

Press Release

LCQ11: Financial technology development in Hong Kong

Wednesday, May 10, 2017

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 10):

Question:

Regarding the financial technology development in Hong Kong, will the Government inform this Council:

(1) of (i) the amount of funds allocated, by the Hong Kong Applied Science and Technology Research Institute (ASTRI) to research and development projects in financial technologies (Fintech), and (ii) the number of Fintech projects successfully developed by ASTRI in collaboration with financial institutions, in each of the past five years;

(2) of the number of successfully developed Fintech solutions launched in each of the past five years by ASTRI for use by financial institutions; the number of those widely used by the industry;

(3) as the Hong Kong Monetary Authority has since September last year launched a Fintech Supervisory Sandbox (FSS) as a ground for conducting pilot trials of new Fintech solutions, of the number of banks to date which have used FSS to conduct pilot trials of their new Fintech solutions and the number of new Fintech solutions involved; how the authorities will assess the effectiveness of FSS for conducting pilot trials of new Fintech solutions; and

(4) whether it will follow the practice of countries or regions such as the United Kingdom, Singapore and Taiwan and allow financial institutions other than banks (e.g. insurance companies, securities dealers and fund houses) as well as start-ups using FSS to conduct pilot trials of their new Fintech solutions, so as to promote financial innovations?

Reply:

President,

(1) The Hong Kong Applied Science and Technology Research Institute (ASTRI) has been conducting research and development (R&D) work on financial technologies (Fintech) since late 2013. The relevant technology and application areas include blockchain technology, behavioural recognition technology, electronic payment technology, big data analytics, cyber security, etc. The R&D projects commenced in the past few years and those conducted in collaboration with financial institutions are tabulated in Table 1 of the Annex.

(2) With regard to ASTRI's R&D work on Fintech, projects with R&D deliverables available for use by the industry (including financial institutions) as well as those which are widely used by the industry are tabulated in Table 2 of the Annex.

ASTRI will continue to work closely with the industry to promote the application of R&D deliverables on Fintech.

(3) The Fintech Supervisory Sandbox (FSS) launched by the Hong Kong Monetary Authority (HKMA) is a flexible supervisory arrangement to allow banks and their partnering Fintech firms to conduct live tests of their new technology initiatives at an early stage under a controlled environment, without the need to achieve full compliance with the HKMA's usual supervisory requirements during the trial period. This will enable the banks and Fintech firms to gather data and user feedback so that they can make refinements to the technology initiatives beforehand, thereby expediting the launch of new technology products, and reducing the development cost.

As at end of April 2017, 15 cases of pilot trials of Fintech products involving six banks have made use of the FSS. Out of these cases, nine pilot trials had been completed, followed by the full launch of the Fintech products progressively. So far, the usage of the FSS has been smooth. The banking industry considers that the FSS is useful in reducing the lead time for launching their Fintech products (e.g. by two to three months for a biometric authentication service) and collecting useful customers' feedback at an earlier stage.

(4) As the statutory function of the HKMA is to supervise banks in Hong Kong, the FSS is only applicable to banks so as to simplify the supervisory process for banks to launch new technology initiatives. In actual practice, a number of Fintech firms have collaborated with banks to explore new products and made use of the FSS to conduct testing. As at end-April 2017, there were eight out of the 15 use cases of the FSS where banks have collaborated with Fintech firms to conduct pilot trials of their Fintech initiatives.

In addition, the HKMA collaborated with ASTRI to launch the Fintech Innovation Hub in November 2016. It provides a neutral ground for banks and Fintech firms (including start-ups) to brainstorm innovative ideas, try out and evaluate new Fintech solutions, and conduct proof-of-concept trials.

At present, the Office of the Commissioner of Insurance (OCI) adopts an approach of explaining to the individual insurers or start-ups the relevant regulatory requirements and directly helping them to implement their Fintech initiatives. The OCI and the independent Insurance Authority, which will take over the statutory functions of the OCI shortly, will continue to keep an open-mind and actively consider regulatory framework that will facilitate the development of Fintech.

In securities regulation, brokers and asset managers are normally free to adopt new technology without special permission. Nevertheless, the Securities and Futures Commission (SFC) is actively exploring how regulation technologies (Regtech) and Fintech can further support the SFC and licensed corporations in achieving positive outcomes for markets in accordance with the relevant rules and standards.

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