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Discussion Paper

LEGISLATIVE COUNCIL PANEL ON FINANCIAL AFFAIRS

Strategies and Measures to Develop Financial Technologies

INTRODUCTION

This information note outlines the Government's strategies and measures to support the development of financial technologies (Fintech).

BACKGROUND

2. Fintech offers consumers novel experiences in managing their finances, provides financial institutions with tools to improve their operational efficiency, as well as introduces new modes of development for the industry. As an international financial centre with a highly developed information and communication technology sector, Hong Kong is an ideal place for developing Fintech.

3. In this connection, the Financial Secretary announced the establishment of a Steering Group on Fintech in his 2015-16 Budget to advise the Government on measures required to develop Hong Kong into a Fintech hub. The Steering Group was set up in April 2015 and chaired by the Secretary for Financial Services and the Treasury. It comprised 10 non-official members drawn from relevant industries and Research and Development (R&D) institutions, government officials and representatives from the regulatory authorities.

4. In February 2016, the Steering Group released its report which proposed a number of recommendations to further Hong Kong's development into a Fintech hub. In his 2016-17 Budget, the Financial Secretary announced a range of measures for early implementation of the recommendations of the Steering Group.

REPORT OF THE STEERING GROUP

5. The Executive Summary of the Report of the Steering Group¹ is at Annex. The Report pointed out that Fintech could be applied to a range of financial services areas such as payment and remittance, product investment and distribution, robo-advice, and peer-to-peer financing, and provided ample business opportunities. Moreover, technologies such as cybersecurity and data security, big data analytics and Blockchain had ample potential for wide applications in the industry.

Current Situation

6. The Report also highlighted the vibrancy of the local Fintech sector, comprising world-class financial institutions, innovative startups, investors, finance and entrepreneurial talents, and R&D institutions. Forty-eight out of the top 100 Fintech companies in the world were already operating in Hong Kong, complementing the cluster of local, Mainland and international financial institutions and talents in Hong Kong's financial services industry. With reference to information provided by operators of 40 co-working spaces, incubator and accelerator locations in Hong Kong by Invest Hong Kong (InvestHK), the number of startups engaged in Fintech in their premises was 86 in 2015, increased by 16% from 74 in late 2014.

7. Existing financial institutions and startups were actively participating and promoting innovation in financial services. In addition, co-working spaces, accelerator programmes and innovation laboratories run by local as well as multinational financial and professional services firms acted as platforms for expediting growth for participating Fintech startups as well as channels for incumbent financial institutions to keep abreast of the latest technology.

Analysis and Recommendations

8. The Steering Group identified five parameters that were important in nurturing a conducive ecology for Fintech development (namely promotion, facilitation, regulations, talents, and funding) to analyse the experience of Fintech development in Hong Kong and other economies, and set out the broad directions and focused areas to build a thriving Fintech sector including supporting Fintech startups, encouraging financial institutions to adopt Fintech, attracting Fintech investment and nurturing talents. The recommendations by the Steering Group under the five parameters are set out in the table below:

¹ The full report can be downloaded at <http://www.fstb.gov.hk/fsb/ppr/report/index.htm>.

Recommendations by the Steering Group

Parameter	Recommendations
Promotion	Formulating a vision on Hong Kong's development in Fintech and organising 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

9. The Government welcomes the Steering Group's recommendations and also shares its vision. We are following a four-pronged approach in developing Fintech, namely (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.

10. In his 2016-17 Budget, the Financial Secretary announced a range of measures for fostering Fintech development in Hong Kong, including –

- (a) establishing a dedicated team under InvestHK to organise international events and assist startups, investors and R&D institutions to establish their presence in Hong Kong;

- (b) 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;
- (c) 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;
- (d) 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;
- (e) providing financial support to Fintech startups and financial institutions through the Enterprise Support Scheme (ESS), which was established in April 2015, under the Innovation and Technology Fund;
- (f) 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
- (g) 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.

11. Implementation of these initiatives is progressing on schedule. The three regulators have already established Fintech dedicated platforms to communicate with the Fintech sector, handle enquiries from the industry and provide information on related regulatory requirements to companies engaging in financial innovation to enhance the industry’s understanding of the regulatory environment in Hong Kong. The platforms will also keep track of the latest development in the market through their interaction with the industry.

