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Introduction

The Financial Services Business Council **(FSBC)** of the European Chamber of Commerce in Hong Kong represents the European financial services industry in the Hong Kong Special Administrative Region **(Hong Kong)** and the Macao Special Administrative Region **(Macao)**. It engages with market participants, regulatory authorities and other stakeholders on important issues concerning the financial services industry.

As the subject of this position paper, FSBC selected the status and development of financial technology **(FinTech)** in Hong Kong. The great advancements of FinTech in recent years undoubtedly offer unprecedented opportunities for the financial services industry and its customers, but also give rise to new and increased challenges. This position paper analyses the extent to which Hong Kong, as one of the major financial centres globally and the gateway to the People's Republic of China **(Mainland China)** and the region, is prepared to harness these new opportunities.

While there is currently no uniformly agreed definition, FinTech is commonly understood as the use of innovative technology in the provision of financial services, such as lending, payment services, investment advice, trading services, etc.

In order to craft this position paper, the FSBC established a task force consisting of over 30 financial services experts (including bankers, FinTech professionals, asset managers, lawyers and consultants). All views and statements expressed in this position paper are based on reports, market observations and the knowledge and expertise of the members of the FSBC. In addition, interviews were conducted with over 20 FinTech industry stakeholders (including start-ups, global financial institutions, regulators as well as government officials).

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. In order to attract foreign FinTech talent, a specific visa scheme for Tech talent should be considered.
- The FSBC encourages the Hong Kong government to continue its investment in high-quality infrastructure.
- The FSBC recommends extending the FinTech Supervisory Sandbox established by the Hong Kong Monetary Authority for financial institutions to financial service providers regulated by Hong Kong's Securities and Futures Commission and to non-regulated firms.

- The FSBC recommends the Hong Kong government pay particular attention to the demand for FinTech in the fields of payment services, remittances and robo-advisors. In addition, the implementation of FinTech by financial institutions should be encouraged.
- The FSBC encourages the European Commission and the Hong Kong government to closely 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.

Hong Kong is the main focus of this position paper, as the FSBC's research showed that there is currently no sufficiently developed FinTech landscape in Macao.

All amounts in this paper are expressed in Euro (EUR) or Hong Kong Dollars (HKD). When converted from other currencies, the December 2016 exchange rates – as set by the European Commission – were used.[1]

1 Maturity Model

In comparing the supportiveness and potential of Hong Kong as a FinTech hub to a number of selected markets – i.e. Germany (Berlin), Israel (Tel Aviv), Luxembourg, Singapore, the United Kingdom (London), and the United States (New York and Silicon Valley) - a maturity model framework is used. The maturity model shows the level of maturity of the FinTech sector against a total of six dimensions: access to capital, access to talent, infrastructure, regulation, demand and supply.

	Capital	Talent	Infra-structure	Regu-lation	Demand	Supply
Hong Kong	◑	◔	●	◔	◑	◔
Germany	◕	◑	◕	◑	◑	◕
Israel	◕	◕	◑	◔	◑	●
Luxembourg	◔	◔	◑	◕	◔	◔
Singapore	◑	◔	◕	◕	◑	◑
United Kingdom	●	◕	◕	●	◕	◕
United States	●	●	●	◑	●	●

○ Less supportive ● More supportive

Access to Capital: Capital can be obtained from public funding sources (i.e. government subsidies) or from private investors (i.e. angel investors, private equity and venture capital). As an international financial centre, capital should be one of Hong Kong's strongest assets. However, the limited availability of private funding as a result of rather traditional local investors is the major reason why Hong Kong ranks lower than the United States **(US)** and the United Kingdom **(UK)** with regard to access to capital.

Access to Talent: FinTech talent is defined as a combination of technology talent, financial services talent and entrepreneurial talent. While Hong Kong's large financial services industry provides finance and business talent, technology and entrepreneurial talent is less available. Attracting the right talent remains a key challenge for the FinTech sector as Hong Kong graduates often opt for more traditional career pathways.

Infrastructure: High (mobile) internet connectivity and mobile data penetration rates coupled with the available infrastructure at Cyberport and the Science Park provides start-ups with the modern infrastructure required to start their business in Hong Kong. Hong Kong has also agreed with Shenzhen to develop a new technology park to further boost Tech development in both cities.[2] In this respect, Hong Kong is comparable with cities such as Berlin, Singapore and Tel Aviv, and is catching up with London, New York, and Silicon Valley.

Regulation: While there are a number of positive developments in Hong Kong, including the establishment of the FinTech Supervisory Sandbox by the Hong Kong Monetary Authority **(HKMA)** and the FinTech Contact Point by Hong Kong's Securities and Futures Commission **(SFC)**, the regulatory environment in other markets, such as the UK, is widely perceived as more conducive to the development of FinTech.

Demand: Generally speaking, consumers in Hong Kong have embraced FinTech more than consumers in any other major global market. In addition, the presence of many international financial institutions (banks, insurers, asset managers, etc.) in Hong Kong provide FinTech firms with the corporate and financial institutional demand to test and market their products and services. However, corporates in Hong Kong seem largely hesitant to incorporate innovative technology.

Supply: As far as the number of currently existing providers of FinTech products and services is concerned, Hong Kong seems to lag behind other major financial centres.

2 Access to Capital

2.1. Background

FinTech is an emerging sector attracting enormous investment around the world. Global investment in FinTech ventures totalled EUR 21.08 billion in 2015.[3] FinTech companies have different capital needs at different stages of the business life cycle. Access to capital is one of the key factors determining FinTech companies' success and is especially critical for FinTech start-ups before their business becomes profitable.
FinTech companies generally raise funds by means of (i) debt, (ii) equity, (iii) crowdfunding, (iv) initial public offering, and (v) venture capital funds.

