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# Singapore: Banking on the Future

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Singapore is fast becoming a global innovation hub. After years of rapid growth, the economy slowed recently due to an aging population and low productivity growth. In response, the country is embracing the digital economy.

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The government is looking at advances in automation and financial technologies—known as fintech—not as disruptions, but as opportunities to boost overall growth and improve the skills and job opportunities for its citizens.

We recently talked to Monetary Authority of Singapore's Managing Director, Ravi Menon, about the future of jobs and banking in Southeast Asia, as well as prospects for fintech, including bitcoin ATMs and crowdfunding.

**As Singapore prepares to chair the Association of Southeast Asian Nations (ASEAN) in 2018, what does your government hope to achieve for the country and the region?**

The Philippines has done a very good job chairing ASEAN, and we aim to build on that progress next year. Looking ahead, there will be a combination of old themes, such as boosting productivity and competitiveness in the region, as well as new themes, such as how to prepare ourselves for the digital economy and promote financial inclusion.

To make sure we continue to get good productivity growth and efficiency gains, we will focus on strengthening and enhancing e-commerce across the region and better position ASEAN as an investment destination. Economic and financial integration have been hallmarks of Southeast Asia, and we will continue to use financial innovation to promote financial inclusion. For example, rural populations in many member countries, like Indonesia and the Philippines, do not have ready access to financial services. We can do a better job of leapfrogging by leveraging both banks and fintech startups to provide this access at lower costs to the under-banked and under-insured segments of the population.

**This year, the Global Innovation Index ranked Singapore as the most innovative economy in Asia, and seventh in the world. Why is innovation important for economic growth?**

The rankings give us credit for good infrastructure—a sound regulatory and business environment, for example. But we have our disadvantages, such as an aging demographic and a small domestic market that we need to be conscious of. To mitigate this, we have an active research and development agenda to help create new ideas, growth opportunities, and jobs.

In the last few years, we have also been looking at the regulatory and business environment to make it more conducive to innovation, without compromising safety and stability. For example, last year we launched a regulatory sandbox in the financial sector, where firms can test their new products, technology, and business models, in a controlled environment where some legal and regulatory requirements are suspended.

To limit potential risks, these sandbox firms are restricted in the number of customers they can serve. Once successful firms exit the sandbox, they will eventually have to start meeting the standard regulatory requirements before they can offer their products to the general public. It is a way to be more innovative, and more accepting of failure, without large-scale disruption.


IMF Managing Director Christine Lagarde and MAS Managing Director Ravi Menon at the Singapore FinTech Festival 2017 (photo: IMF)

**Do you think innovation helps or hurts inequality? Or both?**

Well, lack of innovation is not going to help inequality. With innovation comes new demand for certain skills and factors of production, while other areas get disrupted. Both things happen at the same time. What is important is that governments continually help to equip the workforce to better prepare for these disruptions.

In Singapore, the education system, which has served us very well in providing basic skills for entering the workforce, is increasingly becoming less relevant to the rapid pace of technological change in the workplace. So, we have implemented continuous re-skilling programs, such as SkillsFuture (http://www.skillsfuture.sg/), where the government provides training subsidies and professional conversion programs to better prepare our labor force with competitive skills so that they can take on the jobs that are continually evolving.

**During the IMF-World Bank Annual Meetings, you participated in a panel (https://www.imf.org/external/POS_Meetings/SeminarDetails.aspx?SeminarId=269) discussion on the challenges of fintech. How does the Monetary Authority of Singapore (MAS) ensure that the rapid growth of fintech does not become a risk to financial stability?**

We need to take the approach of not rushing to regulate fintech too tightly, but to let innovation unfold. We do, however, need to keep a close watch and understand what is going on, so we can be quick to move when it becomes necessary to regulate.

The key is to identify what risks these fintech activities could potentially pose, and then design regulation accordingly so that it is right-sized and does not kill the innovation. So, for example, we do not regulate bitcoins per se. There are bitcoin intermediaries in Singapore and bitcoin ATM machines. There is nothing wrong with that, as people use all kinds of things as a means of exchange.

But some of the activities around bitcoins pose risks. For instance, bitcoin intermediaries need to be mindful of money laundering and terrorist-financing risks. So, we are placing anti-money laundering and combating the financing of terrorism requirements on the intermediaries. Another example is crowd-funding. You can donate money to a startup through a crowd-funding platform, but if the start-up promises it will pay you back a return tied to the performance of the firm, then the firm is essentially selling a security and that is a regulated activity. We are monitoring these developments closely and want to make sure we are supporting innovation while at the same time not allowing risks to multiply.

**Going forward, how do you see cooperation between the IMF and our member countries in ASEAN evolving?**

We are very pleased with the level of cooperation that exists today, particularly with the IMF-Singapore Training Institute (http://www.imfsti.org/), which conducts programs to equip policymakers to implement macroeconomic and financial regulation policies. There is no shortage of demand for capacity building in the Asia-Pacific.

One area where I think the IMF can increasingly help some of the less developed countries in the region is in cyber security and cyber risk management. It is a nascent area, where many financial regulators and policymakers are just coming to grips with how to build up their systems and capabilities to better protect their consumers. Countries would benefit from the Fund acting as a clearing house of capabilities by bringing expertise together to help them manage these new challenges.