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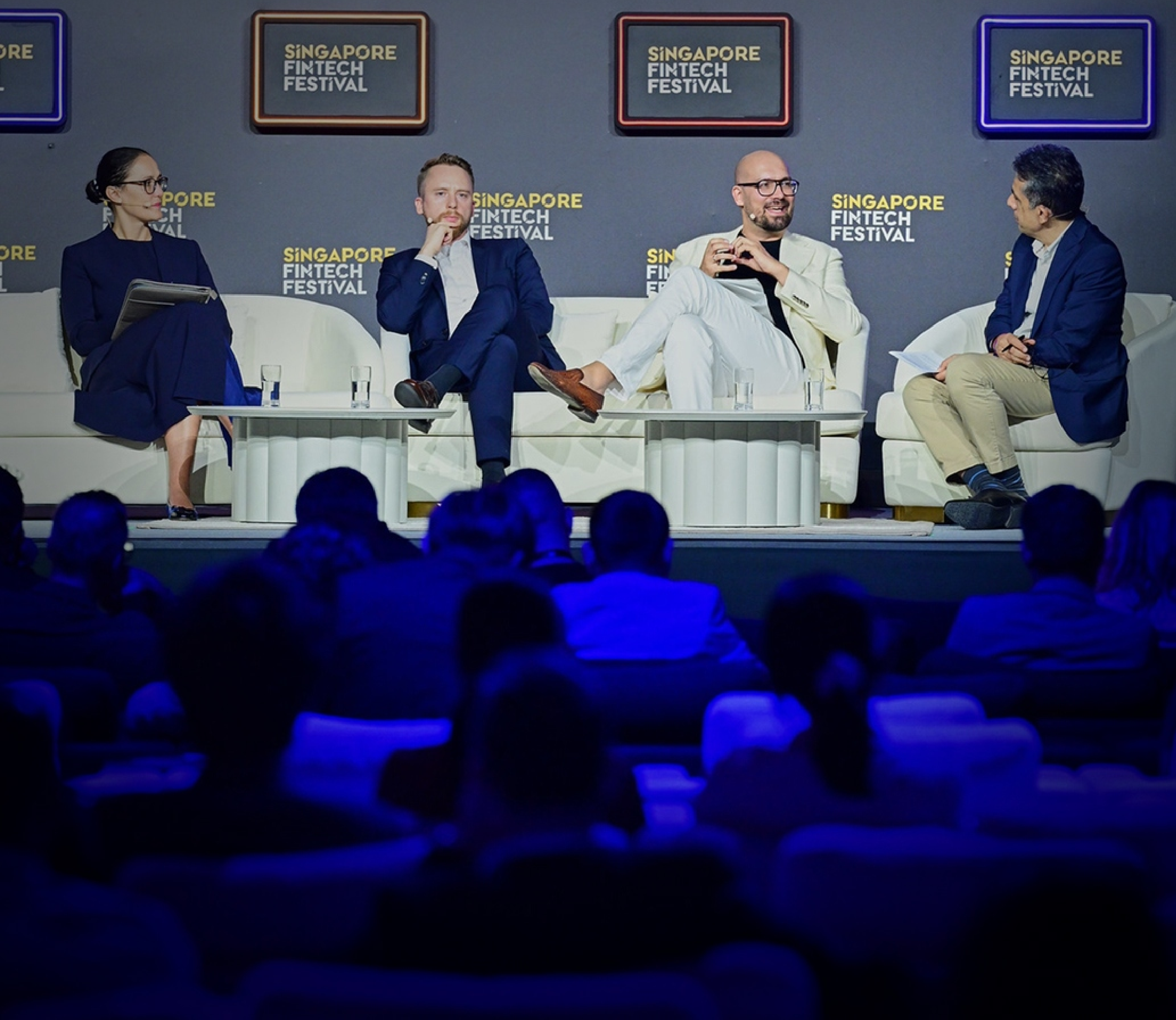
FinTech Synergies

Key Insights from The Capital Meets Policy Dialogue™ at the Singapore FinTech Festival 2024

December 2024



Global Finance & Technology Network (GFTN)

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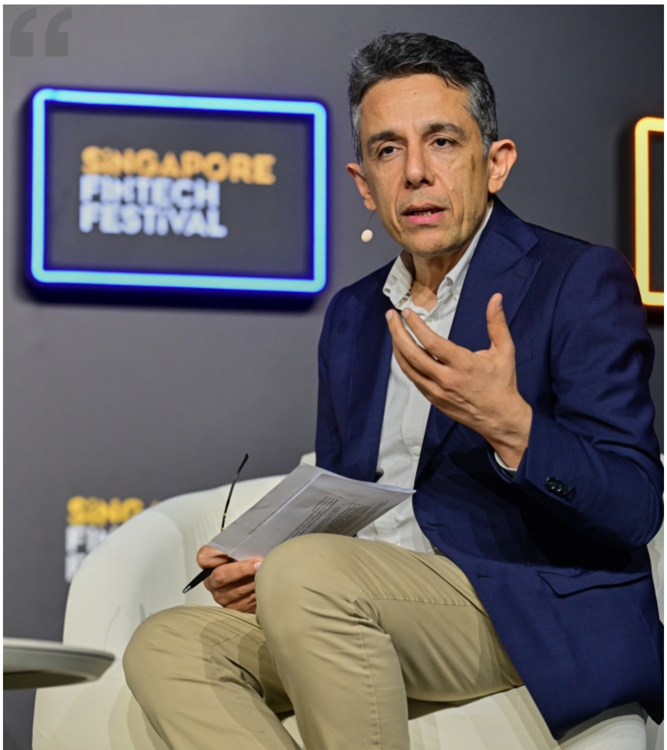
The Capital Meets Policy Dialogue (CMPD) at the Singapore FinTech Festival brings together senior policymakers and major capital providers to debate the most pressing issues in capital investment, value creation, and policymaking. The dialogue is Asia's premier annual summit which aims to foster mutual understanding by allowing policymakers and capital providers to discuss the direction of policymaking, identify areas of concern, and share perspectives on capital allocation.

