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**Discussion Paper**

**LEGISLATIVE COUNCIL**  
**PANEL ON FINANCIAL AFFAIRS**

**DEVELOPMENT OF FINANCIAL TECHNOLOGIES IN HONG KONG AND  
MEASURES IN TACKLING FINANCIAL FRAUD**

**Introduction**

This paper briefs Members on the latest development and the relevant measures of financial technologies (“Fintech”) of Hong Kong, progress on the regulation of virtual assets, as well as measures in tackling financial fraud.

**(I) The latest Fintech development**

2. Continued technological advancement enables financial institutions to provide faster, more convenient and safer financial services, thereby bringing greater convenience to the public, and enhancing competitiveness of enterprises. Recent research<sup>1</sup> indicates the trend of local residents increasingly adopt Fintech. The percentage of local consumers having installed banking mobile application on their phones increased from 77% in 2020 to 82% in 2021, and over 80% of the consumers use mobile banking as the main way to manage finance. In addition, 95% of small and medium enterprises (“SMEs”) in Hong Kong said they would accept contactless payments or other form of digital payment option in 2022.

3. Hong Kong has a mature Fintech ecosystem, with over 600 Fintech companies operating in Hong Kong, providing services in mobile payment, cross-boundary transfer, intelligent financial consultancy, wealth management and blockchain, as well as virtual banks, virtual insurers and virtual asset trading platform. As at April 2022, there were over 1.2 million accounts opened in the 8 virtual banks, with a total of over HK\$ 25 billion in deposits. Some of the virtual banks are providing services spanning from retail and commercial banking aspects, to securities trading services. As at December 2021, the 4 virtual insurers had processed a total of over 62,000 policies, with

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<sup>1</sup> “Visa Consumer Payment Attitudes Study 2021” and the 6<sup>th</sup> edition of Visa’s Global Back to Business Study.

the total revenue premiums exceeding HK\$ 220 million.

4. The development of Fintech has attracted more enterprises and talents to join the industry. According to Cyberport and Hong Kong Science and Technology Parks Corporation, there are currently around 500 Fintech companies operating in the premises of the two institutions, employing about 5,500 staff, and the size will further expand. In the next three years, it is expected that the Fintech companies operating in the premises of the two institutions will need an additional manpower of 2,200 Fintech practitioners, providing opportunities for talents locally and from other places.

## **(II) Measures of the Government in supporting Fintech development**

5. The Financial Services and the Treasury Bureau (“FSTB”) coordinates the policy for facilitating Fintech development. Through the Coordination Group on Implementation of Fintech Initiatives (“CGFin”), the Secretary for Financial Services and the Treasury leads and coordinates various financial regulators and relevant Government departments on Fintech-related work, and maintains regular liaison with the Fintech industry in order to adjust our Fintech policy timely to meet the needs of the sector. In the past six months, two CGFin meetings were convened, allowing us to exchange views on Fintech development of Hong Kong with representatives from the financial services, technology and academic sectors, as well as research institutions. We also strive to promote the development of the Fintech sector of Hong Kong through building a more active Fintech ecosystem; enhancing financial infrastructure; nurturing talents; and strengthening integration and collaboration with the Mainland and overseas markets. The implementation progress of the relevant measures are as follows.

### ***(a) Building a more active Fintech ecosystem***

#### Fintech Proof-of-Concept (“PoC”) Subsidy Scheme

6. To incentivize the industry to conduct more research on and develop innovative financial services and products, FSTB allocated HK\$ 10 million last year to launch the first round of the Fintech PoC Subsidy Scheme to encourage the financial institutions to partner with Fintech companies to test innovative financial services and products. More than 90 projects were approved, benefiting 75 local Fintech enterprises and

financial institutions<sup>2</sup>. The largest categories of subsidized projects were related to WealthTech, RegTech and InsurTech; some emerging aspects such as payment systems, Environmental, Social and Governance; as well as cross-boundary data analysis and overseas remittances, etc. More than 90% of the approved projects have been completed, with 70% of them indicating that they would apply the deliverables of the projects to their product line / business solutions. Also, 90% of the participating Fintech companies would consider commercializing the PoC solutions within one year.

