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Panel on Financial Affairs

Meeting on 18 April 2017

Background brief on development of financial technologies in Hong Kong

Purpose

This paper provides background information on the development of financial technologies ("Fintech") in Hong Kong. It also summarizes the relevant views and concerns expressed by Members since the Fifth Legislative Council.

Background

2. Fintech refers to the application of information and communication technology in the field of financial services, including such areas as digital payment and remittance, financial product investment and distribution platforms, peer-to-peer financing platforms, cybersecurity and data security technology, big data and data analytics, and distributed ledger application to new asset classes and processes.¹

Steering Group on Financial Technologies

3. The Financial Secretary ("FS") announced the establishment of a steering group on Fintech in the 2015-2016 Budget Speech to advise the Government on measures required to develop Hong Kong into a Fintech hub. The Steering Group on Fintech ("the Steering Group"), chaired by the Secretary for Financial Services and the Treasury, was set up in April 2015. The Steering Group released its report ("the Report") in February 2016 setting out the broad

¹ Page 1 of the Executive Summary of the Report of the Steering Group on Financial Technologies

directions and focused areas for supporting the Fintech sector, and made a number of recommendations to further Hong Kong's development into a Fintech hub.

4. The Steering Group has identified in the Report five parameters that are important in nurturing a conducive ecology for Fintech development, namely promotion, facilitation, regulations, talents, and funding. The Steering Group's recommendations under the five parameters are set out in the table below:

Parameter	Recommendations
Promotion	Formulating a vision on Hong Kong's development in Fintech and organizing an annual premier Fintech event and competitions
Facilitation	Establishing an office to provide targeted assistance to startups, setting up a Fintech-themed programme, attracting accelerator programmes and innovation laboratories, and positioning Hong Kong as a hub for applying and setting standards for cutting-edge Fintech technologies
Regulations	Establishing dedicated contact points at financial regulators
Funding	Improving dissemination of information on funding sources
Talents	Encouraging young talents to consider entering the Fintech sector and enhancing dissemination of information on immigration policy

The Government's strategies and measures to support Fintech development

5. According to the Government, it has been following a four-pronged approach in developing Fintech as follows:

- (a) encouraging existing financial institutions to provide innovative financial products and services as well as enhance its efficiency through applying Fintech;
- (b) collaborating with stakeholders to foster a conducive ecology, and encouraging financial institutions and professional bodies to actively invest, share domain knowledge, establish incubation/accelerator

programmes or innovation labs, and enhance collaboration with startups;

- (c) encouraging the financial industry to collaborate, invest and research in Fintech projects so as to position Hong Kong as a regional platform for Fintech development; and
- (d) upholding the principle of "technology-neutrality" and ensuring adequate investor protection.

6. FS announced in his 2016-2017 Budget a range of measures for fostering Fintech development in Hong Kong. Details of the measures are in **Appendix I**. The Chief Executive ("CE") announced in his 2017 Policy Address to establish Hong Kong as a hub for the application and setting of standards for cutting-edge Fintech, highlighting that regulatory authorities, research institutions and the Fintech sector were studying a number of projects on cyber security and Blockchain technology, and building a pool of talents. FS announced in his 2017-2018 Budget the progress of initiatives in developing Fintech in Hong Kong, and new Fintech areas, such as distributed ledger technology (e.g. Blockchain) and cyber security, to be developed in Hong Kong. The relevant details are in **Appendix II**.

Views and concerns expressed by members of the Panel on Financial Affairs

7. The Panel on Financial Affairs was briefed on the Government's strategies and measures to develop Fintech at the meeting on 11 April 2016. Panel members also expressed views on the development of Fintech when the Panel discussed the policy initiatives of the Financial Services and the Treasury Bureau in CE's 2017 Policy Address at the meeting on 6 February 2017. The major views and concerns expressed by Panel members are summarized in the ensuing paragraphs.

