7-2022

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29 Jul 2022

China gets to grips with fintech but still frowns upon cryptocurrencies. Regulation, blockchain technology, and central bank digital currencies will be under the spotlight amidst the crypto crash

China approved in June the promoting of "healthy" development of the payment and fintech sectors, suggesting a possible loosening of the fintech crackdown that started in late 2020. On the other hand, Beijing continues to ban cryptocurrency trading, with state media warning investors that Bitcoin is "heading to zero".

How does one make sense of Beijing's stance towards the fintech space?

"I would characterise what has happened in the last 10 years in China as a whack-a-mole between the regulators and the [fintech] companies," observes **Jing Yang**, Senior Correspondent at The Wall Street Journal. "The government wanted to crack down on [fintech services] because it did not, for a long time, have visibility of what the platforms were doing, and the banking sector's exposure to these platforms.

"Essentially, the goal and the end result of the crackdown, is to regulate so that the government will be able to have visibility and pre-empt risks to the broader financial system."

GETTING A HANDLE ON DIGITAL CURRENCIES

Yang made those remarks in an SMU webinar titled "What's Next for Fintech in Asia" where she pointed out traditional banks in China have improved their customer service in response to fintech disruptors, that "consumer banking customer service is very satisfying" and few in China "would want to revert back to paying cash".

The authorities' desire to get a handle on digital currencies inevitably lead to the digital Yuan or e-CNY, China's Central Bank Digital Currency (CBDC).

"The Beijing Olympics was meant to be a coming out party for the e-CNY but because of COVID there were no foreign visitors or spectators," Yang notes. "It's also quite cumbersome for someone who's not living in China to use it. If you don't have a Chinese ID or bank account, it becomes rather complicated. For anything to get traction, it has to be easy and convenient to use.

"China hasn't stopped fintech innovation. The big question now is: Can it make commercial sense? Who's going to pay for the network and maintenance? What role will the banks and mobile apps play? What about Tencent and Ant? We probably won't have an answer to all that for years but we cannot erase China from the fintech innovation map."

Patrick Thng, Director of the FINTECH and Analytics Track, Master of IT in Business (MITB) at SMU, spoke to a senior Chinese financial regulator in a Fintech seminar prior to the Covid lockdown and asked him about Beijing's view of cryptocurrencies and the burgeoning fintech scene.

"He said Big Tech such as ANT and WeChat were attracting a lot of consumer deposits, and if the depositors are not protected by regulations, and if any of them goes down, lots of consumers would lose their savings," Thng recounts. "China is exploring CBDCs, and it's technically feasible as the technology is already available.

"They are more concerned about the disintermediation to commercial banks. The moment CBDCs are issued there's no reason for commercial banks to hold consumer deposits when they can deposit straight into the central bank, which is much more stable."

SMU alum **Zhu Juntao** (BSc iSM 2014), CEO & Co-Founder of cryptocurrency borrowing and lending platform Hodlnaut, thinks CBDCs in its current form will not work.

"The governments are trying to deploy private distributed ledgers and private blockchains that are owned by the government; I think the best shot of CBDCs working is via deploying stablecoins on a chain like Ethereum.

"You already have all the tools on Ethereum to issue ERC20 tokens, you have the power as a contract issuer to blacklist any address. It's the same as in the U.S. which has the power to sanction any country from using the U.S. dollar.

"Basically, launching an issuance on the public blockchain allows less friction. Unlike in China, where you can't use the Chinese CBDC unless you're in China, if you launch it on a more public chain you can create better distribution and you still will not lose control over the funds."

REGULATING CRYPTO

Kell Jay Lim, Head of GrabFin, says there have been extensive discussions among regulators in Southeast Asia on addressing the financial issues associated with the fintech sector.

"Regulation is good, it drives adoption in any particular area," he points out. "We've seen that in our history as a technology company. I would also argue that regulation in crypto would provide assurance and ultimately drive adoption.

"There was a bit of wondering if [the China crackdown on crypto] would spill into Southeast Asia. So far we've not seen any indication that the governments here are going down that path. If anything, we see flows of investment and talent coming to this part of the world."

Hodlnaut's Zhu concedes that the recent crypto crash has been "brutal" and "investor confidence has been severely shaken". While China adopts a stern view of cryptocurrencies, he says Singapore adopts a relatively pragmatic approach based on traction and adoption.

“How do you measure traction and adoption? It’s two things mainly: tax dollars and investments into the space,” says Zhu. “The reason, I think, the Monetary Authority of Singapore has adopted a more friendly stance to crypto compared to other sectors is because there’s been an increase in investment into crypto, and there’s been an increase in tax dollars paid by crypto companies in general.

“It presents an opportunity because when I look at my user base, at our peak we had US$750 million AUM (assets under management), and less than five percent of that comes from our Singapore users; 95 percent of that comes from people around the world. But I am hiring 50 employees in Singapore, and I am paying taxes in Singapore.

“As Singapore becomes a wealth management hub, crypto is just another asset class and it is an opportunity for Singapore in the long term.”

Jing Yang, Patrick Thng, Zhu Juntao, and Kell Jay Lim were panellists at the webinar “What’s Next for Fintech in Asia” organised by SMU Office of Alumni Relations and SMU Libraries. The webinar was held on 29 June, 2022.