Innovation-first or regulation-first?



Navin Suri, Chief Executive Officer and Founder, Percipient

> *"So typically, anywhere in the world, innovation does not need permission from anybody to start. And anybody can do it anywhere they want, whatever they want. It takes about a couple of years for that innovation to develop into some sort of a product and some early adopters of that solution tend to emerge. Whether this is B2C or B2B doesn't matter. At the end of those two years, typically, capital providers get interested. And they are looking for ideas and opportunities in which they can invest. So, they come in about two years into the journey and provide capital for scaling up that innovation."*
>
> *"The next three to four years more capital providers come in, competition comes in and the category grows. At seven, eight years from when innovation was first done is when policymakers get interested, they want to see whether this is something which is causing any financial stability risk."*

Globally, different regions and organisations have adopted varied approaches to AI regulation, reflecting their unique priorities and contexts. The most noteworthy move has been the European Union's EU AI Act, passed in March 2024. The act aims to establish a clear set of rules for AI developers and users, focusing on risk management, transparency, and accountability. In contrast, the United States has taken a more sector-specific and decentralised approach, emphasising innovation and competitiveness while addressing potential risks through existing regulatory mechanisms.

Meanwhile, countries in Asia, such as China and Japan, have adopted distinct strategies. China has prioritised AI development as a national goal with significant government investment and support, alongside strict regulations on data usage and AI ethics to align with national security goals. Japan, on the other hand, has focused on ethical guidelines and international cooperation, promoting AI innovation while ensuring public trust and safety. These varied approaches underline the global challenge of balancing AI's benefits with its risks.

But the question remains: Innovation first or regulation first?

During the CMPD, regulators from diverse jurisdictions shared their perspectives. Delina Ibrahimaj from Albania, a nation set to join the European Union by 2030; Karolis Žemaitis from Lithuania; and Michael Biel from Germany offered unique insights into this pressing question.

Karolis Zemaitis, Vice Minister of the Economy and Innovation, Lithuania, shared the country's digital transformation. The key aspect that mattered, he stated, was the government's understanding of that transformation, and of its society and business environment. He also noted that 90% of the country's citizens, including young people and seniors, are using digital services.

Michael Biel, State Secretary of the Senate Department for Economic Affairs, Energy, and Public Enterprises in Berlin, highlighted that most Germany start-ups are founded in Berlin, the nation's leading hub for innovation and entrepreneurship. As of today, Berlin is home to 18 unicorns[1] and ranks second among European start-up hubs, according to the Startup Heatmap Europe 2023. Additionally, 38% of Germany's AI start-ups are based in the city, and a significant portion of the country's venture capital flows into Berlin-based companies. The city's active strategy for internationalisation, digitalisation, and innovation has fuelled this growth, with 78 out of 129 online services for companies already digitalised, and the remainder slated for completion by the end of the 2024.

[1] A unicorn company is a privately held startup valued at $1 billion or more, typically in the technology or innovation sectors.

Delina Ibrahimaj, Minister of State, Ministry of Entrepreneurship and Business Climate of Albania

> *"And we are trying in our policies to develop policies that will attract foreign direct investment. We have, now, this new legislation on technoparks, which have huge fiscal incentives, 15 years of non-corporate tax, zero income tax for 10 years, and other kinds of incentives in order to attract foreign direct investment."*

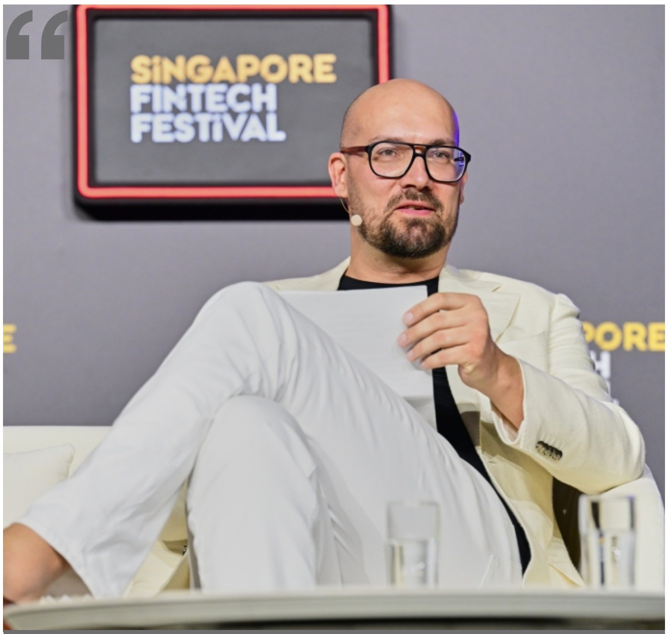
Speaking about the popular phrase, the "US innovates, EU Regulates", Michael noted that his approach is to put innovation first and then "finding regulations with the people that design and come up with ideas of new technologies."