2.1.1. Policy Concerning FinTech Companies Raising Capital in Hong Kong

Hong Kong is set to become a leading FinTech hub and a series of initiatives has been launched to support the FinTech sector.

The Hong Kong government established the Steering Group on Financial Technologies (**Steering Group**) in April 2015 to examine and formulate strategies to develop Hong Kong as a FinTech hub. The Steering Group published a report in February 2016 and proposed a number of recommendations to further Hong Kong FinTech development in various areas, including funding. The Steering Group recommended, among others, enhancing the dissemination of information on funding sources available in Hong Kong so that FinTech companies can take advantage of both public and private sector schemes.

In addition, InvestHK, a government body responsible for attracting and retaining foreign direct investment in Hong Kong, launched a FinTech campaign in September 2016 to promote Hong Kong FinTech ecology. It has established a dedicated FinTech team to organise international FinTech events and bring potential FinTech firms, investors and Research and Development (**R&D**) institutions to Hong Kong.[4] The inaugural Hong Kong FinTech Week was held in November 2016. A new Hong Kong FinTech website (www.hongkong-fintech.hk) has also been launched as an online platform to promote local FinTech industry.

The Hong Kong Government has also established various public funding schemes from which FinTech companies can benefit. For example, Innovation and Technology Fund (**ITF**), 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 established to encourage private venture funds to invest in technology start-ups via a matching process.[5] The ITVF is expected to be launched in the first half of 2017.[6]

2.2. Main Issues and Challenges

Hong Kong 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.[7] Capital availability is a challenge for Hong Kong-based FinTech companies due to various factors which are referred to below.

2.2.1. Lack of sizeable public funding programmes

The lack of government funding support for tech start-ups in Hong Kong has been criticised.[8] The funding programmes available are limited in number and size compared to funding programmes in other countries. The HKD 50 million available under the CVF has been criticised as too little and considerably less than the amount of government-supported venture funds available in other countries such as Singapore, Taiwan and Mainland China.[9] Further, the Enterprise Support Scheme under Hong Kong's ITF only offers dollar-for-dollar matching of private funding for research and development (**R&D**) activities of up to HKD 10 million per project, and not for FinTech companies specifically. A further HKD 5 billion was however injected into the ITF in 2015.

In comparison, the British Business Bank **(BBB)**, a state-owned economic development bank in the UK supporting small and medium enterprises' (**SMEs**) (including FinTech companies) access to finance, has received EUR 1.47 billion (GBP 1.25 billion) of government funding since its establishment in 2012.[10] BBB has also given capital support to the UK Angel CoFund, a EUR 118 million (GBP 100 million) fund which aims to back promising UK businesses and develop the business angel investment market.[11]

France's public investment bank, Bpifrance, has been actively investing in innovation companies. It has launched a EUR 500 million fund to invest in deals of EUR 10 million or more.[12] In May 2016, Bpifrance announced a further EUR 6.5 billion fund for start-ups and innovative technology companies, citing commitments from public and private investors: enough to cover financing needs for start-ups over the next three years.[13]

Berlin also offers a number of funding programmes for which Berlin-based FinTech start-ups can apply, including its flagship Pro FIT-Project Financing programme established by Investitionsbank Berlin (**IBB**). IBB provides funding to innovative start-ups of up to EUR 1.4 million per project, comprising a non-repayable grant of up to EUR 400,000 and a low-interest loan of up to EUR 1 million.[14]

In Luxembourg, the EUR 150 million Luxembourg Future Fund invests in Venture Capital funds as well as SMEs to foster Luxembourg's FinTech sector (among others).[15] Also in Luxembourg, a EUR 20 million Digital Tech Fund for ICT start-ups has been set up by public and private partners,[16] while Luxinnovation provides grants for research, development and innovation projects.[17] Innovative SMEs can also obtain loans on favourable terms under the InnovFin framework, a joint initiative by the European Investment Bank Group and the European Commission.[18]

Lack of a FinTech-specific fund

Hong Kong lacks a FinTech-specific funding scheme. In contrast, the Monetary Authority of Singapore **(MAS)** launched a Financial Sector Technology and Innovation Scheme (**FSTI**) in 2015 to cater specifically for FinTech ventures. The FSTI is a EUR 148 million (SGD 225 million) fund which provides support for innovation centres as well as institutional-level and industry-wide FinTech projects.[19]

2.2.2. Hong Kong lagging behind in venture capital development

Despite being a leading world financial centre, Hong Kong is a less attractive place for venture capital investment. 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.[20]

Despite an increase in venture capital investment and the establishment of investor networks, such as Hong Kong Business Angel Network and Asia FinTech Angels, Hong Kong's venture capital industry is less developed than that of Berlin, London, New York and Silicon Valley.[21] 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.[22] On the other hand, New York-based FinTech start-ups received around EUR 2.088 billion in investment in 2015, while FinTech companies based in Silicon Valley, California received around EUR 4.103 billion in investment for the same period. In the first quarter of 2016, a considerable amount of venture capital continued to flow to the US where New York- and Silicon Valley-based FinTech ventures received EUR 652 million and EUR 483 million in investment, respectively.[23] Hong Kong, on the other hand, had received only EUR 156 million in FinTech investment as of July 2016.[24] Hong Kong is also lagging behind other major cities in Asia that are competing to be Asia's FinTech hub, such as Tokyo and Singapore, in terms of venture capital investment.

