

FINANCIAL SERVICES AND TECHNOLOGY: FINANCIAL INCLUSION AND STABILITY

CONFERENCE HIGHLIGHTS

5 FEBRUARY 2018



Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO)

© 2018 Asian Development Bank
6 ADB Avenue, Mandaluyong City, 1550 Metro Manila, Philippines
Tel +63 2 632 4444; Fax +63 2 636 2444
www.adb.org

Some rights reserved. Published in 2018.

Publication Stock No. ARM189513-2

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent. By making any designation of or reference to a particular territory or geographic area, or by using the term “country” in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

This work is available under the Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO) <https://creativecommons.org/licenses/by/3.0/igo/>. By using the content of this publication, you agree to be bound by the terms of this license. For attribution, translations, adaptations, and permissions, please read the provisions and terms of use at <https://www.adb.org/terms-use#openaccess>.

This CC license does not apply to non-ADB copyright materials in this publication. If the material is attributed to another source, please contact the copyright owner or publisher of that source for permission to reproduce it. ADB cannot be held liable for any claims that arise as a result of your use of the material.

Notes:

In this publication, “\$” refers to United States dollars.

ADB recognizes “Hong Kong” as Hong Kong, China.

Corrigenda to ADB publications may be found at <http://www.adb.org/publications/corrigenda>.

All photos in this publication (except the portraits on pages 8 and 10, which are provided by the respective institutions) are from the Institute of Global Finance, University of New South Wales.



Printed on recycled paper

Contents

Agenda	1
Highlights	4
Opening Session	6
Asian Economic Integration Report 2017	12
Session 1: The Role of Financial Technology and the Future of Asia Pacific Finance	15
Session 2: The Role of Financial Regulation, Financial Compliance, and Financial Innovation in Sustainable and Inclusive Growth	18

Agenda

ADB-IGF INTERNATIONAL CONFERENCE ON FINANCIAL SERVICES AND TECHNOLOGY: FINANCIAL INCLUSION AND STABILITY

UNSW Business Lounge, UNSW Business School, West Wing Level 6
Sydney, Australia

5 February 2018

9 a.m. – 9:30 a.m.	Registration and Coffee
OPENING SESSION	
9:30 a.m. – 9:40 a.m.	Opening Remarks Fariborz Moshirian, Director of Institute of Global Finance, University of New South Wales
9:40 a.m. – 9:50 a.m.	Welcome Remarks Bambang Susantono, Vice-President for Knowledge Management and Sustainable Development, Asian Development Bank
9:50 a.m. – 10 a.m.	Welcome Remarks Rhonda Piggott, Director, NSW Office, Department of Foreign Affairs and Trade
10 a.m. – 10:30 a.m.	Photo and Coffee Break
10:30 a.m. – 12 noon	Chair: Glenn Otto, Assistant Professor, UNSW Asian Economic Integration Report 2017 Presentation: Cyn-Young Park, Director of Regional Cooperation and Integration, ERCD, ADB

Continued next page

Panelists:

- Richard Yetsenga, Chief Economist, ANZ Bank (Australia and New Zealand Banking Group)
- Cyn-Young Park, Asian Development Bank
- Tim Harcourt, J.W. Nevile Fellow in Economics, UNSW

Open Discussion

12 noon – 1:30 p.m.

Lunch Break (JG's Café)

Session 1: The Role of Financial Technology and the Future of Asia Pacific Finance

To sustain Asia's growth momentum for sustainable and inclusive future, financial sector development and regional financial market integration is the key. This session will discuss how Asia's financial system should evolve to be more responsive to Asia's development needs.

1. What are the structural impediments that hamper Asian financial systems in providing stable long-term finance for development?
2. What's the status of Asian financial integration and ASEAN banking integration and how can we further enhance financial integration in the region to support sustainable and inclusive development?
3. What is the role of international financial institutions, multilateral development banks, and Central Banks in facilitating financial development and promoting financial inclusion to support Asia's development goals?

1:30 p.m. – 2:45 p.m.

Chair: Professor Richard Dunford, Associated Dean, International and External Relations, UNSW

Keynote: Ian Pollari, Global Co-Leader, KPMG Fintech

Panel Discussion:

- Sarah Hickey, Partner, PwC
- Professor Ross Buckley, UNSW
- Ian Pollari, Global Co-Leader, KPMG Fintech

Open Discussion

2:45 p.m. – 3 p.m.

Coffee Break

Continued next page

Session 2: The Role of Financial Regulation, Financial Compliance, and Financial Innovation on Sustainable and Inclusive Growth

The postcrisis regulatory reforms have been gradually reshaping the global financial landscape, with financial institutions and markets adjusting to the new environment. Presently, however, the accelerating pace of technological change is the most creative force—and perhaps the most destructive—in the financial services ecosystem. Against the backdrop of risking the current regulatory framework obsolete, this session will discuss about how Asia can seize the opportunities arising from rapidly evolving digital technology to leapfrog more traditional banking models and broaden financial inclusion.

