



Hong Kong

March 2017

EUROPEAN CHAMBER OF COMMERCE PUBLISHES POSITION PAPER ON HONG KONG FINTECH

On 20 March 2017, the Financial Services Business Council (FSBC) of the European Chamber of Commerce released its [position paper on the status and development of financial technology \(FinTech\) in Hong Kong](#) (and [click here for the Chinese version of the position paper](#)). FinTech is defined as the use of innovative technology in the provision of financial services. The paper analyses the extent to which Hong Kong is prepared to harness the opportunities offered by the progress in FinTech in recent years.

Key Recommendations

- The FSBC recommends that the Hong Kong government should increase public FinTech funding and encourage private investment in local FinTech start-ups.
- The FSBC encourages the Hong Kong government to continue focusing on STEM education and fostering entrepreneurship. A specific visa scheme for tech talent should be considered to attract foreign FinTech talent.
- The FSBC encourages the Hong Kong government to continue its investment in high-quality infrastructure.
- The FSBC recommends that the Hong Kong Monetary Authority's FinTech Supervisory Sandbox for financial institutions be extended to financial service providers regulated by Hong Kong's Securities and Futures Commission and to non-regulated firms.

- The FSBC recommends that the Hong Kong government pay particular attention to the demand for FinTech in the fields of payment services, remittances and robo-advisors. The implementation of FinTech by financial institutions should be encouraged.
- The FSBC encourages the European Commission and the Hong Kong government to collaborate on FinTech topics, share information about emerging trends and regulatory issues and explore joint innovation projects. In addition, discussions on how to introduce FinTech products in each other's markets should be expedited.

Maturity Model

FSBC's paper uses a maturity model framework to compare the potential of Hong Kong as a FinTech hub to selected markets - Germany (Berlin), Israel (Tel Aviv), Luxembourg, Singapore, the United Kingdom (London), and the United States (New York and Silicon Valley). The maturity model measures the level of maturity of the FinTech sector against access to capital, access to talent, infrastructure, regulation, demand and supply.

Access to Capital

The Steering Group on Financial Technologies (**Steering Group**) was established by the Hong Kong government in April 2015 to examine and formulate strategies to develop Hong Kong as a FinTech hub. In February 2016, the Steering

Group published a report, and recommended enhancing the dissemination of information on funding sources available in Hong Kong.

A FinTech campaign to promote Hong Kong FinTech ecology was launched in September 2016 by InvestHK, a government body responsible for attracting and retaining foreign direct investment in Hong Kong. It has established a FinTech team to organise international FinTech events and bring potential FinTech firms, investors and Research and Development (R&D) institutions to Hong Kong. The inaugural Hong Kong FinTech Week was held in November 2016, and a new Hong Kong FinTech website (www.hongkong-fintech.hk) has been launched to promote the local FinTech industry. The Hong Kong government has also established the Innovation and Technology Fund (ITF), the Corporate Venture Fund (CVF) and various Cyberport funding schemes. According to the Hong Kong government's 2016 financial policy, a new HKD 2 billion Innovation and Technology Venture Fund (ITVF) will be launched in the first half of 2017.

Hong Kong however ranked last in terms of access to capital among seven global FinTech centres including the UK, California, New York, Singapore, Germany and Australia, in 2015. Capital availability is a challenge due to the following factors:

Lack of sizeable Public Funding Programmes

- The HKD 50 million available under the CVF is considerably less than the amount of government-supported venture funds available in other countries such as Singapore, Taiwan and Mainland China. The Enterprise Support Scheme under Hong Kong's ITF only offers dollar-for-dollar matching of private funding for R&D activities of up to HKD 10 million per project, and not for FinTech companies specifically. In comparison, the British Business Bank, a state-owned economic development bank in the UK supporting small and medium enterprises' (SMEs) access to finance, has received EUR 1.47 billion (GBP 1.25 billion) of government funding since its establishment in 2012. Berlin also offers a number of funding programmes, such as the pro FIT-Project Financing programme established by Investitionsbank Berlin, which provides funding to start-ups of up to EUR 1.4 million per project. In Luxembourg, the EUR 150 million Luxembourg Future Fund invests in venture capital funds as well as SMEs to foster Luxembourg's FinTech sector. Innovative SMEs

can also obtain loans under the InnovFin framework, a joint initiative by the European Investment Bank Group and the European Commission.