7. In view of the positive feedback of the first round of PoC Subsidy Scheme, we announced in the 2022-23 Budget that HK\$ 10 million would be reserved for launching a new round of the PoC Subsidy Scheme to promote continuous innovation of the financial services sector. The new round of the scheme will continue last year's practice of subsidising individual PoC projects conducted by Fintech companies in collaboration with financial institutions. Besides, we will reserve a portion of the funding to support research projects with a higher level of subsidy amount for application by research institutions, for them to put forward solutions that can help overcome development bottlenecks faced by the Fintech industry of Hong Kong, thereby promoting the further development of the sector.

#### Attracting overseas companies and talents to settle in Hong Kong

8. The dedicated Fintech team under InvestHK ("Fintech team") funded by FSTB assisted 45 overseas companies to establish in Hong Kong in the past year, involving an investment amount totaling HK\$ 1 billion, and creation of 400 new jobs. The Fintech team also held the Global Fast Track programme last year, attracting over 300 Fintech companies from 49 economies, as well as over 90 local and Asia-Pacific corporates and investors to participate in business matching under the programme. In addition, in November last year, FSTB, in collaboration with the Fintech team and other financial regulators, staged the Hong Kong Fintech Week 2021 in hybrid mode, comprising physical and online events. It attracted over 20,000 participants, 4 million online views, over 300 speakers, 400 exhibitors and 39 international delegations and representatives to participate. Twenty seven satellite events and thousands of business meetings were arranged on the spot and via online platforms. The event helped the global financial services sector understand better the latest Fintech development in Hong

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<sup>2</sup> Including 8 local banks, 27 insurance companies, 37 securities firms and 3 other financial institutions.

Kong.

9. To further expand the business and commercial use of Fintech in Hong Kong, the Fintech team will launch a new round of the Global Fast Track programme this year, together with a newly established digital community platform. It seeks to enable business matching between local and global Fintech companies, and the local and Asia-Pacific corporates and investors. We will also organize the Hong Kong Fintech Week 2022 in November this year to continue promoting Hong Kong's Fintech industry.

***(b) Improving financial infrastructure***

**Faster Payment System (“FPS”) and “iAM Smart”**

10. Since its launch in 2018, FPS recorded over 10.3 million registrations as at April 2022, with an average daily turnover of about 866,000 transactions in April 2022, increased by 45% year-on-year, involving a transaction amount of HK\$ 5.8 billion and RMB 198 million. The use of FPS has extended from person-to-person payment to business payment and account top-up, which has facilitated development of electronic payments. Various government bills such as taxes, rates and government rent, water charges, etc, are accepting payments through FPS. Ten departments already have their payment counters and self-service kiosks accepting FPS payments. As at end-April this year, the above services registered over 5.4 million payment records of FPS payments, involving an amount of over HK\$ 9.1 billion. FPS services will be further extended to online payments for government services from the second half of 2022 onwards. Currently, over 80% Government departments provide FPS service as payment option. More public services, including toll rates of tunnels and bridges, booking fees of leisure facilities, charges of Government carparks, and other Government charges such as licence-related payments will accept FPS payments in the next two years to bring greater convenience to the public.

11. Financial regulators including the Hong Kong Monetary Authority (“HKMA”), the Mandatory Provident Fund Schemes Authority (“MPFA”), the Insurance Authority (“IA”) and the Securities and Futures Commission (“SFC”) have issued circulars to their regulatees to encourage them to actively adopt the one-stop personal digital service “iAM Smart” in their business workflow. As at end-April 2022, individual banks, insurance companies and other financial institutions have already adopted “iAM Smart”

for login services and identity verification. We will continue to promote the usage of “iAM Smart” in the financial services sectors, with a view to lowering costs and enhancing user experience.

Open Application Programming Interface (“API”)

12. We are actively promoting the implementation of the Open API<sup>3</sup> for the banking and insurance sectors, with a view to providing more innovative financial services and customer experience. As at March 2022, there were more than 1,200 registrations from third-party service providers using the banks’ Open API, covering deposits, loans, insurance, investments and other banking products and service information, as compared with around 1,000 registrations last year. Most of the 28 participating retail banks have launched the fourth phase of the FPS mobile app-to-app payment function since December last year. As at March this year, more than 40 merchants have used this feature to collect payments, with the number of transactions reaching over 17,000 in March. The third phase of corporate client account information was rolled out in March 2022, while retail client account information is expected to be available in June. In addition, the IA established a working group in October last year comprising more than 30 representatives from different segments including the insurance, consultancy and technology companies to facilitate the development of the framework on Open API for the insurance sector.

