

The Rise of FinTech

Getting Hong Kong to lead the digital financial transition in APAC



November 2014 - 1st Volume

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Presented to:



InvestHK
The Government of the Hong Kong
Special Administrative Region



Foreword

Hong Kong is one of the world's leading financial centres, in addition to being strategically located at the heart of the Asia-Pacific (APAC) region. There is currently a unique opportunity for Hong Kong to maintain its leadership as a financial centre by turning the city's focus towards establishing itself as a Financial Technology (FinTech) Hub for the region.

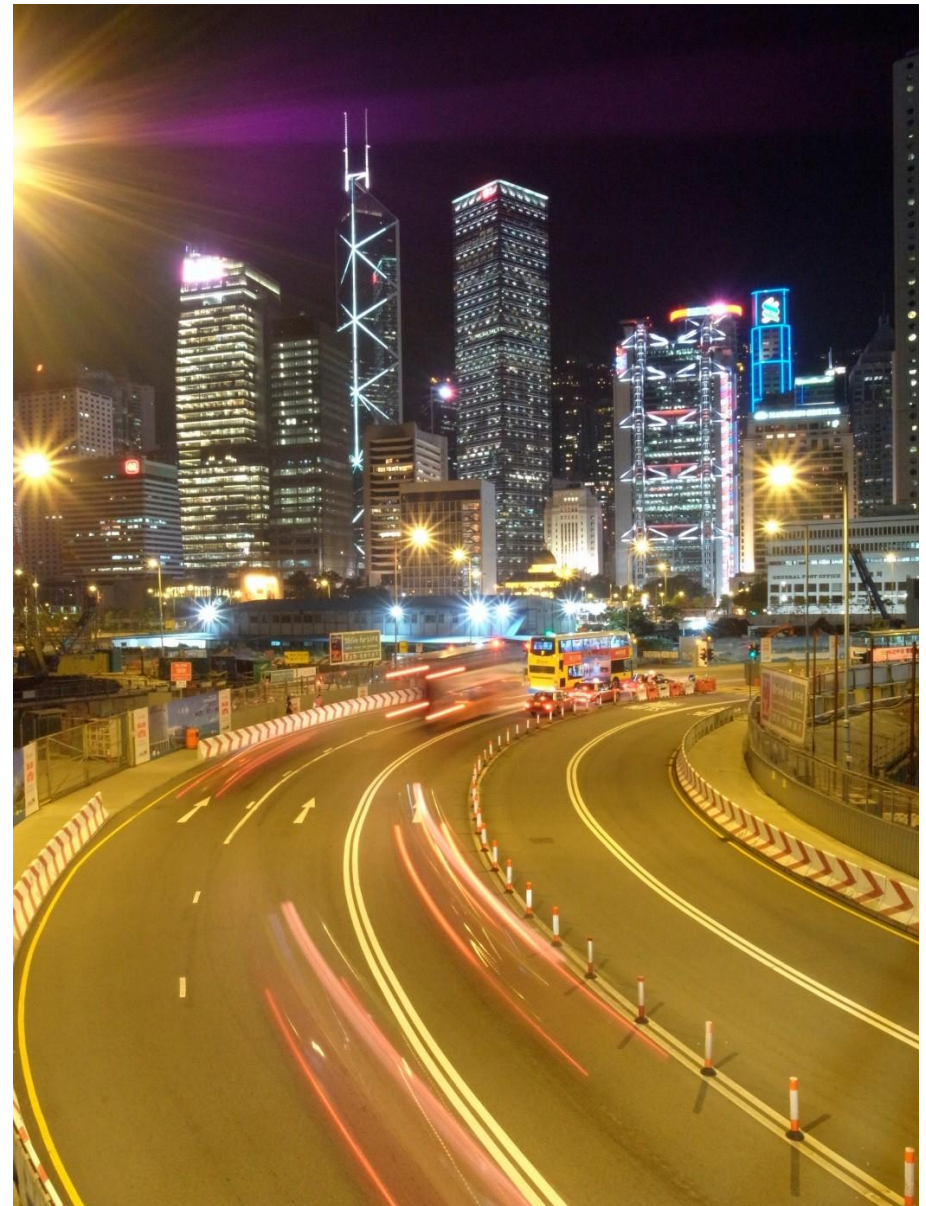
To do this, Hong Kong can immediately leverage on its existing financial expertise, resources and infrastructure. However, it will also have to continue the effort to provide an attractive environment for entrepreneurs who are disrupting the way finance is done. As a FinTech hub, Hong Kong will be able to capture part of a booming market driven by the increased digitalization of the world's economy. In 2013, over \$3 billion of investments in FinTech have been made worldwide and this is set to triple by 2018.

