

Press Release
LCQ2: Regulation of e-finance
Wednesday, December 18, 2013

Following is a question by the Hon Ng Leung-sing and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 18):

Question:

In recent years, given the advantages such as immediacy, unconstrained by time or location as well as low costs, etc., the conduct of financial transactions (including securities trading, fund transfer and trade settlements, etc.) through the Internet (e-finance) has developed rapidly, and such transactions can be said to seep into every nook and cranny. However, some members of the finance industry have pointed out that as e-finance is a new and developing thing with cross-sector characteristics, and fake bank web sites have been uncovered from time to time in recent years, the risk involved in e-finance should not be overlooked. In this connection, will the Government inform this Council:

- (a) whether it has assessed the impact of e-finance on the development of the finance industry in Hong Kong;
- (b) whether it has assessed the risks faced by providers and clients of e-finance services; of the statistics on fake financial web sites and the number of reported fraud cases involving those web sites in the past three years; and
- (c) whether it has considered strengthening the regulation of the services of e-finance, including introducing a cross-sector and forward-looking financial risk regulatory regime and measures, so as to ensure the secure and sustainable development of e-finance?

Reply:

President,

- (a) Safe, efficient and innovative e-finance is conducive to the diversification

of Hong Kong's financial industry. Apart from enabling users to save time and costs in transactions, e-finance bolsters the growth of the information technology industry and the real economy, thereby reinforcing the status of Hong Kong as an international financial and trade centre.

As a regional hub for payment and settlement of funds and securities, Hong Kong has developed safe, robust and comprehensive, multi-currency and multi-dimensional financial infrastructure and ancilliary facilities that support a variety of financial services, ranging from foreign exchange transactions, trade settlements, securities settlements, to cheque payments. These systems include interbank payment systems (i.e. the Real Time Gross Settlement (RTGS) systems for the Hong Kong dollar, the US dollar, the Euro and the Renminbi (RMB)), the Central Moneymarkets Unit (CMU), and the Central Clearing and Settlement System (CCASS).

At the retail level, the number of clients and the usage frequency of internet banking have been increasing in recent years, coupled with the growing popularity of e-trading of securities conducted via web-based platforms provided by securities companies, online stockbrokers or banks. Meanwhile, new stored value products and online retail payment services are accepted increasingly by clients in market as they offer convenient ways for online shopping and electronic transactions. Also, many insurance companies and insurance intermediary companies introduce their products and services, or offer online purchase or enquiry of insurance services, through the internet. The growth of clients using e-finance creates new opportunities for financial institutions and other service providers, driving them to develop new products and expand their client base, and in turn enhances the overall competitiveness of the industry.

For instance, the Hong Kong Monetary Authority (HKMA) has been working closely with the banking sector to facilitate banks to enhance internet banking services. The Electronic Bill Presentment and Payment platform, jointly developed by the HKMA and the banking sector, was launched officially last Wednesday (December 11). With this consolidated platform, the first of its kind in Hong Kong, for straight-through processing of electronic bill (e-bill) presentments and payments, users are able to receive, view, manage and schedule payments for various e-bills issued by merchants through internet banking accounts. The HKMA is also working with the banking sector to

develop an "e-cheque service", so that an e-cheque can be signed, issued, delivered and presented through electronic means. Once introduced, users will be able to issue or deposit a cheque on the internet at any time. The e-cheque service is expected to be launched in 2015.

(b) Regulators have been assessing the risks posed to financial services providers and their clients by information technology and internet development, and have reminded financial institutions to ensure the safety and integrity of their online trading platforms and clearing and settlement systems. Regulators also join hands with the Police to combat suspected fraudulent financial websites to provide proper protection for users of e-finance.

The Police and regulators have noticed a growing trend of lawbreakers making use of the internet to defraud customers and financial institutions. The Securities and Futures Commission received 10 and 13 reports concerning fraudulent websites of securities companies in 2011 and 2012 respectively, and 17 in the first 11 months of this year. Meanwhile, the numbers of cases involving fraudulent bank websites received by the HKMA were 25 and 26 in 2011 and 2012 respectively, and 19 in the first 11 months of this year. The Office of the Commissioner of Insurance did not receive any report on fraudulent websites of insurance companies in 2011, but one report was received in 2012 and three reports were received in the first 11 months of this year.

(c) Regulators attach considerable importance to the integrity of e-finance, and maintain on-going monitoring of computer systems and internet security of financial institutions. Supervisory guidelines or codes of practice on technology risk management and security measures regarding e-finance have been published in the light of market developments. Financial institutions are required to take adequate precautions to safeguard their systems and data against internet financial frauds and hacking risks, and put in place effective contingency plans. Regulators also liaise with the Police, Office of the Government Chief Information Officer, the financial industry, and overseas regulatory bodies from time to time to share information on such risks and regulatory experiences.

To prevent the public from the traps of fraudulent financial websites, regulators, upon receipt of reports on such websites, will make prompt

announcements to alert the public and refer the cases to the Police for investigation as appropriate. The Police and regulators have been conducting public education actively to raise its awareness of security. For example, the HKMA launched a "Consumer Education Programme" in November to help the public to be smart and responsible users of banking services. By conveying the message through different media, the HKMA provides the public with, for example, security tips on the use of internet banking and smartphone/mobile banking. Established in October last year, the Investor Education Centre educates investors on ways to identify fraudulent or bogus websites and guard themselves against internet investment scams. In May and September this year, the Police alerted the public to the latest crime trends of internet banking fraud cases through two series of the TV programme "Police Magazine".

In addition, we are planning to amend the Clearing and Settlement Systems Ordinance to provide a comprehensive regulatory framework for stored value facilities and retail payment systems. This serves to offer better protection for clients, and enhance the safety and soundness of such facilities and services. The Financial Services and the Treasury Bureau and the HKMA jointly consulted the public on the proposed regulatory framework in the middle of this year. The responses were generally positive and favourable. We are now analysing the views collected, and expect to introduce an amendment bill into this Council next year.

In conclusion, the Administration and regulators will continue to improve and enhance the existing regulatory regime and measures, and monitor the international trends and developments in information technology and security closely. We will strive to protect the interest of clients and maintain financial stability, by ensuring the safety and sustainable development of our financial infrastructure and systems. This will in turn strengthen the status of Hong Kong as an international financial and trade centre.

Thank you, President.

Ends