1. What's the status of Asian financial development and the uptake of technology in the region's financial industries?
2. How can private sector and policymakers work together to establish a level playing field for financial institutions and promote financial innovation to support Asia's sustainable and inclusive development?
3. What would be appropriate regulatory framework that can encourage competition and innovation while providing effective oversight of the new technological disruption?

3 p.m. – 4:25 p.m.

Chair: Mark Humphery-Jenner, Asst. Professor, UNSW

Keynote : Anatoly Kirievsky, Head of Compliance
Optiver Asia Pacific

Panel Discussion:

- Nathan Lynch, Regional Bureau Chief, Asia Pacific /
Financial Crime and Risk, Thomson Reuters
- Professor Douglas Arner, The University of Hong Kong
- Laura Newton, Senior Compliance Officer, AUSTRAC
- Anatoly Kirievsky, Optiver Asia Pacific

Open Discussion

4:25 p.m. – 4:30 p.m.

Closing Remarks

Bambang Susantono, Vice-President for Knowledge Management and Sustainable Development, Asian Development Bank

Highlights



Participants in the conference gathered together after the opening session.

The International Conference on Financial Services and Technology: Financial Inclusion and Stability discussed the role of digital technologies in shaping the financial service landscape and how Asia's financial system should evolve to be more responsive to its development needs. The conference highlighted the new regulatory challenges in advancing financial technology and how policymakers and regulators can best address these emerging issues to safeguard financial stability and more effectively promote financial inclusion.



Participants included people from academia, government, the private sector, and international organizations in Asia and the Pacific. The conference program covered highly important and timely issues with respect to economic activities in the Asia and Pacific region, issues associated with financial technology and its evolution, the challenges of effective supervision and optimal regulation and issues that could enhance the capacity of policymakers and market participants to comply with some of the global and regional rules and standards more comprehensively.

Opening Session

OPENING REMARKS



Fariborz Moshirian

Director of Institute of Global Finance
University of New South Wales

Ladies and gentlemen,

The technological changes of the current scientific revolution have accelerated global and regional financial integration. Financial technology has made financial and other resources more mobile and created interaction among various stakeholders, suppliers, and users of credit. As technological changes have contributed to the emergence of large multinational banks and other financial institutions, interconnectedness among nations has substantially increased. Since the global financial crisis, the need for better supervision and more efficient regulatory frameworks for more resilient global, regional, and national financial systems have been discussed. At the same time, a major challenge in creating global financial stability is how to ensure regulatory compliance even as supervision of each and every large bank and other financial institution has become important in a sound and resilient financial system.

Technological changes

The influence of computing has resulted in massive changes in the world since the 1990s. This has changed the language of corporations—that is, technology has universalized the way in which we communicate with each other. This is what some historians refer to as a ‘precondition’ of an interconnected world. There is no question that the development of Fintech and interconnectedness of financial institutions could not have been achieved in the absence of the computer and other technological changes.

There are 3 billion people in the world who have access to the internet. This means that 4 billion people do not have access. Further study could reveal (a) where there is an opportunity to create greater access; and (b) how we can integrate those people into the bigger picture of the Asia-Pacific region. In this context, the policies that promote financial inclusion for billions of people around the world in the 21st century should be pursued with vigor. In the wake of significant technological changes, increased financial literacy could play an important role in increasing the productivity and living standards of billions of people.

Cybersecurity

As technological changes are creating new opportunities, including the expansion of Fintech and significant changes in the way financial institutions operate, cybersecurity has become an important policy issue both for the financial market players as well as the policymakers. The world is learning that tackling issues associated with cybersecurity are multi-faceted, requiring the interaction of several forces, including financial management, risk management, governance, and technology management.

There are a number of issues to be learnt from these interactive forces and the way each of them may contribute to the emergence of a more robust global system of cybersecurity. To this end, one cannot underestimate the importance of genuine cooperation amongst major countries for the promotion of global welfare and security that maintains the stability and resilience of the financial system.

Interconnectedness

Various studies have shown that the global financial system has become more interdependent and increasingly more interconnected, particularly since the global financial crisis in 2007–2008. Indeed, banks, insurance companies and hedge funds have become increasingly more interdependent. Furthermore, with the identification of large banks under “global systemically important financial institutions” (GSIFIs), there is an increasing concern that the global financial system in the post global financial crisis era may not be fully prepared to prevent or mitigate the occurrence of another major global financial crisis. This is why some of the issues regarding effective supervision of financial institutions, the mechanism that can detect effective compliance of banks and other financial institutions with new international rules and standards are becoming increasingly important policy tools. Policymakers and financial institutions have increased their awareness regarding the importance of sound global, regional and national financial systems, as a number of studies have shown the negative consequences of the recent global financial crisis on the GDP, employment, trade, investment, and government debt around the world.

Welcome, and I hope you all enjoy the conference!



IFG's Fariborz Moshirian opened the conference.