Commercial Data Interchange (“CDI”)

13. The HKMA is actively developing the CDI. It seeks to allow financial institutions, with the consent of enterprises (especially SMEs), to obtain trade and commercial data of the enterprises concerned from third-party platforms for conducting more objective and accurate credit analysis, thereby reducing the need for enterprises to provide collateral, and enhancing SMEs’ access to trade finance more effectively. The HKMA has successfully completed the PoC stage. The project is progressing well, and is currently in the pilot phase, with eight groups of banks and data providers participating. During the project research and trial stages, a number of banks have used a variety of commercial data to successfully offer loans with a total amount over HK\$ 900 million to SME customers. CDI is expected to be formally launched by end-2022.

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<sup>3</sup> Open API allows third party service providers to gain programmatic access to systems and data of various banks, including their products and services, and aggregate them under the same website / application.

The Government works closely with the HKMA to explore introduction of more commercial data sources, including data kept in Government departments (such as those on the Register of the Companies Registry), to expand the functionality of CDI, and further enrich the data-driven financial service ecosystem.

#### eMPF Platform

14. The MPFA is working at full steam to build the eMPF Platform. Its target is to complete the development work of the Platform by end-2022, with a view to enabling MPF trustees to migrate account information of their MPF schemes to the eMPF Platform in a sequential and orderly manner upon completion of system testing and relevant preparatory work starting from around April 2023. The eMPF Platform, which is expected to become fully functional in around 2025, would provide one-stop electronic administrative services to employers, employees and self-employed persons in Hong Kong to manage their MPF, thereby enhancing the operational efficiency of MPF scheme administration, improving user experience and reducing the overall operational costs.

#### e-HKD

15. We are exploring the prospect of introducing e-HKD in Hong Kong. The HKMA published the initial findings of the technical aspect of the study in the form of a technical whitepaper in October 2021 for comments. The second part of the study focused on policy and design aspects. The HKMA issued in April 2022 a discussion paper titled “e-HKD: a policy and design perspective”, setting out the considerations involved in the introduction of retail Central Bank Digital Currency (“CBDC”) in Hong Kong, and to invite views from the public and the industry.

#### **(c) *Nurturing Fintech talents***

##### Fintech Anti-epidemic Scheme for Talent Development (“FAST”)

16. The Government launched in July 2020 FAST under the Anti-epidemic Fund, with a total funding of HK \$120 million. The scheme provides Fintech companies a salary subsidy of 12 months, creating 1,000 new full-time to enrich the Fintech talent pool and support employment. So far, 800 applications have been approved under the scheme,

with 700 jobs already filled, amongst which about 30% of the employees are young people aged between 18-24.

### Financial Practitioners Fintech Training Programme

17. FSTB launched the Financial Practitioners Fintech Training Programme in 2020, with a view to enhancing financial practitioners' knowledge of the practical application of Fintech, thus accelerating digital transformation of the financial services sector. The programme attracted participation of 1,200 practitioners. In view of the positive feedback, we have launched a new round of the programme in February this year. Taking into account the experience of the last round, we have enhanced this year's programme to provide greater diversity of the speakers and content of the Webinars Series to enable practitioners to take part in subsidized higher quality training programme. We have established a new Incentive Scheme to subsidize trade associations in the securities and insurance sectors to tailor-make training programmes for their practitioners. The Webinars Series has attracted over 7,100 financial practitioners to register during the application period early this year. Application for the Incentive Scheme has closed in May 2022, it is expected that about 10 training programmes organised by the trade associations will be benefitted.

### Development of professional qualifications under the Qualifications Framework

18. We are actively implementing the development of professional qualifications recognised under the Qualifications Framework for Fintech practitioners, with a view to enabling them to obtain broadly-recognised and quality-assured qualifications, facilitating their professional development and enriching the local Fintech talent pool. The first batch of Fintech professional qualifications which would be applicable for the banking sector are expected to be rolled out this year. To encourage practitioners to obtain Fintech professional qualifications, the 2022-23 Budget announced that the Government would implement the Pilot Scheme on Training Subsidy for Fintech Practitioners this year to provide reimbursement to those who have successfully attained Fintech professional qualifications of 80 per cent of the tuition fees, with around 1,500 places to be offered. We will also conduct a consultancy study this year, with a view to continuing the development of Fintech professional

qualifications for different financial sectors, thereby promoting comprehensive professional development of Fintech talents.

