German-Singaporean Financial Forum:
"The Future of Banking – Evolution, Revolution or a Big Bang?"
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INTRODUCTORY REMARKS

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Distinguished Guests, Ladies and Gentlemen

It is my pleasure to join you this morning at the inaugural German-Singaporean Financial Forum.

Bilateral Relations

Singapore and Germany have strong bilateral relations at many levels.

(a) Last year, Chancellor Angela Merkel and Prime Minister Lee Hsien Loong met in Berlin in July, and later, President Halimah Yacob hosted President Frank-Walter Steinmeier during his state visit in November.

(b) Singapore was also invited to the G20 meetings in 2017 during Germany's Presidency.

The close partnerships at both government and business levels underscore the many common values and strategic interests that we share. For example, in the area of financial services, there is strong emphasis on financial institutions having high standards of conduct and prudence given the importance of savings and investment in our societies.

MAS and our German counterparts, the Bundesbank and BaFin[1], participate in many international forums and standard-setting bodies including the Financial Stability Board, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, and the International Organisation of Securities Commission.

[1] Federal Financial Supervisory Authority in Germany

On many issues, we share common interests and positions. In 2010, MAS and Bundesbank established a cross-border collateral arrangement to enhance liquidity provision by widening the pool of eligible collateral for banks. MAS has a Supervisory Memorandum of Understanding (MOU) with BaFin that provides for mutual assistance and sharing of supervisory information in banking and insurance. MAS also participates in the annual Deutsche Bank Supervisory College for non-EU regulators and we are pleased to have hosted the most recent one last November.

Given that financial activities are often cross-border in nature, such international co-operation will be of increasing importance, including to facilitate innovative services as well as to mitigate the risks that some these may present.

It is also in this spirit that I congratulate the establishment of this partnership forum. It is an excellent example of a co-operation platform that allows our industry players to engage one another in open discussions, to identify common challenges and working opportunities. This forum also provides for perspectives from government, central bank, regulator and academia.

Future of Banking

Allow me now to share some thoughts on the conference theme around the future of banking.

This is clearly a topical subject in the face of the ongoing Technology Revolution around us.

Many of us will probably have heard of the famous quote by Bill Gates, that "people do not need banks, they need banking". In other words, with the rise of new FinTech players, activities that are considered banking services need not be provided by traditional banks alone.

Technology or e-commerce giants like Alibaba and Tencent have moved into the financial services space, as they seek to strengthen their customer-centric propositions and services. Business disruptions need not be led only by the large firms. Smaller nimble start-ups have also sought to un-bundle the banking value chain by focusing on niche areas such as financial advisory services and consumer finance.

There are two underlying factors:

(a) One, is the arrival of the smartphones that launched a new era of mobile apps. Banking has moved from physical branches, to the desks, and now to the palm. Recently, I read a report that British psychologists found that young adults use their smartphones roughly one-third of their total waking hours. Simply put, all of us can now do banking anytime, anywhere. And many segments of our populations are increasingly comfortable going digital, be it for banking, or to purchase goods and services.

(b) Second, the accessibility afforded by technology has led banks to shift away from a production-consumption model. Traditional banking models are based on making available the range of the services that a customer need. Today, competition centres on the customer experience. One of our local Singapore banks has a tag line on making banking joyful. The notion of delighting a customer opens up a whole field of competitive ideas as to how to generate *that* positive experience. This is what the FinTech players have sought to do, and this is what banks are fighting back on. Banks will have the advantage of being highly regulated and trusted, that smaller and newer players may find it hard to challenge.

The general consensus is that many FinTechs and the established financial institutions will collaborate.

There is a natural synergy here:

(a) Collaboration with financial institutions enables FinTech players and technology firms to broaden their reach.

(b) On the flip side, FinTech solutions present established financial institutions with opportunities to enhance their product offerings or to improve operational productivity. McKinsey estimated that enhancing digital capacity and adopting technologies could result in productivity gains worth roughly US$350 billion for the global banking industry by 2025[2].

But the competition will remain intense. Large internet-based firms with their massive customer base can be serious contenders for customer mind-share and wallets including in the area of financial services.

There is another development that has gained traction. We see the emergence of fully digital banks that operate entirely online with no physical branches, but are able to provide similar services as the traditional brick-and-mortar banks. Fidor Bank, founded in Germany, is one such example. WeBank in China is another. DBS' Digibank, a mobile-only bank in India, is also completely branchless and in less than two years, have signed up more than 1.5 million customers. All three have different origins and operate very different business models. I am sure the panellists later will discuss these further when they talk about the future of banking.