AI Regulation: Should there be a global AI governance body?

The debate over global AI governance continues, with the absence of a universal regulatory framework leaving gaps in coordination. While some advocate for a unified body, like the United Nations High-Level Advisory Body on Artificial Intelligence, others question its feasibility and necessity.

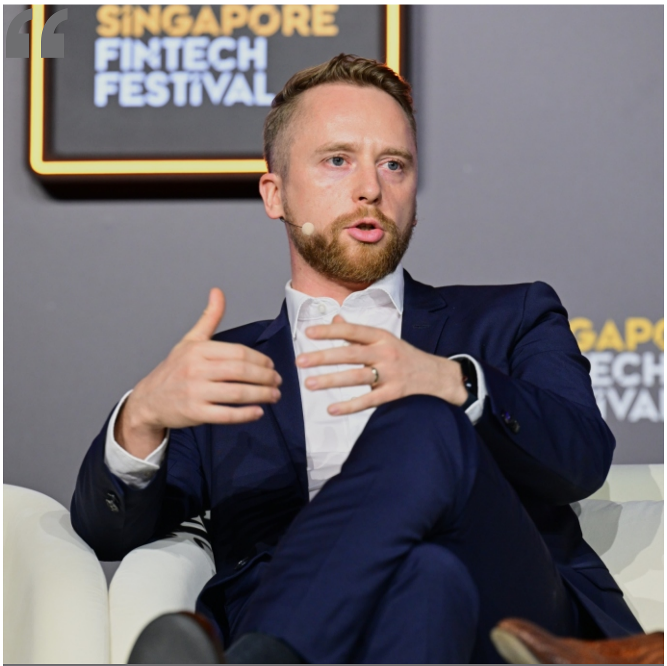
Delina from Albania also shared that the EU countries are "already over-regulated", and having another governing body might be helpful in having research discussions, but perhaps a "common policy group to discuss issues that would drag the European Union to less regulation and more innovation."

Karolis expressed scepticism about the effectiveness of the United Nations as a global AI governance body. He pointed out that opinions on AI vary widely, with some comparing it to nuclear power and others seeing it as merely "an advanced calculator". He believes the truth lies somewhere in between, noting that while Lithuania supports a rules-based world order, the current global policy crisis calls into question the UN's ability to address such complex issues. He emphasised that AI innovation should lead the way, acknowledging that no matter the regulations in place, there will always be loopholes.



Michael Biel, State Secretary, Senate Department for Economic Affairs, Energy, and Public Enterprises, Berlin

> *"The competitiveness of Europe is one of the things that keeps me up at night; and Europe is the richest and the most educated region in the world. Nevertheless, we are losing in (the) innovation game."*
>
> *"Europe is a fantastic, 500 million market. Nevertheless, it's not the market that is producing adequately enough innovation."*



Karolis Zemaitis, Vice Minister of the Economy and Innovation, Lithuania

> *"We have the UN Security Council, which should have ended all the wars in the world. Yet somehow, we still have actual warfare happening on several continents."*
>
> *"I don't agree that corporations will take over the world, because actually the state rule, the importance of states, actually increased in the last couple of years."*

Michael expressed his reservations about creating a new governing body, emphasising that unless there's a unified, basic agreement, it's unnecessary. While not opposing the United Nations, he stressed the need for the right level of ambition and understanding.

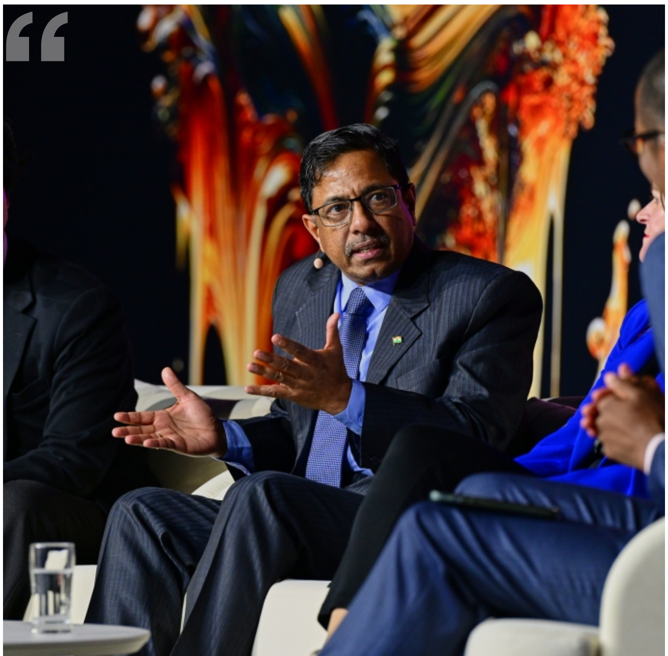
A different panel comprising Jutaro Kaneko, Deputy Commissioner for International Affairs, Financial Services Agency from Japan; K. Rajaraman, Chairperson, International Financial Services Centres Authority from India; and Sarah Pritchard, Executive Director of Supervision, Policy and Competition - Markets and Executive Director of International, Financial Conduct Authority from the United Kingdom shared perspectives on the same question: global governance of AI.

