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India-Singapore Fintech Corridor: A Gateway for Deeper India-ASEAN Financial Relations

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Fintech applications in financial services and other sectors of the economy in emerging markets and developing countries offer promising development outcomes in the future. Besides facilitating faster and convenient retail payment solutions, fintech innovations are being viewed as effective instruments for ensuring financial inclusion and enhancing financial literacy among the common people. Ongoing efforts by India and Singapore for comprehensive collaboration in fintech sector with possible replication in other ASEAN countries open up avenues for higher trade, investment and people-to-people relations among India, ASEAN and Indo-Pacific nations.

Introduction

Rapid adoption of financial technology (fintech) tools worldwide has opened up channels for trade in fintech and fintech-enabled services, thereby necessitating cooperation among countries in all different domains including promotion, regulation and oversight. The growing use of fintech applications among the common people particularly for retail payments and lending on the grounds of speed, ease and convenience marks a new era of financial transactions. It has implications for the way cross-border transactions would happen in the coming years. Establishing a fintech corridor between two or more countries could be a positive step in that direction. The Belfast-Dublin Fintech corridor, the first of its kind, established in 2020 in the island of Ireland, perhaps inspires more such corridors across the world. This corridor aims to make the Belfast-Dublin region the most attractive and accessible place for fintech, and drive regional economic growth. The corridor serves as a gateway for fintech firms into the EU, thereby strengthens the EU-UK fintech relation (the Fintech Corridor). Recently, India and Singapore have initiated talks for exploring collaboration in fintech and digital payments.

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In that perspective, given the pace of economic integration in ASEAN and the increasing scope of India-ASEAN economic relations, fintech is believed to be a major driver of change and innovation. This commentary builds on the progress achieved in the bilateral collaboration in fintech between India and Singapore as the beginning of greater India-ASEAN fintech relations.

ASEAN: A Growing Market for Financial Services Trade

Financial technology has altered the way financial services are delivered. The global fintech market has expanded rapidly in the last few years and has enabled faster integration of global and regional financial markets. The ASEAN composed of Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam has exhibited great potential for trade in financial services. As seen in Figure 1, exports and imports of financial services from ASEAN to the world have increased steadily in the past decade, with export growth outpacing imports. As of 2020, ASEAN exported over US\$ 33.7 billion of financial services to the world and imported over US\$ 11.5 billion. These constitute about 6.3 per cent of global exports and 4.1 per cent global imports of financial services. There is also evidence of resilience in the financial services sector of ASEAN. Despite the onset of the pandemic and the resulting economic downturn from restricted cross-border mobility, the trade values have continued to rise in the financial services sector.

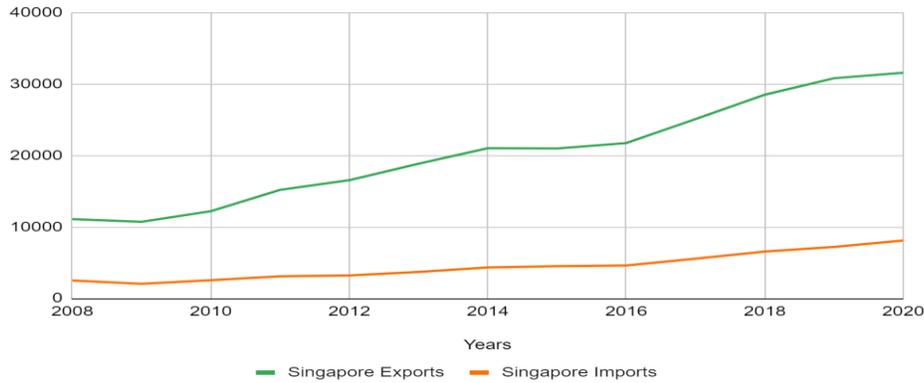
Figure 1: Export and Import of Financial Services of ASEAN (US\$ million)



Source: IMF, BoP Statistics.

A significant part of ASEAN trade in financial services is driven by Singapore, which is fast emerging as a global financial center with its thrust on cutting-edge financial technologies and cross-border financial connectivity. Figure 2 depicts the value of financial services trade of Singapore with the world. Notably, the trade values have continued to increase in 2020, the pandemic year when Singapore’s global exports of financial services amounted to US\$ 31.61 billion. The corresponding value of imports was US\$ 8.12 billion. This is equivalent to over 5.9 per cent of global exports and 2.9 per cent of global imports of financial services.