Within APAC, the regional mismatch between banking and telecoms infrastructure means that FinTech provides one of the most cost-effective methods of delivering banking services to the 1.2 billion people without a formal bank account. Not only this, there are already over 620 million digital banking customers in the APAC area for whom the use of technology in finance is a daily reality.

The future is bright for Hong Kong, provided that the city can devise a strategy that will help change Hong Kong's status from an emergent FinTech hub into a global leader. By doing so, Hong Kong will support the region to perform its digital financial transition as well as reach a rapidly growing market which is deeply innovative, highly rewarding and genuinely inclusive.

Let's FinTech!

Janos Barberis
Founder
FinTech HK



Key Findings

The report aims to provide readers with an introduction to the growing FinTech environment in Hong Kong. Here are some of the key findings:¹

The FinTech Market

The FinTech sector has experienced significant growth, led by the digitalization of the financial industry, the commoditization of IT products & services, changes in customer behaviour and an increase in regulatory cost for financial institutions.

- The FinTech market represented over **US\$ 3bn** of investment in 2013
- Innovation is reinventing the way financial products are delivered
- Significant time and cost savings for both companies and end-users

Why Hong Kong as a Hub?

Hong Kong displays numerous characteristics which enable the city to establish itself as a leading FinTech Hub, on par with London or New York:

- **70 of the world's 100** largest banks are in Hong Kong
- HK is ranked **1st** for the quality of its infrastructure
- Entrepreneurs, financial institutions and regulators are in close proximity

The APAC Market

The APAC market is currently undergoing a rapid digital financial transition, opening up significant market opportunities which are only a **5-hour flight away**:

- Regional mismatch between banking and telecom infrastructures
- Over **1.2bn** people in the region don't have a formal banking relationship
- A majority of the **3.6m** HNWIs expect to manage their wealth digitally

¹ Sources: Accenture, CB insights, HKTD, World Bank, Capgemini, McKinsey & Company, Ernst & Young, InfoDev, Hong Kong Government – Full referencing available throughout the report.

China Opportunity

China represents the largest single market for FinTech and has already entered its digital financial transition:

- Digital Banking customers expected to triple by 2020, reaching **900 million**
- Inefficient banking sector increases customer demand for innovation
- Largest worldwide crowdfunding market has **US\$ 47bn** potential

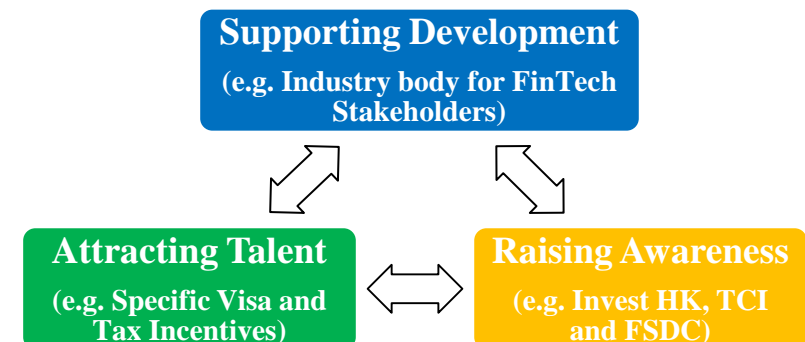
Stakeholder Interviews

Local and international key stakeholders (e.g. entrepreneurs, investors, government) have been interviewed to hear their views regarding Hong Kong's prospects as a FinTech hub and the regional opportunities it presents:

- Hong Kong is **1st** in terms of attractiveness for start-ups
- **1st Financial centre in China** and **3rd** in the World
- **66%** of the world's middle class will live in APAC by 2030
- APAC can leapfrog the legacy solutions found in EU and North America

The Future

A set of recommendations has been submitted in this report in order to help Hong Kong change its status from an emergent regional FinTech hub into a global leader. Each recommendations tackle the following three objectives:



What is FinTech?

