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HKDC Report - 'The Future of Fintech in Hong Kong'

A business plan for making Hong Kong a financial services hub!

Quarterly Research Report | 2017-#3

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Executive Summary

While Hong Kong has long one of the world's main financial capitals, its FinTech sector appears to develop at a lower pace than other cities. Over the summer 2016, a public report was therefore released to analyse the situation and provide solutions.

The said report, at the time, was analysed by the financial sector as pointing towards Hong Kong's weaknesses on the FinTech matter. It was rather an interesting and constructive business plan and road map.

FinTechs - or financial services fueled by new technologies - are very trendy at the moment, particularly in large financial cities like Hong Kong where the financial industry is both extremely present and active. Yet, a report released in May 2017 by the Hong Kong Financial Services Development Council (FSDC) was interpreted as pointing at the weaknesses of the city in comparison with its competitors.

In reality, however, the report constitutes a significant business plan designed to help the city become a leader in the field. The report talks about competitors, insists on the necessity to focus on particular points, largely emphasises the strengths of Hong Kong in terms of financial infrastructure, and explores the potential gains to be expected from the further development of the FinTech industry in the city.

The report, in the main, is to be considered as the last policy output aimed at developing the financial services of Hong Kong, in line with the various efforts conducted so far.

It is not about weaknesses, it is about potential.

About this Research Report:

Protectionism on the Rise: What Impacts for Business in the Asia-Pacific? Quarterly Research Report 2017-#3 by The Asia-Pacific Circle (May, 2017)

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'THE FUTURE OF FINTECH IN HONG KONG'

A business plan for making Hong Kong a financial services hub!

In May 2017, the Hong Kong Financial Services Development Council (HK-FSDC) released a report on 'The Future of FinTech *in Hong Kong'. The report was largely commented upon and interpreted as emphasising Hong Kong's difficulties in coping with the main* FinTech-*sensitive cities around the world, but in reality it did much more than this: it provided the Hong Kong regulators with a powerful, ambitious and strategic business plan.*

THE REPORT WAS MAINLY UNDERSTOOD AS SHOWING THE WEAKNESSES OF HONG KONG IN TERMS OF FINTECH, BUT...

Over the summer, in May 2017, the Hong Kong Financial Services Development Council (FSDC) released a long and precise report titled 'The Future of FinTech in Hong Kong'.

This report has mainly been understood as emphasising the weaknesses of Hong Kong in relation to the FinTech industry. In fact, it is interesting to note that when discussing FinTech and the document, the most common idea consists in repeating or quoting the report's conclusion that 'From a long-term developmental standpoint, Hong Kong is very strong in 'Fin', but not strong in 'Tech'.

In reality however, the document would rather deserve to be described as a major road-map for the development of Hong Kong's profile as a leading hub for FinTechs, RegTechs, WealthTechs, Cybersecurity and Artificial intelligence (AI). In our opinion, 'The Future of FinTech in Hong Kong' should not be read as a standalone document because it is much more than a standalone report.

'The Future of FinTech in Hong Kong' is the last of a series of policy outputs drafted over the past two years by various Hong Kong public authorities, all sharing the idea that FinTechs matter.

THE REPORT IS THE LAST PIECE OF A SERIES OF POLICY OUTPUTS.

Simply put, the Steering Group on Financial Technologies was created in 2015 and released a first analysis of the industry in January 2016, thus making a series of suggestions which, eventually, were implemented as part of the Budget Speech 2016/2017 which took place soon after. This Speech began the implementation of Hong Kong's FinTech policy and was followed by the Budget Speech 2017/2018 which provided monitoring on the efforts. In September 2016, meanwhile, Norman T.L. Chan, Chief Executive of the Hong Kong Monetary Authority made a speech named 'What does it take to build a "Hong Kong Brand" for financial services?'.

The FSDC report of May 2017, that is, does not merely point at the weaknesses of Hong Kong in relation to FinTech, it furthers policy monitoring and, even more importantly, provides the regulators with a major strategic road map. Not to say, in fact, a business plan.

This analysis paper comments on the successive reports with a view of clarifying the current state of Hong Kong's FinTech policymaking.

A DOCUMENT TO FURTHER POLICY MONITORING WHILE BUILDING A ROAD-MAP.

I | The Steering Group on Financial Technologies.