Figure 2: Financial Services Exports and Imports of Singapore (US\$ million)



Source: IMF, BoP Statistics.
 Note: Does not include Vietnam

When compared with the share of ASEAN in global trade of financial services, this depicts the strategic economic importance of Singapore within and outside ASEAN, especially when taking into account the bilateral trade values of India with ASEAN. The dominant position of Singapore in ASEAN’s financial service sector also spills over to its bilateral trade position with India, shown in Figure 3. In 2019, Singapore imported over US\$ 262 million worth of financial services from India and exported US\$ 444.4 million to India. Singapore’s imports financial services from India over the period 2008-2019 have grown at a compound annual growth rate (CAGR) of 8.2 per cent, whereas exports to India registered a CAGR of 9.6 per cent over the same period.

**Figure 3: Bilateral Financial Services Trade (2006-2019)
 (US\$ million)**

(a) India and Singapore



(b) India and ASEAN



Source: WTO-OECD Balanced Trade in Services Dataset (BaTiS)- BPM6

Note: Estimates are based on balanced values

Given Singapore’s strategic position vis-a-vis India and ASEAN, a fintech corridor connecting India’s fast-developing financial landscape and Singapore’s globally integrated financial sector can serve as a gateway to the larger ASEAN and Indo-Pacific regions. Towards this end, many ASEAN countries, especially Singapore, have taken initiatives to adjust their regulatory perimeter and provide an enabling environment for domestic and cross-border fintech transactions in the region.

Policy and Regulatory Landscape for Fintech in ASEAN

Regulatory authorities in ASEAN have undertaken various policies and regulations at the domestic level for the fintech sector. Regulatory sandboxes have become an increasingly popular tool and can be found in six Southeast Asian countries; Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand, while it has also been proposed in Vietnam. The Monetary Authority of Singapore (MAS) Fintech Regulatory Sandbox Framework is designed for three degrees of sophistication. The basic sandbox model is fully customizable for any regulated activity, and is open to first movers only. Sandbox Express curates pre-defined environments for low risk activities and offers fast-tracked approvals. Finally, Sandbox Plus goes a step further by offering financial grants for first movers. More than 50 per cent of the financial authorities in Southeast Asia have developed RegTech initiatives including Brunei, Malaysia, Philippines, Singapore, and Thailand. In addition, the majority of regulators across the region have signed cooperation agreements to share information on fintech sectors in their respective markets.

All the regulators have responded to developments within fintech markets with some form of bespoke regulation for specific sectors. According to Cambridge Centre for Alternative Finance (CCAF), 80 per cent of them have introduced bespoke regulation for digital payments. However, 90 per cent of them have used existing regulations for the InsurTech industry. The regulatory environment in some jurisdictions has not seen as much development within the fintech sector.

Regulatory harmonization is significant in terms of fintech development in the region, and efforts are underway to encourage and further facilitate it specifically involving cross-border initiatives. Some of those initiatives include the establishment of ASEAN-Singapore Cyber-security Centre for Excellence that seeks to conduct research, conduct virtual cyber defense exercises and provide CERT-related technical assistance. The aim of the centre is to deepen the Region's cyber-security capabilities and enhance its ability to respond to the emerging global cyber threats amid rising Fintech adoption. The MAS along with the British government, insurers and InsurTech Asia have come together to promote digital innovation in the insurance sector within the region. One such proposed initiative is to launch the ASEAN InsurTech LaunchPad, where Singapore insurers can collaborate with InsureTech companies on digital innovation proofs-of-concept and pilots.

At the regional level, the ASEAN Financial Innovation Network (AFIN) is established as a non-profit organization by the ASEAN Bankers Association (ABA), IFC, and the Monetary Authority of Singapore. AFIN was set up with the mission to facilitate innovation, cross-border policy harmonization for better interoperability, and cooperation between financial institutions and fintechs, in effort to digitally transform the banking and financial sectors across the ASEAN region and beyond, to ultimately drive financial inclusion. It brings together financial industry participants to Discover, Design and Deploy innovative digital solutions within a collaborative ecosystem. As a step to achieve its mission, the AFIN launched API Exchange (APIX), an online Global fintech Marketplace and Sandbox platform for financial institutions in 2018. The APIX is the world's first cross-border/jurisdictional, open architecture API marketplace and sandbox platform for collaboration between fintechs and financial institutions in which participants can integrate and test solutions with each other via a cloud-based architecture. The APIX is purpose-built to transform and radically simplify the FI-FT collaboration process end-to-end. The first production version, APIX 1.0, was showcased in 2019 in the Singapore Fintech Festival. Since then, the product has evolved rapidly with new, built-for-purpose capabilities to remove friction between innovation from fintechs and its adoption by financial institutions.

