

SPEECH BY MR ONG YE KUNG, MINISTER FOR EDUCATION (HIGHER EDUCATION AND SKILLS) AND SECOND MINISTER FOR DEFENCE AT THE LAUNCH OF THE FINANCIAL SERVICES INDUSTRY TRANSFORMATION MAP ON 30 OCT 2017, MAS PENTHOUSE

Staying on Top of Our Game

ESM Goh Chok Tong

Members of the MAS Board

Industry leaders, distinguished guests, ladies and gentlemen

1 Thank you for joining us at the launch of the Financial Services Industry Transformation Map (ITM). This is a strategic plan for the future of the sector, and is the product of months of deliberations between the industry and the MAS. Financial services is an important contributor to the Singapore economy, accounting for about 12% of GDP and providing good jobs for about 154,000 people.¹

Drivers of Change

2 The Government is taking a sectoral approach to guide the restructuring of our economy, because the change needs to be pervasive

¹ Excludes holding companies. The national accounts classification of the financial services sector includes them and accounts for 13% of GDP and employs about 204,000 people.

and the characteristics of each sector are different. For financial services, we need to recognise the following when we think of transformation:

3 First, financial services is connected to every other industry. It supports the growth of other sectors, and what happens in the financial sector has systemic impact across the economy. Second, the financial sector has been continually transforming over the years – from the setting up of the Asian Dollar Market in the 1960s and the liberalisation of the banking, insurance and securities industries in the 1990s, to the extensive regulatory reforms, including Basel III, and the rise of Fintech in more recent years. This is a sector not unfamiliar to change.

4 The two big drivers of the financial sector in the years ahead will be macroeconomics and technology.

5 On the macroeconomic front, Asia's growth will define the economic narrative of our times. Provided the security environment remains stable, and big powers do not turn inwards, this trend will continue. China is confidently marching towards a new historical milestone, to be a prosperous, modern and harmonious society. The Southeast Asian economies are progressively integrating their markets. The International Monetary Fund (IMF) estimates that emerging Asia will lead global growth, with an average growth rate of 6.4% per annum for the next five years. The growth will fuel the continued rise of the middle class, growing demand for infrastructure development, and the expansion of Asian enterprises.

6 Technology is the other big wave of change. A digital revolution, that started decades ago, is still working its way and sweeping through

our lives. In financial services, technology is changing the way work is done, and how services are delivered and consumed. The proliferation of mobile phones and advent of ubiquitous connectivity mean financial transactions can be performed online, anytime, anywhere. The competitive landscape gets shaken up, workers find themselves needing new skills to stay relevant, and regulators need to respond to new risks and opportunities.

7 The game has changed. This ITM paints our vision for Singapore's financial centre and our action plan to achieve it. It is an evolving blueprint that will help us stay on top of the game. Today, I will speak on three important thrusts of the ITM:

- a. First, leverage global and regional opportunities, by strengthening our position in activities where we already have a strong competitive advantage;
- b. Second, embrace innovation, sharpen our competitiveness and inject even greater dynamism into the sector;
- c. Third, expand and deepen our talent pool.

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Leverage Global and Regional Opportunities

8 Let's start with strengthening our global and regional position in key activities. We are already an established international financial centre. We will project ourselves further, to be a leading global financial centre in Asia – connecting global markets, supporting Asia's development, and continuing to serve the needs of the Singapore economy.

9 Two areas where Singapore plays a global role are foreign exchange and asset management. In the next phase of our transformation, we want to become a global FX pricing and liquidity centre in the Asian timezone. We will encourage key FX players to anchor their e-FX matching and pricing engines in Singapore.

10 We want to cement our position as a leading Asian hub for fund management and domiciliation. Through its external fund management programme, MAS will engage key fund managers to deepen asset management capabilities in Singapore, particularly in specialist and alternatives strategies. MAS will also introduce a new corporate structure - the Singapore Variable Capital Company - by end-2018 which will position Singapore to become a key fund domiciliation hub.

11 We aim to better support Asia's growth and development, through stronger platforms for financing infrastructure development and enterprise growth.

12 Asia's infrastructure needs are expected to amount to around US\$1.7 trillion per year², far beyond what government and bank financing can provide. To fill this gap, we aim to work with multilateral development banks to improve the bankability of Asian infrastructure projects; crowd in private capital through debt distribution platforms; and create investment benchmarks to help make infrastructure financing a mainstream asset class. With our strong infrastructure financing ecosystem, Singapore can make a useful contribution to the Belt and Road Initiative led by China,

² "Meeting Asia's Infrastructure Needs", Asian Development Bank, 2017.

and act as a key conduit to channel long-term institutional funds into bankable projects around the region.

