders in the financial industry.

- The Finance Associate Management Scheme (FAMS) offers promising young professionals exposure to different aspects of a financial institution's global operations and mentorship by senior leaders.
- The International Posting Programme (iPOST) has supported more than 35 overseas postings of Singaporeans in finance since its launch in 2013. They have acquired valuable practical experience in diverse working cultures over their 6 to 24-month attachments to regional and global offices of financial institutions.

Asian Financial Leaders Programme (AFLP)

45. To further strengthen these efforts, I am pleased to announce the launch of the Asian Financial Leaders Programme (AFLP).

- The AFLP will take advantage of Singapore's strong and expanding linkages in the region, including ASEAN, China and India, and aim to strengthen those links through leadership development.
- It is aimed at equipping finance professionals aspiring to C-suite roles with the knowledge and capabilities to operate effectively across diverse business, regulatory, and legal environments.
- Participants will be given the opportunity to learn from and interact with top policy-makers from the region and to also build networks with fellow financial sector leaders.
- The AFLP will be administered jointly by Temasek Management Services and Singapore Management University, with the first intake of AFLP participants slated for November this year.

Conclusion

46. Singapore's financial sector has thrived on constant adaptation: the development of new capabilities and instruments, a willingness to take risks, and at every stage the evolution of regulation and risk-management practices so that we can mitigate the downsides inherent in the business.

47. We are now embarked on our next phase of development as a financial centre. It will be driven by deeper collaboration between MAS and the industry, a collective effort to leverage on new technologies, and by staking a position as a leading global centre of financial skills and expertise. The exciting thing is that we can actually achieve this.