Chris Brummer, Founder, Bluprynt, the Crypto Disclosure Company & DC Fintech Week

> *"A trilemma for financial regulation is how do you encourage innovation, achieve market integrity, and do it with clear rules? It's very hard to do all three simultaneously. You can have clarity by saying no to everything, but then you don't get innovation. You can have clarity by saying yes to everything, but then you end up with some risk. Or you can try to balance innovation and risk. Unlike in the UK, in the United States, our experience involves reams of rules that can be hard to implement, understand, and supervise."*

Rajaraman of the International Financial Services Centres Authority shared his thoughts on the concept of an international governance body for AI, particularly within India's rapidly growing fintech sector. He highlighted that, as a regulator, the focus should be on ensuring fair market practices and intervening when necessary. The organisation has established an innovation and regulatory sandbox to allow supervised experimentation with new technologies, including AI. Rajaraman emphasised that AI regulation is still in its early days and that imposing regulations without a proper understanding of the technology could hinder its development. He believes that guiding AI development through principles like non-discrimination, privacy, and transparency is preferable to prescriptive regulations. Additionally, he pointed out the importance of international consensus for effective cross-border financial services regulation. For now, he suggests issuing advisories and promoting transparency through disclosures, rather than strict regulations.

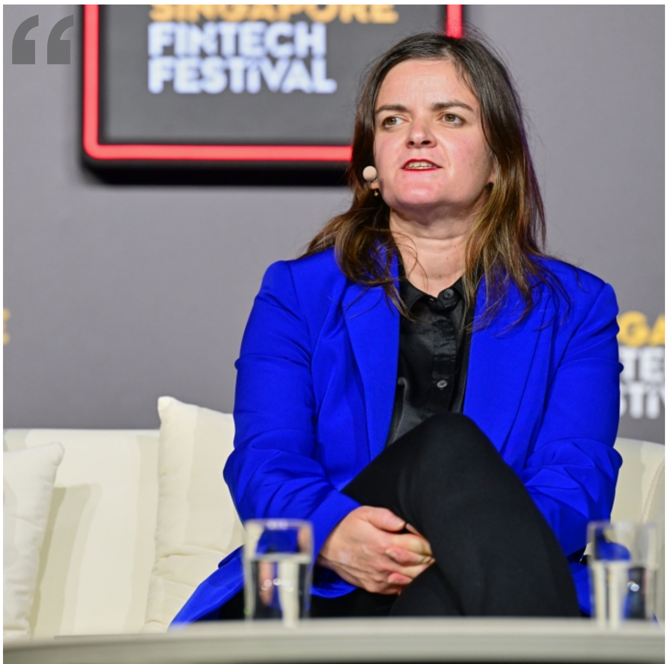
Jutaro from Japan's Financial Services Agency, discussed the country's approach to overseeing and supervising AI, emphasising the principle of "same activity, same risk, same regulation" in financial services. He noted the rapid technological advancements in AI, specifically generative AI, and the need for agile regulation. He expressed concern about the risk of "hallucinations" in AI, particularly from a consumer protection standpoint, especially for retail investors. He mentioned that, currently, no AI vendors are offering business-to-consumer investment advisory services in Japan but emphasised the need for AI vendors to be cautious and to compensate for any economic losses caused by AI hallucinations.



K. Rajaraman, Chairperson, International Financial Services Centres Authority

> *"The regulator's capability to understand technology is in doubt. As a regulator myself, I recognise that because it's so fast-moving, our ability to grasp this technology is somewhat lacking. Therefore, building our own capability to understand the technology is also likely necessary."*

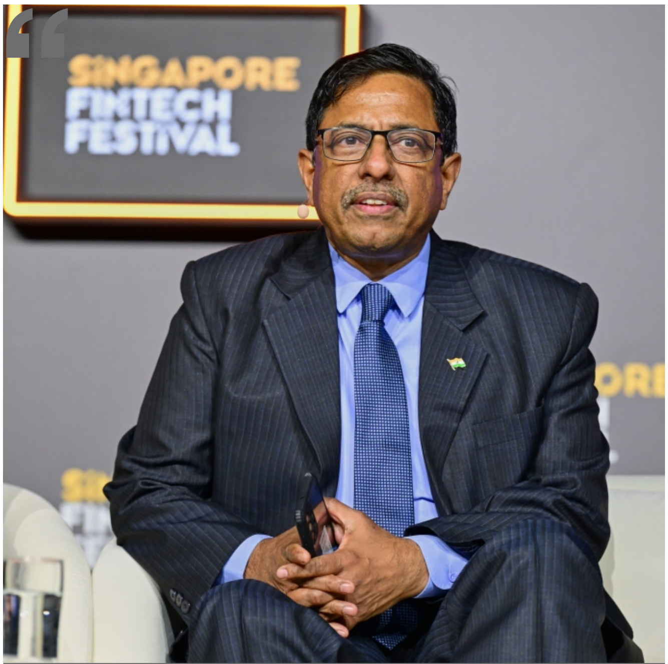
Sarah from the Financial Conduct Authority highlighted that while AI introduces unique coordination challenges, the core regulatory concerns remain consistent, focusing on consumer protection and market integrity. She emphasised the importance of understanding the transmission of risk and thoughtful regulation. Sarah underscored the significance of international information sharing and collaboration, particularly through bodies like International Organisation of Securities Commissions and the Global Financial Innovation Network. She pointed out the need for regulators to enhance their skills and capabilities to keep pace with technological developments. Additionally, she acknowledged the complexities of data sharing and the importance of international engagement in addressing these challenges.