13 Entrepreneurship and enterprise are the budding shoots of an economy, creating new jobs and incomes and rejuvenating existing industries. Because of their exposure to technology and the world, young people today have a stronger desire to start their own businesses, and this is a pan-Asian phenomenon. Our financial system will enhance its role in supporting entrepreneurship and enterprise, in Singapore and across the region.

14 To support this, MAS has already simplified regulations to facilitate the activities of venture capitalist and private equity managers. We have also announced plans to revise regulations to give finance companies greater scope to support small and medium enterprises. We are currently working with industry players to establish private market funding platforms to enable growth companies to gain better access to a wider network of investors.

15 Singapore is already the leading insurance and re-insurance hub in Asia, and there is good opportunity to address the increasing risk management needs of a growing Asia. MAS will work with the industry to transform the insurance marketplace through centralised blockchain platforms, which will allow for more efficient risk placements, and create specialist risk solutions to address emerging risks in the region.

Embrace Innovation

16 A second major thrust of this ITM is to spur innovation in the financial services sector. When it comes to new ways of delivering financial services, our basic attitude is not to protect the status quo or incumbent players, but to encourage both competition and collaboration to benefit the industry as a whole and serve the needs of our economy better.

17 That is why two years ago, MAS committed \$225 million to the Financial Sector Technology & Innovation scheme. Since then, more than 20 global financial institutions have set up innovation laboratories and research centres here. These laboratories have created specialist roles in areas such as data science, machine learning, user experience and design thinking. At the same time, more than 400 FinTech start-ups have sprouted in Singapore, and become an integral part of the industry ecosystem. Many of them work closely with the global financial institutions here, synergising new technologies and delivery models with an established customer base, to pilot innovative solutions for customers in Singapore and abroad.

18 Encouraging innovation does not mean the regulator takes a laissez-faire, hands-off approach. First, the regulator needs to maintain a close watch on emerging developments and risks, and stand ready to intervene or adjust. New and emerging activities that pose systemic risk or endanger consumer interests will need to be regulated. At the same time, the landscape for existing regulated activities may have changed, necessitating a relook at rules.

19 An example is the new regulatory framework for payments that MAS proposed last year. It will streamline the regulatory treatment of payment services and remittance services that, used to be regulated separately. Instead of an entity-based approach, it will take an activity-based approach that will allow MAS to regulate, in a more targeted manner, new business models that might offer one or only some parts of the payments value chain. The remit of the new framework will also be expanded, to cover some activities that are not currently regulated, such as virtual currency intermediation services.

20 Second, the regulator must promote an innovation ecosystem that brings together diverse parties. An example is the FinTech Festival that MAS organised last year, which brought together over 13,000 participants from more than 60 countries. It was a valuable platform for us to connect with the global FinTech community. In two weeks' time, we will be hosting the 2nd Singapore FinTech Festival.

21 Third, the regulator facilitates the development of infrastructure upon which new services and ideas can thrive. A good example is the payments infrastructure. Three years ago, MAS worked with the banking industry to launch FAST, to conduct direct real-time transfers between bank accounts. This year, the banks launched PayNow, which links bank accounts to NRIC or mobile numbers, making transfers more convenient. More importantly, PayNow will activate the full potential of FAST. It currently works only for P2P, but will be progressively expanded for P2B and B2B next year. To further facilitate this, we will introduce by the end of the year a common QR code that can accept all payments using QR readers.

22 The regulator facilitates the infrastructure, like FAST and PayNow, but cannot dictate individual solutions. In promoting innovation, we must allow a thousand flowers to bloom, which can cause confusion in the interim, before the market stabilises. But MAS will guide market developments, to ensure that competition stays open, solutions are interoperable, and consumers' convenience is enhanced. This is true in payments as well as in other areas.

23 Fourth, the regulator may sometimes need to suspend some rules to facilitate experimentation of untested innovations. Among global regulators, MAS has been one of the early pioneers of the regulatory sandbox, to facilitate experiments and innovation. A child who does not want to play with the big kids in a playground can choose to join other young ones in a sandbox, and when he is more confident he will step out to the larger playground. It is therefore important to make sure that a sandbox works the way it is intended, and not become a castle surrounded by a moat or a desert. It should be easy to get in, and get out.

24 In August this year, we had our first graduate from the sandbox, PolicyPal, which uses technology to help users manage their insurance policies, as well as identify duplicate or missing coverage. Another entity, Kristal Advisors, which provides AI powered online investment advisory and management strategies, is currently operating in the sandbox. Several more are in the midst of preparing their launch in the sandbox. We hope to see more of such innovations being tested.

