How technology changes the finance industry, and us

Banking started with physical bank branches. Now it has come to our fingertips with mobile banking. Over the years, consumers have witnessed how technology transforms financial services.

These transformations and their impact were discussed in an industry outreach panel organised by the Asian Bureau of Finance and Economic Research (ABFER), the Association of Banks in Singapore (ABS), INSEAD and NUS Business School.

In her opening remarks, Mrs Ong-Ang Ai Boon, Director of the Association of Banks in Singapore, said she was glad for the session to bring together bankers, academics, practitioners, and policymakers to discuss the risks and opportunities presented by rapid technological innovation.

Calling the session a timely event, Distinguished Professor Andrew K. Rose, Dean of NUS Business School, who is also an Exco Member and Senior Fellow of ABFER, said, "There are fundamental questions on how our financial institutions should change their strategy and business models. From a social point of view, we want to explore how regulation can and should adjust to let digitalisation improve our financial systems' efficiency and safety."

These fundamental questions and more were discussed in the webinar "The Impact of Fin-tech Revolution, Digitalisation and Digital Currencies on the Financial System". Attracting about 150 participants, the event also saw an engaging Q&A session moderated by Professor Antonio Fatas, Professor of Economics and The Portuguese Council Chaired Professor of European Studies, INSEAD and Senior Fellow of ABFER.

When banks and technology companies become one

Having been involved with the banking industry for 44 years, webinar speaker Mr Samuel N. Tsien, Adviser to the Board, OCBC Bank, has observed a growing confluence between banks and fintech companies.

Suppliers of technology are no longer restricted to playing a supporting role to the banks but are instead getting involved directly and offering their own products and services to customers. Consumer preference and behaviour are also changing, and they now demand more instant gratification and personalised experiences.

The future, as Mr Tsien sees it, will be the convergence of two curves, one driven by banks and the other by technology companies. It would be an ecosystem where financial and non-financial services are bundled together in platform companies. In the example of "buy now, pay later" platforms, consumers stay in the ecosystem to do the financing and do not have to go separately to the banks.

Mr Tsien encourages collaboration and experimentation, but he also cautioned that experimentation carries risks. "Regulations and supervision need to come into place to make sure that the excesses that are bound to happen, will be within a realm of acceptable magnitude," he said.

The need for standards for cross-border payments

Regulations apply to cross-border payments and new modes of money too.

Money has changed drastically since the start of human existence, noted Dr Tara Rice, Head of Secretariat, Committee on Payments and Market Infrastructures (CPMI), Bank for International Settlements.

But from shells and stones to coins and payment cards, trust is always present. People accept these payment modes because they know the value remains the same. For new payment modes such as stable coins and central bank digital currencies (CBDCs) to be accepted, they require at least a similar level of trust as the commonly accepted payment instruments.

"That's where standards and supervision regulation come into play," said Dr Rice.

She felt that CBDCs offer a lot of promise for cross-border payments, because "it's a direct claim on the central bank". It allows people to "start with a clean slate", away from the current different systems of cross-border payments which can be slow, costly or inaccessible. Notice, however, all these changes are driven by striving to improve payment efficiency, trustworthiness, and yet allow prudent regulations and supervision.

CPMI has been doing work on improving the technical interoperability of payment systems across borders, such as standardising some messages and APIs. Dr Rice shared that the group hopes to produce a report with some initial recommendations soon.

Digitisation – the positive and negative

Digitisation introduces new products and approaches which raise efficiency in payments, especially in cross-border payments, and other financial activities. But, they create new vulnerabilities.

Professor Dave Fernandez, Professor of Finance (Practice) and Director, Sim Kee Boon Institute for Financial Economics, Singapore Management University, drew the audience's attention to digitisation's positive and negative impacts.

For example, technology can increase financial inclusion when it brings banking to the unbanked and underbanked, and into green financing. But societies must also increase the financial literacy and economic prudence of new users, mitigate fraud, defend against attacks that compromise cybersecurity, and put in place sound regulations to protect system stability.

The Future of Banks

What does the growing convergence between banks and FinTechs mean for the future of banks? Mr Tsien believes that the key lies in the customer. Customers are increasingly looking for differentiated experiences and banks will be moving in that direction, with the help of tech companies. "Banking services will continue to be required, but the banks will be working with many other companies, including technology companies, consumer companies, channel companies to offer a comprehensive service for their customers," he said.

Will the rise of CBDCs see central banks moving into the role currently filled by commercial banks? Dr Rice pointed out that Know Your Customer, anti-money laundering and compliance are all critical pieces of any transaction. Banks have sophisticated systems built to support these guidelines and to ensure that transactions are legitimate and do not go towards supporting illicit activities. “How many central banks would really like to take on that job?” she asked. “I think in practicality, the number would be very, very low.”

Even in the extreme scenario where CBDCs become so successful that the bulk of money is held in central banks, she believes that the role commercial banks play in lending, investment banking and other aspects of financial services is unlikely to change. The close connection between central banks, commercial banks and the state helps create trust in the system.

The issue of trust is also important when thinking about decentralised finance. In spite of the large amount of investment going into this area, it remains controversial due to the number of entities and activities designed to get around the current system.

“We do need to know that it’s transparent…that transactions don’t go outside the regulated system where we don’t know where they’re going,” she concluded.

In his closing remarks, Professor Bernard Yeung, Stephen Riady Distinguished Professor in Finance and Strategic Management at NUS Business School and President of ABFER, thanked the ABS, the NUS Business School, and INSEAD for collaborating with ABFER. He thanked the four panelists and the participants for a stimulating event which provided much systematic learning on a burning topic.