Sarah Pritchard, Executive Director of Supervision, Policy and Competition - Markets and Executive Director of International, Financial Conduct Authority

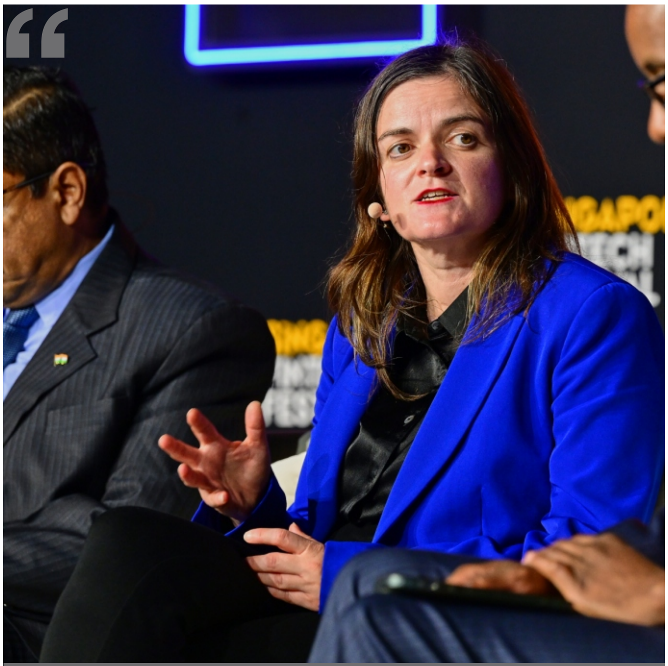
> *"Information sharing, like data sharing when it relates to personal data, is always very complex. I suspect it will remain very complex. I don't think AI will solve that, or maybe it will."*

During the discussion on what keeps them awake at night regarding AI, the regulators shared their key concerns. Rajaraman highlighted the importance of risk management and compliance for fintechs in India, noting that neglecting these aspects can lead to significant liabilities and the need for explainability and accountability. Sarah focused on the safe and responsible use of AI by financial services firms and expressed concern about bad actors using AI for market manipulation. Jutaro admitted his intentional optimism but emphasised the need to watch for risks carefully to protect vulnerable retail consumers. He added to his comments about the potential dangers of AI hallucinations, which he said can mislead even those with financial and IT literacy, stressing the importance of thorough risk management and consumer protection measures. This discussion underscores the critical balance between fostering innovation and ensuring robust regulatory oversight to mitigate risks associated with AI in financial services.



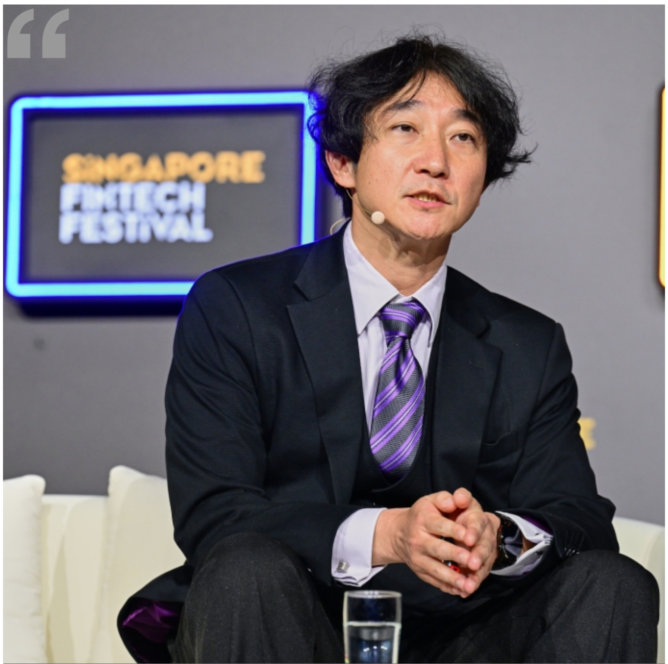
K. Rajaraman, Chairperson, International Financial Services Centres Authority

> *“The fintechs themselves must ensure that the risk management of the product they are offering to the market is of a high order, which meets the test, so that it protects them against litigation and the consequen-ces of compensation”*



Sarah Pritchard, Executive Director of Supervision, Policy and Competition - Markets and Executive Director of International, Financial Conduct Authority

