

■ COMMENTARY

A Silicon Valley state of mind: smart, open and disruptive



By Leon Hadar

With the Silicon Valley being at the forefront of financial and smart technological innovation, it could become an ideal venue for Singapore to learn about latest technologies and their applicability to our national initiative, or the Smart Nation vision.

Prof Lee of the
Sim Kee Boon Institute

WHEN I departed Washington, DC recently and boarded a plane to San Francisco, the residents of the capital of the United States, were full of anxiety and in an angry mood.

The images of terrorist attacks in Paris have recalled the national nightmare that followed the death and destruction of Sept 11, 2001.

Once again, politicians and pundits were warning that the United States was at war with radical Islam and that every effort should be made to protect the American people. When America is at war, security concerns override constitutional rights.

Nationalism flavoured with xenophobia seemed to be winning the day. One of the front-runners in the Republican presidential primaries said that he would "absolutely" want a data base of Muslims in the US and wouldn't rule out giving them special ID cards that noted their religion, while another one compared Syrian refugees to dogs. Some of them might be rabid, so Americans should keep them all out.

In a way, the events in Paris seemed to be shifting the balance of power in Washington to the direction of politicians bashing Muslims as well as Mexicans, Chinese and other foreigners.

But America started to look quite different after my plane landed in San Francisco and I was on my way to Palo Alto, California, to attend the Smart Nation, Silicon Valley Technology conference hosted by Stanford University. The Sim Kee Boon Institute (SKBI) and the Business Families Institute (BFI) at the Singapore Management University (SMU) organised it to discuss and explore Silicon Valley technologies and their potential, and how they could be relevant and beneficial to Singapore's Smart Nation programme.

And it wasn't only the blue sky and the dry weather that greeted me in the southern part of the San Francisco Bay Area of Northern California that made a difference. Call it the Zeitgeist, or the spirit of the age, that dominates Silicon Valley, home to many of the world's largest high-tech corporations, as well as thousands of startup companies, and which employs about a quarter of a million information technology workers.

At least 200 representatives from the Silicon Valley participated in the conference at Stanford University organised by the SKBI and the BFI, including startups, accelerators, incubators and venture capitalists from Silicon Valley, glo-

bal investors and banks, as well as regulators from Singapore. The conference served as a platform for these companies and entrepreneurs to learn about the Smart Nation initiative in Singapore and to try to entice them to play a part in it.

Unlike the xenophobic state of mind I left in Washington, this island of creativity and commerce, exuded political and cultural freedom, unrestricted access to knowledge and information, as well as collaborative or cooperative management and decision-making rather than the authority of a central government that can, if it wants, close the doors of the country to immigrants from around the world.

Indeed, it would not be an exaggeration to note that the multicultural milieu of the Silicon Valley and Stanford would make Asians feel at home here. According to the *San Jose Mercury News*, Asian Americans occupy close to 30 per cent of professional jobs at the tech firms in the Silicon Valley (although only 14 per cent of executive jobs) and about a quarter of the incoming freshmen at Stanford.

In fact, while the anti-immigration volume has been rising to new highs, the technology industry in the Silicon Valley, led by Google and Facebook has been lobbying in support for two tech-focused bills, the Immigration Innovation Act and the Start Up Act that increase the cap on H-1B Visas from 65,000 to 115,000, eliminate per-country limits on visa petitioners and let spouses of H-1B visa holders work, and create a new visa category for foreign entrepreneurs.

DIGITAL CURRENCY

In a way, the representatives of high-tech companies and start-ups as well as heads of venture capital companies that invest in the Silicon Valley and that participated in the conference were a reflection of the demographic mosaic that is America today, including immigrants, children of immigrants and holders of dual (or more) passports. They included Muslims as well.

John Kim, a managing partner at Amasia, a cross-border venture capital firm with presence in Singapore and the Silicon Valley exemplified the multinational atmosphere in the Smart Nation conference. He is a Korean-American whose career has taken him across a diverse range of operating and investing environments from early stage startups to fortune 500 companies. He started as an entrepreneur, founding music Internet and e-consulting businesses, lat-

er held senior trading and investment positions at Korean National Investments, Goldman Sachs and Mercuria Energy Group before co-founding Amasia. Mr Kim (who also founded an incorporated rock band called The Ally) spoke during the conference on one of his main preoccupations today, impact investing, socially responsible investing for the purpose of generating a measurable social and environmental impact alongside a financial return.

In that context, Mr Kim highlighted the important role that the emergence of digital currencies, like bitcoin, could play in promoting economic and social progress in South-east Asia, a home to 618 million people, where smartphone penetration has been expanding in a dramatic way.

Yet, there are major difference between the developed and developing countries in Asia, when it comes to banking. Only 4 per cent of Cambodia's population is banked, 21 per cent of Vietnam's and 27 per cent of Laos and the Philippines while Malaysia has 66 per cent and Singapore has 98 per cent of its population banked. Countries who need to address income gaps and provide opportunities for their people to store and transfer money are likely to adopt digital currencies like bitcoin as part of their strategy.

Indeed, the future of digital currency has been very much on the mind of David Lee, executive/academic director of SKBI, and professor of quantitative finance at the Lee Kong Chian School of Business. The driving force behind the conference at Stanford, Prof Lee is a world-renowned expert on the issue of the new financial technology, or FinTech, and the way it is, and will be, affecting our economic, social and political institutions. The subject has been a key research area for SKBI.

According to Prof Lee, the rise of FinTech companies has increased the awareness of the disruption and opportunities in areas such as digital banking, Internet finance and blockchain. The latter refers to a distributed database that maintains a continuously growing list of data records that are hardened against tampering, such as through the public ledger of transactions for crypto-currencies originally used in bitcoin.

Prof Lee estimated that global investments in FinTech ventures, covering sectors from remittances to loans to payments, have grown three times from US\$4.05 billion in 2013 to

US\$12.21 billion in 2014. The developments in FinTech are still in their early stages; but they are expected to define and shape the future of the financial industry.

Although large amounts of funds are entering the market, Prof Lee is predicting that not all FinTech ventures will be successful, and stressed that various factors, both internal and external, are crucial.

Working with Ernie Teo from SKBI, Prof Lee has identified some of these factors, which he terms LASIC (Low margin, Asset light, Scalable, Innovative, and Compliance easy), that give an advantage to FinTech businesses.

FINTECH OPPORTUNITIES

Focusing on successful financial firms like Alibaba and M-PESA, the research conducted by Prof Lee and Prof Teo, concluded that the application of FinTech will result in lower business costs and profit margins and that in order to remain sustainable and profitable, companies will need to expand their business by embracing so-called financial inclusion, the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society.

They estimate that 38 per cent of the world population has no formal bank accounts and that another 40 per cent that is underserved by banks, providing a huge potential market for financial institutions.

The current expectation is that FinTech startups will draw billion of dollars in investment in the coming years and that they will shake up finance the way that Uber or Airbnb have shaken up the taxi and hotel industries. At the same time, traditional retail banking companies are also adapting to the changes by tapping FinTech and in some cases by cooperating with some of the startups.

Because it's such a visible and trusted financial hub of the world, Singapore which absorbs about half of all the foreign direct investment in South-east Asia, is uniquely placed to take advantage of some of the new opportunities provided by the rise of FinTech.

And with the Silicon Valley being at the forefront of financial and smart technological innovation and creation, it could become, as Prof Lee puts it, "an ideal venue for Singapore to learn about the latest technologies and their applicability to our national initiative," or the Smart Nation vision.