



The Hong Kong Institute of Directors Directors' Conference 2017

Fintech: Impact on the Business World

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Topics

- Fintech landscape in Hong Kong
- Strategic impact on banks
- Final thoughts



Fintech Landscape in Hong Kong

- One common theme encountered is that Hong Kong lags behind Mainland China in Fintech
- Relevant observations
 - Usually focus on third-party payment services / distribution of investment products
 - In Hong Kong, 13 Stored Value Facilities licences have been granted and Octopus card payments remain well accepted
 - Electronic payments are mature and popular in Hong Kong at retail end, but still room for improvement
 - Situation that enabled Fintech to leapfrog in Mainland China did not exist in Hong Kong nor in many other markets
 - Most important consideration: customers' experience



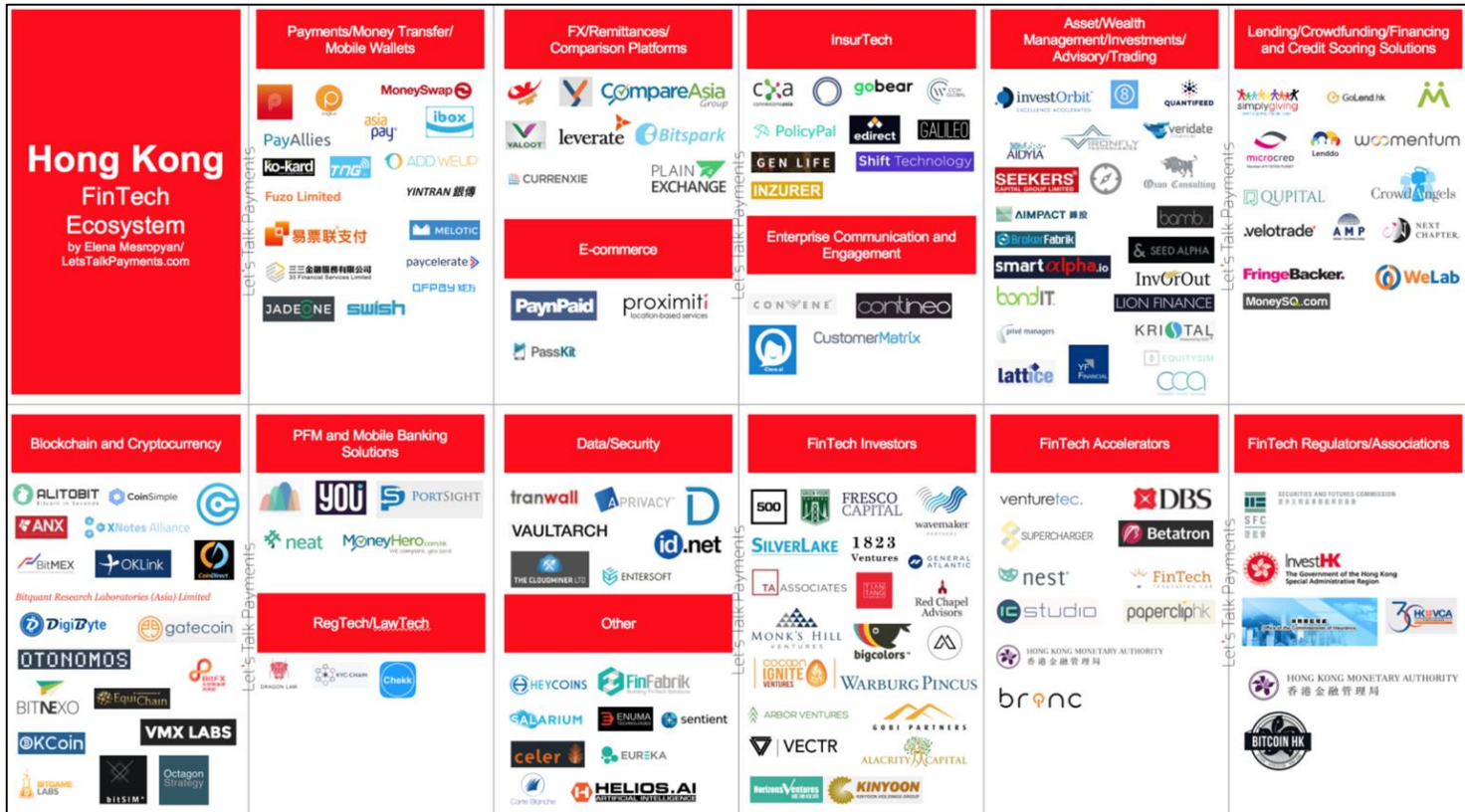
Fintech Landscape in Hong Kong

- E-banking growing steadily while rollout of Fintech products accelerated
 - > 12 million online banking accounts; total value of monthly online transactions > HK\$7 trillion
 - Banks launched many retail payment services: 15 P2P payment and 23 contactless mobile payment services
 - 24 new customer authentication initiatives (e.g. finger vein, fingerprint, voice, soft token)
 - 7 innovative initiatives (e.g. DLT, APIs, chatbot)
 - Sector-wide Fintech initiatives (e.g. KYC Utility, DLT for trade finance) being pursued



Fintech Landscape in Hong Kong

- Local Fintech ecosystem has also been expanding



Source: LetsTalkPayments.com



Fintech Landscape in Hong Kong

- HKMA supports and embraces technology and innovations
- HKMA adopts a risk-based and technology-neutral approach to supervision
- Strike a balance between convenience and customer protection