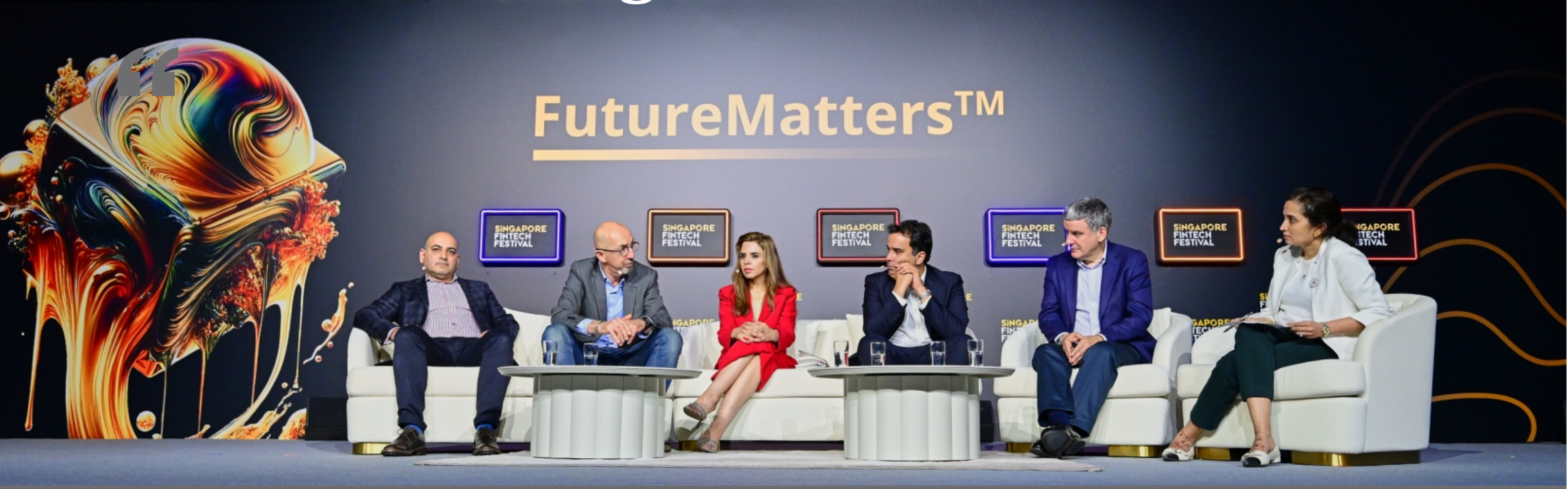
> *"The thing that keeps me awake at night is how AI might be turned against financial services by bad actors. There's also the risk of market manipulation to consider.”*



Dr Jutaro Kaneko, Deputy Commissioner for International Affairs, Financial Services Agency

> *"My biggest concern for now is the potential risk caused by hallucination. No matter how hard we urge students to be equipped with decent financial and IT literacy, the hallucination is just too strong.”*

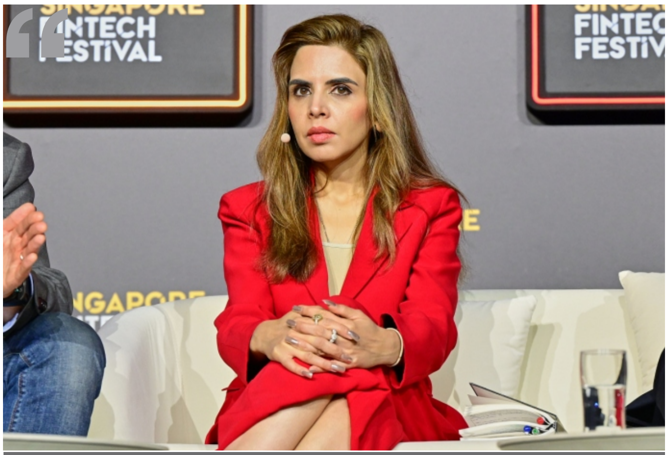
Investor's dialogue



The Capital Meets Policy Dialogue investors' dialogue: AI has a real problem - The missing revenues!
(Left to right) - **Adel Meer**, Global Manager for Financial Inclusion, International Finance Corporation, **Arnaud Caudoux**, Deputy Chief Executive Officer, Bpifrance, **Bijna Kotak Dasani**, MBE, FRSA, Managing Director of ArthAum Group, **Hernán Fernández**, Managing Partner, Angel Ventures, **Jonathan Larsen**, Chairman and Chief Executive Officer of Ping An Global Voyager Fund and Chief Innovation Officer, Ping An Group, Moderator: **Rafat Kapadia**, Head of Investments, Global Finance & Technology Network (GFTN)

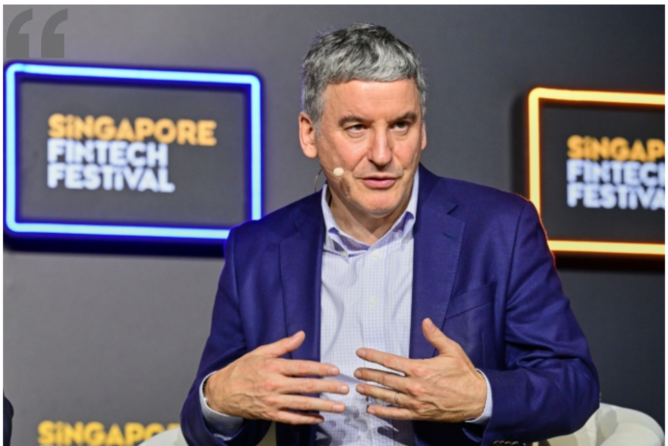
The next panel focused on AI's "missing revenues," examining why the technology has yet to deliver significant financial returns despite immense investment in research and development.

