

Speech
Speech by SFST at Fintech and eCommerce Day of
LSCM Logistics Summit 2016 (English only)
Friday, September 30, 2016

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Fintech and eCommerce Day of the LSCM Logistics Summit 2016 this morning (September 30):

Sunny (Chairman of the Board of Directors, Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies (LSCM R&D Centre), Mr Sunny Chai), Simon (Chief Executive Officer of LSCM R&D Centre, Mr Simon Wong), ladies and gentlemen,

Good morning. It gives me great pleasure to join you all today at the beginning of Day 2 of LSCM's annual Logistics Summit.

LSCM is a platform that brings together concerted efforts of the Government, industry, academia and research institutes to facilitate the adoption of logistics and supply chain-related technologies, fostering cross-sector collaboration and keeping track of latest trends in technological applications.

And today's focus is on Fintech and e-commerce opportunities.

The development of Fintech and e-commerce is a prime example of the "new economy", under which technological advancements have transformed entirely the way that we live, the way that we work and communicate, and doing business.

In the past decade or so, we have come to witness how digitised technologies, like streaming, have changed the landscape in the cultural and entertainment arena, books, music and movies alike.

With big data analytics coming into play, it is even more exciting to see the pace and scale of development of e-commerce. We are no longer surprised when Amazon and eBay make those perfect product recommendations by tracking our clicks and browsing.

And, Netflix has every reason to celebrate the big hits of its many works, including "House of Cards", as it has been monitoring tens of millions of plays, pauses, rewinds and fast forwards by its viewers.

SMEs trading on Alibaba too, are not surprised when their business-related data helps build up credit profiles that can offer them access to innovative financing options.

Through the deployment of new technologies in commerce and in logistics in the engagement of the highly efficient global supply chains, the conventional business model has been revolutionised.

Services are no longer bounded by bricks-and-mortar outlets with fixed opening hours. Transactions can be initiated and completed, anytime, anywhere.

Fintech and e-commerce are so closely related. And to no one's surprise, with the benefit of e-commerce evolution, technology is revolutionising financial services as well. It is bringing us new challenges while unleashing unlimited potential to transform the conventional business model in the sector, if not disrupting the status quo.

Months ago I got a chance to talk to the management team of a Chinese online insurance company in Shanghai. I was amazed to see how they sell low-cost insurance products solely on their online platform. Profit margin for each transaction is small as you can tell, but with aggregation of orders that came in millions, the profits add up.

And they didn't stop there. With cloud computing and big data analytics, they are able to track consumer behaviours and design innovative products. I was told they are offering insurance that covers flight delays and temperature rise, and together with the WeChat app, payment is instant, just at fingertips.

The digital economy provides opportunities for many. It dramatically lowers the threshold for start-up companies to enter the market, allowing them to launch ground-breaking products and services. The high receptiveness of consumers, as well as interest from previously underserved customers, will

help grow and further develop the market.

And as far as Fintech is concerned, the Government is striving to build a robust Fintech sector. The question you may ask is how we are going to do it. First and foremost, we have to promote an ecosystem for the market to develop, to flourish and to excel.

To me, the backbone for developments lies in infrastructure building, coupled with a necessary regulatory regime. Second, we have to encourage entrepreneurship; then regulators have to make themselves accessible to innovators; and, finally, we need promotion. I will now turn to share what the Government has been doing, and hopefully will be doing more, in these four areas.

To start off, building our infrastructure, we have been promoting the development and innovation of the payment industry, with the support of sophisticated cybersecurity.

In late August, the Hong Kong Monetary Authority (HKMA) issued the first batch of five stored value facilities licences. Among the inaugural batch of licensees, there are both local players and companies from outside Hong Kong in the retail payment field. They comprise established tech giants, as well as new operators barely a year old.

HKMA also introduced a three-pronged Cybersecurity Fortification Initiative in May that comprises the conduct of risk assessment, a cyber intelligence-sharing platform, and a professional certification. We hope the initiative will encourage the Fintech sector to attach importance to cybersecurity resilience and eventually increase public confidence in using innovative payment services.