The first document which broadly considered the contribution of FinTechs to the development of Hong Kong as a financial place – or the contribution of Hong Kong to the development of the FinTech industry, depending on the perspective – was a 88-pages long report by Hong Kong's Steering Group on Financial Technologies.

The Steering group was originally created in 2015 to advise the Government of Hong Kong on methods to promote the City as a FinTech hub and its conclusions, as released in February 2016, suggested that there was tremendous potential and 'ample opportunities' on the matter.

For starters, the Steering Group explored the definition of Fintechs, which it described in the following terms:

> *'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'.*

FINTECHS ARE ABOUT FORMULATING INNOVATIVE SOLUTIONS THAT ARE INTUITIVE, SECURE AND COST-EFFECTIVE

Beyond this technical definition, in addition, the Steering Group provided a more enthusiastic and selling definition of FinTechs, which it linked to the very idea of capacity building in applied research: FinTechs are about 'formulating innovative solutions that are intuitive for customers, secure for financial institutions and cost-effective for all'.

It noted that 48 out of 100 top FinTech companies in the world were already settled in Hong Kong, emphasised an important increase in FinTech-related partnerships involving large financial institutions including a Accenture & Cyberport project involving a cluster of 60+ FinTech companies, the DBS accelerator, the KPMG Insights Labs, the Standard Chartered-sponsored SuperCharger Accelerator, or the Commonwealth Bank of Australia CommBank Innovation Lab.

The Steering Group also placed the Hong Kong FinTech industry into a bigger and more global picture, estimating that the global market in 2015 exceeded USD 640 billion, of which 440 billion amounted to payments and remittance in general (see table) and pointing at global investment in the FinTech sector in excess of 24 billion in 2016, six times more than in 2013. Looking at the progress made by the Asia-Pacific region, it however suggested that the Asia-Pacific remained behind. In its own words:

A GLOBAL 640 MILLION USD MARKET IN 2015.

> *'The Asia Pacific region is catching up and beginning to attract more FinTech investment. Investment in FinTech across Asia Pacific skyrocketed from about US$880 million in all of 2014 to nearly US$3.5 billion in the first nine months of 2017'.*

Table 1: Estimated Global Market Size of Selected Fintech Subsectors

Business	Estimated Market Size in 2015 (US$ Billion)
Remittance	440 (size of market that can potentially be disrupted by Fintech)
Robo-advisors	19 (2014), forecast to reach 2,000 by 2020
P2P Lending	77
Donation and Reward Crowdfunding	5
Equity Crowdfunding	3
Cybersecurity	75
Big Data & Analytics	27 (2014), with 17% annual growth to 2026 forecasted
Blockchain	By 2022: expected to reduce banks' infrastructural cost by US$15-20 billion per year

Sources: World Bank, various IT industry research firms and web portals, Massolution, Forbes, Deloitte, CNN, Bloomberg, Santander, InnoVentures and Oliver Wyman, and World Economic Forum

(Source: Table extracted from the Steering Group' Report)

Despite this gap, nonetheless, the Steering Group emphasised Hong Kong's competitiveness towards the FinTech industry.

It noted that while Hong Kong was ranked as 'the third most competitive global financial centre among 84 major centres in the world, behind only London and New York', the city was also considered as the leading financial centre in Asia as well as the 'top five global initial public offering listing markets every year for the past decade' thus giving it a very significant advantage in terms of fund-raising and asset management. In addition, the Steering Group emphasised the good reputation of Hong Kong in terms of regulatory frameworks, which it described as 'mature, effective and transparent ... in line with international standards'.

SIGNIFICANT ADVANTAGES IN TERMS OF FUND-RAISING.

Hence, Hong Kong was described as occupying a privileged place in terms of innovation. Beyond a geographic and political position making the city the most efficient access door to Mainland markets and the logical way to invest in the Mainland's 'opening up to the global economic and financial systems', it praised Hong Kong's top-ranking abilities of its universities in Asia as well as its 'excellent' information and communication technology (ICT) before concluding as to the existence of solid infrastructural foundations 'for wider application of technology in delivering financial services'.

TOP-RANKING ABILITIES TO CAPITALIZE ON.

The Steering Group accordingly made various recommendations aimed at fostering 'a conducive environment for FinTech development'.