Jonathan Larsen of Ping An highlighted the complexities and implications of the EU AI Act. He acknowledged that the European Commission tends to start with regulation, which can be both beneficial and challenging. The EU AI Act aims to create a trustable environment for companies. While some major AI entities, like Meta, have expressed reservations about complying with the AI Act, others have not reported significant issues. According to Jonathan, the regulation is seen as providing confidence for customers, especially in highly regulated sectors like banking.



Dr. Bijna Kotak Dasani, MBE, FRSA, Managing Director of ArthAum Group

> *"AI is projected to lose all revenue in funding in the next 12 months. The number for this year so far is USD500 billion by the end of this year, so by the end of next month."*
>
> *"Each cyber-attack costs around USD5.9 million, and one single major payments attack could cost the world economy USD3.5 trillion."*



Jonathan Larsen, Chairman & Chief Executive Officer of Ping An Global Voyager Fund & Chief Innovation Officer, Ping An Group

> *"If you haven't architected the user journey and workflow properly, and haven't thought through exactly what problem you're solving, you're going to be disappointed with AI."*

Bijna Kotak Dasani of ArthAum Group highlighted the varying impacts and perceptions of AI across different geographies. She noted that while AI is seen as a disruptive force in some regions, causing job losses and economic challenges, it is viewed positively in others, such as India, where it is driving social mobility, inclusion, and upskilling. Dr. Dasani emphasised the need for a balanced approach to AI, recognising that different markets have different maturities and needs. She also pointed out the significant revenue challenges facing the AI sector, stating that a report from Sequoia projected “a need to generate at least USD600 billion by the end of 2024 to remain viable.

Adel Meer, Global Manager for Financial Inclusion at the International Finance Corporation (IFC), emphasised the dual role of AI as both an enabler of financial inclusion and a tool for addressing climate change. He highlighted that technology including AI, has significantly increased access to finance globally through enhanced outreach and database lending solutions. "AI is a tool," he noted, stressing that its impact depends on how it is directed and applied.

However, Meer cautioned that in many emerging markets, lower-income segments often lack substantial data profiles, which can exclude them from the benefits of AI-driven applications. "We need to make sure that we're measuring *how much of all of this optionality that we're building in creates new opportunities, creates better livelihoods, and is linked to better jobs," he explained. This underscores the importance of ensuring AI's application extends to vulnerable communities, thereby enhancing social inclusion and economic opportunities.*

Additionally, Adel pointed out the potential of AI to contribute to climate change mitigation. He suggested that AI could help develop tailored solutions for insurance companies and vulnerable communities, particularly in the agricultural sector, to better manage the risks associated with climate change. "AI can come up with solutions which are far more tailored and far more relevant for the lower income segment," he asserted. Meer's insights underscore the necessity of directing AI's capabilities thoughtfully to maximise its positive impact on financial inclusion and environmental sustainability in emerging markets.

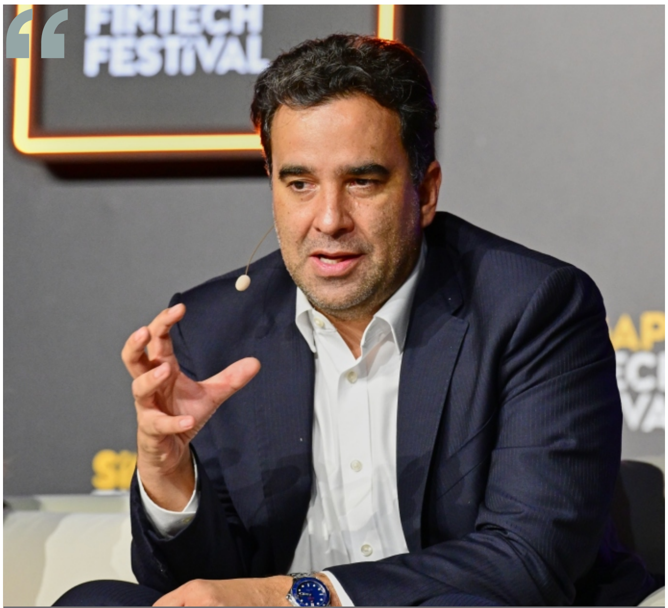
Adel Meer, Global Manager for Financial Inclusion, International Finance Corporation

> *"AI can come up with solutions which are far more tailored and far more relevant for the lower income segment."*

Hernán also mentioned that AI innovation in Latin America is unlikely to mirror what we see in the US and Europe. Instead, it will focus on specific applications and use cases, a trend that he is already observing.

Hernán Fernández highlighted the unique landscape of AI innovation and application in Latin America compared to more developed regions such as the US and Europe. He noted that Latin America, with its population of 650 million, presents significant opportunities for AI-driven solutions, particularly in critical sectors such as healthcare, fintech, and agritech. Despite the region lagging in AI dominance, he also mentioned that AI innovation in Latin America is unlikely to mirror what is seen in the US and Europe. Instead, it will focus on specific applications and use cases, a trend that the region is already observing.