India –Singapore Fintech Collaboration

India and Singapore have recently embarked on an ambitious move towards enhancing the cross-border payment landscape. A fintech corridor between India and Singapore can serve as a strategic gateway for India into the ASEAN countries and will strengthen India's position in the ASEAN region. The excellent regional and global connectivity of Singapore can benefit India in increasing its footprint in these markets. The Monetary Authority of Singapore (MAS) and the Reserve Bank of India (RBI) have announced plans to link Singapore's PayNow and India's Unified Payments Interface (UPI) real-time payment systems by July 2022 (RBI Press Release, 2021; MAS Press Release, 2021). The PayNow-UPI linkage will enable users to make instant, low-cost fund transfers directly from one bank account to another between Singapore and India. Fund transfers from India to Singapore can be made using mobile phones, and transfers from Singapore to India can be affected using UPI virtual payment addresses (VPA). Transfer of funds from PayNow to a UPI VPA will be similar in process to that of a domestic transfer to a PayNow VPA. The connectivity between PayNow and UPI is a major milestone in the development of next-generation infrastructure for cross-border payments between Singapore and India, and is closely aligned with the G20's financial inclusion priorities of driving faster, cheaper and more

transparent cross-border payments. The PayNow-UPI linkage builds upon the earlier efforts of Singapore and India to foster cross-border interoperability of card and QR payments, and will further anchor the substantial trade, travel and remittance flows between the two countries.

India, which has the highest fintech adoption rate in the world at 87 per cent, has been proactive in the development of fintech infrastructure, especially from the viewpoint of cross-border cooperation (PIB, 2021c). Further, the National Payments Corporation of India (NPCI) indicates huge potential in the UPI regime, which recorded 4.56 billion transactions, worth INR 8.27 trillion in December 2021. The process of fintech infrastructure development had been initiated as early as 2007, when the Raghuram Rajan Committee on Financial Sector Reforms proposed the development of India’s international financial center. Eventually, Gujarat was established as India’s premier financial hub with the setting up of the Gujarat International Finance Tech-City. The motivation behind the setting up of IFC lies in the globalization of finance, making financial services highly ‘international’ in nature, due to the cross-border agglomeration economies that result from the concentration of financial firms in strategically important international centres.

Likewise, Singapore has taken measures to make its financial landscape conducive to emerging technologies such as fintech as well as to make cross-border dealings more seamless. The MAS has signed 35 Fintech Cooperation Agreements (FCA) with 29 countries to promote innovation in financial services in their respective markets and to facilitate international cooperation. Table 1 below presents these agreements along with its features. Joint innovation projects in the agreements involve tapping new financial technologies such as blockchain, DLT, big data, and API, to provide innovative solutions to industry problems. This varies from facilitating faster cross-border payments, streamlining “know-your-client” (KYC) processes, and financing cross-border infrastructure.

Table 1: Fintech Cooperation Agreements by Singapore

Country	Authority	Type of Agreement	Year	Features
Australia	Australian Securities and Investments Commission	Innovation Hubs Co-operation Agreement	2016	Referral mechanism Information Sharing
		Innovation Hubs Enhanced Co-operation Agreement	2018	Referral mechanism Regulatory Sandbox participation Information sharing Mutual approaches Expertise sharing and secondment Joint Innovation Projects and Events
	Government of Australia	Fintech Bridge agreement	2018	Government-to-government ,Regulator-to-regulator, and Business-to-business cooperation Trade and investment
Canada	Ontario Securities Commission	Co-operation Agreement	2017	Referral mechanism Information Sharing
China	People’s Bank of China	Co-operation Agreement	2016	Information Sharing