12. InvestHK will formally establish the dedicated team after the Budget is passed by the Legislative Council for assisting Fintech startups, offering services including information sharing and referral on Government or private sector funding, co-working space, incubator and accelerator programmes, pitching events, as well as exchange and networking activities, organising annual signature Fintech events, startup competitions and collaborating with other

organisations to participate in Fintech events in the Mainland and overseas, and conducting road shows. Other initiatives mentioned in the Budget will also be rolled out in 2016-17.

WAY FORWARD

13. The Government will actively follow up the Steering Group's recommendations, and continue to engage the industry to keep abreast of the dynamic Fintech landscape. The Government also encourages existing financial institutions, startups, R&D institutions and academia, regulators, entrepreneurs, as well as talents in the finance and technology sectors to participate in the Fintech sector. Moreover, we welcome existing financial institutions to roll out complementary supportive measures to foster a conducive environment for promoting the development of Fintech in Hong Kong, with a view to reinforcing our lead as Asia's international financial centre and providing opportunities for talents from different disciplines.

14. The Financial Services and the Treasury Bureau will set up an internal coordination group with relevant parties to monitor the progress of Fintech-related initiatives, facilitate the smooth implementation of measures to promote the development of the sector, and keep track of the latest market developments.

ADVICE SOUGHT

15. Members are invited to note the contents of this paper.

Financial Services and the Treasury Bureau
31 March 2016

Executive Summary

Background

The Government established the Steering Group on Financial Technologies (“Steering Group”) in April 2015 to advise on how to develop Hong Kong into and promote Hong Kong as a Fintech hub. This Report presents the Steering Group’s analysis and recommendations.

Fintech refers to the application of information and communication technology (“ICT”) 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.

The development of Fintech is underpinned by innovative startups that may have the potential of transforming traditional products and business processes as well as the emergence of new market players in financial services, including telecommunication firms and Internet portals. At the same time, existing financial institutions are proactively pursuing the application of Fintech to enhance efficiency of their service delivery and bring benefits to consumers and enterprises. Meanwhile, regulators can also employ technology to complement existing regulatory processes for more effective risk identification, risk weighting, surveillance, and data analytics, which is commonly referred to as “Regtech”.

Hong Kong as a Fintech Hub

The Steering Group considers that Hong Kong, being an international financial centre with a strong ICT sector, is an ideal place for developing Fintech. It notes that Hong Kong has a vibrant Fintech ecology comprising existing financial institutions, startups, co-working spaces, incubation and accelerator programmes, innovation laboratories, professional service providers as well as a decent mix of public and private funding.

Meanwhile, accelerator programmes and innovation laboratories in Hong Kong, many of which are offered by multinational financial and professional services firms, act as platforms for expediting growth for participating Fintech startups as well as channels for incumbent financial institutions to keep abreast of the latest technology. The world-class financial talents in Hong Kong also play the roles as mentors to and collaborators with Fintech startups.

Analysis

Drawing from Mainland and overseas experiences as well as recent developments in Hong Kong, the Steering Group has identified five key parameters for nurturing a conducive ecology for Fintech development (namely (a) promotion, (b) facilitation, (c) regulations, (d) talents, and (e) funding*), and examined what enhancements may be required to take Hong Kong's Fintech sector to the next level.

* The five key parameters specifically point to the following analytical issues –
(a) **Promotion:** how a strong and consistent promotional message may be formulated to appeal to talents, startups, funding and financial institutions;

Promotion

Like the authorities in other Fintech centres, the Government should set a clear strategic vision to help focus stakeholders on leveraging the core competence of the local Fintech ecology. A single outfit to consolidate information on available support will strengthen the appeal of our ecology to local talents and those from outside Hong Kong as well. Such messages will help dispel the misconceived perception of our trailing behind in terms of innovation, supply of technological talents, and attractiveness to multinationals as a location for their research centres.

Facilitation

Hong Kong should further strengthen her Fintech ecology by fully leveraging the strong presence of financial institutions in the city, through encouraging them to proactively embrace opportunities brought about by Fintech in their daily operations and provide startups and talents their wealth of industry domain knowledge, collaboration possibilities, and even funding.