WELCOME REMARKS



Bambang Susantono

Vice-President for Knowledge Management
and Sustainable Development
Asian Development Bank

Distinguished speakers, panelists, guests, ladies and gentlemen. Good morning and a very warm welcome.

On behalf of the Asian Development Bank, I am honored to welcome you to this prestigious conference on “Financial Services and Technology: Financial Inclusion and Stability”. I would like to extend a special welcome to our keynote speakers Mr. Ian Pollari, Global Co-Leader of KPMG Fintech, and Mr. Anatoly Kirievsky, Head of Compliance at Optiver Asia Pacific. I would also like to thank Professor Fariborz Moshirian and the Institute of Global Finance of the University of New South Wales for collaborating with ADB in organizing this event. My sincere thanks also go to Ms. Rhonda Piggott, Director of New South Wales Office in Australia’s Department of Foreign Affairs and Trade.

The Asia and Pacific region continues to actively embrace advancements in digital technology and the rapid growth of fintech. It has altered the landscape for financial services with important implications for greater financial inclusion and stability. The accelerating pace of technological change makes it clear that the financial services ecosystem tomorrow will be vastly different from that of today. In this context, we need to better understand the real-world implications these technological advances will have on financial services. We also need to better supervise and regulate their likely disruptive effects.

New financial technologies have accelerated the leveraging of mobile internet, cryptography, distributed computing power, big data, and the artificial intelligence that grows out of it. In developing countries, digital technologies allow financial services to reach people and businesses far more quickly and easily than in the past. Studies show that in recent years people who were forced to rely on cash and more informal sources of finance—more expensive ways of saving, borrowing and paying for goods and services—can now be brought into formal financial systems.¹ Banks and fintech startups backed by venture capitalists are collaborating to bring finance in our region into the digital age.

Rapidly spreading digital technologies offer a great opportunity to provide financial services at much lower costs. It both profitably boosts financial inclusion and enables large productivity gains across Asia and the Pacific. These disruptive technological innovations have brought structural change to financial markets and increased the sophistication in financial products and services they offer. But these changes have also created new challenges to policymakers and financial regulators to better understand the growing complexity of financial products and services—as well as identifying systemic risks.

¹ *The Economist*. 2017. “Digital Technology Can Make Financial Struggles Easier to Manage.” 7 September.

The *2017 Asian Economic Integration Report* underscores the trend toward greater economic cooperation and financial interconnectedness. The report also finds that Asian financial markets have become more interconnected, both globally and intraregionally. For example, by value, Asia's intraregional trade share rose to 57.3% in 2016, up from an average 55.9% during 2010 to 2015. The same is true for investment. The intraregional share of foreign direct investment grew to 55.3% in 2016 from 47.6% in 2015. With the accelerating pace of technological change as a both creative and destructive force to the financial services system, growing financial interconnectedness can indeed increase financial market vulnerabilities. This conference will examine the new opportunities and challenges arising from rapid technological advances in the financial industry. We will discuss how best the region's policymakers can help support technology while addressing the associated regulatory issues and challenges to safeguard financial stability and more effectively promote inclusive finance and shared economic growth. We can also gain from exchanging experiences on strengthening regional cooperation in financial development in sustaining Asia's growth momentum.



ADB's Bambang Susantono welcomed the participants to the conference.

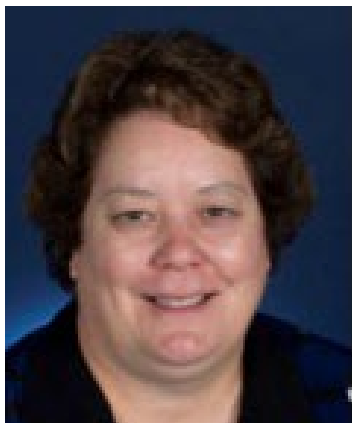
I hope our discussion today can chart a possible way forward for more inclusive and resilient finance through

- Convergence among governments, regulators and business leaders for a concerted effort to provide the digital infrastructure and enabling business environment for financial services.
- Balancing financial resilience and inclusiveness within the evolving financial system by building on lessons learned from the past.
- Seizing opportunities arising from ever-evolving digital technologies for innovative ways to finance Asia's inclusive growth.

Once again, welcome to the conference. And I look forward to today's vibrant, constructive, and solution-oriented discussions.

Thank you very much.

WELCOME REMARKS



Rhonda Piggott

Director, NSW Office
Department of Foreign Affairs and Trade

Ladies and gentlemen,

I would like to provide international context to today's discussion.

The Australian Government's Foreign Policy White Paper, launched in late November 2017, set out a course for Australia that encompassed traditional foreign policy (relationships between countries) as well as economic, trade, and investment and development policies.