Lack of a FinTech-specific Fund

- Hong Kong lacks a FinTech-specific funding scheme. An example of such a funding scheme is the Monetary Authority of Singapore (MAS)'s Financial Sector Technology and Innovation Scheme (FSTI), which is a EUR 148 million (SGD 225 million) fund providing support for innovation centres and FinTech projects.

According to the Martin Prosperity Institute, Hong Kong ranked 107th for venture capital investment in the world while San Francisco, New York and London ranked first, fourth and seventh respectively. In 2015, Berlin's tech companies received EUR 2.15 billion in venture capital investment while London's start-ups received venture capital investment of EUR 1.77 billion. Hong Kong had received only EUR 156 million in FinTech investment as of July 2016. Hong Kong is also ranked behind other major cities in Asia, such as Tokyo and Singapore, in terms of venture capital investment. The FSBC recommends that the Hong Kong government consider following the UK's example by putting in place special tax regimes for individuals and enterprises investing in start-ups. Qualifying European venture capital fund managers (QVCFMs) are able to market qualifying venture capital funds (QVCFs) to eligible investors and raise funds across Europe under the European Venture Capital Funds Regulation. Hong Kong FinTech SMEs may fulfil the required criteria and could therefore qualify as eligible targets for QVCFs.

InvestHK's first Hong Kong FinTech Week of November 2016 included new FinTech events and accelerator programmes launched in Hong Kong, for example the FinTech Finals, FinTech O2O Global Summit, Supercharger FinTech Accelerator, DBS Accelerator by Nest and FinTech Innovation Labs by Accenture. However, the FSBC considers that there are still limited opportunities for FinTech entrepreneurs to connect with potential venture capitalists and angel investors. InvestHK might consider organising more FinTech events in cooperation with different FinTech networks and financial institutions. The current FinTech specific accelerator programmes in Hong Kong are all private initiatives, while for example, the UK's Bank of England, has a FinTech accelerator to facilitate the deployment of innovative technologies on issues related to the financial industry. The FSBC considers that the Hong Kong Monetary Authority (HKMA) may follow suit in establishing a government-backed FinTech accelerator. Since there is

also limited information about access to capital on the Hong Kong FinTech website (www.hongkong-fintech.hk), InvestHK should consider enhancing information flow within the FinTech industry by disseminating information relevant to both public and private funding and financing opportunities in Hong Kong.

Equity crowdfunding platforms, though a popular fundraising method in the UK and US, are largely non-existent in Hong Kong. Equity crowdfunding risks breaching provisions of Hong Kong's regulatory regime, notably the restrictions on marketing securities under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Securities and Futures Ordinance, as well as the requirement that anyone marketing or promoting securities must be licensed by the SFC. The SFC may also determine an equity crowdfunding platform to be offering interests in a collective investment scheme which requires SFC authorisation. The platform might then also need to be licensed by the SFC to conduct asset management which is a regulated activity in Hong Kong. While the UK and US have introduced specific legislation to allow crowdfunding activities, Hong Kong has not yet followed suit, although the Financial Services and Development Council (FSDC) paper "Introducing a Regulatory Framework for Equity Crowdfunding in Hong Kong" of March 2016 concluded that Hong Kong should facilitate a crowdfunding equity market into its regulatory regime as soon as possible.

The Hong Kong FinTech industry had obtained EUR 156 million of investment as of July 2016, which represents only 1.8% of the overall investment received by Chinese FinTech companies - a total of EUR 8.522 billion was invested in Mainland China-based FinTech companies in the first seven months of 2016. The three largest FinTech fundraising deals in Mainland China in the first half of 2016 raised a total of EUR 6.33 billion, while the largest FinTech deal in Hong Kong over the same period raised EUR 151 million. Instead of competing directly with Mainland China, FSBC considers that Hong Kong should aim to establish close ties with Mainland China in respect of FinTech.

