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Making Hong Kong a FinTech centre

Innovating business in Asia

June 2015

Thanks from the sponsors – DLA Piper, KPMG and Thomson Reuters

Financial Technology - FinTech - goes way beyond finance and tech. Developing FinTech as a core competency for Hong Kong can result in a range of economic benefits. Hong Kong has always been a centre for entrepreneurship - but embracing FinTech can broaden our city's reach to technology, fostering innovation and increasing both its wealth and competitiveness to help Hong Kong become a FinTech hub.

DLA Piper, KPMG and Thomson Reuters appreciate the opportunity to work with the Hong Kong Internet Finance Council (HKIFC) to help make Hong Kong a FinTech hub.

Note from the Hong Kong Internet Finance Council

Hong Kong has long been known as the heart of Asia's capital markets. Today, Hong Kong also serves as the gateway to China, which is not only the world's fastest growing economy, but also home to many of the world's most exciting technology startups.

It is therefore no surprise that in recent years, Hong Kong has seen a surge in entrepreneurial activity, specifically focused on FinTech. However, the regulation of Hong Kong's financial markets has not evolved at the same pace.

As passionate FinTech entrepreneurs in Hong Kong, we deliberately chose Hong Kong with the belief that the city's geographical advantages would be a driving factor of our success. We also believed that by working together as a single trade body, we could inspire the regulatory change needed to solidify Hong Kong's position as the leader in financial innovation across all of Asia.

We hope that this paper marks the beginning of a dialogue with stakeholders across Hong Kong's entire FinTech ecosystem, including start-ups, corporate partners, and of course, regulators.

Finally, we would like to express our sincere thanks to KPMG for its ongoing support, without which the publication of this paper would not be possible.

Members of the Hong Kong Internet Finance Council (HKIFC):

Simon Loong, President, Founder and CEO WeLab
Jennifer Carver, Founder Investable and CIO Nest
Mukesh Bubna, Founder and CEO Monexo
James Giancotti, Founder and CEO Big Colors
Janos Barberis, Founder, FinTech HK

Making Hong Kong a FinTech Centre

"For its on-going future, Hong Kong needs to be seen as one of the future Hubs of FinTech. Currently it has pride of place with London and New York as one of the major and critical financial services hubs globally and regionally.

But we live in disruptive times, London has started to become one of, if not the leading stars in the FinTech space. Hong Kong needs to work closely with London and New York to re-position itself. We are seeing signs of this. Hong Kong has a history of reinventing itself and becoming a major player in what it chooses to do. The government, as well as the broader community has started to recognise this.

There is a growing and now vibrant start-up and entrepreneurial community. Angel, venture capital, private equity and other investors are starting to take stock of what is happening in Hong Kong. It is still early days, but it bodes well for the future if Hong Kong can continue to provide energy and passion to growing this future platform for transformation and change."

– Egidio Zarrella
Clients and Innovation Partner, KPMG China

"FinTech companies are drawn to places where big financial services clients are located and headquartered. Hong Kong is a key financial centre for Asia and the world. While it has been trending upwards in all sectors, Hong Kong is rated most highly in investment management and banking.

The establishment of FinTech clusters near financial centres is a natural choice. A low tax environment and vibrant lifestyle makes Hong Kong an attractive choice both for businesses and the upwardly mobile, technology savvy personnel needed to support leading edge developments. The tech start-up community is being supported by a range of new co-working spaces, incubators and accelerator programs, along with several government and private sector initiatives.

The proposed launch of e-cheque by the Hong Kong Monetary Authority in 2015 and increasing adoption of alternate payment solutions demonstrate how Hong Kong's high mobile penetration and connectivity is providing an ideal FinTech consumer base."

– Scott Thiel
Partner, DLA Piper

"Hong Kong is a major financial centre due to its strategic location, diverse talent and its favorable business environment where rule of law governs the conduct of commerce.

It is certainly an excellent platform for FinTech firms looking to shape the markets of the future."

– Sanjeev Chatrath
Managing Director, Region Head Asia, Financial & Risk, Thomson Reuters

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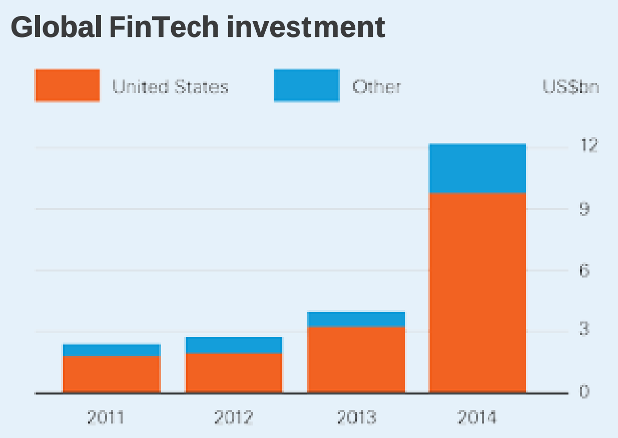
Executive summary

Hong Kong has all the ingredients necessary to be a global centre of FinTech innovation and growth



Source: Economist.com [1]

"Hong Kong has been an innovation hub for many years. It too has transformed itself many times, from being a manufacturing leader globally to becoming one of the top three or four financial services locations in the world.

FinTech is a disruptive, innovative and potentially massive game changer for the financial services industry. With the right government guidance and incentives, and strong commitment by major corporations and the community, Hong Kong can become a key player in this space. KPMG is committed to the prosperity and ongoing growth of Hong Kong. It is a critical location for our China and Asia business, and indeed our global business too."

– Andrew Weir, Regional Senior Partner, KPMG China

Driving the city forward are its traditions of business and commerce:

- Hong Kong's long history as a banking and finance hub, its affluent and increasingly well-educated population and tradition of entrepreneurship provide a secure foundation for FinTech development.
- Investment by both the government and the private sector in business start-up, incubation and accelerator facilities is encouraging new firms to establish themselves and test new ideas. Scaling businesses, however, can be hard due to the city's high rents and relatively small labour force.
- The establishment of alternative financial services such as peer-to-peer lending, equity crowd-funding and innovative ways of making loans and investment available to small businesses are already creating a viable FinTech eco-system across the city.
- Wealth management, data analytics and crypto-currencies, particularly for remittances, are other FinTech sectors with potential for fast growth in Hong Kong.

Hong Kong's positioning as a gateway to China also offers advantages for the wider Chinese market:

- Chinese FinTech businesses, especially those nurtured by the country's e-commerce giants Alibaba and Tencent, and smartphone leader Xiaomi, could emerge as major payments and transaction players threatening the rise of local businesses in these areas.
- Offsetting this threat, China also offers pools of developer talent, back-office services and, especially in the financial centres of Shanghai and Shenzhen, markets for Hong Kong FinTech businesses to sell into.

Although advances are being made, further work is needed to gain the maximum benefit:

- Although Hong Kong already has much financial talent, developing a successful FinTech sector will require support in developing a bigger pool not just of IT staff but also of creative thinkers. To complement the city's already strong maths and science education, officials now need to think more about ways of encouraging stronger learning in the arts and humanities.
- A crucial next step will be adjusting the city's regulatory framework both to give greater clarity to businesses looking to set up in the city and to update rules in order to bring them into line with new business practices while continuing to offer strong investor and consumer protection.

1 See http://www.economist.com/news/leaders/21650546-wave-startups-changing-financefor-better-FinTech-revolution (accessed 29 May 2015)

On the brink of change

Asia is ready for a FinTech take-off

2014 was the year when global FinTech activity took off, with worldwide investment in the sector jumping just over 200%.[2]

That take-off, however, was not evenly spread. Nearly four-fifths of FinTech investment was concentrated in the US, with Europe accounting for 12%, and the whole of Asia for just over 6%.

What this tells us is not that Asia is being left behind – but rather, Asia will almost inevitably see a surge – and likely sooner rather than later.

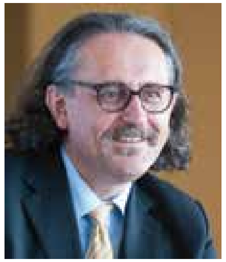
When it comes, a large amount of this investment will likely be in China, which is the world's second-largest market for peer-to-peer lending. Its leading technology companies, among them e-commerce giant Alibaba, online games and messaging company Tencent, and smartphone maker Xiaomi, have all already established their own FinTech arms aimed at offering online financial services to their massive user bases.