The White Paper's starting point was that the world is more interconnected than ever. Scientific and technological change has influenced economic growth and helped lift the living standards of millions. But there are risks of leaving people behind. Concerns about globalization and economic nationalism are on the rise in a number of countries. The White Paper acknowledged that Australia's future is linked inextricably with Asia. In fact, we need to pay even more attention to the entire region from India to the Pacific. The Indo-Pacific matters to our future security and livelihoods. With that in mind, the White Paper set out the case for an open, flexible, and resilient Australian economy—one that could withstand the volatility and occasional shocks that come with globalization and was prepared for an economically competitive world.

International and domestic policies have to be mutually reinforcing to advance our national interests and make globalization work for Australia. We are committed to harnessing innovation, science, and technology to drive growth and to supporting workers and business through change driven by trade competition and new technologies.

The OECD has said that 10% of jobs in the advanced world are at high risk of becoming obsolete. But a changing economy would also create new jobs. Jobs that would require a skilled workforce. Governments would need to improve access to education and training and provide safeguards and support to workers transitioning between jobs.

A number of issues raised by all of this change cannot be addressed by sovereign governments acting on their own. As such, Australia supports a rules-based order that facilitates cooperation on global issues. We all know climate change is one such issue. Others include international shipping, aviation regimes, oceans and other environmental issues, and, on the economic front, financial stability.

The rules-based order has three main elements. First, as mentioned, a liberalizing global economy. Second, the development of well-designed institutions to support global cooperation, such as the UN, World Bank, IMF, WTO, G20, and the ADB. Third, the development of rules, norms, and standards set out in international law, conventions, and declarations.

I have mentioned some global or multilateral institutions. But there are also regional arrangements that matter—the Association of Southeast Asian Nations (ASEAN) is one, the Asia-Pacific Economic Cooperation (APEC) another. Australia can use the example of modern institutions such as the G20 and APEC to demonstrate to the international

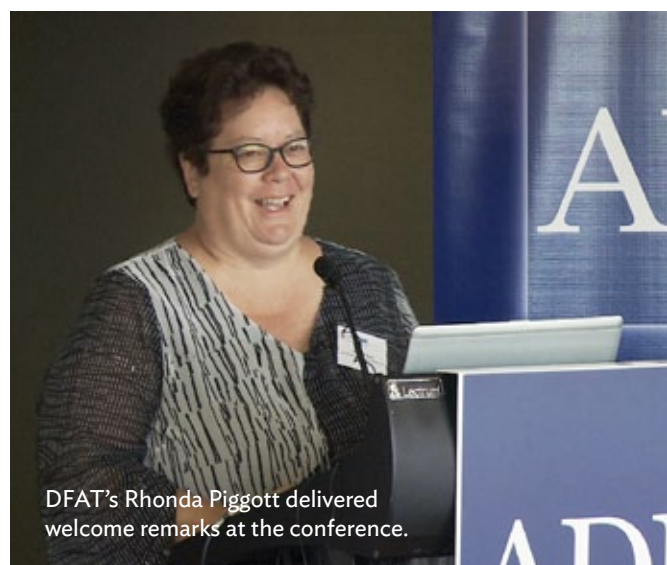
community how multilateral development banks and other parts of the international system can evolve to become more relevant to global needs.

In March this year, in Sydney, the Prime Minister will host an Australia-ASEAN Summit. The leaders of the ten ASEAN countries will come to Australia to discuss ways in which Australia and ASEAN can cooperate further and enhance our economic and security interests. That will be the first time such a meeting has taken place in Australia. It reflects the Prime Minister's view that much more can be done to deepen our relationships with ASEAN as a group and with individual countries in Southeast Asia. There will also be a CEO forum and SME conference. Economic/trade and investment issues will be a focus for leaders, with digitization one of five elements nominated for discussion.

The White Paper also clearly acknowledged the role of development in bringing everyone along the path to prosperity. Australia has committed to a step-change in its engagement with Pacific island countries. We will seek to integrate Pacific countries into the Australian and New Zealand economies and our security institutions. The stability and economic resilience of the Pacific is of fundamental importance to Australia.

The Australian Government will be looking to:

- Increase Pacific labour mobility as a key component of our Step-Up commitment to support economic development, including:
 - a new Pacific Labour Scheme to enable Pacific workers to take up low and semi-skilled work opportunities in rural and regional Australia for up to three years;
 - a Pacific Labour Facility to connect Australian employers with Pacific workers, and support the administration of the Pacific Labour Scheme;
 - a range of measures to streamline the Seasonal Worker Programme; andwork with the private sector, IMF, and New Zealand to reduce remittance costs.
- Improve internet access in Papua New Guinea and Solomon Islands through a major initiative to deliver new undersea cables to Port Moresby and Honiara
 - Which will enable significant economic and social benefits in both countries, including for the provision of education and health services.



And we have finalized arrangements with the Private Infrastructure Development Group to undertake a feasibility study into opening a Pacific information and communication technology window—We expect to follow this up with a study on the feasibility of a Pacific infrastructure window with a view to de-risking private sector infrastructure investment in the region.

DFAT has adopted an InnovationXchange to identify ways to use technology innovatively to deliver better development outcomes.

