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Bolstering Singapore's Fintech Capabilities in Budget 2017

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Financial technology (Fintech) is a sunrise industry that Singapore has actively embraced in recent years. Without a doubt, the government's efforts have been integral in the development of the local Fintech scene. The country is now seen as one of the top Fintech hubs in the world, with strong government support regularly cited as a factor for its success thus far.

Much has been done by the government. On the regulatory front, the Monetary Authority of Singapore (MAS) set up the regulatory sandbox framework for financial institutions (FIs) and others to test their Fintech innovations in a more free, safe and controlled environment. On the development side, MAS organised the Singapore Fintech Festival, the world's first large-scale gathering of various Fintech players. The government has also launched the Fintech Office, a one-stop shop to develop the sector. The crucial element of funding is not forgotten as MAS is committing S$225 million over the next five years to attract FIs to set up their innovation labs in Singapore. Various grants and schemes are now available for Fintech players to tap on.

These initiatives underscore the MAS' vision and demonstrate its commitment to transform Singapore into a Smart Financial Centre – a place where FIs are encouraged to embrace innovation, forge collaborations with Fintech players and experiment with the latest technologies.

For Singapore to stay ahead of the pack, it has to look into other aspects of the entire Fintech ecosystem to keep it vibrant. These include attracting new technologies and the right talent into Singapore, and promoting the sharing of risks and rewards between corporates and Fintech set-ups.

Attracting new technologies

Singapore has already taken a huge step forward in attracting new technologies with the launch of the regulatory sandbox in June 2016. To build the "safety net", MAS and the applicant will define the boundaries within which the experiment will take place. MAS then determines the specific legal and regulatory requirements which it is prepared to relax for the duration of the experiment within these boundaries. The sandbox has been a huge success, attracting proposals that leverage on a range of technologies including distributed ledgers, machine learning, and big data analytics.

Beyond the regulatory sandbox, there are other tax incentives promoting innovation, research and development and intellectual property management. These incentives also seek to attract new technologies into Singapore.

The concern is that with the phasing out of the Productivity and Innovation Credit (PIC) Scheme in 2018, this could have an adverse effect on the momentum of innovation developed in Singapore over the past few years. In order to drive the

Fintech sector from a tax incentivisation perspective, and in line with MAS' efforts in the regulatory aspect, the government can consider replacing the PIC scheme with new tax incentives more targeted at Fintech players. For instance, there could be tax incentives for the adoption of activities such as Robotics Process Automation, Artificial Intelligence (AI) Cognitive Labour, and Internet of Things (IoT) programmes.

Attracting talent

A country's talent pool plays a major role in its attractiveness as a Fintech hub. The right Fintech talent pool should be equipped with the relevant technical knowledge and financial services expertise. Singapore has taken steps to develop a robust workforce, build a research center dedicated to Fintech, and retrain people from the financial industry.

In addition to developing local resources, it is equally important to attract foreign talent into Singapore to enable knowledge transfer within this sector. Particularly in Fintech, some of the best talents come from non-traditional sources like Poland, Israel, Ireland, China, and Russia. As Fintech industries worldwide compete to woo such specialised talents, Singapore would do well to look at what it can do to be more appealing, which could mean easing the complicated workforce quotas and restrictions that are currently in place. Appropriate tax incentives may also help to encourage large local enterprises (LLEs) to build first-class research facilities, which would supplement the government's efforts to attract such specialised talent into Singapore.

Sharing of risks and rewards

Despite the suite of grants and schemes available here, Fintech players are still in need of investors, especially in the initial years of their development. This brings to mind the Angel Investor Tax Deduction (AITD) scheme, which was introduced in March 2010 to allow individual investors who commit a minimum of S$100,000 in a qualifying startup, to enjoy a 50% tax deduction on their investment at the end of a two-year holding period, up to a maximum tax deduction of $250,000. Also, the Early Stage Venture Fund (ESVF), which was first launched by the National Research Foundation (NRF) in 2008, incentivises LLEs to invest in local technology startups.

While these Series A funding may ease the financial strain on Fintech players in the startup phase, a larger amount of funding is typically needed during the market expansion stage i.e. Series B funding.

Currently, we see that most Series B investors are foreign VCs and they tend to invest in Fintech players by acquiring them and bringing them back to their larger local markets in places like China and Japan. This is a double hit to the local Fintech industry in the long run, especially if these Fintech players are local startups which have benefited from local investors or government funding in their early stages.

To promote Series B funding, the government can consider extending the AITD scheme to corporate investors for qualifying investments, such as investments in Fintech players that are integral to Singapore's Smart Financial Centre initiatives.

It may also be worthwhile to consider giving a larger amount of VC funds to local industry players, with the mandate of investing in Fintech startups.

Fintech has been identified as a key factor for Singapore to remain a regional financial hub. Fintech players have the potential to offer novel solutions for FIs, in terms of their internal operations, as well as the way they serve their customers. Singapore has set the pace in its trailblazing efforts to nurture the Fintech industry at the start of this global race, and if it can continue to enhance its hunt for talent, technology and funding, the future would be bright in this sunrise industry.

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