India also looks set to tap into its information technology service strengths to become a major player, certainly on the development side. At some point Japan, currently a laggard, will also have to establish itself as a major FinTech location simply because of the size and wealth of its existing institutional and consumer financial markets.

For now, the two places with the most immediate potential are the region's two most vibrant financial centres – Hong Kong and Singapore.

So far, Singapore has been more aggressive in pursuing FinTech opportunities. Its government has invested heavily in developing an innovation friendly ecosystem, with tax breaks for entrepreneurs.

Hong Kong has started to close the gap. It has issues to address – particularly on the regulatory and human resources fronts, but its long history as a financial hub, its position as a gateway to China, and its open and flexible economy offer it enormous potential to establish itself as one of the world's leading FinTech centres.



"FinTech is providing significant disruption within the financial services sector and broader sectors. The convergence of high-tech and traditional financial services products and services make for a whole new world of opportunities and threats for the traditional banking and insurance models.

It is becoming apparent that this disruptive change is not going to go away. It will impact organisations, communities, cities and countries. Hong Kong and Singapore, two places in Asia which have long been traditional leaders in financial services, have a major challenge on their hands.

The FinTech revolution has no allegiance to location. Any city or country can become a leader. London has already taken a major step forward to becoming a world leader in this space. It is now up to Hong Kong and Singapore to step up to be leaders in Asia.

The governments of both of these cities need to allow the ecosystems of start-ups, technology players and investors to establish themselves in their localities. This is not about more regulation, this is about creating an environment where people can thrive.

All of Asia will be caught in this FinTech disruption, and we need local solutions and local companies to meet this challenge. Doing things with an Asian perspective and know-how. At KPMG, we see both countries taking their respective roles in driving this innovation forward as key leaders both in Asia and globally."

– Egidio Zarrella, Clients and Innovation Partner, KPMG China

2 CB Insights, see https://www.cbinsights.com/blog/FinTech-and-banking-accenture/ (accessed 13 May 2015)

FinTech defined

In its broadest usage, FinTech refers to the application of IT within financial services, above all, the rise of the internet as a means of lowering barriers both to entry and costs within the industry.

IT is the foundation for financial services and FinTech innovators are already part of the industry – from currencies and financing, through payments and fund transfers, to operations and risk management, security and data analytics (see table). These applications have opened up financial services to new entrants, among them start-ups and businesses from other sectors who see opportunities both to displace and complement the existing institutions.

Financing	Payments & Infrastructure	Operations & Risk Management	Data Security Monetisation	Customer Interface
LendingClub MONEXO AMP Credit Technologies WeLab	八達通 OCTOPUS Faster Payments 支付宝 Alipay.com	Wolters Kluwer Infosys credissimo	atcipher ROOK Security AXTRIA	Pay facebook mi 小米 xiaomi.com

Source: Douglas W. Arner and Janos Barberis, "FinTech and Regulation: Recent Developments and Outlook" [3]

> "Software is eating the financial services industry"
>
> – Pascal Bouvier, General Partner, Route Sixty-six Ventures [4]

Driving this recent surge are three factors:

1. A growing appreciation since the global financial crisis of just how much IT can contribute to creating alternatives to many traditional ways in which financial services are provided. On the supply side, this has led to providers of financial services – be they long established or new entrants – looking for new, better or more efficient ways of offering services and products.
2. A sudden rise in awareness among consumers of just how much recent technological advances have opened up space for alternative services offering cheaper, more accessible ways of managing their money, greater access to loans or credit, and better returns on their savings or other assets.
3. How alternative locations of investment are spearheading development – both at new companies set up to target a specific FinTech service and in existing companies which have found that the barriers previously preventing them from entering finance have disappeared.

The outcome has been the flood of investment into FinTech that took place in 2014, principally in the US, but also in Europe. Research by CB Insights suggests that worldwide FinTech investment grew appreciably between 2008 and 2013, roughly quadrupling over that period from US$1 billion to US$4 billion. That total was dwarfed, however, by the US$12 billion that was spent in 2014. [5]

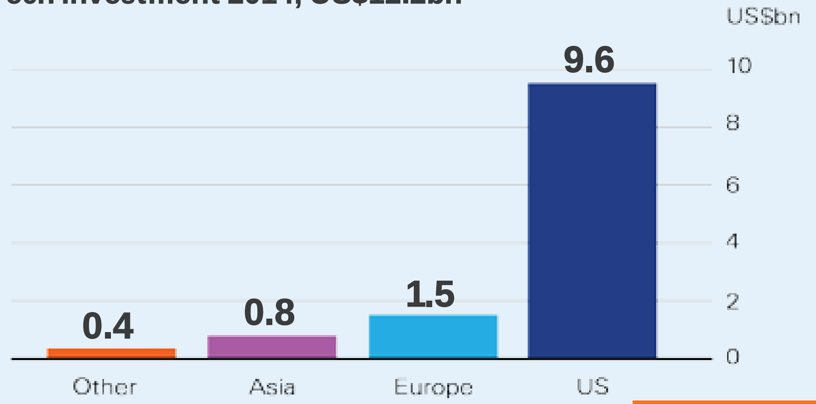
3 Douglas W. Arner and Janos Barberis, "FinTechand Regulation: Recent Developments and Outlook", Asian Institute of International Financial Law, Faculty of Law, University of Hong Kong, 26 March 2015, page 4, available at http://www.slideshare.net/FinTechHk/FinTech-regulation-by (accessed 29 May 2015)
4 See http://finiculture.com/defining-FinTech-the-ultimate-rorschach-test/ (accessed 15 May 2015)
5 See http://www.techworld.com/news/startups/global-FinTech-investments-reach-8-bn-with-europe-leading-growth-3605529/ (accessed 22 May 2015)

FinTech's global reach

Worldwide FinTech investment

Of the US$12.2 billion invested in FinTech in 2014, the US accounted for by far the greatest share – nearly 80%. Europe came in second, with 12%, and the whole of Asia, a distant third at just over 6%. Silicon Valley's investment, at US$2 billion, more than doubled, taking its total alone past that of Europe's US$1.5 billion. In Europe, the UK and Ireland accounted for US$623 million, followed by the Nordic countries (US$345 million), the Netherlands (US$306 million) and Germany (US$82 million).

FinTech investment 2014, US$12.2bn



Total: US$12.2bn

Source: CB Insights [5]

By value, London and New York are FinTech's clear worldwide leaders, between them capturing more than the 90% of FinTech investment and revenues.

The US's peer-to-peer lending industry ended 2014 in style, with initial public offerings in December for Lending Club, the world's leading online lender, which raised US$834 million at an almost US$9 billion valuation for the company, and OnDeck Capital, which raised US$200 million. [6]

Between them, this pair of listings confirmed the arrival of FinTech as a major investment opportunity.

In Europe, the UK domination of the FinTech sector, with a market at an estimated annual revenue of GBP20bn, has already generated 44,000 jobs.

Clearly, both New York and London are using their long-established strengths as financial centres to become leading FinTech players.

This dominance is unlikely to end. FinTech is also creating opportunities for other locations to establish themselves as providers of financial services. In the US, the principal alternative is Silicon Valley. In 2013, around one-third of worldwide FinTech investment went to companies in the Valley, 11,000 people already work in the sector there – more than a quarter of the total found in New York.

Outside the US and Europe there is China – home to some of the world's biggest and most exciting FinTech developments. Its largely under-regulated peer-to-peer lending industry has grown almost 13-fold since 2012, reaching US$41 billion in 2014. [7]

"FinTech is not a goal, it's an enabler: empowering individuals and organisations through improved allocation of human and capital resources. Technology is already reducing barriers to how we buy, use and sell services, and its applications in finance will have far-reaching effects. From lending and alternative banking, to crowdfunding, supporting start-ups and job creation, investment in FinTech already covers a very broad range of services."

