

CHAPTER I

INTRODUCTION

1.1. Background

In the digital age, Financial Technology (FinTech) stands out as a pivotal force behind economic growth and transformation. Singapore, as Asia's FinTech epicenter, provides an exemplar model of how FinTech innovations can catalyze economic development and financial inclusion. Looking ahead, the future of the FinTech industry appears promising. Projections indicate that the sector is poised for substantial growth, with a projected compound annual growth rate (CAGR) of 16.8 percent expected between 2023 and 2028. If these projections hold true, the FinTech industry could reach a staggering market value of US\$492.81 billion by 2028 (Bank, Asian Development, 2021).

The emergence of advancements in financial technology (FinTech) also presents the possibility of financial vulnerabilities. In the pursuit of effectively managing the dynamic landscape and harnessing the benefits of technological progress, policymakers are faced with the need of striking a delicate balance between the preservation of financial stability, the safeguarding of cybersecurity, and the assurance of data protection (Gurrea-Martínez, 2020).

Singapore's digital economy is made up of a variety of activities such as e-commerce, finance, digital services, and technical innovation. The nation's strategic investments in these disciplines have resulted in a twofold increase in the digital economy. Singapore's digital economy contributed more than 17% of its GDP in 2022, exceeding the 13% recorded in 2017.

The increase of Singapore's digital sector has contributed to the country's GDP growth. The country's economic growth rates have consistently outpaced those of the rest of the globe, owing largely to the emergence of its digital industry. The digital economy's financial contribution to Singapore's GDP nearly doubled, rising to 106 billion Singapore dollars from 58 billion in 2017.

Singapore's digital economy is expanding across many areas, driving innovation and increasing productivity. Telemedicine and digital health technologies are increasingly widely employed, increasing access and quality of care. The rise of remote patient consultations has reduced demand for healthcare facilities. Singapore is a global commerce hub due to its strategic position and excellent organizational infrastructure. Digital technologies such as blockchain and IoT have streamlined supply chain management, resulting in more efficient trading operations.

Findings from this research point to a multi-dimensional matrix of factors contributing to Singapore's FinTech success and the impact on Singapore's economic growth. The maturation of FinTech ecosystem in Singapore, has been bolstered by visionary regulatory guidelines set forth by Monetary Authority of Singapore (MAS). This synthesis of market forces and regulatory support has enabled Singapore to transform traditional financial services, enhance e-commerce performance, and extend financial products and services to previously underbanked segments of the population. In this research, author embark on a meticulous examination of the factors and dynamics that have propelled Singapore to the zenith of financial innovation, shedding light on the intricate interplay between the maturity of FinTech ecosystem, and the visionary regulatory framework spearheaded by the Monetary Authority of Singapore (MAS).

1.2. Research Question

Based on the background of the problems above, the formulation of the problem in this study is as follow:

1. What are the fundamental variables that have contributed to the FinTech success in Singapore and the impact of Financial Technology innovation on economic growth in Singapore?

1.3. Theoretical Framework

This theoretical framework constructed upon the foundational concepts of Financial Technology (FinTech) with aims to elucidate the multi-dimensional matrix of factors contributing to Singapore's success in the FinTech sector and its profound impact on the country's economic growth. .

1.3.1. Financial Technology Ecosystem Concept

The FinTech ecosystem concept comprises intricate connections among FinTech startups, regulatory bodies, investors and governmental entities, all sharing a mutual interest in the startup FinTech arena. Diemers et al. (2015) delineated three pivotal actors within FinTech ecosystems, each entrusted with specific roles. Governments bear the responsibility of enforcing policies and establishing a regulatory framework conducive to FinTech development(Daniel Diemers, 2015).

The Financial Institutions can influence entrepreneurial activities and interactions, serving as either facilitators or hindrances in the process (Carolin Auschra, 2019). Upon deeper exploration of innovation systems and networks, the focus shifts to the concept of entrepreneurial ecosystems. These ecosystems, characterized as amalgamations of social, political, economic, and cultural components within a specific region, facilitate interactions that foster innovation, entrepreneurial initiatives, and thereby enhance overall competitiveness. A diverse array of Financial Institutions (FIs) contributes market expertise and pertinent knowledge, while entrepreneurs serve as the wellspring of innovative, and at times, disruptive technologies (Knoblauch, 2021).

The current financial institutions are demonstrating a proactive inclination towards collaborating with FinTech startups in order to accelerate the pace of innovation and generate novel value for partners within the ecosystem (Zalan, 2017). Singapore has also actively cultivated an environment conducive to FinTech innovation. Regulatory sandboxes, grants, and collaborations between financial institutions and FinTech startups have spurred the growth of

a thriving FinTech ecosystem. This ecosystem attracts talent, investments, and innovation, positioning Singapore as a magnet for financial technology developments in the region.