We have teamed up with Google and MIT in the United States to work on ways to deliver more efficient and effective outcomes using technology. We have focused on delivering Australia's aid program. But the potential to apply the concepts of the InnovationXchange to foreign and trade and economic policy areas is there.

In conclusion, the Australian Government is on board for exploring issues related to innovation, deregulation, regulation, and compliance in the context of financial inclusion and stability. That is not just a domestic discussion, but because we are so interconnected, also one under discussion in regional and multilateral organizations.

I thank you for the opportunity to provide remarks today and welcome you to the conference.

Asian Economic Integration Report 2017

CHAIR

Glenn Otto

Assistant Professor, UNSW

PRESENTATION

Cyn-Young Park

Director of Regional Cooperation and Integration, ERCD, ADB

PANEL DISCUSSION

Richard Yetsenga

Chief Economist, ANZ Bank (Australia and New Zealand Banking Group)

Cyn-Young Park

ADB

Tim Harcourt

J.W. Nevile Fellow in Economics
UNSW

In the session on Asian Economic Integration Report (AEIR) 2017, Cyn-Young Park, Director of ERCI presented the findings of the AEIR 2017, with a focus on the theme chapter. The report finds that despite much improved financial health, Asia continues to face structural weaknesses in financial systems while new challenges emerge. Asian financial systems have become increasingly interconnected regionally and globally and growing financial interconnectedness can increase the risks of financial spillover through cross-border capital flows, foreign currency denominated debt, and sharp deterioration of bank assets quality. The results of the report highlight the need for strengthening macroprudential regulation and supervision, regional cooperation for financial regulation, and multilayered financial safety nets.

Despite its benefits, with increasing financial integration comes the risk of greater volatility and contagion from vulnerable to stable economies. AEIR 2017, through its special theme, examines the evolution of financial interconnectedness and investigates risk transmission channels over the past twenty years. Four main messages were delivered: first, a key lesson drawn from recent crises is the urgent need to strengthen macroprudential regulation and supervision in the region. Authorities should consider establishing and implementing an effective macroprudential policy framework to address two dimensions of system-wide risk: (i) a buildup of systemic risk over time and (ii) a spillover and contagion of risk across different financial sectors and systems.

Second, further developing local currency bond markets across the region is key to enhancing financial resilience and mobilizing stable long-term finance. While local currency bonds outstanding in the Association of Southeast Asian Nations

...despite much improved financial health, Asia continues to face structural weaknesses in financial systems while new challenges emerge.



ADB's Cyn-Young Park presented the AEIR 2017 at the conference.

plus the People's Republic of China (PRC), Japan, and the Republic of Korea (ASEAN+3) tripled from \$6.6 trillion in 2002 to \$19.8 trillion at the end of 2016, challenges remain. To meet the region's financing needs, local currency bond markets must improve market efficiency, broaden their investor base, deepen secondary markets, and integrate more regionally.

Third, growing cross-border banking activities and the systemic importance of some large regional financial institutions underscore the need to discuss regional regulatory cooperation, including resolution mechanisms for interconnected regional banks. Supervisory colleges for regionally active foreign banks can be an effective regional cooperation tool to strengthen cross-border supervision in Asia. Regional cooperation to develop effective resolution mechanisms for distressed assets of cross-border financial institutions can also complement national efforts to address nonperforming loans efficiently and sustainably.

Fourth, the region should consider reviewing and strengthening existing financial safety nets against potential contagion and spillover effects. Asia's financial markets are increasingly open, interconnected, and vulnerable to external shocks. Strengthening the Chiang Mai Initiative Multilateralization and its regional macroeconomic surveillance unit, the ASEAN+3 Macroeconomic Research Office, can help monitor potential liquidity risks and slow the spread of shocks across the region's economies.

The presentation was followed by a panel discussion joined by Tim Harcourt, J.W. Nevile Fellow in Economics, UNSW and Richard Yetsenga, Chief Economist, ANZ Bank. Tim Harcourt mentioned that ASEAN has become very important for Australia. Previously, it was thought that Australia would not compete very well in Asia, but he found that institutions in Australia adopted very well to Asian economic integration. The rise of institutions such as ADB, Asian Infrastructure Investment Bank, Asia-Pacific Economic Cooperation, and G20 is a sign that the architecture has to change as the business integration changes. In Asia, international trade and integration are one of the best anti-poverty programs that we have ever seen in this lifetime. Richard Yetsenga mentioned that the comprehensiveness of AEIR 2017 is very useful. Although it is not uniform across the region that Asia is becoming integrated over time, at the end of the day, the region can benefit from the openness of trade, capital flows, and tourism as keys to prosperity while minimizing the side effects. Two factors are within the control of each economy. First, an economy must have a domestic savings base. Economies in the region that can control their own destinies have more domestic savings of their own. Second, macro and policy flexibility. If an economy chooses to be open, it must be able to absorb the shocks.