– Saeed Hassan, Managing Partner, Grow VC Group, FinTech Consulting & Advisory Services

6 See http://www.crowdfundinsider.com/2015/01/60921-lending-club-ipo-a-watershed-moment-for-peer-to-peer-lending/ (accessed 13 May 2015)
7 See http://www.bloomberg.com/news/articles/2015-04-15/china-peer-to-peer-lender-yirendai-said-to-plan-300-million-ipo (accessed 13 May 2015)

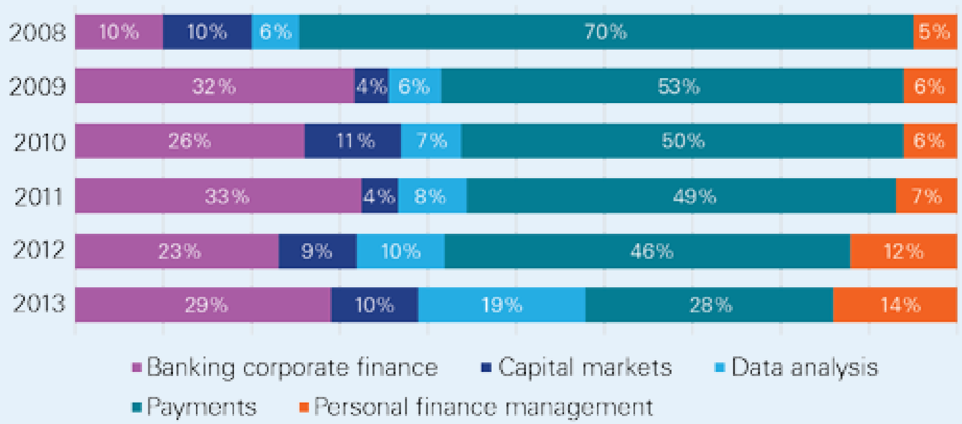
Alibaba, the country's e-commerce giant, built a money-market business from nothing to US$90 billion of assets within one year of its launch in mid-2013. At one point in 2014, it became the world's fourth-biggest money market fund.[8]

Following in Alibaba's footsteps are other Chinese technology companies. Tencent – best known outside China for its WeChat messaging app – in April 2015 launched China's first online-only bank, WeBank. In March 2015, smartphone maker Xiaomi began public beta testing of an online money-market fund that lets users earn interest on money saved in Xiaomi's wallet app. [9]

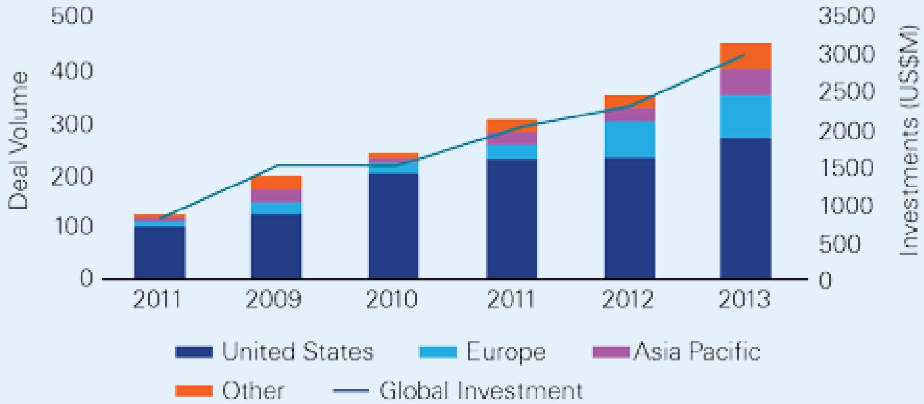
> "China aims to leapfrog its financial development through the mass adoption of internet finance in the country. The combination of high consumer internet and smartphone adoption rate, lack of investment alternatives, strong private and public sector support, and constraints to traditional financial services undoubtedly make China the most promising FinTech country in the world."

– Simon Loong, Founder and CEO, WeLab

FinTech investment areas



FinTech financing activity (US$)



Source: Pitchbook; Accenture; CB Insights [10]

8 See http://blogs.wsj.com/moneybeat/2014/06/04/alibaba-a-step-closer-to-leftover-treasure/ (accessed 13 May 2015)
9 See http://blogs.wsj.com/chinarealtime/2015/03/18/xiaomi-dips-its-toe-into-financial-services/ (accessed 13 May 2015)
10 Unlocking the potential: The FinTech opportunity for Sydney http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Pages/FinTech-opportunity-sydney-oct-2014.aspx p.21

Case study – AMP Credit Technologies

AMP CREDIT TECHNOLOGIES

Unlike many FinTech companies, which see at least part of their mission as disrupting existing financial models, Hong Kong-based AMP Credit Technologies seeks to work with banks, supplying them with technology that enables them to meet the borrowing needs of small enterprises.

Its targets are those loans that banks have previously found too small to make cost-effective and which small businesses found too complicated and time-consuming to apply for. AMP's technology makes the process fast and straightforward for both sides.

"The best way to address the small business credit gap is to empower banks and other business service providers."

–Thomas J DeLuca, CEO , AMP Credit Technologies

Card-driven technology

Using AMP's technology platform, any business that accepts credit cards for payment and who can demonstrate a reliable electronic cash flow is a potential customer. AMP uses data gathered from a company's electronically verifiable cash flow and other sources to assess both the character of the applicant business and its ability to repay.

Typical borrowers are businesses such as restaurants or individually owned retailers in need of sums of money that would never have been profitable using traditional evaluation techniques.

Loans, averaging US$35,000 but sometimes ranging up to US$250,000, are typically approved within two working days. Terms run from 90 to 360 days, with repayment made via withdrawals from the borrower's bank account every business day throughout the loan term.

With no collateral required, loan size is correlated with the borrower's monthly turnover.

Empowering banks!

"We believe the best way to improve financial services for small businesses is to empower banks with new technologies," says Thomas J DeLuca, the company's CEO, adding that when it comes to small business lending, banks retain significant competitive advantages relating to customer data and information, customer relationships, distribution, and cost of capital.

AMP offers partners two core propositions – either to use its technology platform directly or to refer business to its direct lending subsidiary, Amplifi Capital.

Since its founding in 2010, AMP has originated more than US$55 million in unsecured loans to small businesses in Hong Kong, Singapore, and the Philippines – among them restaurants and bars, retailers, doctors, dentists, opticians, vets, wholesalers and e-commerce merchants. In March 2015, it established its first venture outside Asia, launching a direct lending operation in the UK.

www.amp-creditech.com

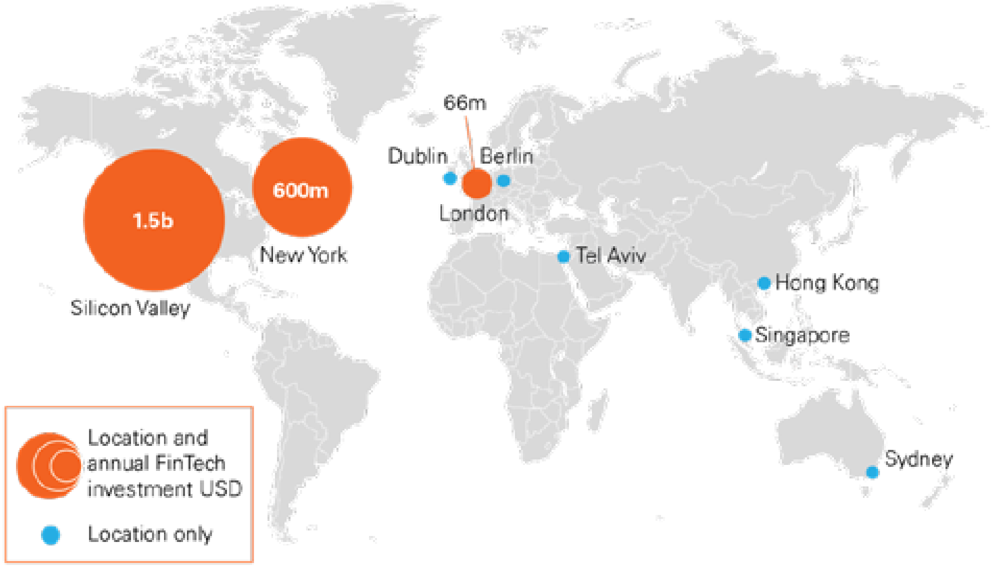
Hong Kong and FinTech

Hong Kong is well placed to be a major FinTech player – especially in the area of alternative finance. It has long been one of the world's leading financial centres and, like London and New York, already possesses many of the important preconditions for being a FinTech centre.

It is located at the heart of the world's largest opportunity for FinTech growth.

Already, 600 million digital banking customers live within five hours flight of the city; by 2030, that figure is expected to have risen to 2.4 billion. [11]

Its financial sector already offers a pool of 230,000 people. It has abundant access to funds and its university system has grown several-fold in the last two decades.



