



Financial technology

Figure 1 – InvestHK Start-up Survey, 2015-2021

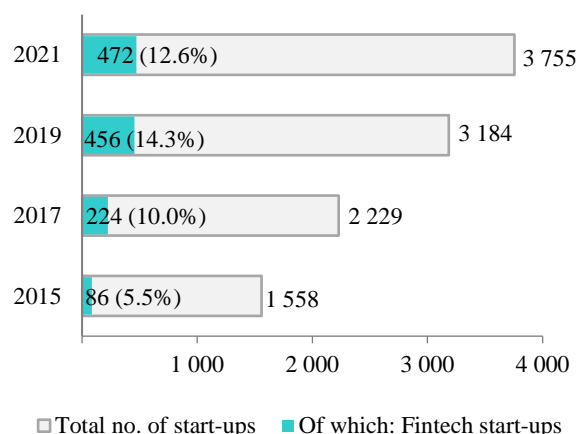
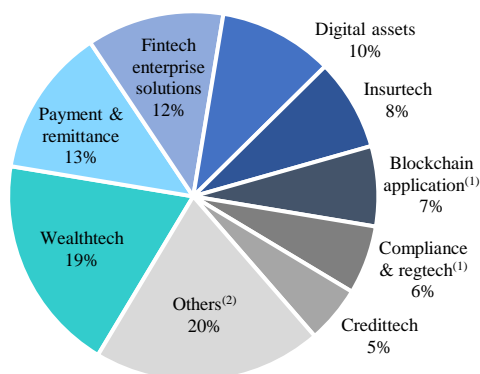
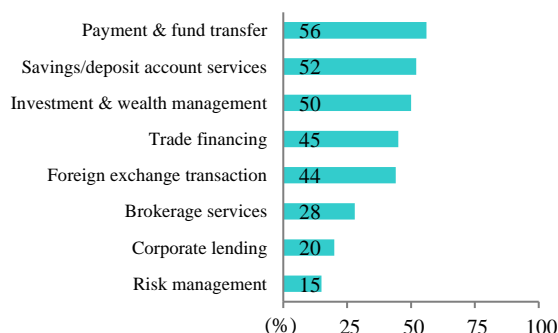


Figure 2 – Service sectors of fintech companies in Hong Kong, 2021



Notes: (1) Blockchain can facilitate digital asset trading, trade finance settlement and cross border fund transfer; regtech helps financial companies meet industry compliance rules in a more cost-effective manner.
(2) Examples are cybersecurity and virtual banking.

Figure 3 – Fintech adoption rate for selected services by banks, 2019



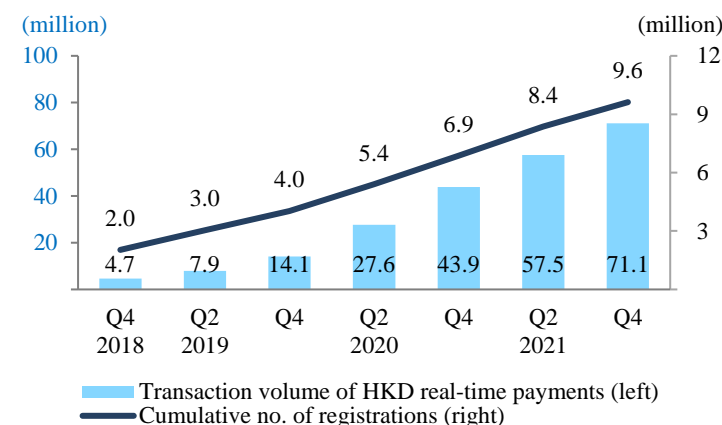
Highlights

- Financial technology (“fintech”) refers to the application of nascent technologies (e.g. big data and artificial intelligence) to enable financial innovation in areas like payments, investment, savings, lending and insurance. Fintech has been a catalyst for the fast-growing start-up scene as well as the innovation and technology sector in Hong Kong. According to InvestHK’s Start-up Survey, the number of fintech start-ups has continued to grow over the past years (**Figure 1**). In 2021, of the 3 755 start-ups in surveyed locations such as co-work spaces and incubators, close to 13% was a fintech start-up, compared with less than 6% in 2015. When taking into account more established fintech players in addition to start-ups, Hong Kong is home to over 600 fintech companies.
- Fintech companies in Hong Kong cover a broad range of service areas. InvestHK data in 2021 showed that close to one-fifth (19%) of the fintech companies were involved in wealthtech (i.e. using technology to enhance wealth management and retail investment), followed by payment and remittance (13%) and fintech enterprise solutions (12%) (**Figure 2**). Meanwhile, digital assets (10%) and insurtech (8%), which helps insurers streamline business processes, are generating market interest as two rising sectors.
- While fintech companies have grown in number, traditional financial institutions such as banks are also proactively developing fintech applications. A survey conducted by the Hong Kong Monetary Authority (“HKMA”) in 2019 showed that about half of the incumbent banks adopted some form of fintech in areas like payment and account services, although more sophisticated functions such as risk management and corporate lending relatively lagged behind in adoption (**Figure 3**). In June 2021, HKMA announced the policy of supporting banks to fully digitize their operations, as part of its Fintech 2025 Strategy. It has requested banks to submit a three-year plan for fintech adoption and has pledged to monitor their progress. Since 2019, HKMA has also granted eight licenses to virtual banks, which serve their customers through more innovative distribution channels, focusing primarily on the retail segment and provision of basic banking services initially.
- To accelerate the application of insurtech in the industry, the Insurance Authority (“IA”) has issued virtual insurance licenses to four insurers since 2018. Moreover, a 2020 survey conducted jointly by IA and the industry showed that about three quarters of the responding companies used application programming interface (or “API”) to share information such as premium quotation, and a majority of them also adopted regtech to facilitate cyber risk management and statutory filing.