The Hong Kong government may consider introducing new measures or incentives to attract more venture capital to Hong Kong. For example, Hong Kong may follow the UK by putting in place special tax regimes for individuals and enterprises investing in start-ups.[25]

Raising venture capital under the EuVECA Regulation

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 [EU 2013/345] (**EuVECA Regulation**). This aims to provide access to finance for SMEs and sets out the requirements for QVCFMs, QVCFs and investors. Hong Kong FinTech SMEs may fulfil the required criteria and could therefore qualify as eligible targets for QVCFs, and thus benefit indirectly from the pan-European fundraising passport under the EuVECA Regulation.

2.2.3. Relatively few fundraising platforms in Hong Kong

As part of InvestHK's initiative to promote and develop a local FinTech ecosystem, the first Hong Kong FinTech Week was launched in November 2016. There has also been an increase in the number of FinTech events and accelerator programmes being held 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. These events and programmes serve as a platform for FinTech start-ups to network with other industry players and pitch and showcase their ideas and products to the public, thus paving their way to capital funding. Nevertheless, there are still limited opportunities for FinTech entrepreneurs to connect with potential venture capitalists and angel investors.[26] In contrast, a lot of FinTech initiatives and programmes have been organised in other financial hubs; in London, for example, FinTech events are held all year round.[27] InvestHK and other public bodies might consider organising more FinTech events in cooperation with different FinTech networks and financial institutions, so as to provide more fundraising platforms for Hong Kong-based FinTech start-ups.

The current FinTech specific accelerator programmes in Hong Kong are all private initiatives, although the HKSTP has offered tech accelerator programmes. In contrast, the UK's central bank, the Bank of England, has launched a FinTech Accelerator to facilitate the deployment of innovative technologies on issues related to the financial industry in cooperation with a number of banks.[28] The HKMA may follow suit in establishing a government-backed FinTech accelerator which may attract more venture capitalists to Hong Kong.

2.2.4. Limited information flow regarding FinTech funding

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

2.2.5. Hong Kong lags in developing regulation to facilitate crowdfunding

Equity crowdfunding is a popular fundraising method for FinTech and other start-ups in the UK and US where a number of equity fundraising platforms are available for start-ups. Equity crowdfunding platforms however are virtually non-existent in Hong Kong. The reason is that equity crowdfunding risks breaching various 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. There is also the risk that the SFC may 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 within strict parameters, Hong Kong has done nothing as yet to amend its regulatory framework to facilitate start-ups' access to crowd-funding finance.

In March 2016, the Hong Kong Government advisory body, the Financial Services and Development Council (**FSDC**), published a paper, "Introducing a Regulatory Framework for Equity Crowdfunding in Hong Kong". Noting that the current sources of finance for start-ups are limited, the FSDC concluded that Hong Kong should adjust its regulatory regime as soon as possible in order to facilitate a Hong Kong crowdfunding equity market. This would allow Hong Kong to gain an advantage in this important new area of corporate finance while providing SMEs, including FinTech companies, with much needed access to capital.

2.2.6. Chinese Competition for FinTech investment

The Hong Kong FinTech industry is expanding quickly and had obtained EUR 156 million of investment as of July 2016. However, this represents only a tiny proportion (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.[29] The huge FinTech market in Mainland China offers attractions for large-scale investment. The three largest FinTech fundraising deals in Mainland China in the first half of 2016 raised a total of EUR 6.33 billion.[30] [31] In contrast, the largest FinTech deal in Hong Kong over the same period raised only EUR 151 million.[32] Instead of competing directly with the Mainland China, Hong Kong should endeavour to establish close ties with Mainland China in respect of FinTech in order to attract more investors and gain traction.[33] The Hong Kong Government might consider launching initiatives to facilitate cooperation and collaboration with Mainland China in the FinTech sector.

2.3. 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.
- FSBC encourages European companies/venture capitalists to explore opportunities to invest in Hong Kong FinTech companies.

3 Access to Talent

Key to the development and growth of any new industry is the talent pool which it has at its disposal. FinTech talent can be characterised as a combination of financial services talent, technology talent and entrepreneurial talent.

According to a 2016 report, Hong Kong ranks last in terms of the number of people working in FinTech compared to New York, California, the UK, Australia, Singapore and Germany. Its FinTech workforce is currently only around 8 000 people.[34]

As a developed global financial centre, Hong Kong has a significant amount of highly skilled financial services talent. Senior financial services practitioners are attracted to employing their skills and knowledge in the development of advanced Fintech goods or services, and can take advantage of their extensive professional networks to bring products to market. Many FinTech start-ups have ex-financial services practitioners on their management teams. However, Hong Kong FinTech start-ups have long complained the lack of local information technology talent.[35] When it comes to entrepreneurial talent, Hong Kong ranks 32nd in the 2017 Global Entrepreneurship Index, lower than all six countries mentioned above.[36]

Hong Kong graduates often opt for careers in established, mainstream industries and therefore look for prestigious and secure jobs at traditional financial institutions. Entrepreneurship is often discouraged because of the risk of failure. Apart from job security and prestige, remuneration undeniably has an effect on graduate career choice. FinTech start-ups cannot compete with the salaries offered by established global financial institutions which are increasingly facing extraordinarily high salary demands.

3.1. Fostering Entrepreneurship

Hong Kong has less of a start-up culture than other FinTech centres (such as Silicon Valley). Hong Kong graduates rarely consider starting their own business and are often unaware of what is involved in running a business. Fostering entrepreneurship should therefore be a key priority for the Hong Kong government.