Source: Unlocking the potential: The FinTech opportunity for Sydney http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Pages/FinTech-opportunity-sydney-oct-2014.aspx p.24

However, it does face rivals. KPMG has identified eight key international locations that are fostering prosperous FinTech ecosystems, two of which are also in the Asia Pacific region – Singapore and Sydney – and one of which – Singapore – is already widely perceived as being ahead of Hong Kong in terms of government backing for the sector.

For Hong Kong, this poses two challenges.

First, figuring out how best FinTech services can be aligned with its existing advantages so as to maintain its traditional strengths in trade, payment clearing and serving as an international platform for Chinese companies.

And second, ensuring that start-ups and other new companies deploying these emerging technologies have the freedom to establish themselves in areas untouched by existing financial institutions. These include bringing banking to the unbanked and developing loan or investment products for individuals and small companies previously too expensive for banks to offer with their existing systems.

"FinTech companies are realising how the latest technology developments can meet the financial needs of a growing consumer base.
It is not just about delivering current services better, but changing the way customer needs are met."

– James McKeogh, FinTech Partner, KPMG China

11 See "The Rise of FinTech: Getting Hong Kong to lead the digital financial transition in APAC", November 2014, page 9, available at http://www.slideshare.net/FinTechHk/FinTech-hong-kong-report (accessed 19 May 2015)

Case study – Investable

Investable is Hong Kong's first full-service equity crowd-funding platform, offering professional investors access to the same opportunities and level of information as venture capitalists.

Founded from Nest, Hong Kong's leading investment incubator, Investable helps individuals discover carefully curated start-ups and invest alongside other experienced investors.

Soft-launched in May 2014, and in full operation since December 2014, it connects professional investors to the best-in-class technology start-ups through its platform, allowing them to browse and invest in pre-vetted early-stage investment opportunities in high-growth industries such as smart cities, FinTech, HealthTech and internet of things.

The minimum commitment is just US$10,000, with no maximum. Typical investment size so far has been around US$50,000.

Since December 2014, Investable has helped six start-ups meet their fundraising goals, allowing them to get access to the capital they need to fuel their growth.

Second-stage start-ups

Investable's main investment targets are early-stage technology opportunities in high-growth-markets – companies with proof of concept which have made it past the initial start-up phase to the point where they need between US$100,000 and US$2 million to fund their next stage of growth.

"This has long been a period where even the fastest-growing of companies have struggled to secure financing. For many, equity crowd-funding could be the answer, offering them access to potential supporters who were previously unreachable, while for individual investors the upside is the emergence of an attractive new asset class that before was only available to well-connected venture capitalists."

– Jennifer Carver, Founder, Investable and CIO, Nest

To ensure the quality of the companies on its platform, Investable has a rigorous selection process, which includes drawing on the rich experience and due diligence skills of Nest's investment team.

As of May 2015, Investable had six companies raising funds on its platform. These are mostly Hong Kong- and China-based, but include Delaware-registered FormaFina, an online marketplace for home decor and accessories targeting consumers in Latin America, especially in Brazil and Colombia, that already has more than 500,000 users and annual revenue of US$4 million.

Freedom to advertise

Headed by Jennifer Carver, CIO of Nest and a Hong Kong finance industry veteran whose experience includes asset management, investment advisory and overseeing a string of successful internet start-ups, Investable has already built a membership of nearly 600 registered investors on its platform, most of them acquired by word of mouth or at demonstration days where new companies present their businesses.

Securities and Futures Commission (SFC) regulations in Hong Kong bar investment companies from advertising and restrict participants to professional investors, which largely means individuals with investment portfolios of not less than HK$8 million. Carver would like to see both restrictions eased, especially for businesses such as Investable which see themselves as essentially a technology platform. "Equity crowd-funding needs a crowd to work," she says. "So most of all we would like to be able to advertise."

www.investable.vc

"We want to be a global business – taking money worldwide from an Asian hub."

– Emmanuelle Norchet, General Manager, Investable

Disruption ahead?

According to many industry observers, FinTech has the potential to disrupt financial services

What seems more likely, however, is that though change will happen across the board, and in certain segments, such as mobile payments, major new players will emerge. Overall FinTech's development will be about using new technologies to change existing practices, making them more flexible and efficient within existing institutions.

Perhaps the biggest market for new FinTech products and processes will be the banks themselves. Goldman Sachs's CEO Lloyd Blankfein, has repeatedly described Goldman as a tech company, an assertion backed up by the fact that his bank has more software engineers and programmers than Facebook – possibly twice as many.[12]

This is not to say that new FinTech companies will not succeed, but rather that they will be focused in areas that are currently poorly served, such as small loans or transactions involving small sums of money and other areas where banks' current infrastructure makes them inefficient or inflexible.

In other words – and as Hong Kong is already seeing – while FinTech will lead to the transformation of the entire financial services industry over the coming years, and likely sooner rather than later, it will see both existing institutions improving their services and new players complementing them.

"In recent years we have seen how regulation is forcing banks to change their business and operating models. FinTech has the potential to drive similar changes in the future as banks are disintermediated or are no longer competitive in certain areas."

– Paul McSheaffrey, Head of Banking, KPMG China

"Disruption can be, should be embraced by the long established traditional financiers, cash managers such as the major banks. Banks always face challenges associated with having to continue to invest in time-consuming, expensive and complicated upgrades to their established systems, and this is only compounded by what the fast-moving FinTech sector is doing. However, it can be done in parallel. Banks should also be focused on more strategic alliances, more investment capital with FinTech leading companies. For mutual benefit, more of these alliances should be considered to draw on banks' limitless experience with clients, credit and their available capital, and on the FinTech side, their ability to get to a mass market at a much lower cost base."

– Sebastian Leotta, Director, Private Equity, KPMG China

12 See for example, "Blankfein: Goldman Sachs Is a Technology Firm", Bloomberg.com, 3 June 2014, available at http://www.bloomberg.com/news/videos/b/8df546df-20d1-46e5-824b-0702e9225046 (accessed 19 May 2015) and Jonathan Marion, "Goldman is a tech company", Business Insider, 12 April 2015, available at http://www.businessinsider.com/goldman-sachs-has-more-engineers-than-facebook-2015-4 (accessed 19 May 2015).e

Case study – WeLab

WeLab democratizing finance

Since mid-2013, WeLab has established a leading online lending platform, WeLend.hk (www.WeLend.hk), disbursing loans from just under US$500 to US$65,000 to individuals whose online profiles meet its strict criteria.

In the first venture of internet finance technology business WeLab, the platform has handled loan requests of nearly US$170 million in less than two years – vindicating the vision of founder Simon Loong that internet technologies can drive innovation and rework Asia's financial industry.

Faster, better

At the heart of WeLab's business stands WeDefend, a set of credit risk management tools that analyse both traditional and unstructured credit data collected by the company and supplied by users.

This software delivers decisions fast, taking just 15 seconds to process a loan application that would take a bank five to seven days.

However, more important than its speed, says Loong, a former banker with Citibank and Standard Chartered, is how WeDefend's technologies are improving over time. Developed to create new ways of generating analytical insights into consumer behaviour and creditworthiness, WeDefend has allowed Loong's team to become increasingly confident about their ability to gauge the creditworthiness of applicants.

As a result, approval rates have risen from 10-15% of applicants when WeLab started, to around a quarter now.

Into China

In 2014, WeLab extended its business across the border into China, launching the country's first fully mobile lending platform, Wolaidai (www.Wolaidai.com), offering loans of up to just under US$1,000 to students and other young people with the rich digital social lives that provide the data streams necessary to confirm their identity and likelihood of repaying their borrowing.

In January 2015, WeLab completed a US$20 million round of funding from a group of strategic and financial investors, including TOM Group, a media business owned 37% by Hutchison Whampoa and Cheung Kong, Sequoia Capital, and Russian tech investor Yuri Milner.

That money is being used both to fund loans and develop its existing and internet finance technology services, with small business loans among the next targets in WeLab's sights.

WeLab has also started to establish strategic partnerships with mobile, e-commerce, and other financial companies.

Already in place are agreements with Hong Kong's Hutchison Telecom to provide financing for subscribers to buy mobile phones through Hutchison Telecom's Three website, and a similar arrangement with Chinese smartphone maker Coolpad to handle purchases of its handsets in China.

www.WeLend.hk

> "This software delivers decisions fast, taking just 15 seconds to process a loan application that would take a bank five to seven days."