Background

FinTech refers to the application of technology within the financial industry. The sector covers a wide range of activities from **payments** (e.g. Contactless) to **financial data and analysis** (e.g. Credit scoring), **financial software** (e.g. risk management), **digitized processes** (e.g. authentication) and, perhaps most well-known to the wider public, **payment platforms** (e.g. P2P lending).²

The services provided by FinTech companies can either be delivered to financial institutions or directly to end-customers. To its users, the inclusion of a FinTech solution within their business process or daily life brings some of the following benefits:

Financial Institutions	Individuals
Reduction in operating cost New cross-selling opportunities Better risk-management	Customer-centric Mobility & Accessibility Simpler and Faster access to credit

Table 1: Sample of Benefits brought by FinTech

The Emergence of FinTech

The financial sector had already previously relied on technology to bring new products to market. For example, the introduction of the ATM in the 60s represented a change of the way customers managed their financial lives. However, since 2008 the rate at which technology is being used within the financial sector has dramatically increased.

The boom of the FinTech sector can be explained by different factors. On the one hand, public trust in financial institutions has sharply diminished due to the economic impact of the financial crisis on businesses and households.

On the other hand, banks were faced with a more onerous regulatory framework which diverted their resources towards compliance, instead of delivering innovative and customer-centric solutions.

Technology companies have leveraged on the opportunity arising from the public demand and the incapacity of banks to adapt quickly. They entered the market by offering near-perfect substitutes to financial products that were otherwise historically provided by banks (e.g. loans, personal current accounts, currency transfers).

However, and most importantly, the FinTech industry can do so at a price point and via channels which are in line with new customers' behaviour and the expectations of a digital age, something banks had difficulty in doing.

The Market Today

The FinTech sector has therefore responded to a genuine demand led by customers and banks alike, whilst supplying products and services in a competitive way. So much so that investment in the FinTech sector has increased from approximately \$150 million in 2008 to over \$3 billion in 2013, with some estimates projecting that this number will reach \$8 billion by 2018.³

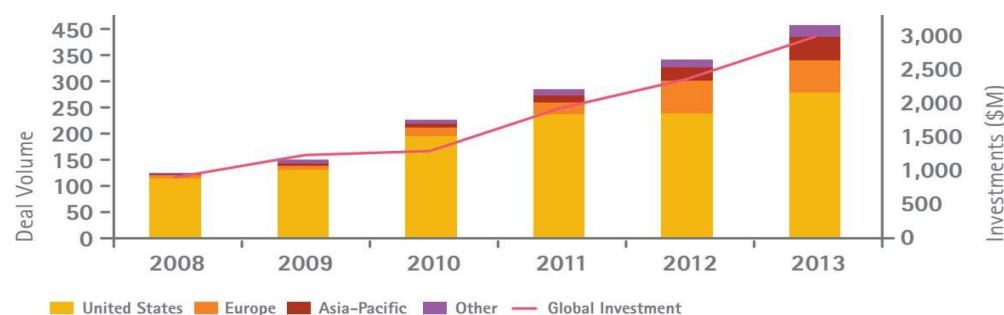


Figure 1: Global FinTech Financing Activity (source: Accenture)

² Ernst & Young commissioned by UKTI, 'Landscaping UK FinTech'

³ Accenture & CB Insights, 'The FinTech Investment Landscape' – Accenture, 'The Rise of FinTech'

“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”

Article 109 – The Basic Law



Why Hong Kong as a Hub?

The Hong Kong Edge

Hong Kong has historically been one of the world's leading financial centres. When looking at key economic indicators⁴, the role of the financial sector is clear not only vis-à-vis its *domestic* importance but also as a key *export* sector it represents:



Figure 2: Importance of Financial Sector within Hong Kong's economy

The fact that Hong Kong is China's 1st and the world's 3rd financial centre is important in the case of FinTech, as this sector not only requires an availability of funds, but also a pool of human capital, which for Hong Kong represents a 228,800-strong workforce⁵. These financial professionals hold not only the necessary knowledge to bring innovative products to markets that are very often regulated, but also have first-hand experience of where certain inefficiencies exist.

As far as technology and R&D are concerned, the Hong Kong government has recognized that there is a real growth opportunity for the sector to assume a higher proportion of Hong Kong's GDP and has thus started various initiatives going in this direction.

