

## **Speech**

### **Speech by SFST at Boao Youth Forum for Asia (Hong Kong) 2015 (English only)**

Thursday, May 21, 2015

Following is the keynote speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Boao Youth Forum for Asia (Hong Kong) 2015 today (May 21):

Ladies and gentlemen, students,

Good morning.

I'm very pleased to join you all today at 2015 Boao Youth Forum. Over the past five years, the forum has become one of the most influential youth forums in Asia.

This year's forum focuses on the vision and action of youth in a restructuring Asia. This is spot-on. Many Asian economies have come to a point where restructuring is not only nice to have - restructuring is fundamental to further growth in a healthy way.

Take China for example. The Chinese economy has become the world's second largest riding on years of spectacular growth based on an export-led, labour intensive and resources driven model. However, we know this model became a bit running out of steam around and after the global financial crisis. Since then the government has adopted a strategy to raise the role of consumption in the economy. Plans are being put in place to promote more balanced growth through further reform and opening of the financial market.

Similarly, ASEAN economies are also boosting intra-region trade to balance the drop in Western demand. In the past decade, intra-Asia trade has tripled in value, rising more rapidly than either global or extra-Asia trade. The ASEAN has also adopted an ambitious strategy to integrate the regional market through the ASEAN Economic Community by the end of 2015. The goal is to create a single market to smooth the movement of people, goods, services and capital across the region. An expanding middle class, estimated to be some 150 million, has also been fuelling consumption and retail sales all over the

ASEAN.

However, steering your way through an economic transformation is never easy. It is so often said that it has become almost a cliché. The answer to successful restructuring often comes down to an economy's ability to innovate.

And this is why I said today's theme is spot-on. Our youth in Asia is indeed the most powerful agent for change and innovation. This is not only because of their vision, but also their belief that change is possible and that everyone in society can benefit from change. They are powerful because they are not constrained by existing modes of practice and are ready to turn vision into reality. Often they are motivated by doing something good for society rather than just creating wealth for themselves. And also they are not afraid to act.

Modern history is full of examples of innovations. And many of these are well known to us as they have changed our lives. These include the advance of PCs and social media. They are history now. But the innovations that started with the PC revolution have not slowed down. We are witnessing the momentum of change that these innovations have produced, sending shock waves to different sectors of the economy.

Recent advances in computing power, data transfer, analysis, storage and encryption have given rise to new technologies such as cloud computing, big data and mobile payment. I urge you to look at how these technologies are starting to change the way we live. Many of these innovations are brought by start-up companies, including young entrepreneurs wanting to create new business models from scratch.

Lately, I have been involved in looking at financial technologies for Hong Kong. The Government has set up a steering group and I am heading that group. We have invited members from banks, regulators, the start-up community and venture capitalists to the group to advise the Government on the policy and strategy of developing financial technologies, or Fintech, for Hong Kong. Let me use some of the Fintech examples to make some of my remarks.

You need to look no further than Mainland China to see how Fintech

development has transformed the economy there. Most of us have bought flight tickets, food or even cars through e-commerce merchants online. Third-party payment services such as Paypal and Alipay enable small businesses and consumers to settle millions of online transactions every day.

At first sight, payment is a boring and old-fashioned banking function. It is hard to figure out why young entrepreneurs and venture capitalists are so excited about the payment system.

Of course e-commerce is expanding rapidly and processing payments is a fast growing business. Online payment companies are also blue ocean businesses as they can serve unbanked communities. These customers have never been served in the past, either because they live too far away or their businesses are just too small.

But this is only part of the reason. Over the years, payment companies have collected a lot of information on both consumers and small businesses. Advances in data analytics allow payment companies to make commercial decisions, such as credit decisions, based on the data collected.

And this is powerful. With a firm grip on their customers, e-commerce and payment businesses have started to offer them other services, such as financial services. They are often able to offer services at better terms, and serve customers left out by traditional financial institutions.

Large business-to-consumer e-commerce platforms on the Mainland now offer credit facilities to small businesses based on information such as transaction history. In the world of e-commerce, the number of transactions per merchant could be in the order of millions per day.

Traditional financial services providers, in turn, also realise they own huge sets of data that they are leaving idle. New technologies also allow them to collect a lot more information on themselves and their customers than was previously possible.