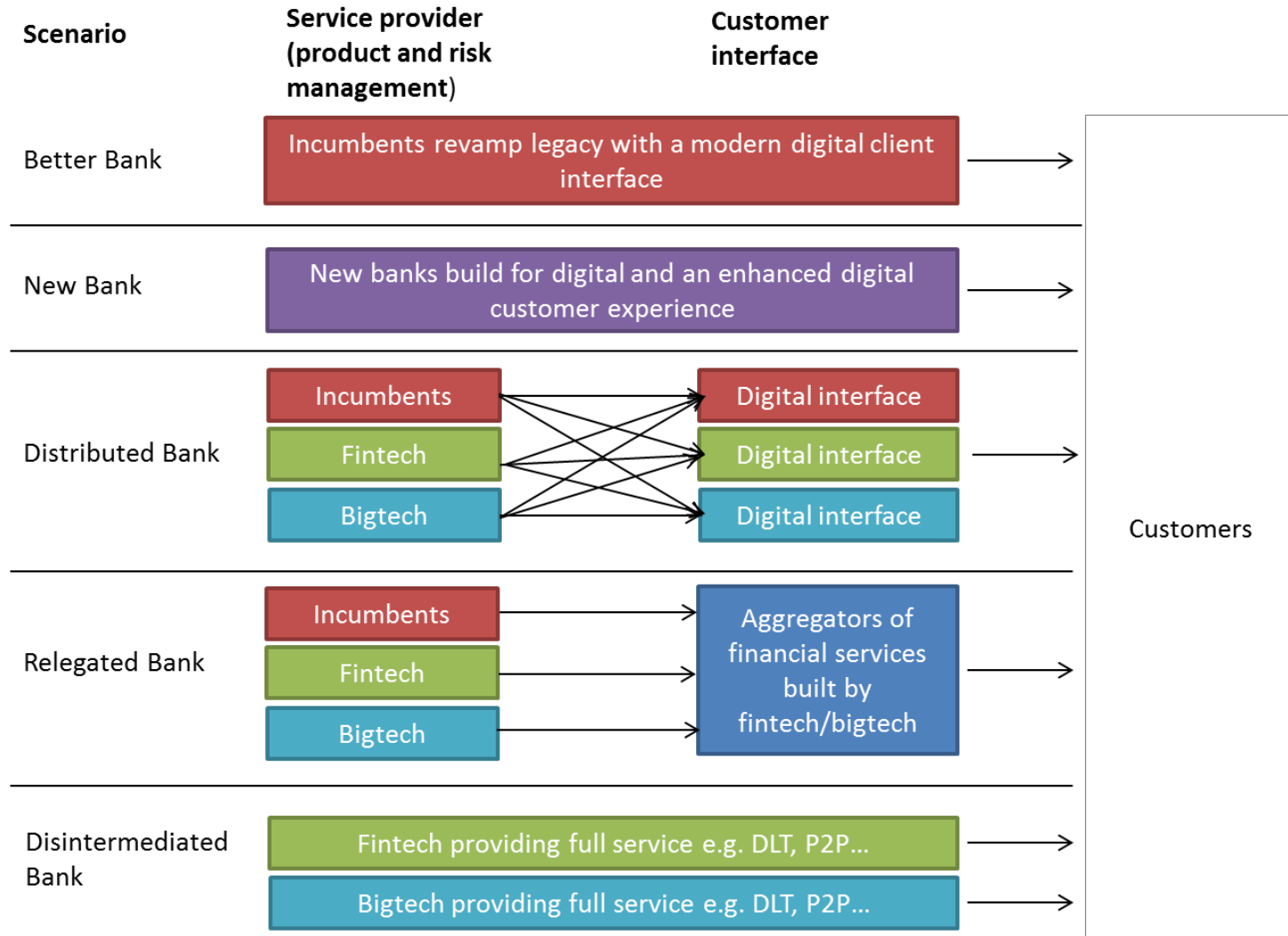
Fintech Landscape in Hong Kong

- Among other efforts, launched Fintech Supervisory Sandbox in September 2016
 - To allow banks to conduct pilot trials without achieving full compliance with usual supervisory requirements
 - As at mid-Sept, 22 pilot trials of 9 banks have been allowed:

Scope of the pilot trials	Number of pilot trials	Number of pilot trials involving Fintech firms
Biometric authentication	6	5
Soft token	2	2
Chatbot	2	2
DLT	3	0
Others (e.g. API, notification service via social media platforms)	9	3
Total	22	12



Strategic Impact on Banks





Strategic Impact on Banks

- Fintech will impact business models of banks
- Engaging banks on how their Board and management are responding to strategic challenges
- Dialogues useful to banks and the HKMA, in terms of discussing how banks' digital strategies could cope with competitive threats
- Customers' experience should be at centre of strategic considerations



Strategic Impact on Banks

- Some common themes observed among the digital strategies of banks
 - Aiming at becoming a “better bank”
 - “Mobile first” strategy
 - Focus on digital “customer experience”
 - Partnership with Fintech firms
 - Agile rollout of Fintech products
 - Collaboration among banks and other Fintech players



Strategic Impact on Banks

- Tech firms also exploring possibility of rolling out financial services in Hong Kong
- HKMA prepared to launch additional initiatives to streamline supervisory interactions
 - Support banks' digital strategies
 - Help collaboration between banks and Tech firms
 - Facilitate Tech firms to turn into Techfin firms



Final Thoughts

- Customer experience: How critical it is?
- A key success factor in Fintech competition
- Customer experience involves a trade-off between convenience and safety
- Social contract determines what constitutes an appropriate trade-off and HKMA will support the banks to enhance customer experience



Final Thoughts

- Ecosystem of Fintech development: Diversity vs “Winner Takes All”?
- Banks should promptly address business model risk. Disruptive impact arising from technologies has already manifested in many industries
- Banks should watch out for competition not only from Fintech firms but also other banks that can better leverage on technologies



Final Thoughts

- As Fintech develops further, cybersecurity risk will also rise
- Full digitalization and heavy reliance on tech service providers present major risk
- Technology incidents could lead to material reputation and financial damages for banks
- Board and senior management should be more “tuned in” and ensure effective oversight of technology risk management