On the FinTech promotion side of things, it called on the Government to 'set a clear strategic vision to help focus stakeholders on leveraging the core competence of the local FinTech ecology'. The strategy here was simple. First, dissipating the idea that Hong Kong lagged behind in relation to technological innovation, capacity building and attractiveness through, for instance, the creation of annual FinTech events and competitions capable of

demonstrating the city's potential while attracting high level talents. Second, increasing consumer awareness and confidence towards innovative financial services through the setting of data and innovation-related educative programmes capable of 'foster[ing] a culture for innovation as well as proactive technology adoption both businesses and consumers'.

THE IMPORTANCE OF LEVERAGING FINANCIAL SECTOR STRENGTH WHILE SUPPORTING STARTUPS.

On the FinTech facilitation aspect, the Steering Group recommended that Hong Kong worked on 'Strengthen[ing] her FinTech ecology by fully leveraging the strong presence of financial institutions in the city', which included attracting more accelerators while giving large financial institutions incentives to 'proactively embrace opportunities brought about by FinTech'. One measure suggested for that purpose, in fact, was the establishment of a One-stop shop office aimed at supporting FinTech startups in their establishment process while 'branding' Hong Kong as a hub for FinTech, cybersecurity and Blockchain development.

In relation to regulation and frameworks, the Steering Group invited the regulators to carefully examine whether rules ought to be introduced or amended while opening dedicated contact points between entrepreneurs and regulators, in line with the One-stop shop argument mentioned before. In essence, it largely insisted on the necessity to preserve the city's financial stability so as to protect its reliability-oriented profile. In its words, this would amount to '[s]triking the right balance between promoting Fintech development and consumer protection' so as to 'enhance the community's confidence and readiness in using innovative financial services'.

The regulatory perspective was strongly stressed in the report, where the emphasis was clearly put on the necessity to preserve the consumer from financial excesses. In Mainland China, as a reminder, the lack of

regulation in relation to P2P lending had created vast financial troubles that, clearly, Hong Kong has so far succeeded in avoiding. In the Steering Group's words, therefore:

> *'No matter how technology evolves and how genuine innovation could benefit consumers and enterprises, the bread and butter of Fintech remains the same: channelling capital to productive use and trade, facilitating risk pricing and transfer, and processing payments for real economic transactions. As such, rules and regulations to offer adequate customer protection are necessary in developing a healthy ecosystem for Fintech. Maintaining robust customer protection measures will give investors confidence in the new Fintech products and the financial system, and enhance systemic resilience. In sum, the Government and regulators will have a critical role to play in setting the rules for the Fintech sector'.*

IF TECHNOLOGY COULD REINFORCE THE REGULATORY ENVIRONMENT...

Having said that, it is important to add that regulatory needs were not only brought forward as a way to somehow limit or frame the development of Fintechs in Hong Kong. To the contrary, the Steering Group rather emphasised the ability of technologies to help enforcing regulatory requirements, through cybersecurity technologies, blockchain technologies (providing low-cost and transparent transactional infrastructures) and Regtechs, i.e. technological processes aimed at helping banks to abide by the laws, notably in relation to KYC (Know Your Customer) and AML (anti-money laundering). Technologies as regulatory assets, in sum. Importantly, furthermore, the Steering Group emphasised important gains in 'leveraging our high concentration of industry domain experts and institutions in finance, logistics and other professional services'.

PROMOTION, FACILITATION, REGULATION.

In addition to these three major focus points – promotion, facilitation and regulation – the Steering Group finally suggested that Hong Kong would in the future need to 'nurture talent pools' in the financial, entrepreneurial

and technology sectors while ensuring that the development of Hong Kong's 'vibrant Fintech ecology'. It also insisted on the necessity to emphasise broadly the potential contribution of Fintechs to the Research & Development activities or the largest financial institutions so as to emulate innovation much further.

In a nutshell, the Steering Group overall emphasised a need for 'Capacity Building in Applied Research' and the necessity to develop an ability to 'formulat[e] innovative solutions that are intuitive for customers, secure for financial institutions and cost-effective for all' and invited the regulator to '[take] Hong Kong's FinTech Sector to the Next Level'.

II | The 2017-2018 Budget Speech

A WIDE RANGE OF APPLICATIONS.

Another document considered the contribution of Fintechs to the development of Hong Kong as a financial place: the 2017-2018 Budget Speech. Interestingly, the 2017-2018 demonstrated progress on the issues as compared to the previous budget Speech of 2016-2017.