The Position Paper sets out the following recommendations:

- FSBC encourages the Hong Kong Government to launch more funding programmes to meet the different needs of FinTech companies and to increase the amount of funding available to these companies;
- FSBC encourages the Hong Kong Government to set up a FinTech-specific public sector fund;
- FSBC suggests creating a stand-alone section on access to capital on the Hong Kong FinTech website (www.hongkong-fintech.hk) to better inform FinTech companies about funding and financing opportunities (both public and private) available in Hong Kong;
- FSBC suggests holding more FinTech events or competitions, as well as government-backed FinTech acceleration programmes, in Hong Kong, so as to increase investment channels to the Hong Kong FinTech industry;
- FSBC strongly recommends the Financial Services and Treasury Bureau, the Hong Kong Legislative Council (LegCo) and the SFC to review and amend the current regulatory regime to provide for new methods of financing, such as equity crowdfunding and peer-to-peer lending; and
- FSBC encourages European companies/venture capitalists to explore opportunities to invest in Hong Kong FinTech companies.

Access to Talent

According to a 2016 report, Hong Kong with its FinTech workforce of around 8 000 people ranks last in terms of the number of people working in FinTech, when compared to New York, California, the UK, Australia, Singapore and Germany.

The FSBC characterises FinTech talent as a combination of financial services talent, technology talent and entrepreneurial talent. Hong Kong has highly skilled financial services talent, but lacks local information technology talent. Hong Kong graduates rarely consider starting their own business, demonstrating that Hong Kong's start-up culture is less developed than that of other FinTech centres. The entrepreneurship centres aimed at improving this, established by several Hong Kong universities, are acknowledged by the FSBC. FSBC nevertheless highlights that exposure to entrepreneurship needs to start from secondary education, and that there needs to be a platform where students can experience entrepreneurship and technology hands-on. Many companies have expressed their interest in organising events where students can use their technological, entrepreneurial as well as product and service development skills.

The Hong Kong government has undertaken steps to reform primary and secondary education to strengthen education in Science, Technology, Engineering and Mathematics (STEM).

FinTech-related courses have been incorporated as part of the curriculum at Hong Kong universities. Examples include an “Executive Certificate in Internet Finance” programme run by the HKU School of Professional and Continuing Education (**HKU Space**), and the new partnership of the University of Hong Kong (**HKU**) with Hong Kong Applied Science and Technology Research Institute (**ASTRI**) to establish a Joint Research Laboratory on FinTech, HealthTech and Smart City. The Cyberport Digital Tech Internship Programme allows full-time tertiary ICT-students in Hong Kong to gain work experience in Silicon Valley or Shanghai ICT companies during the summer holidays, while the Cyberport University Partnership Programme offers Hong Kong students the opportunity to participate in an entrepreneurship Boot Camp at the Stanford Graduate School of Business.

Hong Kong is ranked as the 5th most appealing place to work for foreigners. In attracting foreign high-skilled talent, Hong Kong ranks 6th, partly due to the fact that Hong Kong has one of the most effective and expeditious immigration regimes. Examples of available visas are Investment as Entrepreneurs Visa, which is useful for entrepreneurs who want to establish or join a start-up business in Hong Kong and which takes four weeks to process, and the Admission Scheme for Mainland Talents and Professionals (**ASMTP**) which permits Hong Kong businesses to recruit talent from Mainland China. The latter visa type has a number of eligibility criteria, of which the most difficult is a need to prove that the job for which the visa applicant is hired cannot be filled from the Hong Kong workforce.

The FSBC notes that any improvement in Hong Kong’s already favourable immigration policy would not necessarily enhance its attractiveness for foreign talent, since one of the factors most detrimental to attracting foreigners is the high cost of living in Hong Kong. In addition, the average annual salary for Hong Kong software engineers is EUR 33,000, which is less than the comparable salary in Singapore (EUR 35,000), London (EUR 60,000) and New York (EUR 110,000).