The FSBC acknowledges the efforts of several Hong Kong universities to encourage entrepreneurship by establishing entrepreneurship centres. However, as with technology, exposure to entrepreneurship needs to start an early age. The FSBC considers it to be crucial that students gain exposure to entrepreneurship starting from secondary education. This will increase students' awareness and understanding of career opportunities with start-ups. It will further boost the interest of secondary school graduates in university entrepreneurship centres making them more effective.

While degrees and courses offered at entrepreneurship centres are undoubtedly valuable, there also needs to be a platform where students can experience entrepreneurship and technology hands-on. Companies have repeatedly expressed their interest in organising events where students can use their technological, entrepreneurial as well as product and service development skills. These events give companies the opportunity to promote themselves to students and give students exposure to potential employers. Students would also be able to put their technological knowledge into practice and experience what it is like to work as an entrepreneur.

3.2. STEM Education Reform

Given the rapid pace of economic, scientific and technological development, the Hong Kong government has agreed to reform primary and secondary education to strengthen education and nurture talent in Science, Technology, Engineering and Mathematics **(STEM)**.[37] Rigorous reform of STEM education and its fast implementation in schools has been backed by several LegCo members.[38]

At the level of tertiary education, Hong Kong universities are increasingly aware of their important role in cultivating STEM talent in Hong Kong, including FinTech talent. They have been pushing their FinTech agenda by incorporating FinTech related courses as part of the curriculum, as well as FinTech events as extracurricular activities. The HKU School of Professional and Continuing Education (**HKU SPACE**), for example, offers a programme called "Executive Certificate in Internet Finance" which aims to provide students with knowledge of the latest developments in FinTech innovation and application. The course is taught by lecturers who have been founders of FinTech start-ups themselves. In October 2016, The University of Hong Kong **(HKU)** announced a new partnership with Hong Kong Applied Science and Technology Research Institute **(ASTRI)** to establish a Joint Research Laboratory on FinTech, HealthTech and Smart City. The aim of the partnership is to cultivate a new generation of researchers through scientific training and student exchanges.[39]

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.[40] In addition, the Cyberport University Partnership Programme is a FinTech-focused entrepreneurship programme that offers Hong Kong students the opportunity to participate in an Entrepreneurship Boot Camp at the Stanford Graduate School of Business.[41]

3.3. Attracting Foreign Talent

Hong Kong is ranked as the 5th most appealing place to work for foreigners. In attracting foreign high-skilled talent, Hong Kong ranks 6th.[42] This is explained partly by the fact that Hong Kong – together with Singapore - has one of the most effective and expeditious immigration regimes.[43]

The FSBC's research shows that Eastern Europe, Vietnam, India as well as Mainland China are popular among employers when it comes to recruiting foreign talent or outsourcing their technological development teams.

Foreign entrepreneurs who want to establish or join a start-up business in Hong Kong can take advantage of the Investment as Entrepreneurs Visa. The Immigration Department may consider the application favourably, if the start-up business concerned is supported by a government-backed programme with a rigorous vetting and selection process and the applicant is the owner or partner of the business, or a key researcher. It usually takes four weeks to process a visa/entry permit application for investment upon receipt of all the required documents.[44]

In recruiting talent from Mainland China, Hong Kong businesses may benefit from the Admission Scheme for Mainland Talents and Professionals **(ASMTP)**. This visa is subject to a number of stringent eligibility criteria, of which the most difficult is the need to prove to the Immigration Department that the job for which the visa applicant is hired cannot be filled from the Hong Kong workforce.[45]

Finally, it should be noted that any improvement in Hong Kong's already favourable immigration policy, would not necessarily enhance its attractiveness for foreign talent. The high cost of living in Hong Kong is a considerable obstacle in persuading foreigners to move to Hong Kong, particularly given that 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).[46] Not surprisingly, Singapore (3rd), the UK (4th) and the US (2nd) rank above Hong Kong (6th) in attracting foreign high-skilled talent.[47]

3.4. Recommendations

- 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.

- 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.
- 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.

4 Infrastructure

FinTech firms are especially dependent upon access to developed Information and Communications Technology (ICT) infrastructure. This includes high-speed internet connectivity and high internet penetration, data centre and cloud infrastructure availability, as well as data access considerations including the availability of public open data. The sophistication and reliability of these components of critical business support infrastructure will be a key determinant for market attractiveness, and thus merit consideration in analysing of Hong Kong's competiveness as a FinTech innovation centre.

4.1. Difficulties Opening a Bank Account

For companies – particularly SMEs and start-ups - the opening of a bank account typically requires the submission of a long list of documents and certifications for due diligence and risk assessment purposes. Both Legco and the HKMA have recognised these difficulties.[48]

4.2. FinTech-specific infrastructure

4.2.1. Internet and Mobile Internet Connectivity and Penetration

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.[49] The following sections will look at the current fixed and mobile internet connectivity in Hong Kong, compared with other leading countries in the FinTech field.

	A	B	C	D	E	F
Hong Kong	110.3	2	3.345	92.47	5	104.5
Germany	53.9	38	0.146	73.69	9	63.6
Israel	65.8	23	0.098	95.23	1	52.2
Luxembourg	60.7	29	6.887	N/A	N/A	111.2
Singapore	146.9	1	0.617	94.42	3	156.1
United Kingdom	61.0	28	0.430	84.20	8	98.7
United States	67.8	22	0.071	91.69	6	97.9

Column A displays the average fixed broadband connection peak speed **(Mbps)** for Q1 of 2016. **Column B** shows the global ranking of each country in Q1 2016 in terms of average connection speed.[50]

Singapore and Hong Kong lead the world for their average fixed broadband peak connection speeds, mainly due to their fully liberalised markets for international and local Internet service providers. Singapore, which already ranks 1st for peak speeds, 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.[51]

Column C indicates the 2014 international Internet bandwidth per Internet user (Mbps).[52] In the same report, 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, reflecting its capacity as an international data centre hub.