As far as the 2016-2017 Budget Speech by Financial Secretary John C Tsang was concerned, as a reminder, the dynamic consisted in pushing local actors to '[take] advantage of technologies'. At the time, the Speech noted that Fintech technologies could 'be applied to a wide range of areas such as electronic payments, robo-advisors, distribution of financial products, big data analytics, cyber security, equity crowdfunding and peer-to-peer (P2P) lending'. In addition, it emphasised that the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and the Office of the Commissioner of Insurance would '['will', in the text] set up Fintech dedicated platforms to liaise with the industry to

ensure that the market [would] balance between market demand and investors' understanding and tolerance of risk when introducing innovative financial products and services'. Furthermore, the public authorities clearly acted that the Government would (will in the text, again) in particular 'encourage 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'. In other words, FinTech in the 2016-2017 Speech was largely a work in progress.

In contrast, the 2017-2018 Budget Speech went beyond. Its section on Innovation and Technology, indeed, acted that progress had been made throughout the year. It particularly noted that 'a variety of payment options [was] now available to the public, including mobile payment, peer-to-peer (P2P) transfer, e-Cheque, and the Electronic Bill Presentation and Payment Service' and indicated that more work was being made 'to further enhance the payment infrastructure' through the development of a new Faster Payment System (FPS) by the HKMA, to be completed later this year and providing 'a round-the-clock inter-bank real-time payment platform'. In addition, the Speech noted that some financial institutions using biometric authentication had already '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'. In doing so, in other words, the last Budget Speech pointed at significant, palpable and measurable progress being made and thus promoted the 'trial environment' provided by the regulatory Sandbox.

FINTECH TO FURTHER ENHANCE THE DEVELOPMENT OF THE PAYMENT INFRASTRUCTURE.

III | Speech: What does it take to build a "Hong Kong Brand" for financial services?

In September 2016, meanwhile, Norman T.L. Chan, Chief Executive of the Hong Kong Monetary Authority had made a speech named 'What does it take to build a "Hong Kong Brand" for financial services?'

The speech, as its title indicates, insisted on the necessity to present Hong Kong as a Fintech brand characterised by 'quality' and 'credibility. In short, Hong Kong was then presented as being dependent on creating services 'that can adequately and effectively meet the needs of customers with vastly different financial needs'. In addition, the Chief Executive insisted on the role to be played by Hong Kong in relation to RMB internationalisation, he described the HKMA's policy regarding regulatory efforts to be made in relation to Fintech Facilitation and announced the launch of Hong Kong's Fintech Regulatory Sandbox:

PRESENTING HONG KONG AS A FINTECH BRAND.

> *" While regulators like the HKMA must exercise care when new technology is introduced in financial services, there are understandable concerns amongst the Fintech industry that overly rigid or conservative regulations may stifle new technology and innovation. So how do we in the HKMA deal with this issue? Let me say this: the regulatory philosophy of the HKMA is that we adopt a risk-based and technology neutral approach. Specifically, we would endeavour to see through the nature and magnitude of the risks involved in a financial transaction or product without positive or negative discrimination on whether a new technology is used'.*
>
> *[...] Sandbox allows banks to conduct testing and trial of newly developed technologies and applications on a pilot basis. Within the Sandbox, banks can try out their new Fintech products without the need to achieve full compliance with the HKMA's usual supervisory requirements. This will enable banks to gather real-life data and user feedback on their Fintech products or services more easily and in a controlled environment, so*

that they can make suitable refinements to their products before the full launch. The HKMA does not intend to stipulate an exhaustive list of the supervisory requirements that may potentially be relaxed within the Sandbox. Examples of these requirements include security-related requirements for electronic banking services and the timing of independent assessment prior to launching of new technology services."

IV | The HK-FSDC Report, May 2017

In early May, far more recently, the Hong Kong Financial Services Development Council (HK-FSDC) released a report on The Future of Fintech in Hong Kong. Problematically, however, this report was interpreted and commented upon as insisting on Hong Kong's weaknesses in the field. A phrase had circulated a lot, according to which "Hong Kong is very strong in 'Fin', but not strong in 'Tech'".

STRONG IN FIN...
WEAK IN TECH?

Yet, the reality when one takes the time to read the report in full, is that the FSDC document is a constructive, supportive and thinking-forward business plan that provides the regulator with important directions and the industry actors with practical guidelines as to what will happen in the future. As formulated on the first page of the report, in fact:

'By taking proactive steps, Hong Kong could become the leading FinTech centre within the region and one of the leading centres in the world. A less proactive approach could cede business and employment to rival centres elsewhere [...]