Recommendations include the following:

- the FSBC encourages the Hong Kong government to team up with the private sector to create platforms bringing companies and students together with the aim of stimulating careers and education in technology and entrepreneurship;
- the FSBC encourages the Hong Kong government to continue focusing education on technology topics paying particular attention to STEM and information and communication technology, especially in the field of coding;
- at the moment, the Investment as Entrepreneurs Visa’s scope is limited to proprietors or partners of start-up companies or key researchers. FSBC recommends extending it to skilled foreigners or introducing a technology specific visa scheme similar to the UK’s Tech Nation Visa Scheme; and
- with regard to the Admission Scheme for Mainland Talents and Professionals (**ASMTP**), the FSBC encourages the Hong Kong government to classify FinTech jobs as jobs that currently cannot be readily filled from the local workforce.

Infrastructure

The FSBC highlights that FinTech firms are dependent upon access to Information and Communications Technology (**ICT**) infrastructure, and that FinTech businesses often rely on the processing of a large amount of media content, big data, cloud computing and Internet of Things (**IOT**). A high-speed broadband network is therefore one of the key drivers of their success.

Singapore and Hong Kong lead the world for their average fixed broadband peak connection speeds, due to their fully liberalised markets for internet service providers. Singapore ranks 1st for peak speeds and is expected to retain the lead in the near future. Singapore launched its first 10 Gigabit per second (**Gbps**) broadband service to corporate customers in 2014 and now has two telecommunication companies offering it to both households and businesses.

International Internet bandwidth is also measured to indicate the average traffic load of international fibre-optic cables and radio links for carrying internet traffic within a region. Hong Kong significantly surpasses the other countries in terms of international traffic. The coverage of 3G/4G is considered to be a useful index too since in the absence of wireless internet connection, mobile data can support FinTech services. Hong Kong was ranked 5th in 3G/4G availability as of August 2016. Hong Kong is therefore considered to be a leading digital economy with robust ICT infrastructure and a high technology literacy and adoption rate. In addition, thanks to its proximity

to Mainland China, Hong Kong is seen by numerous cloud computing firms and data centre operators as a point of expansion across the Asia-Pacific.

FinTech start-ups are increasingly becoming a source of innovative solutions for the financial markets, but they often face challenges in getting their products up to the level of the service agreements expected by major financial institutions in a timely manner. Cloud services can offer the scalability, flexibility and speed to market that allow start-ups to grow quickly. The cost of investment is also reduced due to on-demand self-service. Among the three types of cloud computing – Infrastructure as a Service (**IaaS**), Software as a Service and Platform as a Service – research house Gartner has defined IaaS as “a standardised, highly automated offering, where computer resources - complemented by storage and networking capabilities - are owned and hosted by a service provider and offered to customers on-demand over the internet”. According to the Cloud Readiness Index 2016, Hong Kong is at the top slot on the index. This index is based on the parameters of international connectivity, broadband quality, sustainability, data centre risk, cybersecurity, regulatory environment, intellectual property protection, business sophistication, and freedom of information. Hong Kong did very well on privacy and broadband quality. Hong Kong needs to improve in the areas of cybersecurity, sustainability and government regulation. Hong Kong scored much higher than Singapore on freedom of information.

The FSBC considers that open data could boost the development of the FinTech industry. Banks can use open Application Programming Interfaces (**APIs**), which are a result of an Open Data policy, so as to enable FinTech firms to obtain the banks’ customer data, and FinTech firms can analyse and use this data to offer more customised services. In the 2015 Global Open Data index, Hong Kong did better than Israel and Luxembourg, but considerably worse than Germany, Singapore, the UK and US. In terms of cybersecurity, which is also vital to the development of the FinTech industry, HKMA launched the Cybersecurity Fortification Initiative (**CFI**) for banks in May 2016. In the 2014 Global Security index, Hong Kong was ranked above Luxembourg, but below Germany, Singapore, Israel, the UK and US.

The HKMA-ASTRI FinTech Innovation hub, launched on 11th November 2016, is based within the Hong Kong Science Park, and is a place where start-ups, financial institutions and the HKMA can collaborate on innovative ideas and hold proof-of-concept trials. Hong Kong Cyberport meanwhile offers start-ups a co-working space, aiming to provide support for up to

150 FinTech start-ups over the next five years. For the 2016-2017 budget, a 35 000 sq.ft. working space in Cyberport’s co-working Smart-Space will be reserved for FinTech start-ups. The Smart-Space also offers a showroom where start-ups can showcase their products to potential investors.