Hernán emphasised the importance of leveraging AI technologies to address the specific needs of the region and to improve the lives of its people. However, challenges remain, such as the lack of products and services and an outdated credit bureau system that excludes individuals from the financial system for minor defaults.



Hernán Fernández, Managing Partner, Angel Ventures

> *“By 2030, AI is expected to contribute only 5% to Latin America's GDP, compared to 15% in developed economies, but the potential for leapfrogging advancements remains significant.”*
>
> *“There is still a lot of solutions out there that have not reached Latin America. I think something similar can be said about the Middle East and North Africa.”*

He argued that innovative solutions are required to reintegrate these individuals and enhance financial inclusion. By 2030, AI is expected to contribute only 5% to Latin America's GDP, compared to 15% in developed economies, but the potential for leapfrogging advancements remains significant. Fernández's insights underscore the need for tailored AI applications that can drive economic growth and social inclusion in Latin America.

Big question: What is the one single thing a policymaker can do to ensure that, 1) there exists innovation in the jurisdictions they cover, and, 2) innovation is used for public good?

Hernán pointed out that governments should provide the right tools and education to leverage data products effectively within broader ecosystems. He emphasised the need for sandboxes to integrate vulnerable populations into financial systems and to utilise AI for public good, particularly in fintech.

Jonathan underscored the transformative power of AI technologies like GPT-3 but cautioned against overregulation, which could stifle essential R&D. He stressed the importance of a principles-based approach, ensuring product liability and accountability for AI developers and users. Arnaud echoed this sentiment, advocating for government-provided data and safe areas for AI development, alongside a robust educational system to prepare the workforce for AI advancements.

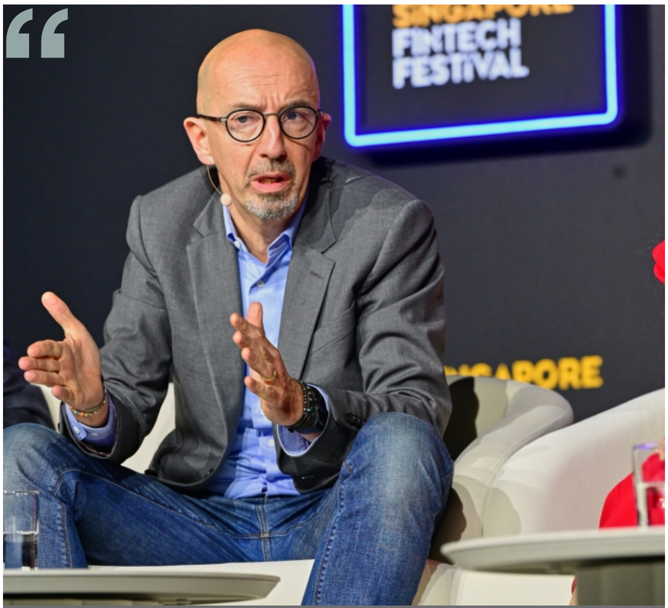
Adel focused on financial consumer protection, highlighting the necessity of guardrails around data manipulation to prevent harm and maintain trust. He advocated for a manual intervention mechanism to ensure data integrity and consumer safety. Bijna emphasised the dual role of AI in economic empowerment and disempowerment, highlighting the critical need for responsible AI usage. She noted the severe consequences of inadequate data management and cyberattacks, advocating for a global approach to address these risks.

Big question: Which is the most promising subsector or geography within AI?

Adel pointed out that emerging markets such as Brazil, India, China, and sub-Saharan Africa show great promise due to their developing data ecosystems. The International Finance Corporation seeks investments that balance commercial viability, developmental impact, and sectoral improvement.

Hernán emphasised the potential of fintech in Latin America, noting that the region's large, data-hungry populations create significant opportunities for AI-driven solutions in financial services. He mentioned that the region has several unicorns in fintech, and there remains untapped potential for innovative AI applications to address specific local needs.

Arnaud added that layer two applications and vertical models built on large foundation models, particularly in fintech and healthcare, present substantial value. He also highlighted the importance of cybersecurity, identity proofing, and the integration of AI with blockchain technology. He suggested that investing in new models beyond transformers might be a smart move for future AI advancements.



Arnaud Caudoux, Deputy Chief Executive Officer, Bpifrance

> *"I think the right software company, which already has the customer base and the ability to embed AI within their customer value, can still build a lot of value."*

Conclusion

The discussions at the CMPD underscored the critical need for tailored approaches to AI innovation and regulation. While the EU AI Act represents a step towards harmonised rules, regional differences in priorities and capabilities highlight the challenges of global governance. Emerging markets like Latin America, India, and Africa offer unique opportunities for leapfrogging through AI applications in financial inclusion and sustainable development.

Moving forward, collaboration among policymakers, investors, and innovators will be essential to harness AI's potential for economic growth and social impact, while mitigating its risks through thoughtful regulation.

Global Finance & Technology Network (GFTN) is a not-for-profit organisation established by the Monetary Authority of Singapore (MAS) in 2024 to harness technology and foster innovation for more efficient, resilient, and inclusive financial ecosystems through global partnerships. GFTN organises convening forums, offers advisory services on innovation ecosystems, provides access to transformative digital platforms, and invests in technology startups with the potential for growth and positive social impact through its venture fund.

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