	The Government of the People's Republic of China*	Fintech Bridge agreement	2016	Government-to-government ,Regulator-to-regulator, and Business-to-business cooperation
Hong Kong	Hong Kong Monetary Authority	Co-operation Agreement	2016	Referral mechanism Information Sharing Potential joint innovation projects Expertise sharing and secondment
	Hong Kong Securities and Futures Commission	Co-operation Agreement	2017	Referral mechanism Information Sharing Potential joint innovation projects
	Hong Kong Insurance Authority	Co-operation Agreement	2017	Referral mechanism Information Sharing Potential joint innovation projects
	The Government of Hong Kong Special Administrative Region	Fintech Bridge agreement	2017	Regulatory co-operation agreements frequent government dialogue on Fintech; trade and investment initiatives supported by an implementation plan
India	RBI	Regulatory Co-operation Agreement on fintech	2019	Referral mechanism Information Sharing Potential joint innovation projects
Japan	The Financial Services Agency of Japan	Exchange of Letters on Co-operation Framework to support innovative fintech companies	2017	Referral mechanism Information Sharing
Singapore	Monetary Authority of Singapore	Co-operation Agreement	2016	Referral mechanism Information Sharing
	Government of Singapore*	Fintech Bridge Agreement	2016	Government-to-government , Regulator-to-regulator, and Business-to-business cooperation
USA	United States Commodity Futures Trading Commission	Cooperation Arrangement	2018	Referral mechanism Information Sharing Innovation learning Support for Innovator Businesses
Republic of Korea	Government of South Korea*	Fintech Bridge Agreement	2016	Government-to-government ,Regulator-to-regulator, and Business-to-business cooperation
	Korean Financial Services Commission	Regulatory cooperation Agreement	2016	Information Sharing

Sources: Monetary Authority of Singapore; FCA, The Government of Hong Kong Special Administrative Region, The Treasury (Australian Government)

Note: * Taken from newspaper sources as agreement was not available on government site

India and Singapore together have set a precedent for other Asian countries by highlighting the mutual gains that can result from cooperation in fintech. In 2016, The Monetary Authority of Singapore (MAS) and the Government of Andhra Pradesh (GoAP) signed an FCA to promote innovation in financial services in their respective markets. Under the agreement, MAS and GoAP explore joint innovation projects on technologies such as digital payments and blockchain, and collaborate on the development of education programs/curricula on fintech. MAS and GoAP also agreed to discuss emerging fintech trends and exchange views on regulatory issues related to innovations in financial services. The MAS and the Government of Maharashtra (GoM)

signed a Memorandum of Understanding (MoU) in February 2018 to strengthen cooperation for promoting fintech innovation in the two markets. MAS also signed an MoU with Department of Economic Affairs (DEA), Government of India, to strengthen cooperation in financial innovation between Singapore and India, through the establishment of a Joint Working Group (JWG). Singapore and India have already achieved good progress through fintech cooperation. Singapore's key domestic payment operators, namely, the NETS and National Payments Corporation of India (NPCI) have entered a partnership to establish a cross-border payment linkage between Singapore's PayNow and India's Immediate Payment Service (IMPS). The cross-border linkage will facilitate real-time fund transfer between bank accounts in India and Singapore to support trade, tourism, remittance and people to people contacts. The NETS and NPCI are working on a payment linkage that will allow anyone holding a NETS payment card to be able to make payments at any RuPay merchant in India, and conversely for RuPay card users to make NETS acceptance points in Singapore. The NETS and NPCI are also exploring the use of the Bharat Interface for Money (BHIM) app to pay at NETS merchants.

Conclusions

India and ASEAN are witnessing rapid adoption of fintech in various segments of their financial sectors. Retail payments, digital lending, mobile wallets, peer-to-peer lending, etc. are fast rising segments. Policies and regulations with respect to fintech are being examined and experimented in various forms. India and Singapore have bilaterally come to agreement for each other's payment platforms for cross-border payment settlements. On the other, the ASEAN countries have introduced several initiatives to promote digitalisation and digital financial services, both at the domestic and the ASEAN level. Trade in financial services between ASEAN and the world, India and ASEAN and India and Singapore reveal a clear trend of higher exports of financial services from Asia to the rest of the world. The rising financial services industry provides a fertile ground for fintech industry to flourish. Looking at the policy intent and initiatives taken by India and Singapore, this commentary concludes that fintech corridors could trigger deeper financial relations in the region, and perhaps would facilitate higher trade, investment, FDI flows and people to people contacts between India and ASEAN in the coming years.

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Considering the work of the ASEAN-India Eminent Persons Group (AIEPG), and its Report with recommendations for forging a closer partnership for peace, progress and shared prosperity, the Heads of the State/Government of ASEAN and India at the ASEAN-India Commemorative Summit 2012, held at New Delhi on 19-20 December 2012, recommended the establishment of ASEAN-India Centre (AIC), which was formally inaugurated by the Hon'ble External Affairs Minister of the Government of India on 21 June 2013 at RIS. AIC serves as a resource centre for ASEAN Member States and India to fill the knowledge gaps that currently limit the opportunities for cooperation. AIC works with the Ministry of External Affairs (MEA), Government of India and undertakes evidence-based policy research and provide policy recommendations.

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