Apart from infrastructure building, we have to encourage entrepreneurship and provide for a conducive environment for start-ups to put their novel ideas into the market.

Collaboration is then the key. Apart from providing innovative financial products and services through applying Fintech, existing financial institutions are encouraged to invest in Fintech ventures and research as well as collaborate

with start-ups.

Our support comes in many ways. About six months ago, Cyberport launched the first phase of its dedicated Fintech co-working space, Smart-Space FinTech 1, to nurture a vibrant cluster of Fintech talents and companies. This is also where regular Fintech events and activities are held.

Cyberport has also admitted its first cohort of start-ups under its designated incubation programme, which will provide support to 150 Fintech companies over five years.

Earlier this month, HKMA announced the setting up of a Fintech Innovation Hub together with the Hong Kong Applied Science and Technology Research Institute, another key innovation centre in Hong Kong. The Hub will be a neutral ground for various Fintech stakeholders to collaborate in innovation. It is a place to support exploratory and experimentation research, a testing ground where industry-wide Fintech solutions can be developed.

At the same time, we believe that maintaining robust customer protection measures is vital to give consumers and investors confidence in new Fintech products and services.

To help ensure a good balance between meeting market demands for innovative financial products and services and having adequate protection and risk management, our financial regulators have established dedicated Fintech platforms to enhance direct communication between regulators and the Fintech community.

The liaison platforms are tasked to handle enquiries from the industry and provide information on related regulatory requirements. We hope that through these interactions, the platforms will enhance the industry's understanding of the regulatory environment in Hong Kong, and at the same time act as a channel for the Government and our regulators to keep track of the latest development in the market.

HKMA's Fintech Supervisory Sandbox is another initiative that aims to help balance between the demand for innovation and resilience in the increasingly digitised financial world. The greater flexibility in supervisory

arrangement and the controlled environment under the Sandbox will enable financial institutions to conduct tests and gather real-life data and user feedback on new Fintech products or services before they are formally launched in the market.

I am delighted that the banking industry generally welcomes the Sandbox arrangement. I understand from HKMA that a few banks have approached it for their possible use of the Sandbox shortly after the launch.

On promotion, Invest Hong Kong announced just a week ago the establishment of a dedicated Fintech team, which is tasked to promote the advantage of Hong Kong's Fintech sector in the Mainland and overseas as well as hold mega international Fintech events. In doing so, Hong Kong can attract top innovative Fintech enterprises, start-ups, investors, innovation labs and R&D institutions to establish their presence in our city. And this will help enrich the local Fintech sector and make our Fintech talent pool even more diversified.

This team will also provide local Fintech players practical support through directing companies to appropriate contact points regarding collaboration opportunities, government grants, and private sector funding sources. It will also provide information on support services like co-working spaces, pitching opportunities and networking events. And, yes, it will render help to companies on setting up offices and facilitating visa applications too.

Ladies and gentlemen, I would like to thank LSCM again for providing me with this opportunity to share the latest developments in Hong Kong's Fintech efforts and particularly, to Simon for his contribution to the Steering Group on Fintech, which held a number of meetings last year.

And the distinguished speakers in the remainder of Day 2 of the Summit today will surely offer you insights from the perspective of financial regulators, the industry, and accelerator programme organisers.

Well, let me do some advertisement here. For an even more in-depth look at the local and global Fintech sector, I would like to invite you to join Hong Kong's first Fintech Week to be held from 7th to 11th November. The week is built around Finovate Asia, to be held on 8th November as part of its New

York-Hong Kong-London itinerary to pay tribute to the top three global financial hubs.

And to complement this demo-only conference, our regulators, professional Fintech event organisers and industry organisations will also develop insightful conferences and networking events during the Fintech Week. It will be your ticket to Fintech innovations made in Hong Kong, Asia and around the world.

Meanwhile, you can always keep track of the moves in Hong Kong's Fintech sector by visiting the website - hongkong-fintech.hk.

I wish everyone a fruitful summit today. Thank you.

Ends