Development and regulation of Fintech in Hong Kong

8. Members in general supported the development of Fintech in Hong Kong and welcomed the recommendations of the Steering Group. Some members noted that Fintech development in Hong Kong had lagged behind other jurisdictions including the Mainland, and called on the Administration to review whether this was due to inadequacies in the regulatory regimes and regulators in coping with the rapid development in Fintech. Other members relayed the industry's views that in developing Fintech, the Administration should put in place a clear legislative framework, refrain from adopting a

"technology-neutral" approach and over-regulation. Some members enquired whether the Administration would consider setting targets, like converting Hong Kong into a cashless society within the next five to 10 years, so as to give impetus to Hong Kong's Fintech development. There were also suggestions that the Administration should take the lead in adopting Fintech in various government operations and processes, and set up a working group to review and harmonize regularly the laws, subsidiary legislation, regulations and rules, as well as guidelines issued by regulators relating to Fintech on a regular basis.

9. On the pace of Fintech development in Hong Kong, the Government advised that consumers in Hong Kong were more cautious in accepting new Fintech services or products when compared with Mainland users. The Government's strategy was to foster an ecology conducive for Fintech development. In this regard, the Payment Systems and Stored Value Facilities Ordinance (Cap. 584) had established the relevant regulatory framework for stored value facilities and important retail payment systems. The Ordinance would further developments in electronic payment which in turn would help Hong Kong become a cashless society. Regulators including the Hong Kong Monetary Authority ("HKMA"), the Securities and Futures Commission and the Office of the Commissioner of Insurance had established dedicated platforms to enhance communication with the Fintech community. A number of relevant measures had also been rolled out, including the establishment of a Fintech Supervisory Sandbox by HKMA, launching of Smart-Space FinTech (a Fintech co-working space) by Cyberport, and organization of various promotional events by InvestHK's dedicated Fintech team. The Government would also collaborate with Cyberport in launching training programmes to nurture talents to support Fintech development in Hong Kong.

10. As regards the regulatory framework for Fintech, the Government advised that drawing from discussions with stakeholders, it was noted that many services provided by Fintech companies could operate under the existing legal framework. There was currently no universal model of regulatory regime for Fintech in the international community and the Government would formulate an appropriate approach having regard to the prevailing circumstances of Hong Kong. While the Government would uphold the principle of "technology-neutral", it maintained an open mind as to whether existing rules should be amended or new rules introduced to support financial innovation when necessary.

11. Some members stressed the importance for the Administration to strike a proper balance between promoting the development of Fintech and protecting the interests of consumers and investors, and urged the Administration to ensure proper protection of personal data privacy in promoting Fintech development.

12. The Government assured members that it attached importance to safeguarding data security in Fintech applications and protection of personal data privacy of consumers and investors, which were vital in maintaining public confidence in using Fintech. For new financial products or services developed by Fintech companies, if general consumers or retail investors were the targets, the Government had to ensure that the relevant regulatory regime would provide adequate protection to them and the regime would be commensurate with the risks of the Fintech applications concerned.

Challenges arising from the development of financial technologies

13. Some members expressed concern that the development of Fintech would inevitably phase out existing jobs in the financial services sector, and urged the Administration to assist the employees concerned in adapting to and preparing themselves for the changes brought by Fintech development in Hong Kong. Members also stressed the need for the Government to liaise with stakeholders, including the financial services sector and the banking industry in promoting Fintech and assisting them to cope with the challenges ahead.

14. The Government responded that it would collaborate with the industry and stakeholders in stepping up training for existing practitioners to enhance their interest in using Fintech and skill-sets to take advantage of the opportunities provided by applying information technology in the financial services industry. As regards liaison with the banking sector, the Government would encourage existing financial institutions to develop innovative financial products and services as well as enhance the Government's efficiency through applying Fintech.

Support for Fintech companies in Hong Kong

15. Regarding funding support for Fintech companies in Hong Kong, some members enquired whether the Administration would consider developing a platform to help Fintech companies to seek funding from private equity funds, offering tax concessions for private equity funds to encourage their investments in Fintech companies, providing loans and affordable office premises to Fintech companies, and assisting Fintech companies in opening bank accounts in Hong Kong.