Let me turn to this forum's theme question on whether we will witness an evolution or revolution in banking. I believe it will be both. A lot of attention and excitement have been created by services going digital. This *digitisation* of services have transformed the customer experience say for on-boarding or transactional purposes; but frankly, are not ground-breaking in themselves. As one commentary noted, this is no different from reading an actual newspaper or reading the news online. But a revolution is also happening when new digital services or business models emerge that employ say, artificial intelligence (AI) or blockchain technologies. These can fundamentally change how we borrow, save, pay, invest

[2] McKinsey & Company, "The Phoenix Rises: Remaking the Bank for an Ecosystem World", McKinsey Global Banking Annual Review 2017, October 2017.

or insure. As an example, there is a UK bank BABB that leverages totally on blockchain and biometrics to provide peer-to-peer financial services with the slogan of "everyone is a bank". Time will determine the winners and losers as this cycle of technology disruption takes it course.

<u>Open Banking</u>

Open Banking broadly captures the concept that a consumer owns information about himself, and should be able to share that information with any third party if he chooses, for example through APIs, and to transfer his money to any third party seamlessly.

The effect is to give consumers ownership over their financial data, to make that data portable, and therefore enables switching and choice among financial service providers. This should promote competition to improve pricing and service quality.

The EU has started on this journey by making payment and data interconnectivity between banks and non-banks mandatory, through the Payment Services Directive 2. Australia has also announced that it will legislate a national Consumer Data Right in 2018, allowing consumers open access to all their data including banking-related ones.

While these hold a lot of promise by promoting consumer interests and welfare, there are other details to consider. For example, what primary data rightfully belongs to the customer, and what about secondary data *about* the customer that a bank had made sense of? How should a customer's data be packaged for onward sharing? How do we develop technical standards to share this information efficiently and securely? Who should pay for these?

In Singapore, we subscribe to the notion of banks sharing their data openly as a larger good. Some of the operational details have to be worked out. In MAS' engagement with the banking industry, there is broad consensus as to the benefits of open banking. What we see is an opening up of customer data as a ground-up process led by the banks themselves. We believe this is a constructive development, that industry players themselves see the value in doing so.

<u>Role of Financial Regulators</u>

In my remarks so far, it should be obvious that financial regulators will have active roles in the business and technology transformation in the banking industry.

Regulators need to have a sharp understanding of emerging technologies and new business models, and to be alert to potential risks. Only then are we able to exercise thoughtful judgment. There will be a balance between supporting innovation and technology use, while pre-empting new or heightened risks that these may present.

MAS takes an even-handed approach by providing a regulatory regime that is risk-proportionate across the range of institutions involved in regulated financial activities. We seek to provide the environment, and even to encourage new FinTech and other players to establish themselves to compete, collaborate and innovate. We allow for adoption of technology and innovation in financial services, especially those that hold promise in raising efficiency, in creating new opportunities, in enabling new or value-adding services or simply to manage risks better.

MAS adopts a "materiality and proportionality" test, and seeks to right-size regulations to be fit-for-purpose; for both traditional as well as new business models, according to the risks the activity poses.

For example, in the new Payment Services Bill that MAS has consulted on, regulatory requirements for payment activities will be differentiated according to the risks that specific activities pose rather than apply a uniform set of regulations on all payment service providers.

Regulation comes in when the risk posed becomes material or crosses a threshold. The weight of regulation must be proportionate to that risk. Singapore is one of the first jurisdictions to have established regulatory sandboxes where firms can experiment their innovative solutions in a contained environment, with access to a limited pool of actual customers.

What we will diligently protect is the trust and credibility in our financial system. We will also be paying closer attention to financial institutions' management of cyber-threats and to new forms of financial stability vulnerabilities as digitisation blurs the boundaries across geography and industries. Recently, we have created an enhanced role of a Chief Cybersecurity Officer as well as appointed a new Chief Data Officer. I believe there is much we can share and learn from other central banks, financial regulators and even law enforcement agencies, such as our European counterparts.

<u>Looking Ahead</u>

Finally, there are other areas that should matter to all of us amidst the ongoing transformations in the banking industry.

One is the important issue of financial inclusion. In the quest to innovate and as banks develop the sophistication to sharpen the profile of *each* customer, we should not overlook the need for financial inclusion - especially access to basic banking and financial services for under-served communities.

Another area is in the responsible use of technology tools. Earlier this month, MAS announced the setting up of a regulator-industry grouping to co-create a guide to promote the responsible and ethical use of AI and data analytics by financial institutions. This Committee is known by its acronym FEAT – which stands for Fairness, Ethics, Accountability and Transparency. This gives you a good idea of its mandate. The key is as technology and data analytics usage become more prevalent, the responsible use of these is equally paramount.

Conclusion

To conclude my remarks, allow me to resurrect a quote from a speech by President Kennedy in 1966, which I thought is apt even in current times.

[quote]
There is a Chinese curse which says 'May he live in interesting times'. Like it or not we live in interesting times. They are times of danger and uncertainty; but they are also more open to the creative energy of men than any other time in history.
[unquote]

Many will agree that we are living in interesting times; and a forum like this will be useful in bringing together the constructive and creative energy of experts like yourselves to share, to understand and to co-operate. Ultimately, it falls on all of us to do our part to make the future more promising and enriching for this and the generation that follows.

Thank you.