Column D indicates the percentage of time that users can connect to a particular 3G or 4G network. Mobile technologies are fuelling FinTech growth through various innovative products ranging from digital wallets to IoT connectivity. The coverage and popularity of mobile networks are thus key concerns for a mobile-tech start-up entering a new market. In the absence of wireless internet connection, mobile data can support FinTech services. The coverage of 3G/4G or better signal in a region is a useful benchmark since consumers can accomplish most basic smartphone tasks on a 3G/4G connection. **Column E** shows the ranking of the countries in 3G/4G availability as of August 2016.[53]

While the 3G/4G Availability shows the coverage of mobile broadband network in a particular region from a technical perspective, it does not indicate the prevalence of use of mobile broadband networks in the region. To complement this, **column F** shows the active mobile broadband subscriptions per 100 inhabitants in 2014, reflecting the popularity of using mobile Internet.[54]

Hong Kong is considered to be a leading digital economy with robust ICT infrastructure and a high technology literacy and adoption rate, which together create an attractive environment for FinTech development. In addition, thanks to its proximity to Mainland China, a conducive business environment and stable government, Hong Kong is seen by numerous cloud computing firms and data centre operators as a point of expansion across the Asia-Pacific.[55]

4.2.2. Cloud Infrastructure Availability

Cloud adoption has accelerated rapidly in recent years, encompassing both private or virtual private cloud models, as well as public and hybrid management models. Cloud computing offers a competitive advantage by giving organisations a scalable solution to quickly launch new products or services in new markets. The cost of investment is also reduced due to on-demand self-service.

It is apparent that FinTech start-ups are increasingly becoming a source of innovative solutions for the financial markets. Those start-ups, however, often face challenges in getting their products up to the level of the service agreements expected by major financial institutions in a timely manner.[56] Cloud services thus offer the scalability, flexibility and speed to market that allow start-ups to grow quickly.

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”.[57]

	Cloud Readiness Index 2016
Hong Kong	78.1
Germany	74.3
Singapore	76.7
United Kingdom	75.7
United Stats	71.6

According to the Cloud Readiness Index 2016, Hong Kong climbed to the top slot on the Index, four spots up from the 2014 Index.[58] This comprehensive index indicates how prepared the 14 countries or regions are in rolling out cloud computing, based on 10 parameters (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. However, 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.

4.2.3. Open Data and Cybersecurity

	Global Open Data Index (2015)	Global Cybersecurity Index (2014)
Hong Kong	37	8
Germany	26	5
Israel	44	6
Luxembourg	40	13
Singapore	23	6
United Kingdom	2	5
United States	8	1

Open data could boost the development of the FinTech industry. Banks can for example use open Application Programming Interfaces **(APIs)** so as to enable FinTech firms to obtain the bank's customer data. Subsequently, FinTech firms can analyse and use this data to offer more customised services. APIs are a result of an Open Data policy. In the 2015 Global Open Data Index, Hong Kong did better than Israel and Luxembourg, but considerably worse than Germany, Singapore, UK and US.[59]

As FinTech uses the Internet, cybersecurity is vitally important to the industry's development. In May 2016, HKMA launched the Cybersecurity Fortification Initiative **(CFI)**. The CFI aims to improve banks' cybersecurity. It adopts a three-pronged approach: (1) Cyber Resilience Assessment Framework (CRAF), (2) Professional Development Programme and (3) Cyber Intelligence Sharing Platform.[60] In the 2014 Global Security Index, Hong Kong was ranked above Luxembourg, but below Germany, Singapore, Israel, UK and US.[61]

4.2.4. Cyberport and Science Park

After its announcement in early September 2016, the HKMA-ASTRI Fintech Innovation Hub was launched by HKMA – in cooperation with ASTRI - on 11th November 2016. This FinTech Innovation Hub – based within the Hong Kong Science Park - is meant to be a place where various FinTech stakeholders such as start-ups, financial institutions as well as the HKMA, can collaborate on innovative ideas and hold proof-of-concept trials.[62]

Hong Kong Cyberport offers start-ups a co-working space. For the 2016-2017 budget, it was decided that a 35 000 sq.ft. working space in Cyberport's co-working Smart-Space will be reserved for FinTech start-ups. Apart from offices, the Smart-Space also offers a showroom where start-ups can showcase their products to potential investors. The first start-ups moved in in December 2016. The aim is to provide support for up to 150 FinTech start-ups over the next five years.[63]

4.3 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.

5 Regulation

Financial regulators generally acknowledge the opportunities FinTech may provide for the financial sector. These include higher capital efficiency, better credit allocation and risk control as well as wider access to financial advice and services at lower costs. Also, it offers new ways of analysing, sharing and securing data and increases competition in the financial sector by opening the market to new entrants. More market participants and services offered may reduce systemic risk and lead to more customer-friendly products.

On the other hand, with increasing dependence on technology, the financial sector also faces new and increased challenges. These include questions about the operational resilience and business continuity of firms relying on FinTech, and what happens when technology fails, or becomes the victim of cyber threats. Also, there may be doubts as to whether new and smaller market participants have effective and adequate risk strategies and management systems, conduct their business with due skill, care and diligence and take reasonable care to organise and control their affairs responsibly and effectively. In addition, although not regulated per se, FinTech activities may fall within the purview of existing financial regulation on lending, payment systems, investment advice, trading services or prospectus requirements, to name but a few.[64]

As a consequence, regulators worldwide have been trying to determine the appropriate regulatory and supervisory response to the evolution of FinTech and the actions that may be necessary to mitigate potential risks while harnessing the benefits FinTech may bring.