***(d) Strengthening integration and collaboration with the Mainland and overseas markets***

Cross-boundary “one-stop” platform on Fintech

19. The People’s Bank of China (“PBoC”) and the HKMA signed a Memorandum of Understanding in October 2021 to provide a one-stop platform for financial institutions and technology companies to conduct pilot trials of cross-boundary Fintech initiatives concurrently in Hong Kong and the Guangdong-Hong Kong-Macao Greater Bay Area (“GBA”) cities in the Mainland. At present, more than 20 local banks have expressed interest in using the platform. The measures help financial institutions and Fintech companies to test new Fintech products and services, especially cross-boundary Fintech projects, in a secure and clear regulatory environment, so as to speed up the launch of Fintech products and reduce development costs.

eTradeConnect

20. The first phase of the PoC on the research programme to connect the blockchain-based eTradeConnect with the PBoC Trade Finance Platform was completed in October 2020, involving a total transaction value of over HK\$ 26 million. A number of cross-boundary trade finance transactions were conducted thereafter. The second phase was completed in October 2021, involving a total transaction value of over HK\$ 87 million, covering the use cases of exports from Hong Kong and import into the Mainland. We will continue enhancing cooperation between the two sides, with a view to providing importers and exporters of both places with more convenient trade finance services.

e-CNY

21. The use of e-CNY will offer an additional means which is safe, convenient and innovative for cross-boundary retail consumption to residents in Hong Kong and Mainland. It will also help enhance the efficiency and user experience of cross-boundary payment services, promote mutual access in GBA, and support the consolidation of Hong Kong’s status as a global offshore RMB business hub. The



HKMA and the Digital Currency Institute of PBoC completed the first phase of technical testing of using e-CNY for making cross-boundary payments in Hong Kong in December 2020, and are discussing arrangements for the next phase of the technical testing, which would include the involvement of more banks in Hong Kong and usage of FPS to top up e-CNY wallets.

#### Multiple CBDC Bridge (“mBridge”) Project

22. Hong Kong and Thailand launched a joint research project in 2019 to study the application of CBDC in cross-border payments, allowing banks to conduct fund transfers and foreign exchange transactions on a peer-to-peer basis between the two places. The Central Bank of the United Arab Emirates and the Digital Currency Institute of PBoC joined the research project in February 2021 to explore real-time cross-border foreign exchange payment-versus-payment transactions in a multi-jurisdictional context and on a 24/7 basis. The project will also explore business use cases in a cross-border context using both domestic and foreign currencies. The project has been renamed as “mBridge”. In November 2021, the HKMA, together with the participating central banks of the project, and the Bank for International Settlements Innovation Hub Hong Kong Centre, have identified 15 potential business use cases of mBridge, and selected the function of international trade settlement for testing on a trial platform. It is expected that the selected use case will enter the pilot stage in 2022.

### **(III) Progress on regulation of virtual assets**

23. In November 2020, the Government conducted a public consultation on proposals to establish a robust regulatory framework to regulate virtual asset trading platforms. Under the proposals, any person who seeks to carry on regulated activities related to a virtual asset exchange in Hong Kong will be required to apply for a licence from SFC to become a virtual asset service provider (“VASP”). Licensed VASPs will be subject to the anti-money laundering and counter-terrorist financing requirements under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“AMLO”) and other regulatory requirements so as to ensure sound market development and protect investor interest. We published the consultation conclusion in May 2021 and respondents generally expressed support for the overall direction and framework of the proposed licensing regime. The drafting of the Bill is at its final

stage and we expect that the Bill will be introduced into the Legislative Council in the second quarter of 2022.

24. On the regulation of stablecoins, the HKMA published in January 2022 a discussion paper on the regulatory approach towards payment-related stablecoins and invited the sector and public to provide feedback. The consultation period ended on 31 March 2022. In the light of the latest market development, the HKMA has also issued guidelines to banks regarding the guiding principles on how to handle matters related to virtual assets and VASPs, including (1) prudential supervision, (2) anti-money laundering and counter-terrorist financing and financial crime risk, and (3) investor protection. In addition, the SFC and the HKMA have published a joint circular to provide guidance for intermediaries when they are distributing virtual asset-related products, providing virtual asset dealing services, and providing virtual asset advisory services to clients so that they can provide virtual asset services under clear regulation. This is conducive to the healthy and orderly development of the virtual asset sector and investor protection.