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- (b) **Facilitation:** better matching of resources available and demand by Fintech companies (such as the landscape of co-working spaces, incubator and accelerator programmes, and innovation laboratories) and facilitation offered to talents and startups to start/expand their businesses;
 - (c) **Regulations:** how the regulatory framework can better keep up with the fast evolving technological environment, and channels to enhance the Fintech sector's understanding of the regulatory environment;
 - (d) **Talents:** how to promote the participation of existing financial institutions and financial services professionals in Fintech and nurturing entrepreneurship and a startup culture among graduates and young professionals; and
 - (e) **Funding:** any major gaps in funding for startups along different development stages.

With a view to complementing the existing incubators and accelerator programmes through focusing on different stages of the startup pathway, measures may also be implemented to establish fresh Fintech-themed programmes and attract more financial institutions and organisations from outside Hong Kong to establish their accelerators and innovation programmes (including those zooming into specific Fintech verticals) or even start fresh programmes here.

As a hub for business negotiation, Hong Kong also has the potential to become the centre for application of and standard setting for technologies that have wider applications for financial services. Stakeholders' active participation and the financial services industry's willingness in embracing the standards and processes being advocated would be essential for establishing Hong Kong's leading position in applying cutting-edge technologies.

Regulations

Given that what Fintech offers is still financial services, key considerations such as maintaining financial stability, liquidity and adequate protection of depositors and investors would equally apply. Striking the right balance between promoting Fintech development and consumer protection will enhance the community's confidence and readiness in using innovative financial services.

In view of the evolving landscape, the Government and regulatory authorities should keep an open mind when examining whether existing rules should be amended or new rules introduced to foster a conducive environment for Fintech development. In this context, regulators, by developing dedicated channels to communicate with the industry, can

help the new entrants to understand regulators' expectations and approach.

Talents

Hong Kong should nurture talent pools in finance, entrepreneurship and technology, and relentlessly cultivate synergy among these three types of talents to develop a vibrant Fintech ecology. This will help build further on Hong Kong's financial, strategic and management expertise to form a powerful foundation for fast-paced Fintech development and strengthen research capacity in cutting-edge technologies with wider applications in financial services.

Funding

With regards to funding, the Steering Group notes that funding sources for Fintech ventures varied across economies. For Hong Kong, funding support for startups from the private sector, incubation programmes offered by innovation organisations (such as Cyberport and Hong Kong Science and Technology Parks Corporation) and the Government's Innovation and Technology Fund and its sub-funds (including the Enterprise Support Scheme ("ESS")) has been notable. Nevertheless, it is worth considering helping startups better understand these financing options, as well as promoting to existing financial institutions that Government funding through channels like ESS could potentially offer support to their in-house innovation projects with R&D elements.

Recommendations

In the light of the above analysis, the Steering Group proposes the following recommendations –

Promotion

- To formulate a clear vision to underline Hong Kong's commitment in developing Fintech and our position as a launchpad for Fintech companies with regional and global ambitions
- To organise an annual premier Fintech event and competitions to focus stakeholders on the potential of our Fintech ecology and attract talents locally and from outside Hong Kong

Facilitation

- To establish a One-stop Office to provide targeted assistance to startups, leverage the Office in the overall branding for Hong Kong as a Fintech hub as well as take part in overseas events and organise roadshows to showcase different support measures available in Hong Kong
- To establish a Fintech-themed programme to complement existing facilitation programmes
- To attract financial institutions to locate/start their accelerator programmes and laboratories in Hong Kong
- To raise Hong Kong's position as a hub for applying and setting standards for cutting-edge Fintech technologies such as cybersecurity and Blockchain

Regulations

- To establish dedicated contact points at financial regulators to help the Fintech community better understand our regulatory landscape

Funding

- To improve dissemination of information on funding sources

Talents

- To encourage young talents to consider entering the Fintech sector
- To enhance dissemination of information on immigration policy for talents outside Hong Kong

The Steering Group aims to set the broad directions and identify focused areas that will be important to the further development of the Fintech ecology in Hong Kong. It believes that the Government and relevant authorities will, having regard to resources and other relevant considerations, take forward the recommendations by developing specific proposals and details for implementation. The Steering Group further encourages the Government to continue engaging the industry to keep abreast of the dynamic Fintech landscape, and monitor any emerging opportunities and challenges on the international and local horizons.