1.3.2. Economic Growth Theory

According to Paul Romer the endogenous growth theory places significant emphasis on the notion that economic growth can be stimulated by internal variables, particularly through the encouragement of technological innovation (Romer, 1995). Paul Romer, view investment in research and development (R&D) as key to driving technological innovation. In this context, financial authority institutions can play an important role in supporting R&D investments by providing access to the necessary financial resources.

Endogenous growth theory suggests that knowledge spillovers can be a significant driver of economic growth (Dragoslava Sredojević, 2016). The collaborative nature of the FinTech ecosystem in Singapore, with partnerships between traditional financial institutions, startups, and regulatory bodies, fosters knowledge spillovers. Lessons learned from developing innovative FinTech solutions can be applied to other industries, promoting technological advancement and economic diversification

1.4. Hypothesis

Based on the theoretical framework and problem formulation described in the previous discussions. The advancement of FinTech in Singapore is primarily driven by the maturation of FinTech ecosystem and the proactive role played by the Monetary Authority of Singapore (MAS) in formulating a regulatory framework that fosters the development and adaptation of FinTech. This, in turn, is anticipated to exert a positive influence on various economic sectors, including e-commerce and SME financing, consequently bolstering overall economic resilience. These hypotheses will be tested in this research to gain a deeper understanding of the impact and contribution of FinTech to Singapore's economy.

1.5. Purpose of Research

The primary research purposes for this study are as follows:

- The purpose of this study is to examine the influence of the FinTech industry on the economic growth of Singapore, specifically investigating its contributions to conventional financial services, e-commerce, and financial inclusion.
- This study aims to analyze the regulatory framework implemented by the Monetary Authority of Singapore (MAS) and its impact on the growth and adoption of financial technology (FinTech) services in Singapore.
- Examine the degree to which the FinTech ecosystem in Singapore has contributed to enhancing financial inclusion, specifically targeting individuals who were previously underserved by traditional banking services or lacked access to them.

1.6. Research Methodology

Using qualitative research methodologies and an extensive review of pertinent literature, this Thesis endeavors to unravel the enigma behind Singapore's FinTech success. By delving into the depths of the financial landscape, consumer trends, and regulatory paradigms, the author aims to provide a holistic understanding of how these elements converge to create an environment where FinTech thrives, traditional financial services evolve, and financial inclusivity expands.

Moreover, beyond the realm of academia, the implications of this research extend to policymakers and financial institutions worldwide. By distilling key insights and offering a roadmap for emulating Singapore's model, this Thesis aspires to serve as an instrumental guide for those seeking to harness FinTech as a catalyst for sustainable economic growth. The journey into Singapore's FinTech success is not only a testament to innovation but also an invitation to envision a future where financial technology propels nations to unparalleled economic heights.

1.7. Benefit of Research

The thesis concludes by offering a roadmap for other economies aspiring to emulate Singapore's successful model. It delineates a set of actionable policy measures and public awareness strategies aimed at fostering a vibrant FinTech ecosystem. The implications of this research are not only confined to the academic sphere but also serve as an instrumental guide for policymakers and financial institutions seeking to harness FinTech as an engine for sustainable economic growth.

1.8. Scope of Research

This research holds paramount significance in shedding light on the pivotal role of FinTech in propelling economic growth and enhancing financial inclusion, with Singapore serving as a compelling model. By dissecting the intricate dynamics between the maturity FinTech ecosystem, and innovative regulatory frameworks, this study offers invaluable insights for policymakers, financial institutions, and researchers aiming to harness FinTech's potential for sustainable economic development.

1.9. Writing Structure

The structure of this study which analyses the "The Pinnacle of Financial Innovation: Assessing the Role of FinTech in Singapore's Economic Success", is arranged as follows:

Chapter I: Introduction

This chapter introduces the fundamental research, which contains Background, Research Question, Theoretical Framework, Hypothesis, Research methodology, and systematic writing.

Chapter II: Historical Evolution of FinTech in Singapore and Economic Development

This chapter aims to present a comprehensive historical analysis of the FinTech landscape in Singapore, encompassing an examination of its beginnings and subsequent evolution. Furthermore, it will delve into the notable expansion seen by the FinTech sector within the Singaporean context.

Chapter III: Key Factors Contributing FinTech Success in Singapore

In this chapter elaborate further the factors and dynamics that have propelled Singapore to the zenith of financial innovation, shedding light on the intricate interplay between FinTech ecosystem, and the visionary regulatory framework spearheaded by the Monetary Authority of Singapore (MAS).

Chapter IV: The Impact of FinTech on Singapore Economic Growth

This chapter examines FinTech's complex impact on Singapore's economy. First, it discusses how FinTech has improved financial inclusion by reaching marginalized communities and making financial goods available online. Second, it investigates FinTech's vital role in aiding SMEs through innovative finance options and smooth payment systems, highlighting real-world successes. Finally, it assesses FinTech's role in diversifying Singapore's economy and underlining its global competitiveness as a FinTech hub.

Chapter V: Conclusion

This chapter encompasses the author's presentation of the research's findings, encompassing a concise overview of the research conducted in each preceding chapter, as well as the subsequent suggestions derived from said research.