FinTech matters to Hong Kong because over the coming decade or so it may dramatically alter today's financial services delivery model. Since financial services contribute 18% of Hong Kong's GDP and 6% of its employment, the impact will be considerable. FinTech may overhaul many current jobs and business processes

derived from complication of process and administration. This will mean better and cheaper services for financial services customers, but it will also threaten today's jobs and revenue streams [...]

Hong Kong's financial regulations and policies have been caught up with the development of FinTech. Other issues include a lack of overall coordination in the public sector, little tradition of technological innovation, and high cost. From a long-term developmental standpoint, Hong Kong is very strong in 'Fin', but not strong in 'Tech'. And there is competition as other centres move rapidly ahead with their own FinTech initiatives'

A genuine business plan

The FSDC 'Future of Fintech in Hong Kong' report highlighted a large number of things, in reality, but the major point with this document is its potential contribution to Hong Kong policy. The document is more than a report, it is an actual business plan.

THE DOCUMENT IS MORE THAN A REPORT, IT IS A GENUINE BUSINESS PLAN.

First, the report describes the current status of Hong Kong on the FinTech scene. It describes the city as 'a latecomer' which has no option but to 'focus'. And it provides the regulators with an elaborate business plan.

Competitors

As a good business plan, the FSDC report talks about competition. In fact, it goes as far as describing the similar initiatives in other countries as competitors. In its own words:

'Mainland China has the world's largest FinTech sector, with the sophisticated offerings from companies like Alibaba's Ant Financial and Tencent's WeChat attracting hundreds of millions of users. This relates partly to the underdeveloped nature of the incumbent Mainland financial system which favours state-owned enterprises and leaves large segments of the population and the private sector largely unbanked.'

Still as a business plan, the report then goes on to describe the strengths of the Chinese model which we shall reproduce here for more clarity:

> *'Mainland China is by far the world's largest and most established FinTech market, regarded by one commentator as, "… the undoubted centre of global FinTech innovation and adoption – thanks to developments across multiple hubs, such as Shanghai, Hangzhou, Beijing, and Shenzhen." Forty percent of consumers in China are using FinTech for payments compared to 4% in Singapore; 35% are accessing FinTech-based insurance products, compared with 1-2% in many Southeast Asian markets. In the context of poor or non-existent service provision by financial incumbents to swathes of the retail and SME population, e-commerce providers Baidu, Alibaba (via Ant Financial), and Tencent (Wechat), collectively BAT, stepped forward with increasingly sophisticated FinTech offerings that have attracted hundreds of millions of users. Seven major FinTech verticals have emerged: (i) payments and e-wallets, (ii) supply chain and consumer finance, (iii) P2P lending, (iv) online funds, (v) online insurance, (vi) personal finance management, and (vii) online brokerage. International expansion is another priority for China's large FinTechs – in January 2017 Alipay bid US$880 million for US-based Moneygram International as well as acquiring a majority state in India's PayTM.'*

The report of course describes the results achieved elsewhere. It notes that FinTechs in the US have been propelled by private funds on a pure market investment basis, while FinTech developments in the UK, Singapore or Australia rather involved a strong dose of government policymaking.

The report, last but not least, describes the status of Hong Kong on the international scene.

COMPETITORS, CHALLENGES, RESULTS ACHIEVED ELSEWHERE, NOT TO FORGET THE POSITION OF HONG KONG ON THE INTERNATIONAL SCENE.

'Hong Kong has a large financial sector which contributes 18% of its GDP and employs 220,000 people or 6% of the workforce. There has been a recent surge in FinTech start-ups, with about 160 entrants although most are still very small, and there is an active accelerator/incubator scene, with the Cyberport providing dedicated co-working space [...] A successful FinTech Week during November 2016 [which] provided further momentum. However, as a whole, Hong Kong's FinTech is still at an emerging stage, not commensurate with its stature as a financial centre.'