5.1. EU, UK and Singapore

5.1.1. European Union

The EU has not introduced a comprehensive regulatory framework for FinTech yet, but a plethora of regulations have been implemented – ranging from standardised mobile and internet payments[65] to e-money and e-invoicing[66] - that apply more or less directly to FinTech.[67] Generally speaking, the European Commission seems to have chosen a hands-off approach in promoting the development of the FinTech industry and gives it the space to develop, while ensuring an appropriate balance with the protection of investors and consumers.[68] Already in 2015, the European Commission adopted its Digital Single Market strategy to prepare Europe for the digital revolution and unlock digital opportunities for people and businesses.[69] Although not addressing FinTech directly, this strategy builds on the vision that increased market integration and innovation will improve Europe's digital competitiveness. In addition, with its 2015 Green Paper on retail financial services and the adoption of the envisaged Action Plan early in 2017,[70] the European Commission aims to facilitate the development of innovative solutions in retail finance (including digital ones) across the EU by proposing appropriate policy measures.

Other EU institutions have also taken active steps to encourage the growth of new and innovative technologies. The European Parliament approved a proposal for a task force dedicated to digital currencies and Blockchain technology, and stressed the need for precautionary monitoring rather than pre-emptive, heavy-handed regulation.[71] The Joint Committee of the European Supervisory Authorities seems to prefer a more conservative approach emphasizing the potential risks of FinTech, such as macro-prudential, IT and integrity risks.[72] The European Securities and Markets Authority **(ESMA)** has issued a discussion paper for public consultation on Distributed Ledger Technology **(DLT)**. Its purpose is to help ESMA to assess the opportunities and challenges posed by DLT from a regulatory standpoint and form an opinion on whether a specific regulatory response to the use of this technology in securities markets is needed.[73] The European Central Bank has also issued various papers and statements on DLT and crypto currencies and their impact on monetary policy and central banking.[74] In addition, various EU institutions have issued papers on crowdfunding.[75]

DLT and crypto currencies have also been the subject of regulation in some EU Member States. For example, the financial regulator of Luxembourg, the Commission de Surveillance du Secteur Financier, recognised virtual currencies in 2014.[76] Furthermore, Luxembourg granted a payment licence to a virtual currency operator.[77]

5.1.2. United Kingdom

The UK financial regulator – the Financial Conduct Authority **(FCA)** – has launched a regulatory sandbox. It aims to create a 'safe space' for businesses to test innovative products, services, business models and delivery mechanisms without immediately incurring all the regulatory consequences of engaging in such an activity.[78] The sandbox is available to authorised firms looking for clarity around applicable rules before testing an innovative idea, unauthorised firms which may be granted restricted authorisation allowing them to test their ideas, as well as technology businesses that want to provide services to regulated firms. Further, an innovation hub has been established to enable new and established businesses, both regulated and non-regulated, to introduce innovative financial products and services to the market and to identify areas where the regulatory framework needs to adapt to enable further innovation in the interests of consumers.[79] 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.[80]

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.[81] This will offer new technology firms the chance to demonstrate their solutions for real issues.

5.1.3. Singapore

The MAS announced a risk-based approach to FinTech innovation[82] stressing that there cannot be a "one-size-fits-all" approach to FinTech given the wide range of technologies it encompasses. The MAS launched a regulatory sandbox to enable financial institutions and non-financial players to experiment with FinTech solutions on 16th November 2016.[83] For this purpose it is prepared to relax specific regulatory requirements to which relevant entities would otherwise be subject. 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.[84] In addition, FinTech businesses may tap into the Financial Sector Technology and Innovation scheme to which MAS has committed 148 million EUR (225 million SGD) to support the creation of a vibrant ecosystem for innovation in Singapore.[85]

5.2. Hong Kong

5.2.1. Hong Kong Monetary Authority

The Chief Executive of the HKMA has acknowledged the great advancements in FinTech in recent years. In order to ensure the creation of an environment conducive to innovation and fair competition, while protecting end users from potential risks, he announced that the HKMA would adopt a risk-based and technology-neutral approach in its supervision.[86]

The HKMA has established a FinTech Facilitation Office **(FFO)** to enable the sustainable development of a FinTech ecosystem and to promote Hong Kong as a FinTech hub in Asia.[87] The three main functions of the FFO are working with the industry to promote research in FinTech solutions, providing a platform for industry communication and outreach activities, as well as acting as an interface and point of contract between FinTech market participants and regulators.

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.[88] These pilot trials will operate within clearly defined boundaries concerning, among others, the customers and technologies involved. In addition, adequate customer protection measures and risk management controls must be in place. 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. HKMA has announced that the FSS will be refined over time to reflect implementation experience and industry developments.

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.[89]

5.2.2. Securities and Futures Commission

Following the establishment of the FFO by HKMA, the SFC established a FinTech Contact Point to enhance communication with businesses involved in the development and application of FinTech in Hong Kong.[90] The purpose of the FinTech Contact Point is 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, identify the opportunities, risks and regulatory implications of FinTech and broaden the understanding of FinTech as an evolution of the financial services industry.[91]

5.2.3. Hong Kong Government

The Hong Kong government established a Steering Group on Financial Technologies to advise the government on how to develop and promote Hong Kong as a FinTech hub. The Steering Group released a report[92] in February 2016 proposing a number of recommendations which include providing assistance to FinTech start-ups, attracting financial institutions to locate their accelerator programmes and laboratories in Hong Kong, improving dissemination of information on funding resources and encouraging young talent to enter the FinTech sector.