The Position Paper makes the following recommendations:

- Hong Kong should diverge from a ‘one-practice-fits-all’ approach when it comes to on-boarding banking customers based on their risk levels, and the guidance and clarification from the HKMA. At the same time, inter-bank communications should be encouraged and enhanced, under appropriate supervision of the relevant regulatory bodies, to de-duplicate efforts in performing individual due diligence on customers.
- Hong Kong is performing well with regard to (mobile) internet connectivity. It should maintain this high standard in the future.
- The FSBC encourages the Hong Kong government to adopt policies which improve the quality and increase the quantity of open Data, especially in the financial services industry. In this regard, the Hong Kong government could discuss open Banking and APIs with the European Commission as well as the European Banking Authority.
- The FSBC applauds the FinTech Smart-Space at Cyberport and the FinTech innovation hub at Science Park.

Regulation

The FSBC recognises that today’s financial regulators face new challenges, such as the consequences of technology failure and cyber threats, as well as questions as to whether new market participants have adequate risk strategies and management systems. In addition, FinTech activities may fall within the purview of existing financial regulation on lending, payment systems, investment advice, trading services or prospectus requirements. Regulators worldwide are thus in the process of determining the appropriate regulatory regime that corresponds to the evolution of FinTech.

The EU has not introduced a comprehensive regulatory framework for FinTech yet, but has implemented regulations that apply to FinTech. In 2015, the European Commission adopted its Digital Single Market strategy, and early in 2017 it adopted the Action Plan that aims to facilitate the development of

innovative solutions in retail finance. The European Parliament will establish a task force dedicated to digital currencies and Blockchain technology. The European Securities and Markets Authority (**ESMA**) has issued a discussion paper for public consultation on Distributed Ledger Technology (**DLT**), aiming to help ESMA to DLT from a regulatory standpoint. The European Central Bank has also issued various papers and statements on DLT and crypto currencies. DLT and crypto currencies have also been the subject of regulation in some EU Member States - the financial regulator of Luxembourg, the Commission de Surveillance du Secteur Financier, recognised virtual currencies in 2014, and also granted a payment licence to a virtual currency operator.

The UK financial regulator – the Financial Conduct Authority (**FCA**) – has launched a regulatory sandbox, which aims to create a ‘safe space’ for businesses to test innovative products without immediately incurring the regulatory consequences of engaging in such an activity. The FCA has also established an advice unit providing regulatory feedback to firms developing automated models that seek to deliver lower cost advice to consumers. The Bank of England has announced the launch of a FinTech accelerator to work in partnership with FinTech firms on the challenges faced by a central bank.

In Singapore, the MAS has announced a risk-based approach to FinTech innovation stressing that there cannot be a “one-size-fits-all” approach to FinTech. The MAS launched a regulatory sandbox on 16th November 2016, for which it is prepared to relax specific regulatory requirements. Together with the Singapore National Research Foundation, MAS also set up a dedicated FinTech office serving as a one-stop virtual entity for all FinTech matters and to promote Singapore as a FinTech hub. MAS has committed 148 million EUR (225 million SGD) to the Financial Sector Technology and Innovation scheme to support the creation of an appropriate ecosystem for innovation in Singapore.

The chief executive of the HKMA has acknowledged the advancements in FinTech in recent years, and announced that the HKMA would adopt a risk-based and technology-neutral approach in its supervision. The HKMA has established a FinTech Facilitation Office (**FFO**) to enable the sustainable development of a FinTech ecosystem. The FFO was followed by the launch of a FinTech Supervisory Sandbox (**FSS**) which is available to FinTech and other technology initiatives of Authorised Institutions (**AIs**) in Hong Kong. Within FSS, AIs are allowed to conduct pilot trials of their technology without the need to fully comply with the usual regulatory requirements. AIs intending to access the FSS may get in touch with HKMA

to discuss the supervisory flexibility that may be granted to an AI on an individual basis. The HKMA and the Applied Science and Technology Research Institute (**ASTRI**) have launched a FinTech Career Accelerator Scheme (**FCAS**) as a talent development scheme to nurture FinTech talent to meet the growing needs of the Hong Kong FinTech industry. FCAS is supported by 11 banks and nine universities and offers internships to students interested in a career in FinTech.