⁴ Hong Kong Government, 'The Facts Financial Services' & 'Hong Kong as a Service Economy'

⁵ Census and Statistics Department, 'The Financial Services Sector in Hong Kong'

Finally, Hong Kong possesses an attractive tax environment, efficient infrastructure and market access, which are all essential factors to providing a robust ecosystem for the emergence and long-term establishment of the FinTech sector.

Comparing Hong Kong to Other Established Hubs

Today Hong Kong is still an emerging FinTech Hub when compared to most established players such as London and New York, which between them capture over **80%** of the FinTech investments and deals. However, the share going towards the APAC region is rapidly rising.⁶

This also means that Hong Kong's rivals represent valuable benchmarks, allowing the comparison of Hong Kong's characteristics with those of the two other Hubs so as to identify where Hong Kong's competitive edges and gaps lie:⁷



Figure 3: Competitive Strengths and Weaknesses Comparison

⁶ Accenture, 'The Rise of FinTech'

⁷ World Economic Forum, 'Competitiveness Report 2013-2014'

Opportunities and Challenges

As seen above, Hong Kong distinguishes itself as a leading financial centre (e.g. hosting **70 of the 100** world's largest banks) and a world leader when it comes to its infrastructure (e.g. Cushman & Wakefield identified Hong Kong as the safest place for setting up data centres in Asia).

However, Hong Kong needs to address certain gaps in order to propose a complete and coherent eco-system for the FinTech sector and promote its growth.

Gradually, this is something that has been acknowledged and is currently being addressed by various public and private initiatives. Today, each is contributing towards the objective of helping the burgeoning start-up community to foster innovation and turn ideas into successful companies. Tomorrow, Hong Kong will be seen as a platform where companies can showcase their products and services and then use this location as their global launch pads.

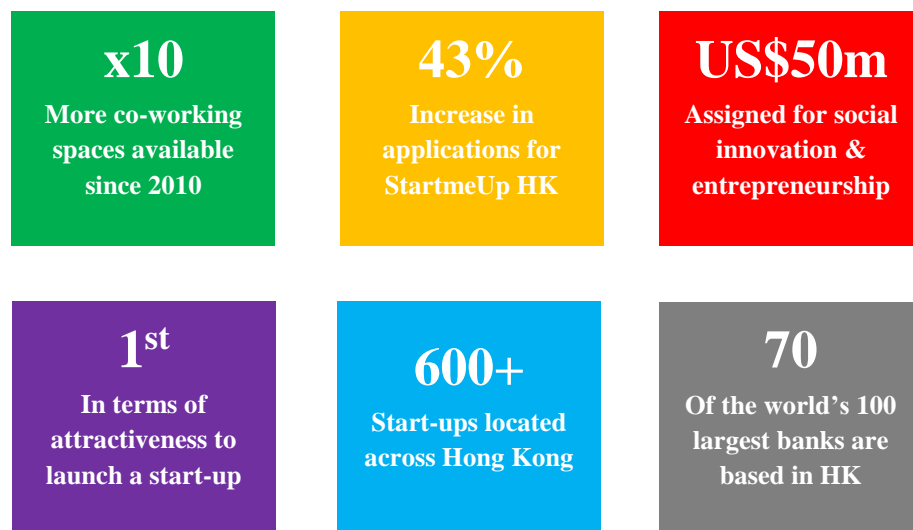


Figure 4: Key Factors Promoting Innovation (source: Invest HK & StartmeupHK)

Timeline of a Fast-Growing FinTech Landscape:

When looking at the last 6 months, an increase in activity within the FinTech sector in Hong Kong is noticeable. This confirms the efforts put so far in helping the emergence of a solid start-up community as well as progressively affirms Hong Kong's establishment as a FinTech Hub:

- **May '14:** Hong Kong sees the installation of its **2nd** Bitcoin ATM in Mong Kok
- **May:** Startupbootcamp FinTech has its first Pitch Day in Hong Kong
- **June:** NEST, a VC firm, launches Hong Kong's first equity crowdfunding platform Investable.vc with **15 companies** for a beta launch
- **July:** WeLab Holdings, an internet finance start-up in Hong Kong raised **US\$ 14 million** from Li Ka-shing and Sequoia Capital
- **August:** 8 securities, an online brokerage firm, raised **US\$ 9million** in a series B round as it expands into mainland China
- **September:** FinTech Innovation Lab APAC announces that **2 out of 8** winners of its program already had offices in Hong Kong (AMP and Qx Branch)
- **September:** InvestHK announces that **5 out of 40** semi-finalists from around the world can be linked to FinTech
- **September:** Pacific Century Group provides **US\$ 50million** to Nova Founder Capital to boost FinTech investment in Asia
- **October:** AmbiClimate, a Hong Kong start-up uses a P2P crowdfunding site kickstarter, **doubling their funding goal** in just 24 hours
- **November '14:** InvestHK organises its **1st** FinTech day to raise awareness about the sector