– Simon Loong, Founder and CEO, WeLab

Opportunities I

FinTech companies look set to complement Hong Kong's existing financial strengths

The single most important opportunity FinTech offers to Hong Kong is to maintain its current strong position as one of the world's leading financial centres. Over the coming decade, its financial sector will be challenged by other locations and developments. This period will see the continuing rise of China's financial sector, and with it the rise of a host of Chinese FinTech companies or companies with FinTech arms.

The next 10 years will also see the extension of FinTech services from banks in London and New York, and the emergence of Silicon Valley as the home of US FinTech companies with global reach. There will also be increasing competition from other locations in Asia as FinTech centres – Singapore or Sydney.

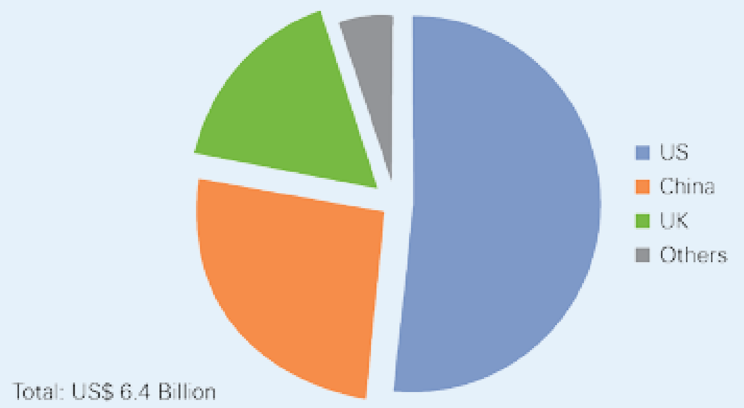
Of course, many of these new players will rely on existing financial institutions and structures for handling transactions. However, whereas a mixture of cultural and governance reasons prevent most existing financial institutions from moving fast, new FinTech players have the advantage of being able to move and react nimbly as they create streamlined applications that are more efficient than the legacy systems run by banks.

What this points to is not existing financial institutions being displaced or new business models taking shape, but rather the emergence of new companies serving previously unmet needs. This development is very much reflected in the first series of FinTech businesses being set up in Hong Kong, including the case studies in this report - peer-to-peer lenders Monexo and Fundnel, equity crowd-funding business Investable, small business loan enabler AMP Credit Technologies, and the various experiments of internet finance company WeLab.

A range of factors – among them aversion to change, regulation (banks and FinTech business models may be subject to different compliance policies) and a view of what constitutes their core competency (i.e. finance not technology) – have hindered banks from entering such businesses.

Consequently, rather than being viewed as changing everything, FinTech should be viewed as an enabler that allows non-bank players to enter the market. In Hong Kong, starting a company has always been cheap. Now, thanks to the falling price of digital technologies, even small companies have access to powerful technologies and, thanks to the internet, access to global networks. Both are huge incentives for innovation.

Peer-to-peer and equity crowd-funding market by country in 2013



Source: IOSCO Research Department; Based on figures from selected peer-to-peer platforms within each country
Notes: 1) Peer-to-peer lending data is sourced directly from the websites of the largest providers. It therefore represents a lower bound estimate of the global loan pool. 2) Data as at 30 September 2013

The view from Thomson Reuters

Partnerships between big and small

The financial services industry has long embraced technology as a way of connecting with customers to create a consistent user experience and providing high degrees of convenience accessing new products and services delivered in a convergent way.

However, while opportunities abound, capital markets also present significant challenges to would-be FinTech revolutionaries. Not only is finance one of the world's most highly regulated industries, but it is also one of the most global and complex. For small, innovative firms to penetrate the larger institutions, they must overcome the obstacles posed by scale, supportability and longevity. Great functionality or a cool app are fine, but navigating procurement departments focused on reducing costs and a long tail of suppliers and vendors is no easy task.

One strategy FinTech firms are using to address such challenges is to leverage large industry partners and established distribution platforms, be they technology platforms or global sales, marketing and brand footprint.

Thomson Reuters is a great example, not only operating a market-leading open platform and market data business, but also complementing that with a long-established and thriving developer community and third-party application software partnership programme. Its Enterprise Platform has been widely adopted across the industry in the dissemination and management of market data, and together with its breadth of data and content offerings ranging from real-time pricing to historical databases, it is well placed to partner with and empower the new generation of FinTech firms.

The core infrastructure required to service a business's market data needs is delivered in a service-assured environment from multiple locations across the globe, allowing customers to focus on their core activities around value creation.

In response to industry cost pressure and customers' requirement for improved agility, Thomson Reuters has invested heavily in moving from a traditional deployed software and infrastructure model to adopting a light footprint, managed service approach to its platform and data services. Its Elektron Managed Services offerings help firms invest in creating new products and services that can be deployed on a global scale.

Elektron Managed Services provides the core infrastructure required to service a business's market data needs, delivered in a service-assured environment within multiple market proximity husband co-location sites located in key financial centres across the globe. As well as allowing customers to focus on their core activity of value creation, this environment creates an ideal platform to partner with FinTech firms to build full workflow solutions and ultimately a value-added ecosystem of products and services within the heart of financial trading communities.

With no need to worry about the underlying infrastructure and how to maintain it, companies can focus on acquiring new skills and driving the innovation that will allow them to differentiate themselves from other players in the marketplace.

"The financial services industry is at a significant inflection point in its history – public trust is at an all-time low following the fall-out from the credit crisis and a seemingly endless wave of misconduct revelations, while large swathes of the global demographic are turning their back on traditional banking practices and looking for a whole new experience in how they manage their finances. This creates a huge opportunity for FinTech to transform the industry, creating new ways to address legacy problems but also leveraging innovation to create new business opportunities."

– Mike Powell, Managing Director, Enterprise, Thomson Reuters

Building bridges between the fast and nimble and the strong and compliant

Peter M Dingle is Director, Innovation Accelerators at Nest.vc

"There is a paradigm shift in financial services occurring in Asia today. Corporate organisations are no longer able to move with the pace and flexibility required to capitalise on the new technologies and new business models that have been emerging. Innovation is in constant demand by IT departments internally who are looking to enable new services and capabilities. Innovation is also required within marketing departments, which are looking for ways to differentiate the brands they serve, to ensure brands stay relevant in the new world of mobile first, instant gratification, customer-centric expectations. And banks are trying to bring joy back to the experiences customers have in daily transactions.

This is the reason I am working for Nest to create Asia's first Branded Accelerator programmes, and why I'm pleased to have KPMG as a partner in helping Asia grow.

Specifically in the FinTech sector, we are accepting applications for the DBS Accelerator powered by Nest via www.dbs-accelerator.com. At Nest we are pioneering the concept of connecting start-ups in the FinTech sector with the world's most innovative banks, supported by the world's most advanced data and innovation partners. Our customised 12-week accelerator programme, is designed to find, mentor and grow early-stage transformational businesses from all over the world. Bringing these businesses to Hong Kong to work directly with DBS, KPMG and other major partners with the full support of the Hong Kong Government and InvestHK will help to transform FinTech in the future."

"Since we announced the DBS-Nest accelerator, new customers have approached us – not just because of our focus on customer experience, but more so because they see us participating actively in the FinTech ecosystem."

– David Lynch, Managing Director, Technology & Operations (Hong Kong/China), DBS

"We believe the Nest Accelerator programme is an ideal vehicle for our clients to speedup their own innovation by nurturing and supporting the FinTech community."

– James McKeogh, FinTech Partner, KPMG China

"I think this is the start of a new trend that bridges the gaps that exist between the complexity within large organisations and the speed and agility of start-ups. The hunt for new business models that maximise new consumer behaviours, such as mobile commerce, while ensuring compliance with anti-money laundering laws and taking advantage of cutting-edge technologies such as predictive pricing, contextual e-commerce and just-in-time logistics are all potential areas of growth for DBS that this external innovation search will help accelerate.

I have seen how the power of large organisations can change the world in my past career at Intel. Hong Kong and Singapore are rich in both FinTech talent and new business ambition. Let's see if Hong Kong can capitalise on these advantages today for a brighter tomorrow."

Peter M Dingle

"Hong Kong is at a tipping point regarding owning the early stage FinTech innovation space. With the likes of DBS planting a flag in the ground to make Hong Kong the home of their FinTech innovation lab, the city has a solid footing to be the place where the best FinTech ideas from around the world get seed and growth funding, and then scale east and west!"