The SFC established a FinTech contact point to facilitate the FinTech community’s understanding of the current regulatory regime, and to enable the SFC to stay abreast of the development of FinTech in Hong Kong. In addition, the SFC created a FinTech advisory Group to enable the FinTech contact point to obtain information on the latest trends in FinTech, collect stakeholders’ input on specific FinTech topics, and identify the opportunities, risks and regulatory implications of FinTech. The Steering Group’s February 2016 report proposed recommendations to provide assistance to FinTech start-ups, to attract financial institutions to locate their accelerator programmes and laboratories in Hong Kong, to improve dissemination of information on funding resources and to encourage young talent to enter the FinTech sector. The government also established the Financial Services Development Council (**FSDC**) in January 2013 in response to the financial services industry’s call for a high-level government advisory body to support the sustained development of the financial services industry. FSDC has repeatedly stressed that Hong Kong should aim to be a leading FinTech hub to complement its role as a leading international financial centre. In March 2016, the FSDC published a paper recommending the introduction of a regulatory framework to facilitate equity crowdfunding in Hong Kong.

The recommendations include the following:

- The FSS established by the HKMA is currently only open to AIs. The FSBC encourages the Hong Kong regulators to extend the Sandbox to financial intermediaries regulated by the SFC, as well as non-financial and non-regulated firms. This would enable FinTech start-ups to test and develop innovative ideas without potentially triggering the full regulatory compliance requirements.
- The FSBC encourages the Hong Kong government to consider a close cooperation with the Chinese government on FinTech matters. A goal could be the establishment of a mutual recognition regime allowing FinTech providers and products access to each other’s market.

- The FSBC encourages the HKMA to further pursue FinTech cooperation agreements with other regulators, similar to its agreement with the UK FCA.
- The EU and Hong Kong are encouraged to closely collaborate on FinTech topics, share information about emerging FinTech trends and regulatory issues, expedite discussions on introducing FinTech products in each other's market and explore potential joint innovation projects.

Demand

The 2015 FinTech adoption index shows the adoption rate of FinTech in Hong Kong, the US, Singapore, the UK, Australia and Canada. Hong Kong's adoption rate of 29.1% is significantly higher than the average rate of 15.5% among these countries. The FinTech adoption rate in Hong Kong is connected to the demand for FinTech in the city, and the increased demand for FinTech is explained by changes in customer needs. One bank stated that between August 2013 and August 2016, the number of mobile phone transactions rose by 232%. In the Hong Kong banking industry, 85% of all customer transactions last year were carried out via mobile phones and online applications. The demand for FinTech can also be partly explained by the lack of public trust in traditional financial institutions following the 2008 Financial Crisis.

Increasing regulatory requirements seek to address the failings of the 2008 Financial Crisis, but estimates suggest that governance, risk and compliance costs now account for 15% to 20% of the total operating cost base of most major banks. According to a 2016 survey, the average cost-to-income ratio in 2015 for all surveyed banks in Hong Kong increased by 1.6 percentage points compared to 2014, and resulted in an average cost-to-income ratio of 48.7 per cent. Only 40% of the surveyed banks in Hong Kong showed improvements in reducing their cost-to-income ratio. Financial institutions are hence exploring ways to reduce their cost-to-income ratio, and the solution is increasingly coming from technology and software often designed by FinTech companies. The technology and software designed and used by FinTech companies can, for example, automate a bank's back office, with software such as Robotic Process Automation (**RPA**). Through revising their IT-architecture, much smaller departments can take care of back office tasks. In establishing a fully automated back office, banks are able to generate an improvement in productivity and customer service of up to 50%, and RPA could create a 25%

to 50% cost saving. The FSBC concludes that RPA is a very efficient way for banks to run their back office, and should be sought from FinTech companies.