Local Stakeholders' Views

Key stakeholders were interviewed so as to hear their opinion regarding Hong Kong's FinTech Hub status.

A Government Representative:

"Hong Kong is Mainland China's global financial centre and a leading international financial centre alongside London and New York. The city's important role and general competitiveness is widely acknowledged by various recognized ranking reports. With the centre of economic gravity shifting from the West to the East, Hong Kong is the only place in the world where the global advantage and China advantage converge in one single city.

5 hours

Flight time from Hong Kong to reach half of the world's population

Home to 70 of the world's 100 largest banks, Hong Kong is Mainland China's gateway to the world's financial markets as well as serving as a unique platform for global investors to pursue opportunities in the Mainland. The city gives them access to a rich pool of professional talent as well as an increasing significant pool of capital and wealthy investors.

As Mainland China's first and largest off-shore Renminbi centre, a premier asset management hub and an international capital formation centre, Hong Kong's evolving role offers an ideal testing ground for Mainland China's financial market liberalization as well as a unique platform and a natural evolution for FinTech start-ups and entrepreneurs to develop, test, showcase and globally launch their products and services.

Hong Kong is at the heart of Asia with half of the world's population living five hours flight from the city. It is the gateway to the Asia-Pacific region's 4.3 million high net-worth individuals (HNWIs), whose combined wealth totals US\$14 trillion. Hong Kong alone is home to 124,000 HNWIs. By 2020, the estimated number of millionaires in Hong Kong and Mainland China will reach 3.7 million.

3.7 million

Estimated number of millionaires in Hong Kong and Mainland China by 2020

Together, therefore, Hong Kong and Mainland China offer a tremendous source of funding potential (e.g. wealth management, family offices, HNWIs). Although much of this wealth is not invested in start-ups, there are encouraging signs where Hong Kong-based family offices and HNWIs are starting to allocate part of their capital towards funding start-ups. There is a huge opportunity for Hong Kong-based entrepreneurs and start-up ventures to capture part of this capital from both individual and institutional investors as the fast growing ecosystem evolves and celebrates its success stories. Finally, Hong Kong's image is always developing. Today, the city is known as a powerhouse financial center. It is rapidly moving towards becoming a thriving and attractive destination and hub for innovation and entrepreneurship"



InvestHK
The Government of the Hong Kong
Special Administrative Region

Simon Galpin
Director General
Invest HK

An Entrepreneur:

“Hong Kong has a strong entrepreneurial spirit and a supportive business environment, as well as highly developed financial services and ICT sectors. In order to become a FinTech Hub, however, stakeholders need to align their efforts. The Accenture FinTech Innovation Lab APAC (of which AMP is a participant) is a good example of this approach.

At AMP we seek to enable banks across APAC (and beyond) to profitably offer short-term unsecured loans to under-served small business customers. Whereas many start-ups and growth-stage companies seek to disintermediate established financial institutions, we see an opportunity in providing them with a lean, technology-driven, outsource solution.

HK\$ 6tr

Loans outstanding
which could
support FinTech

Hong Kong needs investors with the knowledge, experience, and risk appetite to lead Series A and Series B funding rounds. One option might be for the territory’s strong banking sector – which recorded HK\$6.46 trillion in total loans outstanding last year – to provide facilities to start-ups and growth stage FinTech companies.”