16. As regards tax concession, the Government advised that given the simple and low taxation regime of Hong Kong, it had to examine carefully the implications of providing tax incentives to Fintech startups. The relevant new initiatives announced in the 2016-2017 Budget would help provide more opportunities for startups to connect with investors. For instance, the establishment of a dedicated team under InvestHK would provide one-stop

service and organize pitching events to help local Fintech startups to seek funding. InvestHK would also liaise with relevant investor groups and Fintech stakeholders, and work with Cyberport in this regard. On the opening of bank accounts by Fintech startups, the Government pointed out that while some Fintech startups might have encountered some initial difficulties in opening bank accounts in Hong Kong, these startups had eventually resolved the problem.

Relevant motion passed and questions raised at Council meetings

17. At the Council meeting of 10 June 2015, Members passed a motion on "New challenges faced by Hong Kong as an international financial centre", which urged the Government, among other things, to grasp the new opportunities brought about by the "One Belt One Road" policy in consolidating and enhancing the competitiveness of Hong Kong as an international financial centre and expediting the promotion of Hong Kong's development into a financial technology hub. Moreover, Members have also raised a number of questions at Council meetings in the 2015-2016 and 2016-2017 sessions on Government's measures in promoting the development of Fintech in Hong Kong. Details of the above motion and questions and the Government's replies are given in the hyperlinks in the **Appendix III**.

Latest development

18. At the Panel meeting to be held on 18 April 2017, the Government will update the Panel on the development of the Fintech sector in Hong Kong, and the initiatives undertaken by the Government, regulators and other stakeholders in supporting the sector.

Relevant papers

19. A list of relevant papers is in the **Appendix III**.

Measures proposed by the Financial Secretary in his 2016-2017 Budget for fostering Fintech development in Hong Kong

1. establishing a dedicated team under InvestHK to organise international events and assist startups, investors and research and development institutions to establish their presence in Hong Kong;
2. providing a dedicated space of 3 000 square metres in Cyberport's Smart-Space for Fintech activities and rolling out a designated incubation programme for 150 Fintech startups over the next five years;
3. arranging for 300 university students, through Cyberport, to join Fintech training camps in overseas universities to gain more in-depth understanding of career prospects in the sector;
4. establishing dedicated platforms at the Hong Kong Monetary Authority ("HKMA"), the Securities and Futures Commission and the Office of the Commissioner of Insurance to enhance communication between regulators and the Fintech community;
5. providing financial support to Fintech startups and financial institutions through the Enterprise Support Scheme, which was established in April 2015, under the Innovation and Technology Fund;
6. setting up, by the HKMA in partnership with the other stakeholders, a three-pronged cyber security programme that comprises a cyber intelligence-sharing platform, the conduct of risk assessment and professional certification; and
7. encouraging the industry and relevant organisations to explore the application of "Blockchain" technology in the financial services industry, with a view to developing its potential to reduce suspicious transactions and bring down transaction costs.

Source: paragraph 10 of the paper entitled "Strategies and Measures to Develop Financial Technologies" provided by the Administration for the meeting of the Panel on Financial Affairs on 11 April 2016 (LC Paper No. CB(1)736/15-16(02))

Progress and new initiatives of Fintech development in Hong Kong set out in the 2017-2018 Budget Speech of the Financial Secretary

1. Financial technologies ("Fintech") make transactions and financial management easier, faster, safer and more cost-effective. It has transformed conventional financial services and brought convenience to people. Electronic payment is one of the examples. With the granting of 13 Stored Value Facility ("SVF") licences by the HKMA last year and the commencement of the Payment Systems and Stored Value Facilities Ordinance last November, the electronic and mobile payment ecosystem in Hong Kong is maturing. A variety of payment options are now available to the public, including mobile payment, peer-to-peer transfer, e-Cheque, and the Electronic Bill Presentation and Payment Service.
2. To further enhance the payment infrastructure, the Hong Kong Monetary Authority ("HKMA") is developing a new Faster Payment System ("FPS"). When the FPS is completed next year, it will provide a round-the-clock inter-bank real-time payment platform allowing banks and SVF service providers to offer their customers faster, more convenient and comprehensive payment and fund transfer services. Meanwhile, the Government will actively explore new payment channels for settling government bills and fees. In addition to facilitating the use of government services, the new channels will encourage more people to make use of innovative payment products and services.
3. The combination of biometric authentication and financial services has helped consumers manage their finances. To enhance transaction security, many financial institutions offer consumers with authentication options involving biometric features such as fingerprints and voiceprints. To speed up the launch of their new services, some financial institutions using biometric authentication have leveraged the Fintech Supervisory Sandbox ("FSS") launched by the HKMA last September to test their biometric authentication services in a risk-controlled environment and under flexible arrangements. We hope that the industry will make good use of the trial environment provided by the FSS, so as to deliver more products and services based on different kinds of new technology. The development of the FSS has also demonstrated the possibility of striking a balance between consumer protection and promotion of innovation with appropriate supervision.

