Seven Key Insights from the Singapore FinTech Festival[1]

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Abstract: *In the recent decade or so, Singapore has continued to introduce policies and measures to encourage fintech innovation, so that it has gradually become an international fintech center with considerable attraction, Its practices as well as the phenomenon of the fintech development have a revealing effect on China. As an observer of the 2023 Singapore FinTech Festival, I have seven thoughts.*

1. FinTech companies in Singapore and nearby countries and regions have primarily developed by focusing on exports to China.

2. The recent expansion of these FinTech companies overseas reflects a miniature version of Chinese businesses going global. It represents an extension of the industrial chain rather than a shift.

3. Chinese FinTech companies expanding abroad have significantly increased the popularity of the Internet and FinTech in those areas. However, these companies are still in the early stages of understanding and adapting to local laws, culture, and customs.

4. The regulatory approach of governments in Singapore and Southeast Asian countries is cautious, learning from both China and the United States.

5. The main applications of FinTech in Singapore and neighboring countries are concentrated in payment settlement, infrastructure, and micro-loans, lagging a few years behind China in terms of development level.

6. Effective financial regulation can prevent and mitigate risks to some extent but cannot eliminate them.

7. A common issue in Singapore, China, and other places is the lack of coordination between technology companies and financial institutions in digital transformation partnerships.

As an observer of the 2023 Singapore FinTech Festival, I do have something to say. Over the past decade or so, Singapore has continuously introduced policies and measures to encourage the development of Fintech. This has gradually made Singapore an attractive international fintech center. Its approach and the phenomena of fintech development are enlightening for China.

Fintech companies in places like Singapore mainly grow with inputs from China.

First, fintech companies in Singapore and surrounding areas have primarily developed through outputs from China, including capital, talent, technology, products,

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and business models. Even companies registered locally often derive their expertise and models from China.

It's worth noting that over 80,000 people from more than 100 countries and regions attended the Singapore FinTech Festival. Among them, there weren't as many Asians compared to Europeans, West Asians, and Middle Easterners. What were they interested in? Besides academic and experience exchange, were they looking to import technology and capital from Singapore or seeking investment opportunities? From Singapore's perspective, it aims to attract more capital and technology. However, due to its limited market depth, Singapore plays more of a central role. So, what happens when international capital, technology, and business models enter and exit Singapore about China's talent and technology? Is it possible for China to not only export but also import technology, models, policies, capital, and talent? Unlike Singapore, China has a vast market depth and should not just be content with one-way exports. It's more important to focus on the dual effects of China's fintech exports, including the "dual opening" emphasized in the report, which means actively engaging in both importing and exporting.

The international expansion of fintech companies represents an extension of the industry chain, rather than a transfer.

Secondly, the international expansion of fintech companies mirrors the broader trend of Chinese enterprises going global, an extension of the industry chain rather than a relocation. The majority of local fintech companies, including those established with local people and capital, generally have their technology development teams based in China, focusing on business operations and market expansion locally.

In recent years, to counteract the decoupling and supply chain disruptions from the West, many Chinese enterprises, especially private ones, have either voluntarily or involuntarily moved their industries to other countries. This type of industry relocation differs from previous attempts at going global, which were more experimental and individual, often involving overseas acquisitions. The current wave of relocation involves companies strategically repositioning their entire industry chain abroad to control costs while maintaining the security and resilience of their supply chains. Thus, many of these relocations represent an effective extension of the industry chain from China to the global stage, keeping China as the main base.

If properly guided, this strategy could potentially lead to a new model of globalization centered around China, effectively creating a trans-regional "world factory" that could significantly drive economic growth in China and beyond from 2024 onwards. This development could inadvertently be a consequence of the West's strategy to decouple from China. The emergence of this new world factory and form of globalization could greatly enhance the economic development of developing countries, creating a larger and more diversified market, and enticing developed countries to join this new wave of globalization. Many fintech companies have expanded internationally alongside other industries, not only to Southeast Asia but also to countries in the Americas like Mexico.

It's crucial to strategically consider the synergistic effects between the extension of the fintech industry chain and other industry chains. The integration of fintech with industrial digitalization will form the basis of future development in the digital economy and digital finance. Innovations in this area are key to building a strong digital nation. The extension of Chinese enterprises' industry chains and their participation in the "Belt and Road" initiative have improved the industrial levels and infrastructure in host countries to various extents. This not only opens new vast markets for China but also enhances the security and resilience of China's own industry and supply chains. This is a concrete manifestation of the vision for a shared human destiny.

Companies venturing abroad must adapt to local laws, cultures, and customs.

Thirdly, the international expansion of Chinese fintech companies has significantly increased the prevalence of internet and fintech services in local markets. However, these companies are still in the early stages of understanding how to adapt to local laws, cultures, and customs. Many Chinese enterprises initially believed that replicating their domestic success abroad would suffice, but they encountered considerable challenges. This is especially true in the fintech sector, where regulators worldwide have recognized its distinct nature from general commerce and industry, leading to continuous adjustments in regulatory policies. To maintain positive momentum in international expansion, companies need to shift from being reactive to proactive, conducting thorough research on local regulations, cultures, and customs, and making localized adjustments to their business strategies and models.

Furthermore, fintech and digital technologies introduce global governance issues, such as tech ethics, data security, and financial safety. Many financial problems cannot be resolved by a single country alone and require the cooperation and communication of international regulators. Countries should develop policies to support their enterprises' international ventures and enhance coordination with governments and regulatory bodies worldwide to protect the legitimate rights and interests of their businesses. Accelerating the development of a strong financial nation also urgently requires coordination with other countries to strengthen and enhance international governance capabilities in various fields.

Regulators in places like Singapore draw lessons from the experiences of China and the United States.