'The Financial Secretary's 2016/17 Budget introduced a number of measures to support FinTech. These included, a dedicated FinTech team under InvestHK; more incubator support for FinTechs at Cyberport; dedicated platforms at the financial regulators including the HKMA, the Securities and Futures Commission (SFC) and the Office of the Commissioner of Insurance (OCI, to be replaced by the Independent Insurance Authority) to enhance communication with the Fintech community; a cybersecurity programme; and exploration of the potential of blockchain technology for financial services. Accordingly, in March 2016, the HKMA established its FinTech Facilitation Office, and other Hong Kong financial regulators created their own FinTech units. In September, the HKMA announced a Fintech Supervisory Sandbox,27 albeit only for incumbent banks. A HKMA-ASTRI FinTech Innovation Hub was announced in November 2016.'

FINTECHS WITH A PARTICULAR FOCUS.

A need to focus

The report also very clearly insists that Hong Kong should conduct robust FinTech promotion policies by focusing future developments on 'serv[ing] B2B relationships' and must invest in its major strengths, i.e. its leading position as a financial hub in relation to international banking, forex trading, electronic payments and transactions, notably as far as offshore RMB deals are concerned.

> '[…]to have any chance of competing with and if possible overtaking other centres, it must focus. Hong Kong should not try to be a FinTech generalist but should focus on key areas within FinTech and build its reputation and expertise based on its strongest advantages and most promising opportunities'.

In other words, 'Hong Kong must position itself 'as a landing pad for FinTechs eyeing regional opportunities, as a market for FinTechs providing business-to-business (B2B) services, and as a launch pad for Mainland FinTechs seeking international expansion'. Plain and simple.

As a sensible business plan, the FSDC 'Future of Fintech in Hong Kong' report therefore lists five areas on which policymakers must focus.

- **Cybersecurity:** with an objective of creating 'a more dynamic and connected cybersecurity ecosystem' based on a 'major' government-funded Cybersecurity Centre responsible for conducting research, development, education and training on the matter.

- **Payments and securities settlement:** to 'secure and expand' Hong Kong's role as a settlement hub for payments and securities transactions between the world and Mainland China.

- **Digital ID and KYC utility:** to become a leader in the field of customer identity verification and KYC (Know Your Customer) which is described as 'a major burden for the financial sector as well as a major barrier to FinTech development'. As per a business plan, the report identifies the issue as 'an opportunity for a FinTech solution'.

- **WealthTech and InsurTech - data analytics, automation and AI:** the FSDC sees tremendous potential in the field of robo-advisory (i.e. automated financial advice), big data and Artificial Intelligence, as well as in the possibility to further develop the city's major wealth management and insurance expertise through the support and development of computerised and algorithmic trading related to FinTechs, WealthTechs, InvestTechs and InsurTechs.

- **RegTech:** In a related way, the report points at Regtechs as being a key priority for Hong Kong. Considering the high level of regulation (KYC/AML/CTF and capital regulations) imposed on banks, given the standing of Hong Kong's regulators on the matter, and considering the significant presence of regional financial institution and other business headquarters in the city, the FSDC sees technology as 'an opportunity to develop regional RegTech solutions, and to become a model for the region' by demonstrating 'their leadership by carving out an appropriate regulatory regime for FinTech, and by developing the application of technology to regulatory compliance'. Ambitious programme.

CAPACITY-BUILDING STRATEGY

All in all, the FSDC 'Future of Fintech in Hong Kong' report which has largely been summarised as pointing at the weaknesses of Hong Kong on the Fintech scene is therefore really all about strategy and about creating incentives for i) capacity-building and ii) for drastically picturing Hong Kong as a leader, from a Mainland, regional and international perspective.

At the basis of this strategy, very clearly, is the idea of creating a 'FinTech ecosystem' through the building of 'facilitative regulation that recognises and supports digital approaches to financial activities'. In reality, the report is very much in line with the first Steering Group's report which, as a reminder, mentioned capacity building, attractiveness, one-stop shop opportunities,

promotion and facilitation, as well as blockchain and KYC/AML and Regtech applications.

Hence, the FSDC recommends the creation of an autonomous FinTech Office with 'sufficient stature and resources' capable of implementing and monitoring the policy while being in charge of stimulating the development of FinTech policy in Hong Kong through the coordination of 'relevant public sector initiatives and policies' whilst 'act[ing] as a channel for private sector input into the policy process'. The report also requests the creation of 'an Advisory Committee of FinTech experts to help monitor the evolving FinTech ecosystem in Hong Kong' capable of 'identifying issues and blockages as these arise'.

RECOMMENDATIONS, VISION, BARRIERS TO DEVELOPMENT...