Talent and Skills Development

25 Finally, the most important aspect of any transformation plan lies in people. Talent is needed at every level of the industry, leaders to drive changes and guide the process, managers to implement, professionals and specialists to operate at a high level of competence and mastery of their subjects. We must come to the deep realization that in every sector of the economy, we need a highly specialised workforce.

26 For example, in consumer banking, as job roles are growing, bank staff will have to be equipped with new and deeper skillsets such as sales, quality assurance and analytics. For more specialised jobs such as data scientists, their roles have to go beyond preparing data sets and running the algorithms, but also how to use the output for sound decision-making.

27 How do we address the challenge of talent and skills? The answer cannot be poaching – often practised in the industry, but is not the long-term solution. We simply have to expand and deepen the talent pool. And we need to do this at a pace that can catch up with that of digitisation and automation which are re-defining job roles, and this requires a multi-pronged approach.

28 MAS' SkillsFuture programme aims to help the financial sector workforce build world-class skills and maintain a strong Singapore Core. We want to enable more Singaporeans to compete for and take on regional and even global leadership roles, across the many financial institutions which are represented here today.

29 MAS has therefore supported financial institutions in sending promising Singaporeans for overseas postings, to gain international exposure and experience. MAS has also supported Asian finance leadership programmes developed by SMU and NUS, which looks to deepen the finance leadership capabilities of senior finance professionals in Singapore, and provides a valuable platform for them to network with one another. MAS also continues to support financial institutions' management associate programmes, some including overseas stints, for over 800 Singaporeans since 2013.

30 To develop deep capabilities, we need to anchor the best international capabilities in Singapore, and grow our own timber over time. MAS is working with the Ministry of Manpower and Workforce Singapore to pilot the Capability Transfer Programme, which supports the bringing in of international talent with specialised expertise and facilitates the transfer of capabilities to our local professionals.

31 We are building up an entire system to equip professionals with the skills to leverage on automation and digitisation. MAS is working actively with institutes of higher learning, industry and IMDA to build a local pipeline of specialised IT talent for the financial services sector. SMU, in particular, will be focusing most of their efforts in SkillsFuture training for the financial sector, through the SkillsFuture Series of training programmes.

32 At the same time, we need to consciously codify and teach these capabilities, to enhance the indigenous talent pool and capabilities. MAS has therefore worked with the Institute of Banking & Finance (IBF) to establish competency standards in key job families across the financial

sector. But these standards cannot be static, and must translate into highly applicable training programmes. MAS has also co-funded training expenses of financial institutions – amounting to over \$30 million over the past three years - to ensure that their staff acquire deeper competencies. I believe no other central bank takes such a hands-on approach in talent development.

33 Finally, we must be able to help the less-skilled and vulnerable keep up with the changes and stay relevant. When an existing activity is disrupted and jobs become at risk, the tendency is to lay off staff. But this cannot be the solution of first resort. For professionals who have honed their craft over many years, a large part of what they already know can be reapplied within the financial services sector, or in other adjacent sectors. There has to be a greater effort to re-train affected workers and match them to new jobs. Without addressing the concerns of those affected by change, there can be no change, and by extension, no innovation. We have to get this right, or else fail in our quest to push for continuous innovation.

34 MAS will therefore work with key financial institutions to make a strong push in implementing Professional Conversion Programmes (PCPs) to help their staff move into new jobs, including in growth areas such as technology and compliance. MAS is also working with partner agencies to expand the career advisory and job-matching services for the financial services sector. This will support professionals as they move across various job roles at different stages of their career. The career advisory services will also provide guidance on the training that financial services professionals will need, and help those displaced to enrol in

PCPs or seek out new opportunities within or outside of the financial services sector. Details will be announced later.

Conclusion

35 Let me conclude. Singapore's financial centre is in a good position globally. We are one of four or five major international hubs, open to the world in every sense, with well-regarded regulatory regimes.

36 We will strengthen that position, and ensure that the financial sector will continue to be a key pillar of future economic growth. With the ITM, we expect financial services' GDP to grow at 4.3% per annum over the medium term, nearly twice as fast as the overall economy. Over half, or 2.4% of the growth, will be driven by productivity.

37 These growth numbers are expected to translate into a net growth of 3,000 jobs every year within financial services, and an additional 1,000 net jobs from the budding FinTech sector. This is an ambitious target, given the significant changes happening in the industry. But we are determined to be net gainers in this era of change.

38 In all, the Industry Transformation Map calls for us not just to move alongside the changes, but to make the best of out these changes – to grow with the region, to harness innovations, and to create a future-ready workforce. We would like to thank all our partners for your inputs and ideas in co-creating this roadmap. With everyone on board, I believe that we can stay on top of the game, and ride through the changes.