The panel agreed that Asia has improved its growth during the last couple of years, driven by the global trade cycle. Asian trade is growing at a reasonable rate. The three big economies in the region—the PRC, India, Indonesia—were able to generate domestically sourced growth, but are struggling with financial systems



...the region can benefit from the openness of trade, capital flows, and tourism...



The panelists answered questions from the floor during the panel discussion on AEIR 2017.

which have leverage issues. Financial stability, meanwhile, is a significant policy target. The region also has not resolved how to integrate monetary policy driven by inflation targets with macro prudential policies driven by financial stability. Most countries separate these two issues, which might work on a day-to-day, week-to-week basis, but from a strategic perspective, we cannot separate those two things.

Technology... affects the nature of political debate, such as protectionism and free trade, not just economics.

In financial services and technology, it is important to think about the landscape we are in. Technology is potentially a big game changer. It affects the nature of political debate, such as protectionism and free trade, not just economics. It was not long ago that we used to think that countries needed to have some shipbuilding and car manufacturing capacity as well as capacity to get energy to have a sense of national security. But we've moved away from that as the world has become more politically stable. And if technology is our future, then countries would be more vulnerable to not having any capability to deal with that.



ANZ Bank's Richard Yetsenga participated in the panel discussion on AEIR 2017.

Session 1: The Role of Financial Technology and the Future of Asia Pacific Finance

To sustain Asia's growth momentum for a sustainable and inclusive future, financial sector development and regional financial market integration is the key. This session discussed how Asia's financial systems should evolve to become more responsive to Asia's development needs.

1. What are the structural impediments that hamper Asian financial systems in providing stable long-term finance for development?
2. What's the status of Asian financial integration and ASEAN banking integration and how can we further enhance financial integration in the region to support sustainable and inclusive development?
3. What is the role of international finance institutions, multilateral development banks, and central banks in facilitating financial development and promoting financial inclusion to support Asia's development goals?

Mr. Pollari, Global Co-leader of KPMG Fintech, in his keynote presentation mentioned that the finance industry is changing amid several contextualizing factors. These factors include business model risks, new financial technologies, regulatory compliance, growth rates, earnings pressure, customer expectations and attitudes, and trust levels. Global financial institutions are under structural pressure as they face business model risks. Financial institutions are therefore seeking to simplify their business models. To do so, they are looking to have a regional/local focus, go smaller and leaner, experiment with new financial services, and collaborate with new financial technologies. As the finance industry continues to evolve, KPMG envisions "The Invisible Bank". The fundamental shift in banking will be driven by technology and will ultimately move banking from being hidden to completely invisible. This theoretical bank will be comprised of three layers: platform, product, and process. Summarily, customers will only be required to interact with the platform layer offered by global technology players.

CHAIR

Professor Richard Dunford

Associated Dean, International and External Relations, UNSW

PRESENTATION

Ian Pollari

Global Co-Leader
KPMG Fintech

PANEL DISCUSSION

Sarah Hickey

Partner, PwC

Professor Ross Buckley

UNSW

Ian Pollari

Global Co-Leader
KPMG Fintech



KPMG Fintech's Ian Pollari delivered keynote presentation during session 1 of the conference.

The fundamental shift in banking will be driven by technology...



Session 1 panelists discussed the role of financial technology in sustainable and inclusive growth.

Fintech refers to technology-based businesses that compete against, enable, and/or collaborate with traditional financial institutions. Fintech can enable these financial institutions to enhance their customer's experience, streamline their operations, or directly fulfill their customer's financial needs. A range of factors are driving the development and growth of the fintech sector. It is largely attributed to the proliferation of mobile and digital devices, falling barriers to entry for digital disruptions, and changing consumer behaviors and attitudes. In Asia and the Pacific in the fintech market, alternative finance is growing rapidly.

In 2016, the region recorded a total market volume of S\$245.28 billion, growth of 136% compared to 2015. As well, 30 of the leading Fintech 100 companies are now from Asia. Currently, emerging financial technologies are the greatest source of disruption to financial institutions. For example, \$27 billion of currently banking industry revenue is at risk of digital disruption. Most fintech businesses will look to partner, sell or license their capability to scale. This is the case as 81% of financial institutions are partnering with fintech businesses.

In Asia and the Pacific in the fintech market, alternative finance is growing rapidly.

The presentation was followed by a panel discussion. Ian Pollari mentioned that the economy and financial industry are evolving and that will predicate how financial services will need to adapt their business models. From a consumer standpoint, a major area of financial services is lending and assessment of creditworthiness. Historically, financial service providers such as commercial banks have used credit models that have favoured consumers and small businesses with stable forms of employment and income. However, there are natural circumstances where individuals do not fit the typical credit model employed by banks. Thus, banks will need to evolve their underwriting, possibly by accessing third-party data and employing robotics, artificial intelligence, or other financial technologies to cover a wholistic understanding of that.