The FSDC insists (and reiterates), importantly, that 'this strategy needs to be pursued with energy and vision' and describes the overall effort as 'a major statement of Hong Kong's intent to be a regional, even global, FinTech centre'.

The FSDC insists, also, on the necessity to overcome barriers to the development of FinTech, including a lack of demand, a lack of technological capability and financial regulation constraints. Again, for better efficiency and increased transparency, quoting the report makes sense:

> *'Demand. FinTechs, whether local or overseas, need customers. For B2C FinTechs, Hong Kong's consumer market (retail customers and SMEs) is unpromising – except in respect of asset and wealth management. With 7.3 million people, the market is small ...the customer base is large, but Hong Kong's financial institutions are mainly headquartered elsewhere; key purchasing decisions are taken in London, Zurich, New York or Beijing, leading to a challenging sales cycle'.*
>
> *'Technological capability. This is the 'Tech' part of FinTech. Hong Kong's Information and*

Communications Technology (ICT) sector employs over 80,000 people (including internal IT staff within enterprises), and contributes 6.6% of GDP. However, Hong Kong has historically been more of a buyer and adapter of technology developed elsewhere than a technological innovator. International technology firms do more marketing than development work in Hong Kong. Some of Hong Kong's universities have strong science and technology faculties, but are less strong at developing business-useable applied research'.

'Financial regulation. Hong Kong financial regulation is very much based on traditional business models with dedicated regulators for banking (the HKMA), securities (the SFC), insurance (the OCI/IA), and pensions (the Mandatory Provident Funds Schemes Authority, MPFA). Separate regulations govern the institution-types, with approaches to KYC, AML and international regulatory requirements such as FATCA and the Common Reporting Standard (CRS) not necessarily standardised. Regulatory processes tend to be paper-based, requiring physical verification of documentation. KYC/client onboarding requirements involve face-to-face meetings and lengthy analysis of client financial needs and the trend has been worsening. It has become very difficult in recent years for any new enterprise to open a bank account due to increased AML/KYC requirements. None of this is helpful to FinTech. FinTech business models may cut across traditional business lines, and are online rather than based on paper and physical meetings'.

AN OPPORTUNITY TO MODERNISE THE SYSTEM.

V | So...

In conclusion, it is interesting to note that – when discussing FinTech and the FSDC 'Future of FinTech in Hong Kong' report – the most common idea consists in repeating or quoting the report's conclusion that 'From a long-term developmental standpoint, Hong Kong is very strong in 'Fin', but not strong in 'Tech''. Much more interesting, however, would be to note that in reality the report is not just about pointing at Hong Kong's weak position on FinTechs. To the exact contrary, the report is very clearly about strategic policymaking, about looking forward, and about building on the city's existing strength (finance) to give Hong Kong a leadership position in the FinTech competition.

The FSDC report mainly pursued the directions provided progressively within the various FinTech policy outputs relied upon by the local Hong Kong government. The Steering Group's output suggested that efforts needed to be made, the 2016/2017 Budget Speech began implementing the Steering Group's recommendations and initiated the dynamic, while the 2017/2018 Budget Speech provided a forward-moving "where do we stand" analysis of the progress made on the matter. Less than two years later, the FSDC report is therefore the continuity of the work commenced by Hong Kong's policymakers, and provides a road-map for further developments which could significantly push one of Hong Kong's sensible financial projects, in parallel for instance to the development of a Bond Connect with Mainland China.

A PROPER BUSINESS PLAN AIMED AT PROMOTING HONG KONG AS AN INFLUENTIAL, REGIONAL AND INTERNATIONAL FINTECH HUB.

Even more interesting is the idea that the report very much looks like a business plan. A proper business plan aimed at promoting Hong Kong as an influential regional and international FinTech hub. The FSDC report is essentially what the business community would commonly call a SWOT Analysis – understand: Strengths, Weaknesses Opportunities, Threats. The report talks about competition, describes the other FinTech-sensitive

countries as competitors. And, last but not least, it provides the public authorities with a major strategic plan, which includes both a list of precise focus points and recommendations for its implementation and monitoring.

The point is worth mentioning here because it suggests that when this is necessary, proactive policymaking can be put into place, so as to encourage and create incentives for innovation. While policy in the financial services sector these days – not to say years – has mainly consisted in controlling, restricting and mitigating risk, it is interesting to see that other methods of governance also exist.

To go further: the FSDC report is available at:
https://goo.gl/inF83T

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