A M P

ADVANCED
MERCHANT
PAYMENTS

James Lloyd

Head of Strategy & Corporate Development
AMP

An Investor:

“Hong Kong is connected to the western markets and the Asian markets. It really is a population that is truly east meets west. For example banks from China sit comfortable in Hong Kong alongside HQs for Asia banking brands like Citibank, HSBC & JP Morgan. That already gives FinTech in HK double the access of say markets like Silicon Valley trying to do the same thing. Before you say it, Yes Singapore is strong in this space as well but the banking sector is much larger than Singapore in HK.

x3

HK banking sector
size compared to
Singapore

There is huge brain power with inside knowledge of the banking sector based in HK. The opportunity is to bring FinTech startups from all over the world to HK and support the ones that are already here to scale globally – from HK these FinTech companies need to be powered up and then take the startup ideas to the APAC markets to test the concept out before looping the idea back round to launching in development markets like the US or UK.

The only thing stopping HK being a hub for FinTech ideas is mind set. Belief it can be the hub is the only thing stopping it being the hub. On paper HK has it all, its ease to do business, low tax and huge knowledge of the financial services sector linked to the access to large investor capital and talent means it primed to at least see some of the best FinTech ideas come from the HK market.”



Simon Squid

CEO & Founder
NEST Investment

An Investor:

“Hong Kong is at the intersection of linking China to the global financial centers and has been fortunate to attract some of the world’s leading talent who understand tomorrow’s FinTech/FinServe challenges and trends. As the Asian financial markets continue to grow globally in importance, the chance to address new opportunities will reside locally. Start-ups in London, New York or Silicon Valley will not see the potential in Asia since the financial markets in APAC are developing with a different trajectory.

There are many FinTech opportunities in Asia, including alternative lending, the use of Big Data for credit scoring, implementing technology solutions for KYC and FACTA compliance, prepaid and virtual cards and wallets, security as well as a host of mobile applications. The demographics of more than 2 billion Internet users, with the largest absolute number of smartphones and 66% of the world’s middle class, which will reside in the APAC by 2030, will drive FinTech innovation in Asia. According to AT Kearney, by 2014, APAC will account for 40% of the world’s mobile data generated.

66%

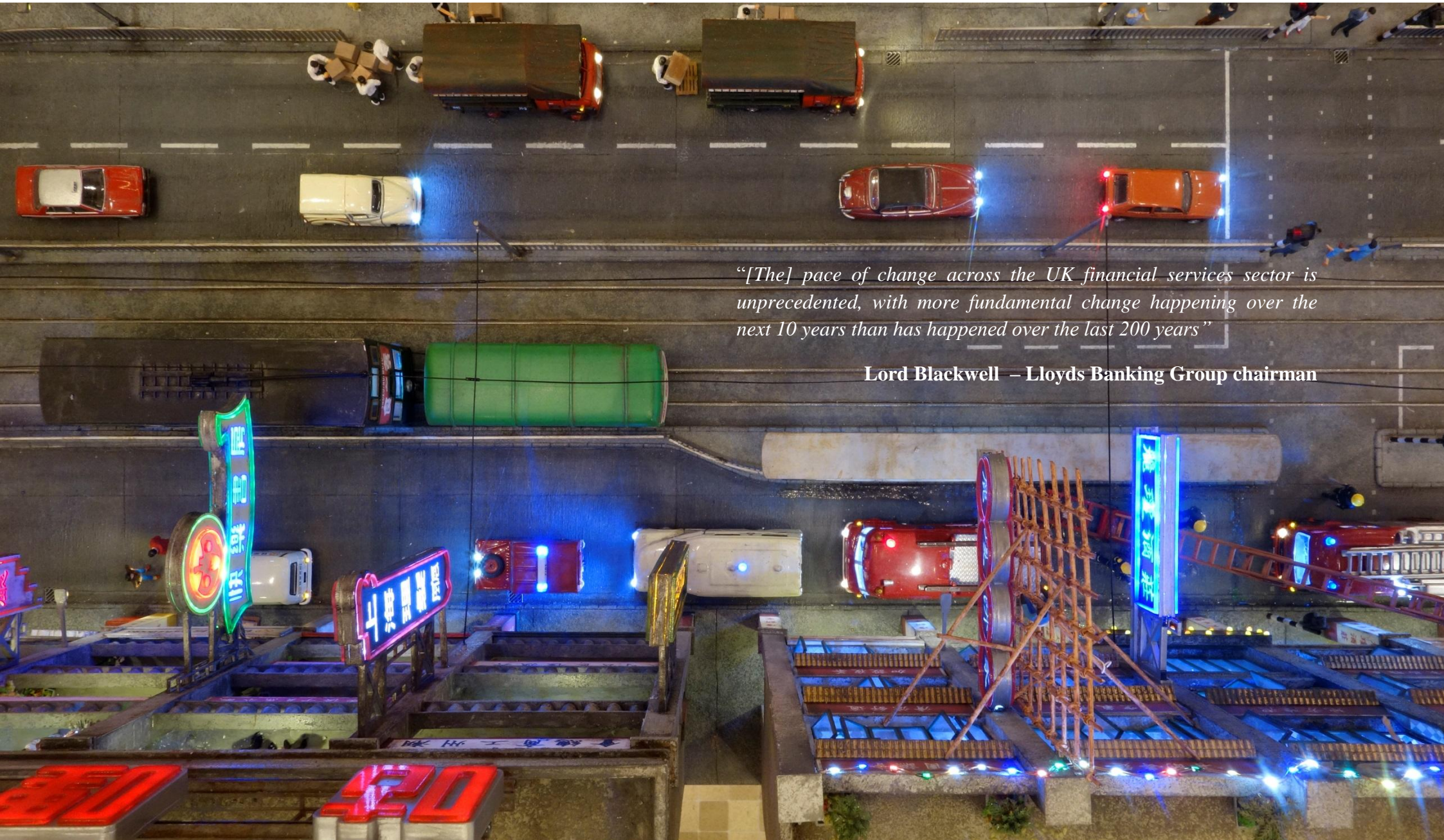
Of world’s middle
class will reside in
APAC by 2030