4. Looking ahead, distributed ledger technology ("DLT"), including Blockchain, and cyber security will be two major development clusters in Fintech. We will continue to encourage the sector to develop and apply Fintech which has immense potential, and promote Hong Kong as a hub for the application and setting of standards for these technologies. The Applied Science and Technology Research Institute ("ASTRI") has been collaborating with the HKMA and a number of banks to explore the feasibility of applying DLT, and published the White Paper on Distributed Ledger Technology in November last year on the first stage of the research project, covering the feasibility of employing DLT on property valuation information management, trade financing and digital identity management. At the same time, the Fintech Innovation Hub jointly established by the HKMA and ASTRI last September offers its information technology environment and support to the banking sector for developing prototypes for the use of DLT in trade financing and other aspects, so as to test how the concept can be applied in different operational scenarios. ASTRI will publish the findings in the second White Paper on DLT in the latter half of this year. Furthermore, financial institutions and start-ups in Hong Kong have implemented and actively explored initiatives to apply Blockchain technology in services such as insurance claims and cross-border remittance, with a view to reducing costs and fraud risks as well as enhancing transparency of transactions.
5. Cyber security is becoming increasingly important amidst the wider adoption of Fintech. The Cyber Resilience Assessment Framework, Professional Development Programme and Cyber Intelligence Sharing Platform under the HKMA's Cybersecurity Fortification Initiative were recently implemented in December last year. Apart from enhancing protection for consumers in e-banking services, these projects will strengthen Hong Kong's expertise and capability in cyber security.
6. I envisage that these projects can dovetail with the research and development efforts of the industry to achieve synergy, leading to refinements of Fintech solutions for the benefit of financial institutions, start-ups as well as the community, and offering consumers and enterprises in Hong Kong and around the world a comprehensive range of quality financial services.

Source: paragraphs 127-132 of the 2017-2018 Budget Speech of the Financial Secretary (at www.budget.gov.hk/2017/eng/budget17.html)

List of relevant papers

Date/Period	Event	Paper/Minutes of meeting
10 June 2015	The Legislative Council passed the motion on "New challenges faced by Hong Kong as an international financial centre" moved by Hon NG Leung-sing	Hansard Wording of the motion passed Progress report
26 February 2016	The Steering Group on Financial Technologies released its report	Press Release Report of the Steering Group
11 April 2016	The Panel on Financial Affairs ("FA Panel") was briefed by the Administration on its strategies and measures to develop financial technologies in Hong Kong	Administration's paper (LC Paper No. CB(1)736/15-16(02)) Minutes (LC Paper No. CB(1)979/15-16)
27 April 2016	Hon Frederick FUNG raised a written question on "Development of Financial Technologies"	Hansard (pages 7851-7854)
29 June 2016	Hon CHAN Kin-por raised a written question on "Attracting Financial Technology Start-up Companies to Develop Their Businesses in Hong Kong"	Hansard (pages 12831- 12834)
6 February 2017	FA Panel was briefed by the Administration on the policy initiatives of the Financial Services and the Treasury Bureau featured in the Chief Executive's 2017 Policy Address	Administration's paper (LC Paper No. CB(1)459/16-17(04))

Date/Period	Event	Paper/Minutes of meeting
8 February 2017	Hon CHAN Chun-ying raised an oral question on "Financial technology development in Hong Kong"	Hansard (pages 3273- 3283)