The Hong Kong government 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. It acts as a focal point of views and melting pot of ideas, as a champion and ambassador of the industry, and as a capacity builder. In its role as advisory body, 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[93] recommending the introduction of a regulatory framework to facilitate equity crowdfunding in Hong Kong.

5.3. Recommendations

- 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.
- 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.
- 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.

6 Demand

A key feature of FinTech is that the demand for it emanates from a number of financial market participants. In the first place, one may think of consumers and corporations who benefit from cheaper and faster services. On the other hand, traditional financial institutions do not necessarily see FinTech as a threat but as an opportunity to incorporate in their business models.

6.1. Customer and Financial Institutions Demand

6.1.1. Changing customer needs

The 2015 FinTech Adoption Index showcases the adoption rate of FinTech in Hong Kong, the US, Singapore, the UK, Australia and Canada. Among these countries, the average rate of FinTech use is 15.5%; however with an adoption rate of 29.1%, Hong Kong leads the field. The percentage represents the percentage of FinTech users among digitally active consumers weighted by the total population in Hong Kong. The FinTech adoption rate in Hong Kong is indisputably connected to the demand for FinTech in the city.[94]

The increase in demand for FinTech results from several changes in customer needs. There is a growing demand from consumers for technology as it renders the performance of ordinary processes in our daily tasks easier, quicker and more efficient. 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.[95]

The demand for FinTech can also be partly explained by the lack of public trust in traditional financial institutions following the 2008 financial crisis. Consumers worry about the lack of transparency banks display and banks' customer retention rates have dropped. In contrast, only 11.2% of surveyed consumers gave lack of trust as their reason for not using FinTech services.[96]

6.1.2. Leveraging FinTech to optimise Back Office Costs

Ever-increasing back office costs continue to put pressure on financial institutions' profits. Increasing regulatory requirements both domestically and super-nationally have sought to address the failings at the heart of the 2008 Financial Crisis. However, estimates suggest that governance, risk and compliance costs now account for 15% to 20% of the total operating cost base of most major banks.[97] 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. This resulted in an average cost-to-income ratio of 48.7%. In 2015, the average cost-to-income ratio of the top 10 Hong Kong- incorporated banks stood at 42.3%, an increase of 0.9% compared to 2014. What is more, only 40% of the surveyed banks in Hong Kong showed improvements in reducing their cost-to-income ratio. The high cost-to-income ratio can be explained by regulatory and compliance initiatives (see below), but also by the increase in salary and infrastructure costs.[98]

Financial institutions are of course exploring different ways to reduce their cost-to-income ratio and the solution is increasingly coming from technology and software, which is most likely designed by FinTech companies. The technology and software designed and used by FinTech companies can, for example, automate a bank's back office. This software is often referred to as Robotic Process Automation **(RPA)**. Indeed, research indicates that there is a significant opportunity for banks to increase the level of automation in their back offices. Through revising their IT-architecture – i.e. software – 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%. RPA is faster and more accurate than regular full-time employees. RPA software can work 24 hours a day, seven days a week. One bank even observed that if an ideal level of automation could be reached, almost 50% of its full-time equivalents could be relieved of their current back-office tasks. In addition, it is reported that RPA can cut the time needed to find a solution by 60%. Furthermore, RPA can create a 25% to 50% cost saving. It is thus not difficult to conclude that RPA is a very efficient way for banks to run their back office. RPA software suitable for the financial services industry can be provided by FinTech companies.

The fund distribution industry has also acknowledged that technology can foster automation which in turn lowers back office costs. In December 2016, for example, a Blockchain-based digital fund distribution platform for asset managers was launched in Luxembourg.[99] A cut in costs implies that there will be more resources available to spend on the development of new, more user friendly products as well as providing solutions for investors. The better the service for clients, the more people will get involved in investment, which means more investment in the real economy.

6.1.3. Leveraging FinTech to reduce Regulatory Compliance Costs

According to a 2016 survey, financial institutions spent on average EUR 567 million a year on Compliance and Customer Due Diligence. Some banks are even spending over EUR 472.7 million annually.[100] A major US investment bank is reported to spend EUR 1.5 billion on their Compliance Department which consists of 13,000 employees. This was a necessary investment given that the US bank paid EUR 15.1 billion in legal penalties in 2015.[101] Apart from costing money, regulatory compliance also costs time. Know Your Customer **(KYC)** procedures are very time consuming and delay the on-boarding process; for example, it takes 22% more time today to on-board a new client than it took last year. 30% of the corporate respondents of the survey reported that it takes over two months to effectively on-board a client.[102]

In 2014, the Organisation for Economic Co-operation and Development launched its Common Reporting Standards **(CRS)**. From 2018 onwards, 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; much in the same way as the US already expects other jurisdictions to do under the US Foreign Account Tax Compliance Act. However, given the broad scope of the CRS, complying with the reporting requirements will require an enormous amount of resources on the part of financial institutions. This data collection process will pose a real challenge to financial institutions in Hong Kong.[103]

In the asset management world, under the current fund distribution process, each client is identified several times by different counterparts. Application forms are therefore repeated across investors and funds. This 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 developing more and more as Regulatory Technology **(RegTech)** companies. Their technologies and software enable other companies to comply with certain regulations. RegTech service providers will make regulatory compliance more effective and more efficient.[104]

6.2. Hong Kong's specific demand drivers: Remittance and Robo-advisors

6.2.1. Remittance

Each year, over 250 million migrants around the world send money back to over 700 million people back home whose welfare depends on these remittances. Total inward migrant remittances in East Asia Pacific increased to EUR 122 billion (USD 129 billion) in 2015.[105] According to the World Bank, the global average total cost for sending remittances constituted 7.60% in

Q2 2016 and 7.42% in Q3 2016. In South Asia, the average total remittance cost stood at 5.41% in Q3 2016.[106] These high commissions, long waiting lines and distance to transfer locations, can make transferring money a painful process. New currency exchanges and remittance companies are popping up to make this process simpler, faster and less expensive.