– Simon Squibb, CEO, Nest

"The Nest Accelerator programme is an ideal medium to bring more transparency, a better quality of strategy, and performance information coming from the new FinTech companies. With programmes like this in place, due diligence information provided to potential investors will be enhanced, and therefore the possibility of investment decisions being fast-tracked and the quantum of investment dollars being increased."

– Rupert Chamberlain, Partner, Advisory, Head of Private Equity, KPMG China

Opportunities II

Other opportunities for Hong Kong include crypto-currencies, data analytics and wealth management, all of which benefit from the city's long traditions of business-friendly regulation and free exchange of goods and money.

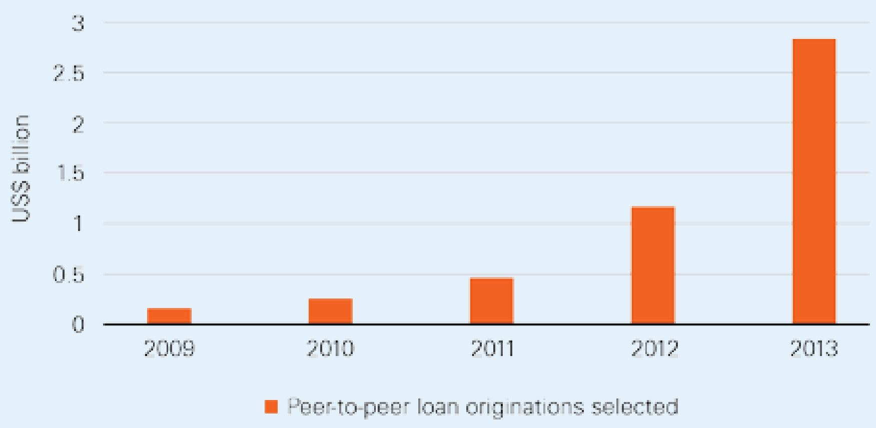
Among the new companies emerging to take advantage of the city's already existing financial services industry are:

- Enterprise financial software firm DemystData, which raised US$5 million in funding in 2014 to develop its business establishing credit ratings for individuals with no credit history.
- Amareos, set up in 2013, which makes analytics tools that provide news, finance and business sentiment metrics and indicators to help businesses with their decision-making processes.
- Privé Financial, set up in 2011, has developed wealth management software for financial advisors that allows users to manage their customer relationships and produce tailored investment proposals for clients.

However, whereas these businesses all offer a new twist on an old theme, more novel – and more controversial – are the various digital currency companies which have arisen in the last two years. Many of them have been set up by outsiders who see Hong Kong as one of the world's most welcoming jurisdictions for bitcoin businesses.

Bitspark, a four-person firm set up by 25-year-old Australian George Harrap in 2014, has pioneered a bitcoin-driven cash-in-cash-out remittance service for domestic helpers from the Philippines who work in Hong Kong. Users of its service deposit Hong Kong dollars into a bitcoin account; that is then converted into pesos at the current exchange rate, and three hours later can be withdrawn by a friend or relative at one of 10,000 locations in the Philippines. Bitspark's commission of 1% is well below the 3-5% taken by banks and remittance companies.

Peer-to-peer lending



Source:
P2P lending, OICV-IOSCO report
IOSCO Research Department; Compiled from Prosper, Lending Club, Auxmoney, Svara, Zopa, RateSetter, Thincats, Funding Circle, ISE Pankur
Notes: 1) Peer-to-peer lending data is sourced directly from the websites of the largest providers. It therefore represents a lower bound estimate of the global loan pool. 2) Data as at 30 September 2013.

"It's very important for Hong Kong to embrace crypto-currencies. If it does, it can become a global magnet for innovative new start-ups in this area."

– George Harrap, Founder & CEO, Bitspark

Nurturing a FinTech ecosystem

Hong Kong has a growing volume of venture capital and private equity funds.

Average funding in the first half of 2014, at around US$6 million, was greater than that for the whole of 2013. [13]

> "We will work closely with all stakeholders to look into the potential of the FinTech sector and possible measures to promote developments in this regard."

– Professor KC Chan, Secretary for Financial Services and the Treasury, Government of Hong Kong

The ecosystem is also starting to generate organisations dedicated to promoting FinTech in Hong Kong. The Hong Kong Internet Finance Council (HKIFC)
http://www.hkifc.org/
is a non-profit organisation with a mission of fostering the growth and development of the internet finance industry in Hong Kong. Its activities include promoting a greater awareness and understanding of the internet finance industry among the general public, businesses, and government; providing a forum for businesses to discuss best practices and industry standards; and acting as a representative trade body for Hong Kong in the global internet finance landscape.

Article 109 of the Basic Law, Hong Kong's mini-constitution states:

> "The Government of the Hong Kong Special Administrative Region shall provide an appropriate economic and legal environment for the maintenance of the status of Hong Kong as an international financial centre."

In March 2015, the government established a FinTech steering group to advise how Hong Kong could become a FinTech hub. Chaired by the Secretary for Financial Services and the Treasury, Professor K C Chan, the steering group comprises government and regulatory officials and ten figures from business and research and development institutions.

"FinTech can enhance operational efficiency and help foster new modes of development for the financial services industry. As an international financial centre with a highly developed information and communication technology sector, Hong Kong is an ideal place for developing FinTech," Chan said.

The steering group's remit includes assessing the economic and business opportunities provided by the development of FinTech for Hong Kong, identifying the potential and existing gaps of developing Hong Kong into a FinTech hub, and proposing measures needed to make Hong Kong a FinTech hub.

> "We work with players in the Hong Kong start-up ecosystem and bring the best of the start-up world to the corporate world."

– Irene Chu, Leader of KPMG's High Growth Technology and Innovation Group (HGTIG), KPMG China

13 Source: Unlocking the potential: The FinTech opportunity for Sydney p.94
http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Pages/FinTech-opportunity-sydney-oct-2014.aspx

> "China's FinTech market that has grown so rapidly that China is now in the situation where it is no longer able to rely on references to experiences from other jurisdictions like the US or Europe. It is increasingly faced with a market going ahead in the context of scale and technological development than those other markets."

– Professor Douglas Arner, Faculty of Law, The University of Hong Kong

> "The last 6 months of activity gives little doubt that Hong Kong will be Asia's leading FinTech hub. Over 20 events built awareness, 40 more start-ups are currently demonstrating market potential, all combined with a clear increase of investors in the EU and the US looking at Asia for opportunities. Finally, there is China, where millions are using Alibaba's facial recognition payment, while phone manufacturer Xiaomi has directly proposed its own financial products. If Hong Kong places itself to capture the cross-border activities going in and out of Asia, it can claim global leadership as a FinTech hub."

– Janos Barberis, Founder, FinTech HK

Case study – Monexo

Monexo, which went live in March 2015, is one of a handful of Hong Kong's peer-to-peer lenders.

Founded by Mukesh Bubna, a 46-year-old with two decades of experience working in consumer banking, first for Citibank and then for Western Union, it aims to bring down borrowing costs for those who need money, offering lenders better returns and increasing transparency for everyone.

Based at Cyberport, one of Hong Kong's government-backed ICT incubators, Monexo offers an online marketplace, matching would-be borrowers who own rental properties with individuals looking to get a higher return on their cash than they can in banks.

Room for all

Bubna is convinced there is plenty of room for efficient newcomers to establish themselves, with better offers to both lenders and borrowers.

"Hong Kong today has 1,300 money lenders, up from 800 in 2008. Why the increase? Because the banks aren't fulfilling people's needs," he says.

Hong Kong's money lenders are also expensive to borrow from – charging interest rates of up to 60%. Peer-to-peer lending offers a real alternative, especially to borrowers who are looking to consolidate loans. "In the US, around 85% of Lending Club's loans are for debt consolidation, especially that from credit cards," says Bubna.

Monexo assesses and rates borrowers according to data they supply about themselves, their properties, Hong Kong Credit Bureau, Land Search and other sources. It then posts borrower profiles, excluding their names, on its website, along with the sum they want to borrow and an expected return – which can range from 7% to 20%.

Lenders must commit a minimum of HK$100,000 (US$12,800) for at least six months. This enables them to create a portfolio of loans across a range of different borrowers to create a diversified loan portfolio for their target risk-return.

Both borrowers and lenders must hold Hong Kong identity cards, be resident in Hong Kong and have a Hong Kong bank account. Monexo earns its money from a 2.5% commission from borrowers and a 1.5% commission from lenders.