The senior level talent pool of both locals and expats in Hong Kong is very strong. However, the challenge has been competing for the top talent with the alluring compensation of the investment banks. Additionally, Hong Kong needs to address the work visa issue and define a category for start-up talent and make it easier for undergraduates to remain post-graduation in Hong Kong.”

 ARBOR VENTURES

Melissa Guzy
Managing Partner
Arbor Ventures





“[The] pace of change across the UK financial services sector is unprecedented, with more fundamental change happening over the next 10 years than has happened over the last 200 years”

Lord Blackwell – Lloyds Banking Group chairman

The APAC Market

Current Situation

The Asia Pacific (APAC) market is characterized by some important particularities, which make it well-suited to benefit from FinTech innovation.

Firstly, from a demographic perspective the opportunities to provide FinTech solutions are broad, as Asia has both the highest number of unbanked⁸, but also the fastest growth of high-net-worth individuals:⁹



Figure 5: APAC demographic characteristics

This puts Asia in a unique position, as digital channels for banking represent the most cost-effective way for financial inclusion of people without bank accounts. They are also the preferred method of interaction for wealthy customers. This is a unique moment in time, where FinTech is both the only economically viable way to bank the poor, but is also the most demand-led way to bank the affluent.

Secondly, the first characteristic is combined to the fact that physical banking infrastructure in the APAC region is less dense than its European counterpart. According to the World Bank, when comparing branch penetration (per 100,000 persons) in the top 5 countries by population size, these numbers in the EU and the APAC region are 62.5 and 12.5 branches respectively:

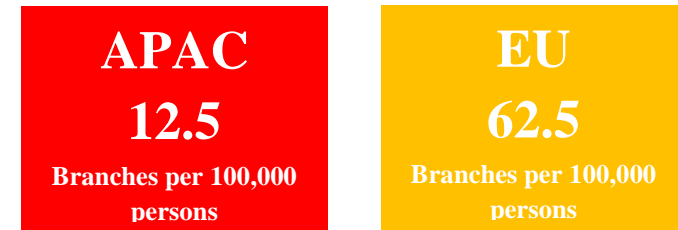


Figure 6: Branches per 100,000 Comparisons between APAC and EU

This mismatch between physical banking infrastructure and non-physical telecommunications infrastructure makes the introduction of digital banking particularly likely in APAC.