Hong Kong has a large foreign population formed by expat employees and immigrant workers. This creates one of the largest markets for cross-border remittances as they transfer their funds to their home countries. 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).[107] The strong demand for remittance services in Hong Kong creates an opportunity for FinTech companies.

6.2.2. Robo-advisors

There is a high concentration of high net worth individuals **(HNWI)** in Asia; including Hong Kong, India, Mainland China and Taiwan, and these are the fastest growing markets globally. Hong Kong's wealth management market could expand by 30% in three to five years with cross-border stock trading links and mutual recognition of funds.[108] The Hong Kong market will also get a boost from the increasing number of family-owned companies in the US and Europe setting up offices in Hong Kong to tap into investments in Mainland China and Asia.

Traditionally, wealth management services are dominated by large private banks which typically 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.[109] Fund distributors have said that they too are increasingly looking into robo-advisory tools to assist them with their investments. Furthermore, asset managers are developing tools for their distributors that enable online distribution.[110]

6.3. 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.
- 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.

7 Supply

7.1. Number of FinTech start-ups in Hong Kong

Supply, meaning the total amount of goods or services related to FinTech available to consumers, is generally increasing in Hong Kong. There is no single information source which identifies the number of FinTech companies incorporated or operating in Hong Kong, but a number of industry bodies provide a rough estimate of the current number.

7.1.1. AngelList

AngelList is a platform for start-ups to connect with investors, talent and incubators. In 2015, the website made over 548,000 introductions between job-seekers and companies. More than 16,000 companies are actively hiring from a pool of over 250,000 candidates. The below table indicates the number of finance-related start-ups that had a presence in the region as of December 2016:[111]

	Number of FinTech start-ups*
Hong Kong	73 **
Germany	111
Israel	57
Luxembourg	6
Singapore	101
United Kingdom	471
United States	1929

* *Includes only those companies classified as "Fin Tech", "Finance Technology" or "Financial Technology" on AngelList.*

*** 59 of these 73 companies are described as based in Hong Kong.*

7.1.2. Startmeup

Startmeup.hk is a one-stop portal for the Hong Kong start-up community created by the Hong Kong Government. According to information from Startmeup.hk, there were 138 FinTech start-ups in Hong Kong in 2016, up from 86 in 2015.[112]

7.1.3. FinTech Hong Kong

There are currently 63 start-ups listed on FinTech Hong Kong.[113]

	Number of start-ups
Financing	22
Payments & Infrastructure	20
Operation & Risk Management	0
Customer Interface	1
Data Analytics, Security & Monetisation	6
Investment & Wealth Management	6
Other	8

7.2. Raising FinTech awareness

The different events, seminars, workshops and conferences on FinTech organised by the industry and innovation organisations help raise awareness among FinTech stakeholders, both locally and outside Hong Kong, of the city's vibrant FinTech scene.

In November 2016, the Hong Kong government organised the first FinTech week. For five days, panel discussions and presentations by regulators, government officials, financial institutions and FinTech companies took place all across the city. The event was reported to have attracted 2,500 participants.[114]

Professional bodies in accounting, banking, finance, and law, etc., have increasingly focused on raising awareness of FinTech developments among their members. These professional bodies partner with FinTech companies, R&D departments of major international banks, relevant regulators or 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.

7.3. Recommendations

- The FSBC encourages the Hong Kong government to take into account the recommendations made in previous sections in order to increase the number of FinTech start-ups in Hong Kong.
- The FSBC recommends the European Commission to 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.

Abbreviations

AIs	Authorised Institutions
APIs	Application Programming Interfaces
ASTRI	Applied Science and Technology Research Institute
BBB	British Business Bank
CFI	Cybersecurity Fortification Initiative
CRS	Common Reporting Standards
DLT	Distributed Ledger Technology
ESMA	European Securities and Markets Authority
EU	European Union
EuVECA Regulation	Regulation (EU) No 345/2013 on European Venture Capital Funds
FCA	Financial Conduct Authority
FFO	FinTech Facilitation Office
FinTech	Financial Technology
FSBC	Financial Services Business Council
FSS	FinTech Supervisory Sandbox
Gbps	Gigabit per Second
HKMA	Hong Kong Monetary Authority
HNWI	High Net Worth Individuals
Hong Kong	Hong Kong Special Administrative Region
IaaS	Infrastructure as a Service
IBB	Investitionsbank Berlin
ICT	Information and Communications Technology
IoT	Internet of Things
ITF	Innovation and Technology Fund
ITVF	Innovation and Technology Venture Fund
KYC	Know Your Customer
LegCo	Legislative Council of the Hong Kong
Macao	Macao Special Administrative Region
Mainland China	People's Republic of China
MAS	Monetary Authority of Singapore
Mbps	Megabit per Second
QVCFs	Qualifying Venture Capital Funds
QVCFMs	Qualifying Venture Capital Fund Managers
R&D	Research and Development
RegTech	Regulatory Technology
RPA	Robotic Process Automation
SFC	Securities and Futures Commission of Hong Kong
SMEs	Small Medium Enterprises
STEM	Science, Technology, Engineering and Mathematics
UK	United Kingdom
US	United States

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