#### **(IV) Measures in tackling financial fraud**

25. In keeping with the rapid development of Fintech, the Government, together with the financial regulators, have been closely monitoring the latest market situation to ensure that our regulatory measures could accommodate market developments while continuing to safeguard investors and the public effectively.

26. The SFC, in accordance with the Securities and Futures Ordinance (Cap. 571) (“SFO”), has statutory powers to take enforcement action against different kinds of market misconduct and illegal dissemination of investment information. As regards the provision of false or misleading information on social media, anyone who issues an advertisement, invitation or document which is or contains an invitation to the Hong Kong public to invest in securities or collective investment schemes must be authorized or exempted by the SFC in accordance with section 103 of the SFO. Otherwise it constitutes an offence which carries a maximum fine of HK\$ 500,000 and up to 3 years’ imprisonment. Moreover, a person, in a transaction involving securities, futures contracts or leveraged foreign exchange trading, employs any device, scheme or artifice with intent to defraud or deceive, or engages in any act, practice or course of business which is fraudulent or deceptive, or would operate as a fraud or deception, might commit

an offence under section 300 of the Ordinance. Once convicted, the highest penalty is a fine of HK\$ 10 million and 10 years of imprisonment<sup>4</sup>.

27. Tackling social media ramp-and-dump scams is one of the top enforcement priorities of the SFC. Between January 2020 and April 2022, by issuing restriction notices under sections 204 and 205 of the SFO, the SFC has frozen assets of around HK\$ 1.4 billion in 132 securities accounts which are suspected to be related to ramp-and-dump scams. Furthermore, in tackling large scale ramp-and-dump syndicates, the SFC has also conducted joint operations and held joint press conferences with other local and overseas authorities in 2021, including the Hong Kong Police, ICAC, Monetary Authority of Singapore and Singapore Police.

28. In the meantime, the SFC and the Investor and Financial Education Council (“IFEC”) have stepped up public promotion and education, reminding the public about stock trading scams on social media or the risks involved in virtual asset trading on unregulated platforms, through websites and social media. Furthermore, the SFC has collaborated with the Anti-Deception Coordination Centre of the Hong Kong Police and IFEC on investor education campaigns on this front, including delivering leaflets, visiting schools and producing investor education video. When it comes to the attention of the SFC about entities which are unlicensed in Hong Kong, including unregulated virtual asset platforms, or suspicious websites which are believed to be targeting Hong Kong investors, it will post information of these entities or suspicious websites on the alert list maintained on the its website as a warning service to investors.

29. On managing the risks of using banking services with Fintech, the HKMA requests banks to regularly review whether its risk control measures are up-to-date and continuously strengthen their network security so as to cope with the increasingly challenging cyberattacks on the internet. The HKMA also shares with the sector the latest trend on financial frauds and remind banks to enhance their capabilities of detecting frauds. Banks are also required to provide hotline services for the public to validate caller’s identity. The HKMA will continue to cooperate with the banking

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<sup>4</sup> Other applicable provisions in the SFO include: if a person holds himself out as carrying on a business in a regulated activity stipulated under the SFO without a licence, he commits an offence under section 114 of the SFO. The maximum penalties for a breach of that section are a fine of HK\$ 5 million and 7 years’ imprisonment.

sector and the Police for monitoring the latest technological development and combat financial frauds together.

30. In light of the heightened threat of cyber security during the pandemic, the relevant regulatory authorities have stepped up efforts to remind the public to stay vigilant to the possible deceptive acts by fraudsters, and not to sell or lend bank accounts to third parties for money rewards as these accounts may be used for illegal acts such as laundering crime proceeds. Separately, the Hong Kong Association of Banks established in May 2020 the Fraud Risk Management Taskforce, which has launched public educational activities on the prevention of online financial fraud and other scams, and to remind the public of the common fraud typologies and preventive strategies.

### **Advice Sought**

31. Members are invited to note the content of this paper, and provide comments and suggestions.

**Financial Services and the Treasury Bureau**  
**May 2022**