9-2016

Going cashless with Fintech

Singapore Management University

GOING CASHLESS WITH FINTECH

Published:
28 Sep 2016

Regulators and policy makers are recognising the positive impact fintech makes to creating a cashless society

Governments and traditional financial institutions such as banks and insurance companies are seeing the facets of financial technology (fintech) exciting, experimental, enabling and collaborative. At the same time, fintech is considered as being disruptive, risky and requires regulation.

The growth of fintech, driven by Alibaba and Tencent for example, have led to millions of consumers in China to skip using the computer altogether and onto their smartphones and mobile devices to transact and remit money on Internet-enabled platforms and applications.

For policy makers and regulators, the rise of fintech might be a boon for the banking and financial services sector despite the uncertainty and risks involved. They might also have some catching up to do with regard to regulating fintech and creating policies in order to safeguard the interests of citizens and stakeholders.

"At the regulatory side, we are coming in late [to fintech]. So, we are behind innovation. We have to admit it. But in Indonesia, the central bank has started making changes for fintech innovation and understanding how it will impact our role as the central bank in the payment systems area, in regulatory functions and financial stability," said **Farida Peranginangin** from the Bank of Indonesia at the 6th Annual SKBI Conference 2016 – Fintech and Financial Inclusion. She was speaking at the panel session entitled Policy Challenges: Roundtable Discussion at the Singapore Management University on August 19, 2016.

Including fintech in existing systems

Despite the time and resources needed to understand the workings and impact of fintech in communities, Peranginangin finds the technology can enable a better financial and banking experience for people.

"As a regulator, I find technology as an enabler. It depends on us to know how to take the most advantage of technology," she said. While newer systems can work better than older ones, she cautioned on understanding and identifying risks that come with technology, such as those of legal, operational and security in nature.

“We have to ensure that we know exactly what there are in the system and if we endorse it, we have to first identify how much risk mitigation have been put in place,” she said.

Familiarity with fintech and monitoring its activities would help regulators understand the technology while enabling entrepreneurs to think out of the box. And adopting an observer’s stance can help fintech services grow healthily and within regulatory parameters.

“Fintech takes on many forms. It can be stand-alone entities like the pawn shop Pawn Hero that facilitates something that the community is familiar with and one that sits well within the regulatory framework,” says panelist **Nestor A. Espenilla, Jr.** from the Central Bank of the Philippines of his country.

“We are trying to craft the regulatory framework to be principal ways in proportion. Because one of the key challenges here is to exercise a certain degree of wrestling. There are many innovations and if you come in heavy burdened with all these regulations, nothing will happen.

“There are situations where the proper thing to do is to caution the public, survey the market, understand what’s happening out there. Basically, craft policies like Bitcoin models that facilitate low-cost remittances in the Philippines.

“We have not stopped these from happening. We are carefully monitoring these developments and study what make sense and there will be a time to find what is appropriate,” he said.

INDIA’S PUSH TO GO CASHLESS, DIGITAL

For India, this meant a greater efficiency in processes, as fintech systems are included in traditional banking operations such as digitising the cheque clearing system and creating a cashless, self-banking society.

The country’s Prime Minister Narendra Modi in 2016 urged citizens to go cashless under the Jan Dhan, Aadhar and Mobile or JAM program, which facilitates the opening of bank accounts for consumers and electronic funds transfers via mobile platforms that are secured by personal biometric information such as fingerprints and iris scans.

“India is currently in the midst of a digital payment solution. Financial inclusion is not just a transaction but a full fledged banking account. That is the approach we have taken in India. We decided that it is [worthwhile for] the banks to pursue this but the pace was very, very slow,” said **Nanda Sameer Dave** from the Reserve Bank of India.

The government’s support for Indian residents to go cashless and gain access to banking services have connected many to the country’s financial services system. According to a statement from India’s Prime Minister’s office, 19.72 crore (1 crore = 10 million) bank accounts were opened and 16.8 crore RuPay cards that facilitate electronic payments at Indian banks and financial institutions have been issued thus far. There have been deposits worth Rs 28699.65 crores (US$ 4313.953 million) and 125,697 Bank Mitras (bank correspondents) have also been deployed. It also sets the Guinness World Record for most bank accounts opened in one week – 18,096,130.

COLLABORATION IN SINGAPORE

At a separate keynote address delivered in the conference, **Ravi Menon**, Managing Director of the Monetary Authority of Singapore (MAS) said: “Our vision is to make Singapore an electronic payments society. A society that spurs continuous innovation in payments technology; gives consumers maximum convenience and confidence in making payments; enables firms to increase productivity through payments integrated with business processes; and where swift, simple, and secure payments is a reality for everyone."

"MAS has been working closely with the financial industry and other government agencies to drive electronic payments. To quote the KPMG report on Singapore's payment landscape, 'the underlying infrastructure is world-class' and Singapore has one of the highest smartphone penetration rates in the world and wireless internet access is pervasive."

The country is also working to include fintech knowledge by collaborating with entities beyond its shores. In May 2016, Britain and Singapore established the FinTech Bridge for fintech firms and investors from the two countries to cross borders and work in the nations.

The Regulatory Cooperation Agreement signed by UK's Financial Conduct Authority and the MAS will enable the regulators to refer fintech firms to their counterparts across the globe. It also sets out how the regulators plan to share and use information on financial services innovation in their respective markets.

While stakeholders and regulators grapple with the changes that fintech brings to the banking and financial services sector, people are optimistic about a cashless lifestyle and ease of transactions that technology can bring, albeit under the watchful eyes of policy makers that have the onus to safeguard interests and minimise risks for all.

The session was moderated by Changyong Rhee, Director, Asia and Pacific Department, the International Monetary Fund and joined by panellists Sopnendu Mohanty from the MAS and Njuguna Ndung'u from the University of Nairobi.