Sarah Hickey discussed the controversy of competing tax rates and attracting capital—How do we balance the need to encourage fintech with a sustainable tax rate? Considerations of tax rates and incentivizing fintech start-ups to remain in Australia are needed. The objective should be to strike a balance between encouraging fintech innovation and achieving sustainable tax rates.

In the roles of incumbencies that banks have in originating loans and how fintech companies will find themselves competing or collaborating, undoubtedly, technology companies will slowly begin to offer and provide financial services. But banks will retain their advantage and thus remain behind these technology companies in supplying capital.

From a tax perspective, the Australian tax system primarily relies on data from banks to populate tax returns. It will be advantageous for the Australian Taxation Office to capture larger data sets and transactions gathered from these technology companies. In the area of cryptocurrency, the office has started a

working group to look into the taxation of these currencies and consider what the implications are. The office has begun by applying existing taxation law and to determine what are the means for cryptocurrencies. Currently, transacting in cryptocurrency is taxable in Australia.

Ross Buckley discussed the role of financial technology and the future of finance in Asia and the Pacific. First, he mentioned that we are currently experiencing a pivotal moment in the evolution of finance. The catalyst for this evolution is data and financial technology. The role that data and financial technology play is interconnected. Many of today's richest companies—Amazon, Alibaba, Facebook, Google, TenCent—are services that manage and profit from data. The emergence of fintech and the increasing importance of data has meant that many of these traditional “tech-companies” are now beginning to offer financial services.

Second, fintech has had a diverse reception in the region. The reason for these differences are usually contingent on unique economic factors. For instance, Singapore and Hong Kong, China are two of the leading capital raising markets for initial coin offerings—with Singapore raising more than half as much again as in the United States. Meanwhile, the Lao People's Democratic Republic and Myanmar are still struggling to get functional mobile money systems operational.

The PRC has positioned itself to be a natural leader in fintech. Unlike many economies with developed financial services industries, banks in the PRC do not have legacy reputation advantages and many people in the PRC have never had bank accounts. As a result, many are happier to put their money with tech and data companies than they are with state-owned banks. Thus, last year for the first time, investment in fintech in the PRC surpassed that in the United States.

Finally, the future of finance in Asia and the Pacific is becoming clear. In Australia, financial institutions have found it difficult to innovate and depart fundamentally from existing business models and legacy systems. On the other hand, emerging economies in the region have been able to adopt fintech more readily because they are not burdened by these preexisting factors. With the increasing importance of data, tech companies are fast becoming big providers of financial services. The rise of data is being exploited to enhance financial services across the region.

With the increasing importance of data, tech companies are fast becoming big providers of financial services.



PwC's Sarah Hickey participated in session 1 of the conference.



UNSW's Ross Buckley participated in session 1 of the conference.

Session 2: The Role of Financial Regulation, Financial Compliance, and Financial Innovation in Sustainable and Inclusive Growth

CHAIR

Mark Humphery-Jenner
Assistant Professor, UNSW

PRESENTATION

Anatoly Kirievsky
Head of Compliance
Optiver Asia Pacific

PANEL DISCUSSION

Nathan Lynch
Regional Bureau Chief, Asia Pacific /
Financial Crime and Risk, Thomson
Reuters

Professor Douglas Arner
The University of Hong Kong

Laura Newton
Senior Compliance Officer
AUSTRAC

Anatoly Kirievsky
Optiver Asia Pacific

...greater harmonization of the rules between jurisdictions would facilitate a more cohesive regulatory and enforcement regime...

Postcrisis regulatory reforms have been gradually reshaping the global financial landscape, with financial institutions and markets adjusting to the new environment. Presently, however, the accelerating pace of technological change is the most creative force—and perhaps the most destructive—in the financial services ecosystem. At the risk of making the current regulatory framework obsolete, this session discussed how Asia can seize the opportunities arising from rapidly evolving digital technology to leapfrog more traditional banking models and broaden financial inclusion.

1. What's the status of Asian financial development and the uptake of technology in the region's financial industries?
2. How can private sector and policymakers work together to establish a level playing field for financial institutions and promote financial innovation to support Asia's sustainable and inclusive development?

In the last session of this conference, Anatoly Kirievsky, Head of Compliance, Optiver Asia Pacific presented his view about financial services compliance and growth. Based on his observations, financial services compliance faces significant challenges. While a number of regulators are developing regulations that address common themes (governance expectation, conduct, information security), the way such themes are implemented differs. From a governance perspective, the three key examples are the Senior Manager Regime in the United Kingdom, Manager-in-Charge in Hong Kong, China and a Banking Executive Accountability Regime in Australia. Each is different in applicability, coverage, requirements, and enforcement. Even the interpretation of Basel III differs fundamentally between Europe and countries in Asia and the Pacific, whereas in Europe the regime is applied to nonbank investment firms, which is not the case in APEC. As a result, firms are faced with a dilemma of developing control and compliance frameworks that take into account different obligations and expectations.