Market intermediary

Given Hong Kong's regulatory structure, Monexo's position as a marketplace that matches would-be borrowers and lenders rather than as a loan originator allows it to operate without a money lender's licence, says Bubna.

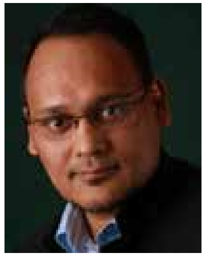
As Hong Kong has no regulations specifically covering peer-to-peer lending, the company has adopted almost all the guidelines that the UK's Financial Conduct Authority laid down for the sector in 2014.

As well as following local know-your-customer and anti-money laundering rules, all funds passing through its platform are held by the Hong Kong Trust Company.

To keep compliance matters straightforward, the one group of customers it turns away is US citizens due to the cost and complexities of complying with the US's Foreign Account Tax Compliance Act (FATCA).

Bubna plans to extend Monexo's product range to business receivables later in 2015 and to take on new markets across Asia, with India, Singapore and South-east Asian countries all possible targets.

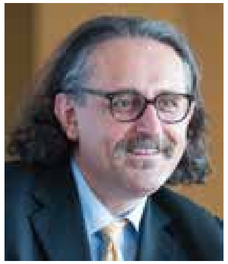
www.monexo.co



"The internet has disrupted the supply chain of every industry, from book retailing and airline tickets to hotel and education. Now it's the turn of financial services."

– Mukesh Bubna, Founder and CEO, Monexo

An insights centre for Asia



> “Hong Kong has done a phenomenal job of transforming itself from a manufacturing to service economy. It has reinvented itself, moved up the value chain and become the innovation hub in Asia. With the strong uptake of mobile and electronic commerce, Hong Kong has a key role to play in data analytics.”

– Egidio Zarrella, Clients and Innovation Partner, KPMG China

KPMG’s regional insights centre will open in Hong Kong

An executive digital workspace with data & analytics at its core

KPMG is setting up a regional Insights Centre in Hong Kong to expand its portfolio of data analytics solutions to help clients unlock the value of their data.

The centre will be a virtual R&D environment that serves as a global innovation hub with the aim of incubating and developing data-driven business solutions for KPMG’s clients. It provides the opportunity for new data and analytics (D&A) applications to be developed, “proof of concept”, designs to be demonstrated and verified, and ideas accelerated.

Hong Kong was selected as the centre’s regional home for several reasons including the city’s status as Asia’s biggest financial services hub, the large number of multinationals with regional offices located here and the increasing number of Chinese companies using it as the jumping off point for their global operations.

From Hong Kong, the centre will serve clients across the region. Its ultimate goal is to open the way for companies to visualise trends and patterns in their data, to enable them to make better business decisions.

> “Innovative companies are realising that the most valuable and powerful asset they have is data – if they use it properly.”

– James McKeogh, FinTech Partner, KPMG China

View from KPMG and DLA Piper

Financial crime compliance and FinTech

Where the financial services sector in Hong Kong is a highly regulated environment for financial institutions, there appears to be room for regulatory development when it comes to FinTech companies offering financial services.

KPMG has recently noticed a growing number of requests for advice on anti-money laundering (AML) compliance from non-financial institutions operating in the FinTech space.

Typical questions include:

- Should we be licensed and if so, by whom?
- To what extent does the Anti Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance apply to us even though my company is not strictly speaking a financial institution and my services do not qualify as remittance or money changing services?
- How far should I go in conducting due diligence on customers?
- How do I monitor suspicious behaviour?

These questions indicate good AML risk awareness. However, with the regulatory environment for FinTech companies being considered, definitive answers are hard to give.

"As banks tighten their controls against financial crimes such as money laundering, FinTech companies should also guard themselves from being perceived as alternative platforms with weaker controls. FinTech companies should identify and evaluate the financial crime risks to which their business is exposed and design appropriate controls to mitigate such risks."

– Rani Kamaruddin, Director, Forensic, AML & Sanctions Services, KPMG China

For now, FinTech companies are advised to review the financial crime risks to which their businesses are exposed. As more financial institutions enhance AML controls, it is becoming increasingly challenging to launder money through their systems.

Inevitably this means that other platforms with weaker controls will be sought to integrate proceeds from illicit activities into the general financial system.

To protect themselves from being abused for such purposes, FinTech companies should carefully consider the financial crime risks to which they could be exposed.

Once identified, such threats should be evaluated both for their probability and against the general risk appetite of the business.

With this intelligence, companies can then establish commensurate protection measures and controls.

Recommendations

Regulators should review what kind of regulatory environment would best encourage the development and growth of the FinTech sector, while ensuring that FinTech platforms are protected from being used as vehicles for financial crimes such as money laundering and fraud.

FinTech companies should put in place the appropriate measures to ensure that their platforms are not used for financial crimes.

"Hong Kong's legal framework, based on the rule of law, provides much needed certainty for business set-ups and forms a strong foundation for free trade and competitive economy. The independent judiciary is an effective forum for enforcing contractual rights and resolving business disputes. These are all crucial considerations that FinTech companies would take into account when they look to establish business in Asia."

– Joyce Chan, Partner, DLA Piper

View from HSBC

At HSBC, as with the world's other large banks, executives are both aware of the need to embrace FinTech and the difficulties they face in adopting its practices on a major scale.

"We have to come up with innovations," says Caroline Lacocque, Senior Vice President, Innovation and Client Solutions at HSBC in Hong Kong. "But we must also always be sure that we are in full compliance with regulations and that we have complete data security."

One area the traditional banks could look at is offering existing customers seamless services.

"The global banks should see if they can offer an omni-channel banking experience – something that can identify and give you the same experience on your computer, your phone and on wearable technology," says Caroline Lacocque.

Transfers are another area where the existing banks have room to innovate and improve. "Everything should be done with digital signatures. With a big future push, we may be able to make every transaction in the supply chain electronic."

Testing the electronic water

Doing this might be easier in emerging markets with little existing financial infrastructure. One new product under development at HSBC in Asia is a cashless money collection application aimed at locations where individuals, stores and small businesses remain unbanked. It allows people to buy things and transfer cash using only their mobile phones' messaging systems.

The service is being field-tested in Indonesia, and is due to be in operation there and in Vietnam and the Philippines by the end of 2015.

"Making every transaction in corporate supply chains electronic would be awesome."

– Caroline Lacocque, Senior Vice President, Innovation & Client Solutions Asia Pacific, Global Payments & Cash Management, HSBC

Case study – Fundnel

FUNDNEL

Fundnel is an investment crowd-funding platform based in Hong Kong and Singapore aimed at connecting promising start-ups to fundraising opportunities via an active online community of entrepreneurs, professionals and investors.

Pronounced "funnel" – because its key goal is to help funnel investments to new businesses – the company has big plans to change the way in which traditional fundraising and private investment markets have long worked, particularly when it comes to small investments.

Fundnel's founders are a team of five young but experienced entrepreneurs drawn from investment banking, strategy consulting and business. Their goal is to build a social network of investors, businesses and professionals with a shared interest in financing private businesses.

One of Fundnel's priorities is using technology to develop price discovery for private businesses.

"Venture capital firms issue a term sheet to a company with one valuation – that usually means that an individual or firm sets the price," says partner Kelvin Lee, a former JP Morgan banker whose experience includes working on Cheetah Mobile's 2014 listing in the US.

"That process has been opaque for a long time. We want to democratise finance and allow more people to decide for themselves and back the businesses they believe in. Private investments, as an asset class, will now finally be accessible to everyone," he says."

In labelling itself as a social network, Fundnel aims to encourage "self-regulation" amongst its members. This means leveraging on the power of the crowd to reduce the risk of fraudulent behaviour.

When investors find a business they like, they will sign a share purchase or subscription agreement directly with that company. An affiliate of Fundnel has established an investment fund to take up to a 5-10% stake in companies that fit the investment mandate of the fund.

As well as matching investors and small companies, Fundnel also wants to help businesses test and improve their operations by opening them up to early feedback and advice from its network of professionals, which includes lawyers, accountants, advisors, mentors and even potential future partners.

"We're not solely looking out for tech firms, but also bricks-and-mortar businesses such as restaurants, consumer retail outlets and even music and entertainment venues," says Sam Ng, another of Fundnel's five founding partners, also a former JP Morgan investment banker.