Fourth, the regulatory approaches of Singapore and other Southeast Asian countries are akin to cautiously crossing the river by feeling for stones, using China and the US as guides. However, their adoption of regulatory frameworks from these pioneers is not a mere copy-paste effort. This approach highlights that while China and the US are frontrunners in fintech, they are not necessarily advanced in all aspects. These countries carefully observe the different development models of fintech in China and the US, including their benefits and risks, as well as the roles played by regulations, noting both successes and failures. Initially, they had almost no regulation and later adjusted their approaches based on changes in Chinese and American regulations, making adaptive improvements.

Singapore, being a small economy, lacks the market breadth and depth to support a large number of fintech innovations. While it has opened its doors to various tech companies, it imposes various restrictions on the local operations of fintech firms. As a result, most fintech companies register in Singapore but operate in neighboring countries. The regulatory policies of Singapore, Malaysia, and Indonesia have learned from the early regulatory misalignments and financial chaos in China's fintech development. Thus, when examining Singapore's policies, it's crucial to understand this underlying logic.

For pioneering policies or business models with uncertain prospects, it may be wise to first experiment in areas with a certain level of openness to the outside world yet relatively closed internally. Given the unique nature of finance, the regulatory sandbox for fintech can be expanded spatially and opened to foreign institutions to participate in pilot projects or invest within the sandbox. While expanding and opening the sandbox, the focus should not solely be on success rates but on encouraging innovation. Inviting experts to analyze and study failure cases may offer more significant insights and lessons for innovation than successful ones.

In Singapore and similar regions, fintech applications are primarily focused on areas such as payments and settlements.

Fifth, in Singapore and neighboring countries, the application of financial technology is mainly concentrated in payment settlement, infrastructure, and microloans. Their level of application lags behind China by a few years, but we should not be complacent about our leading position in these areas.

On one hand, we need to continue innovating in these fields. The areas of payment settlements, digital infrastructure development, and microfinance are still in the early stages of digital transformation, with significant room for innovation. We must not remain satisfied with the current level but strive for continuous innovation to maintain our lead. On the other hand, the broader digital transformation in the financial sector is just beginning. In some areas, we may be widening the gap with the United States, and we need to increase R&D investment to create new fintech advantages. In this regard, the initiatives taken by Singapore and the Hong Kong region of China since 2022 in developing the virtual asset business are worth learning from.

Moreover, some exhibits at this fintech festival were related to the application of artificial intelligence in risk control models, intelligent customer service, and smart translation. However, the forums focused more on discussions about large models, artificial intelligence, central bank digital currencies, data trading and management, and virtual asset transactions. Local institutions mainly attended the exhibition, while the forum discussions attracted more participants from Europe and America. This may reflect the current development and future trends of fintech.

Currently, in addition to applications in payment settlements, infrastructure, and micro-loans, domestic fintech focuses more on the data asset field, paying less attention to the innovation of digital financial products, tools, trading models, and platforms that meet the needs of the digital economy. In the so-called virtual asset field, excluding the issuance and trading of virtual currencies without substantial asset backing, the technology can be applied to innovate financial products, instruments, trading models, and platforms.

Effective financial regulation can mitigate risks but cannot eliminate them.

Sixth, effective financial regulation can prevent risks to some extent and resolve them promptly once they occur, but it cannot eliminate risks. Finance is inherently a risk-prone industry, and innovation always comes with risks.

A new financial service or technology created and applied in reality indicates its financial utility. Risks primarily arise in the following scenarios: 1) fraud related to illegal financial operations; 2) immature risk control measures by operators; 3) inadequate regulation; 4) innovation that does not align with the logical risk framework of financial services.

Except for the last scenario, risks can be mitigated and resolved through improved innovation and enhanced regulation. Thus, the real capability of regulation is to facilitate innovation and business development while preventing and mitigating risks, rather than eliminating risks by hindering innovation or banning certain businesses.

The approaches taken by Singapore, including Hong Kong, China, and the United States, are worth learning from. Their regulatory logic follows the principle of "same business, same risk, same regulation," focusing on the essence of the business and its risk logic, without prohibiting specific business models and technologies.

Technology companies and financial institutions are not well-coordinated in their collaboration on digital transformation.

Seventh, a common issue is the lack of coordination between technology companies and financial institutions in their collaborative efforts on digital transformation.

During interactions with fintech companies and financial institutions in Singapore, a phenomenon was observed: fintech companies face difficulties and obstacles in serving financial institutions. Since providing services to financial institutions is not sufficient to sustain their operations, there's an impulse to directly engage in financial activities, which then encounters regulatory challenges.

From the perspective of financial institutions, they prefer to outsource the development, research, maintenance, and operational maintenance of many technologies during their digital transformation, considering efficiency and effectiveness. Large financial institutions have a tradition of outsourcing non-core business functions, including hardware and software development and maintenance, and cloud storage. However, they often face issues with technology companies becoming unresponsive. Consequently, they are forced to take an independent approach.

This situation is similar to the domestic (Chinese) scenario, largely because most technology companies are startups with small scale, limited capital, and cash flow, leading to quick closures. Their lack of substantial strength results in a lack of patience for foundational research and development and pure technical services, raising doubts about data security and business security in collaboration with financial institutions.

In discussions with foreign counterparts, they are surprised that Chinese institutions are keen on developing private clouds. The prevalence of private clouds indicates that much data remains fragmented, which contradicts the trend of interconnected digital economy development. If this continues, it could hinder the construction of China as a digital and financial powerhouse. Our technology companies need to reflect on their business philosophies, contractual integrity, and behavior to gain the market and partners' trust. This might also be a fundamental reason why there's a growing gap between Chinese and American tech companies. Of course, the nation also needs to consider adjusting policies and regulations to change this situation.