

Tharman Shanmugaratnam: Financial technology (FinTech) - transforming financial services in Singapore

Speech by Mr Tharman Shanmugaratnam, Chairman of the Monetary Authority of Singapore, at the Launch of LATTICE80, Singapore, 10 November 2016.

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Introduction

1 Good morning. Thank you for inviting me to join all of you. Let me begin by congratulating Marvelstone on the launch of LATTICE80.

2 It is the first innovation space in Singapore dedicated to and designed specifically to support FinTech. LATTICE80 is also the first not-for-profit private sector initiative in this business of nurturing start-ups.

The FinTech Phenomenon

3 FinTech – or financial technology – is transforming financial services, both from within established financial institutions and from outside the regulated sector through new, FinTech players.

4 When FinTechs first came to global prominence, it was tempting to cast this as a battle between new, innovative and responsive players and lumbering, flat-footed banks and other financial institutions.

5 The real picture is more nuanced, mainly because the incumbents have not been sitting still:

- ♦ Many of them are investing heavily in technology to streamline and optimise entire swathes of operations.
- ♦ For example, several initiatives are underway among banks to tap on distributed ledger technology to achieve swift, seamless and secure trade settlement.
- ♦ Several financial institutions have set up in-house FinTech units to replicate the start-up culture.
- ♦ They are also collaborating with and, in some instances, buying over promising FinTech companies.

6 And not many technology companies aspire to become financial institutions. Complying with regulations, submitting to supervision, and churning out disclosure documents for the markets is not always an appealing prospect.

7 In short, the Goliaths of the financial world have become more nimble-footed, and are both competing with and partnering the Davids.

8 That said, we are still at an early stage of FinTech, globally. It has spurred greater competition in every segment of the value chain of finance. It is too early to say who the winners will be.

9 The traditional financial institutions have the advantage of scale and a reputation amongst customers. But those that fail to keep up with technology will see part or all of their business models disrupted. Consumers are cautious about shifting their wallets to new players, but they are also looking out for services that offer the best value.

10 But many FinTech start-ups will also fail. It is in the nature of innovation that few new ideas and technologies will develop scale, sustain funding and end up as winners in the market. The

collapse of many peer-to-peer lending platforms in the US, UK, and China is a reminder that it will not be plain sailing for FinTech companies.

Agrowing FinTech ecosystem in Singapore

11 Singapore's strategy is not to choose between financial institutions and new FinTech players but to provide the conditions for both to innovate, compete, and collaborate. Our aim is to create a FinTech ecosystem where innovation thrives. This is an ecosystem comprising the innovation centres of our financial institutions, the mushrooming FinTech start-up scene, our institutes of research and higher learning, the VC/PE community of investors, and connectivity to regional markets.

12 We are making good progress:

- ♦ Singapore is home to more than 300 FinTech start-ups, focused on each segment of the value chain – from providing consumers more seamless payments services to offering institutions enhanced, automated fraud monitoring.
- ♦ More than 20 global banks and insurance companies have set up innovation labs and research centres in Singapore. Several will be opening their labs next week during the FinTech Festival, to showcase their experiments.
- ♦ MAS is working with the industry to facilitate greater collaboration. For example, MAS is encouraging the development of open APIs among Financial institutions to enable efficient data sharing.
- ♦ Our A-STAR's research institutes are partnering financial institutions on data analytics and mobile technology projects. Our universities and polytechnics have also updated their curriculum and internship programmes to help their students get the hang of FinTech.
- ♦ Venture capital interest is growing, with some of the most active VC investors in Asian FinTech being based here.
- ♦ We have a growing network of co-operation agreements connecting Singapore to other FinTech centres in Australia, India, Korea and the UK. Indeed, FinTech offers an effective way for players in Singapore – both financial institutions and start-ups – to meet the burgeoning demand for financial services in the wider Asia-Pacific region.

Nurturing promising FinTech start-ups

13 LATTICE80 is an important addition to this ecosystem for FinTech.

14 It offers a conducive physical space dedicated to the infrastructural needs of FinTech start-ups, here in the heart of Singapore's financial district. It reduces costs for start-ups, gives them convenient access to data centre and other services, and even has a nursing room.

15 Let me cite two FinTechs starting up residence here in LATTICE80:

- ♦ Percipient, a local start-up, has successfully developed a customised digital solution for the State Bank of India. Percipient's big data technology allows for efficient management of the bank's database of over 500 million accounts, and translating into large potential cost savings.
- ♦ Sparks Systems builds new generation trading platforms for hedge funds, banks, financial institutions and other high volume institutional participants in the foreign exchange market. It aims is to develop an efficient market place for emerging market FX.

16 This innovation village also promotes collaboration and co-creation. Even in an age of Tweets and Snapchats, face-to-face interaction remains a source of new ideas, and a way to suss out potential partners.

- ♦ R3 LRC, a specialist in distributed ledger research supported by a consortium of more than 70 financial institutions, will set up its first physical presence here. R3 Asia Lab will promote the cross-pollination of ideas between Singapore FinTechs and leading technologists around the world.
- ♦ The Fintech Association Singapore, another resident here, is a cross-industry initiative to facilitate collaboration among all stakeholders in the FinTech ecosystem.

17 There is another feature to this collaboration here, which is to bring start-ups together with venture capital and other investors.

- ♦ tryb is an investor in promising technology start-ups that are building the financial infrastructure platforms of the future for ASEAN. tryb is currently in the process of raising US\$100 million in long-term funding.
- ♦ The Marvelstone Group too, has been investing in FinTech start-ups and linking them up with their network of business and specialist expertise.

Further MAS initiatives to grow VC activity

18 MAS is working with the VC industry to grow the funding landscape for start-ups in Singapore and the region. The role VCs play in stimulating economic dynamism has been a recurring theme in discussions of the Committee on the Future Economy (CFE).

19 There are two key prongs in MAS' approach.

20 First, MAS is reviewing its regulatory regime for VC managers.

- ♦ Specifically, MAS is looking to significantly simplify and shorten the authorisation process for new VC managers.
- ♦ Further, to the extent that there are contractual safeguards to provide sufficient protection to a VC's sophisticated investor base, MAS is also looking to exempt VC managers from business conduct requirements that are currently applied to asset managers in general.

MAS will be doing a public consultation on its proposals in January next year, and targets to introduce changes by July 2017.

21 Second, MAS is studying whether existing incentives for funds and fund managers, which have been successful in attracting traditional asset managers to set up in Singapore and to grow over time, are suitable to anchor VC funds and VC fund managers here too.

- ♦ We recognise that VC funds and fund managers are typically smaller in size and headcount than traditional asset managers. But they contribute in a different way, by supporting entrepreneurship and innovation in Singapore and the region.
- ♦ We will take this into account in assessing the requirements for VC funds and fund managers to qualify for our incentives.

Conclusion

22 Innovation will drive Singapore's economic future. It will disrupt existing business models, but it is how consumers get better value, how new firms can scale up and grow internationally, and how we create quality jobs for our people.

23 This innovation village is part of this ongoing journey. It will, I am sure, nurture a new generation of technology entrepreneurs in the FinTech space. I congratulate Marvelstone once again for the successful launch of LATTICE80.