According to a 2016 survey, financial institutions spent on average EUR 567 million a year on compliance and customer Due Diligence. Know Your Customer (**KYC**) procedures are also very time consuming and delay the on-boarding process. In 2014, the Organisation for Economic Co-operation and Development launched its Common Reporting Standards (**CRS**), according to which financial institutions in Hong Kong will be required to share information about their accountholders with the authorities of countries in which these accountholders are resident for tax purposes from 2018 onwards. But given the broad scope of the CRS, complying with the reporting requirements will require vast resources on the part of financial institutions. This data collection process will pose a real challenge to financial institutions in Hong Kong. Under the current fund distribution process in asset management, each client is identified several times by different counterparts, which leads to a duplication of effort with respect to due diligence on the investors as well as the distributors. FinTech can facilitate KYC/anti-money laundering/Know Your Distributors checks, source documentation and reduce the overall operation costs for asset managers, distributors and investors if the savings are passed on. FinTech companies are increasingly developing as regulatory technology (**RegTech**) companies, which can make regulatory compliance more effective and efficient.

Annually, over 250 million migrants around the world send money back to over 700 million people back home. Total inward migrant remittances in East Asia Pacific increased to EUR 122 billion (USD 129 billion) in 2015, and according to the World Bank the average total remittance cost in South Asia stood at 5.41% in the third quarter of 2016. New currency exchanges and remittance companies are emerging to eliminate the inconveniences arising high commissions, long waiting lines and distance to transfer locations. Hong Kong has a large foreign population and has one of the largest markets for cross-border remittances. For instance, Hong Kong SAR to Mainland China was the third largest remittance corridor in 2015, totalling EUR 14.75 billion (USD 15.6 billion). The strong demand for remittance services in Hong Kong creates an opportunity for FinTech companies.

There is a high concentration of high net worth individuals (**HNWI**) in Asia. Hong Kong's wealth management market could expand by 30% in three to five years. Traditionally, wealth management services are dominated by large private banks which charge premium management fees and are

therefore typically only accessible to HNWI. However, HNWI are likely to favour alternative wealth management services that charge lower management fees and lower minimum requirements for disposable funds. In Asia Pacific, 76% of HNWI investors would consider using a robo-advisor. 82.3% of investors expect their wealth to be managed entirely or mostly through digital channels within the next five years, while asset managers are developing tools for their distributors that enable online distribution. The Position Paper sets out the following recommendations:

- The FSBC encourages the Hong Kong government to pay specific attention to the local demand for FinTech in the field of payment services, remittance and robo-advising;
- The FSBC recommends that the Hong Kong government should encourage financial institutions to identify ways to integrate FinTech and RegTech into their business models; and
- In light of the Europe 2020 Strategy, the FSBC advises the European commission to assist European FinTechs in the scaling of their business. Scaling is necessary to remain competitive and FinTech demand in Hong Kong should be regarded as an opportunity to expand into Asia.

Supply

Hong Kong lags behind other major financial centres in the number of currently existing providers of FinTech products and services. Nevertheless supply, meaning the total amount of FinTech goods or services available to consumers, is increasing in Hong Kong. There is no single information source identifying the number of FinTech companies incorporated or operating in Hong Kong, but the following industry bodies provide an estimate.

AngelList is a platform for start-ups to connect with investors, talent and incubators, and more than 16,000 companies are actively hiring from a pool of over 250,000 candidates. The paper indicates that there are currently 73 finance-related start-ups in Hong Kong that are present on AngelList as of December 2016. Startmeup.hk, a portal for the Hong Kong start-up community created by the Hong Kong Government, lists 138 FinTech start-ups in Hong Kong, up from 86 in 2015. FinTech Hong Kong states that there are currently 63 start-ups listed.

The government's first FinTech week, organized in November 2016, attracted 2,500 participants. Professional bodies in accounting, banking, finance, and law are also partnering with FinTech companies, R&D departments of major international banks, relevant regulators and digital consulting firms, to organise events to enhance their members' understanding of how the FinTech trend will affect their respective industries, and how to adapt to the change in order to stay relevant to the market.

The FSBC recommends that the European Commission keep track of FinTech development in Hong Kong. As a global financial centre and the gateway to Mainland China, Hong Kong has the potential to become the major FinTech hub in Asia. This creates opportunities for European FinTech start-ups that have a desire to expand their business into Asia.

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