An additional challenge is that compliance frameworks have historically developed along an “operational” route, that is ensuring that a firm complies with a set of procedural obligations. However, more and more, regulators are imposing obligations that are subjective and principle-based (such as provide services efficiently and fairly). To comply with such obligations, firms need to develop a more strategic approach to products and services.

From a policy perspective, greater harmonization of the rules between jurisdictions would facilitate a more cohesive regulatory and enforcement regime and allow firms to offer services across borders faster, leading to more competition and better consumer outcomes. From an enforcement perspective, it is helpful to combine industry liaison, education, and actual enforcement that focuses on the harm done and the culpability involved. Ultimately, all participants should be in a position to articulate their value proposition and take steps to deliver this value in a sustainable and responsible manner.

The presentation was followed by a panel discussion.

Nathan Lynch noted that fintech is helping overcome the challenge of financial inclusion by offering new innovative payment and lending services. Informal lending options offered by fintech start-ups may help bridge the gap created by traditional banks and thus allow individuals and small and medium-sized enterprises to gain access to finance. However, fintech and the advent of cryptocurrencies, for instance, create an opportunity for terrorists, crime syndicates, and other organizations of that nature to gain access to financial services. This demonstrates how the innovation that fintech provides will always exceed the pace of regulation. In an environment where informal payments have failed, various issues will arise. The question that arises with



Optiver's Anatoly Kirievsky presented on financial services compliance and growth during session 2 of the conference.

financial inclusion is how to solve the developing world payment challenge. The power of partnerships, alliances between the financial and tech sector, will create an ecosystem that plays upon each partners strength. Traditional banking and financial institutions are “slow” with incumbency, regulatory sophistication, and credit creation powers. Technology and telecommunication companies are fast—they have their own infrastructure, large customer ecosystems, and do not have a monopoly on technological innovation. Social media platforms are fastest, with the largest customer bases in the world and frictionless user experience. But they lack credit creation powers. It is imperative that partnerships form so that each sector can help overcome the challenge of financial inclusion.

Douglas Arner discussed regulatory technology. Regtech covers three levels. The first is used by financial industry participants of technology in the context of compliance. From the standpoint of a cross-border financial institutes, compliance is simply impossible without using technology. For instance, to keep up with the reporting requirements of a global operation, usually in large globally systemic financial institutions like Goldman Sachs, data collection, processing, and delivery is centralized at one location. The only way for many of these financial institutions or international businesses to handle their compliance obligations and use their data collection is by employing technology and, more particularly, regulatory technology.

The second level of regtech is regulators using the technology to deal with compliance obligations imposed on the financial sector. From a regulatory standpoint, the data provided is meaningless unless there is a data analytics system in place to interpret the information. The third level of regtech is about designing regulatory systems. For example, these regulatory frameworks are prevalent across the PRC and India, which have both adopted regtech in their financial sectors. As in the PRC, payment systems offered in Alipay or WeChat pay service millions of transactions that occur daily. Regtech allows the design of a reporting system that delivers those payment details to the central bank that is usable for monitoring economic activity as well as conditions of the economy.

...the innovation that fintech provides will always exceed the pace of regulation.



Session 2 panelists discussed the role of financial regulation and compliance during session 2 of the conference.

...regulators and institutions need to be mindful of the inherent risks that digital platforms carry.

Laura Newton discussed the need for greater regulatory cohesion in Asia and the role of AUSTRAC in reconciling regulatory inconsistencies among institutions in the region. In streamlining compliance instruments across countries, AUSTRAC aims to build financial inclusion in the region and prevent the significant financial loss associated with exploitation of regulatory gaps. The key challenge facing regulators will be striking a careful balance between sufficient regulation and giving these institutions agency to grow and develop on their own terms. It is imperative that there is greater discussion among regulators of their experiences in managing disruptive technologies, such as digital currencies. On the one hand, enabling new technology has the potential to improve accessibility to finance and capital markets. However, regulators and institutions need to be mindful of the inherent risks that digital platforms carry. There is a misconception that global regulators are intrusive in their demands for greater compliance measures. In contrast, many institutions are approaching regulators to provide them with legitimacy and present a regulatory template to their clients. Effective regulators will incentivize institutional compliance by focusing on industry participation and in creating a co-writing role for institutions in the regulatory process.

Financial Services and Technology: Financial Inclusion and Stability

Conference Highlights

The International Conference on Financial Services and Technology: Financial Inclusion and Stability discussed the role of digital technologies in shaping the financial service landscape and how Asia's financial system should evolve to be more responsive to its development needs. The conference highlighted the new regulatory challenges in advancing financial technology and how policymakers and regulators can best address these emerging issues to safeguard financial stability and more effectively promote financial inclusion. The conference program covered issues that could enhance the capacity of policymakers and market participants to comply with some of the global and regional rules and standards more comprehensively.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 67 members—48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



ASIAN DEVELOPMENT BANK

6 ADB Avenue, Mandaluyong City

1550 Metro Manila, Philippines

www.adb.org