Figure 4 – Pilot trials launched under HKMA’s Fintech Supervisory Sandbox, 2017-2021

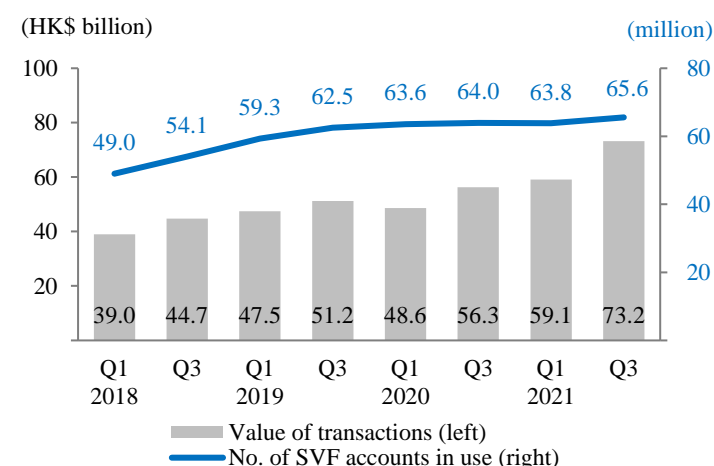
	Cumulative no. since launch	Trial area	No.
End-2017	28	Regtech	114
End-2018	42	Mobile app upgrade	17
End-2019	103	Application programming interface services	15
End-2020	193	Biometric authentication	9
End-2021	234	Distributed ledger	8
		Others	71

Figure 5 – Faster Payment System (“FPS”) registration⁽¹⁾ and turnover, 2018-2021



Note: (1) A user may hold more than one FPS registration.

Figure 6 – Stored value facility (“SVF”) accounts and value of transactions⁽¹⁾, 2018-2021



Note: (1) Including data of all 15 licensed SVF operators in Hong Kong. Over 80% of the transaction value was related to spending payment, and the remaining related to person-to-person (“P2P”) funds transfer.

Highlights

- With a view to accelerating fintech adoption among financial institutions, both HKMA and IA have also introduced “Sandbox” regimes, allowing banks/insurers and their technology partners to pilot trial fintech initiatives within a controlled environment where certain regulatory requirements will be relaxed. Using HKMA’s “Fintech Supervisory Sandbox” as an example, 234 fintech initiatives were put to trial up to end-2021, with about half related to regtech (**Figure 4**). Work is also underway by HKMA to create a one-stop sandbox network between the Mainland and Hong Kong, in order to enable the testing of cross-border fintech products in the Guangdong-Hong Kong-Macao Greater Bay Area.
- Fintech is not only embraced by start-ups and financial institutions but also increasingly by consumers, especially following the roll-out of new payment infrastructure. A notable move is the launch of the Faster Payment System (“FPS”) by HKMA since September 2018 to facilitate instant payment across banks and e-wallets. By the fourth quarter of 2021, FPS registrations reached 9.6 million, while its quarterly transaction volume of HKD real-time payments soared over tenfold from the 2018 level (**Figure 5**). The Government’s acceptance of FPS for settling various bills and charges, as well as growing merchant adoption, are among the impetus for burgeoning FPS usage.
- The use of stored value facilities (“SVFs”), including e-wallets and prepaid cards, has become more prevalent as well. Both the number of SVF accounts in use and the value of SVF transaction reached record high levels in the third quarter of 2021 (**Figure 6**). This could in part be attributable to the Government’s electronic Consumption Voucher Scheme, which has fueled the use of e-payment among consumers and merchants after the first disbursement made in August 2021. The Government noted that since the debut of the Scheme until end-September 2021, the four SVF operators joining the Scheme recorded more than 3 million new consumer account registrations, alongside 80 000 new sign-ups by merchants including taxi drivers and wet market stalls.

Data sources: Latest figures from Financial Services and the Treasury Bureau, Hong Kong Interbank Clearing Limited, Hong Kong Monetary Authority, Insurance Authority and InvestHK.