Understanding this information would help banks combat fraud and identify illegal trading more easily. Through improved understanding of the customers, they can also transform themselves from product-centric to

customer-centric organisations. The application of these rising technologies is not only limited to financial services. Only your imagination is the limit.

In Hong Kong, we also have a number of Fintech firms, started by young entrepreneurs, including young bankers and engineers quitting their regular corporate jobs. The start-up culture is growing rapidly, and Hong Kong also has its fair share of start-up companies. Vitargent, based at our Science Park, uses fish embryos to test for toxins in consumer products. They have recently won the top honour at the 43rd International Exhibition of Inventions of Geneva. Sensbeat, a student start-up, developed a social network app that was named one of the five most innovative by the Global Mobile Internet Conference.

By some estimates, GoGoVan already serves 65 per cent of our van delivery market. It has also expanded into Singapore and Taipei and has its eyes set on Korea, Australia and the Mainland. Not all these start-ups are technology-based. It is their business models and determination that give each of them the unique opportunity to succeed.

The recent start-up boom is not confined to large economies like the US or China. I just came back from two official trips to Stockholm and London, and to Seoul in Korea. I am very impressed by the energy and enthusiasm expressed by the many young company founders, how they turn their ideas into businesses.

For example, Sweden. With a population of about 9.6 million, the size of Sweden's local market is a bit bigger than Hong Kong's, similar in size and considerably smaller than many Asian countries. However, the apparent small market size did not stop Sweden from grooming leading start-ups. The young people have shown me their strong determination to stretch beyond their limits and I have to say I am deeply impressed by their "never fear of failure" spirit.

I paid a visit to a company called Klarna. It provides an online payment service for small independent merchants and takes both fraud and credit risk of the customers. Based in Stockholm, it was started by three university graduates in 2005 and the company now serves 50,000 merchants in 18 European markets.

In London, I also called on TransferWise, a peer-to-peer cross-border

money transfer service launched in 2011. The company was born out of the Estonian founders' difficulties in transferring money home from where they work at low costs. The idea was very simple, as they relayed to me.

These are the Estonian young people working in London and they were chatting in a bar talking about how they wanted to send money back home to their families in Estonia. The cost of transferring money was quite high, in fact it was very high so they said why couldn't we do it P-to-P. One might have the need of transferring some money back to Estonia converting into that currency, and somebody might want to have the Estonian currency converted into British pounds. So they came up with some kind of peer-to-peer arrangement so that they could bypass the banks. This is a very simple idea, an idea that some of us may think probably won't work. But they got the idea and started a company. In February, this company already supported more than 300 currency routes. You will be as astonished to find out that the average age of staff working in the company is 28. Way to go kids!

In Korea, I saw a start-up with a mobile app for picking stocks. The Korean market, yes, but they have a vision of expanding it into China because they understand that the Chinese investors actually do a lot of transactions every day.

The initial business ideas in all these start-ups are very simple, and quite often they got rejected by experienced executives in their fund-raising efforts. Yet for Klarna, it found a market niche, built on it and through successive strategic decisions, evolved into an online payment and credit platform. For TransferWise, it started with the founders wanting to beat the banks on the costs of remitting money.

Needless to say, not all start-ups are successful. But many good ideas could have a chance to turn into reality, if there is an environment to support innovations, risk taking, and an ecology to support these young ventures.

In the coming years, I believe that entrepreneurship will be the key to success in our economic development. The many examples of young entrepreneurs have an important lesson on how to foster entrepreneurship, how to create an environment that supports innovations. While many of us are so set in our ways, accepting the existing way of doing things, these young people

just won't accept that. While some of us accept the current business models as the result of traditions, policy, regulation, and assume they are the most optimal way of using the current technology, these young people just won't accept that. Perhaps this is nothing more than youthful irreverence, but this is the necessary seed for developing innovative ideas.

The task for government, and for the establishment in society, is how to harness this creative energy. How to build an environment that breeds the entrepreneurial spirit, how to support entrepreneurs with mentoring and funding. These are important topics, but not the topics for my talk today. But I would say this is the most important task facing us in the years ahead in our economic and social development.

As every successful entrepreneur will tell you, having the idea is easy, execution the hardest. The same can be said of building an entrepreneurial society. The goal is clear, execution the hardest. But I don't see any ways to avoid this question, so ladies and gentlemen, and students, I think there is an important task in front of us. And with the Government and business together, we must start the work.

Thank you.

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