Fundnel also wants to help build a secondary trading market for private businesses. "People are hesitant to invest in private companies because of the scarcity of exit solutions. A secondary market means that they can now buy and sell their stakes without there even being a listing," says Ng.

Fundnel's platform will begin closed beta testing in the third quarter of 2015. However, its partners have already been trying out their innovative investment structures by raising a total of US$1 million in funding from 22 individuals for a nightclub in Hong Kong's Lan Kwai Fong bar and entertainment district.

www.fundnel.com

Challenges

Regulation fit for the digital revolution

One obstacle holding Hong Kong back is the overall nature of its regulatory system, in particular that its financial regulations are broadly based along institutional status lines as defined by the activities undertaken by the relevant institutions – such as whether it is a bank, an insurance company, an investment advisor or an asset management company. An institution's activities determine which laws and regulations it is subject to and which regulator supervises its activities.

The digital revolution, however, is reworking this long-established tradition by blurring the boundaries between different financial sectors. A FinTech company's offering may span multiple financial disciplines, rendering an institution to be subject to a matrix of financial regulations implemented and enforced by multiple regulators.

Moreover, Hong Kong's financial regulations have not made provisions that specifically cater for the FinTech sector in terms of set-up, licensing requirements, regulatory supervision and ongoing legal and compliance obligations. FinTech start-ups with limited legal and compliance resources often find it a challenge to navigate through this regulatory maze, first to gain a full understanding of the legal requirements applicable to them and then to build a compliance framework appropriate for their size and operational model.

While detailed rules can provide certainty and clear standards of behaviour, and be readily and consistently applied, a principle-based regulatory system, such as that used in the UK, has the advantage of being broader and more flexible in terms of its overall application. It also seems likely that such a system can also encourage creativity and a proportionate approach to compliance suitable for the FinTech sector.

To establish a regulatory environment for FinTech institutions to operate in that is balanced, consistent and certain, yet provides appropriate flexibility that will encourage rather than stifle innovation, calls for establishing a delicate balance between general principles and detailed rules.

Talent shortages

Another area which needs addressing is giving companies access to the right people. Highly rated as Hong Kong's education system is – consistently high in global rankings – some people are critical of its record at producing creative thinkers. While bankers and others praise the city's maths talent, they generally agree that it would benefit from producing stronger humanities graduates needed to put together the all-round teams that usually lie behind innovative new companies, products and services.

Property challenges

Finally, there are practical matters. Hong Kong's famously expensive property costs are of course a major headache. A surprisingly common complaint among smaller companies is how hard it can be to open bank accounts – a problem that can largely be attributed to a combination of increased concerns over anti-money laundering and greater risk aversion on the part of banks.

Hong Kong's advantages also all have their downsides. Appealing as Asia's demographics are in overall numbers, the region remains very much a place of multiple jurisdictions, each with its own legal system, financial infrastructure and business culture. This market fragmentation restricts the scalability potential of many FinTech businesses.

Moreover, the biggest potential market on Hong Kong's doorstep, China, is also its most intimidating. Its internet sector is home to many hugely powerful and competitive companies, due at least in part to it having almost no clear-cut rules governing online financial services.

While this has allowed for the creation of the world's third largest peer-to-peer industry, it is a place where risks are high. In 2014, well over 10% of its nearly 2,000 peer-to-peer platforms either experienced cash problems, shut down or saw their owners disappear. [16]

16 See http://english.cri.cn/12954/2015/04/14/1261s874259.htm (accessed 13 May 2015).

Where to next?
Hong Kong's potential path to success

Next steps

Overall, Hong Kong is in a good position to continue moving forward and embracing the FinTech era.

Some catching up is necessary. Singapore has shown the way in developing an entrepreneur-friendly environment which Hong Kong would do well to study.

Almost every other country in the region is ahead of the city in terms of producing legislation for key FinTech areas such as crowd-funding.

Hong Kong could also look to the UK for guidance on how to put together a regulatory system that combines encouragement of new businesses with protection for consumers.

Hong Kong's already strong education system can start producing arts and humanities students that match the abilities of its maths and science talent.

The government clearly perceives the opportunities that are already emerging. Its incubator operations run at Cyberport, by the Hong Kong Science and Technology Park Corporation, and by the Hong Kong Design Centre, already offer a network of locations where new companies can find support. StartmeupHK, its initiative aimed at building a start-up community that both supports local entrepreneurs and attracts others from around the world, is starting to gain traction in its effort to promote Hong Kong as the right place to start a business.

"The DNA of Hong Kong should be ideal to facilitate an express catch-up of our FinTech capabilities against other locations globally. To achieve our objective, this initiative must continue to gain momentum with the Hong Kong Government, FinTech leaders, educators, key professional advisors and private capital all working together. We now understand the opportunity and we have also drawn out the gaps; the next stage of this initiative must be to drill down and bridge these gaps as soon as possible."

– Rupert Chamberlain, Partner, Advisory, Head of Private Equity, Hong Kong, KPMG China

"FinTech is a global fast growth industry that will continue to change the nature of commerce. Private capital is willing to invest more but has the luxury of choosing where it will deploy its capital. For Hong Kong FinTech to attract more capital an efficient platform must be in place to give investors the confidence to invest more and invest for the long term.

In fast growth sectors, investors may have less time to make investment decisions. Therefore, to achieve an investment process with minimal regulatory ambiguity will be important for the Hong Kong FinTech sector."

– Sebastian Leotta, Director, Private Equity, KPMG China

Ahead of Hong Kong: Crowd-funding regulatory regimes in Asia Pacific

Country	Existing regulations / status
New Zealand	Legislation on equity/peer-to-peer lending in force since April 2014
Malaysia	Guidelines to facilitate equity crowd-funding issued in Feb 2015
Thailand	Capital Market Supervisory Board notification on crowd-funding in force since May 2015
Japan	Amendment Act due to come into force in May 2015
Australia	Consultation period for discussion paper closed in Feb 2015
India	Securities and Exchange Board of India released a white paper on crowd funding in June 2014; consultation period has now ended
China	Trial implementation of "Measures for the Administration of Private Equity Crowd-funding" in place since Dec 2014
Singapore	Consultation paper issued by Monetary Authority of Singapore in Feb 2015
Hong Kong	No specific regulatory framework

Sources :

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Malaysia:	http://www.sc.com.my/crowdfunding/
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Where to next? Hong Kong's route to **FinTech success:**

Six recommendations

1. Clarify which FinTech sectors will be subjected to greater regulatory scrutiny by establishing a regulatory environment that combines consistency and certainty with the appropriate flexibility

2. Allow greater freedom for financial companies to advertise their services, especially to qualified investors

3. Build further links to FinTech centres in China, especially those emerging in Shenzhen's Qianhai services zone, the Shanghai Free Trade Zone and in Tianjin's Binhai New Area

4. Increase collaboration between different supervisory agencies aimed at simplifying the processes of establishing FinTech businesses in Hong Kong and guiding them through a matrix of applicable regulations

5. Continue to invest heavily in education, but broadening support to include a greater emphasis on creative subjects, including the humanities

6. Facilitate greater cooperation between the public sector, FinTech players and other financial industry groups such as the Hong Kong Internet Finance Council to grow FinTech in Hong Kong

Conclusion: Beyond finance

Developing a successful FinTech sector will bring broader economic benefits far beyond finance

Establishing a vibrant peer-to-peer lending system, equity crowd-funding and other ways in which lenders and investors can be brought into contact with entrepreneurs and their companies, will help both new and existing companies across the board.

Crypto-currencies, improved data analytics, and more sophisticated wealth management tools will help people manage their money – be it the more prosperous looking to have greater control over the impact of their investments, or those such as domestic helpers from overseas looking for cheaper ways of remitting cash back to their families.

FinTech should also be a major boost for Hong Kong's technology sector in general – encouraging companies and individuals which have avoided the city because of its high costs to consider establishing operations.

Finally, it should give new impetus and direction to Hong Kong's long tradition of entrepreneurship. In recent decades, the city's wealth and well-being have largely been built on a combination of finance, trade and property.

FinTech can build on all these areas while simultaneously offering a way of broadening and extending the city's technology reach, fostering innovation and increasing its wealth and competitiveness.

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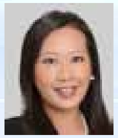

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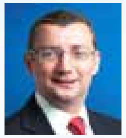

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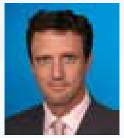

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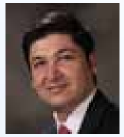

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