Future Opportunities

The APAC market has yet to fully perform its digital financial transition. This affects the number of future digital banking customers, which is set to reach 1,700 million by 2020, up from 670 million in 2012.¹⁰

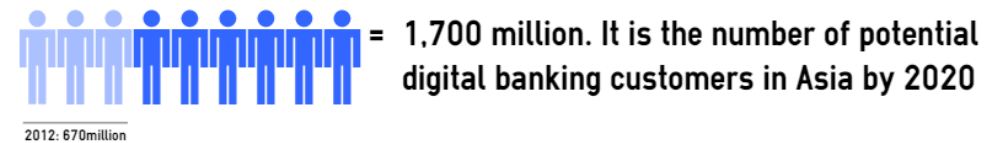


Figure 7: Potential digital banking customers in Asia by 2020

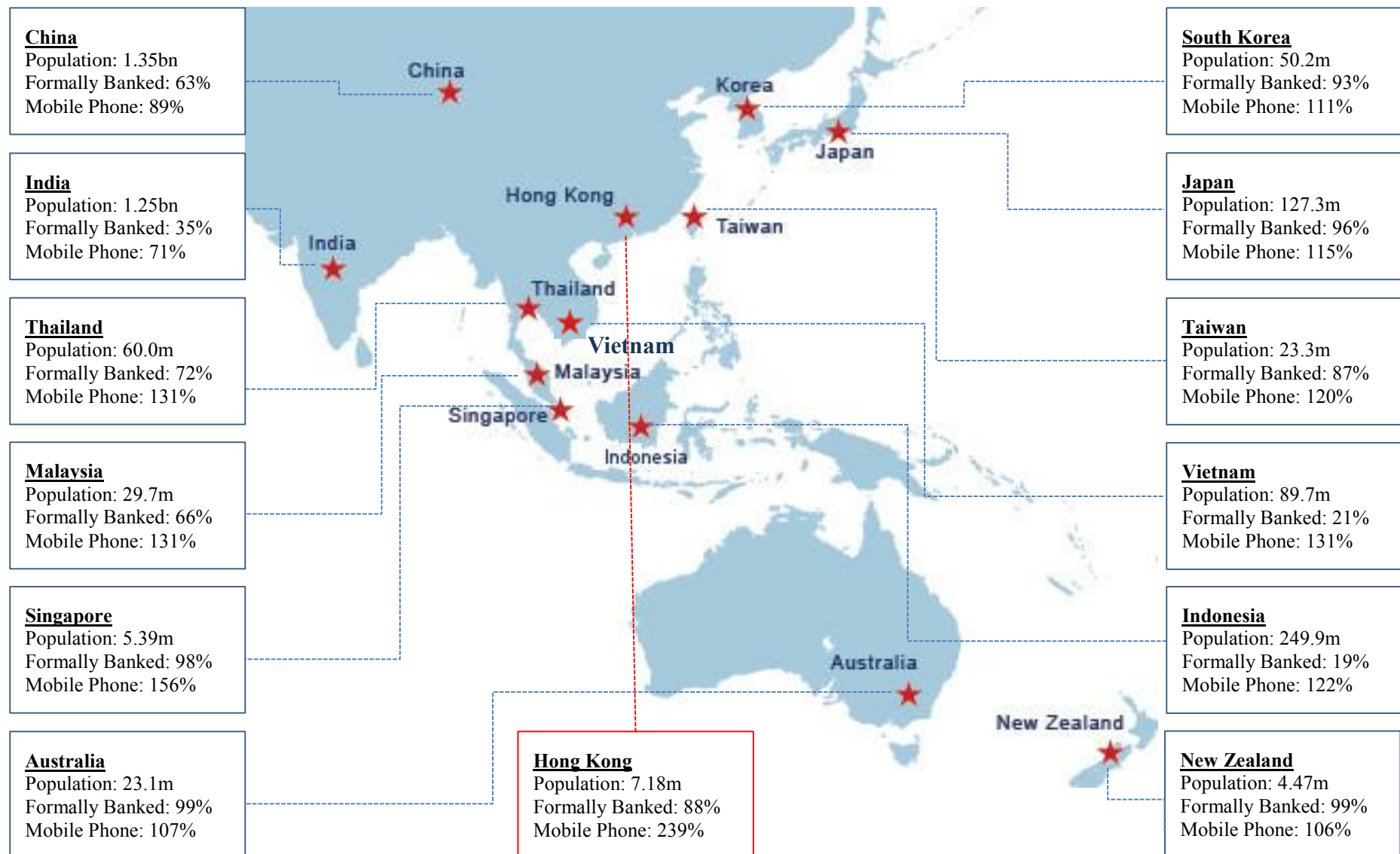
Finally, the fact that certain banks in the region are only too lightly capitalized means that they will have difficulty in extending credit to the emerging middle class, which will demand more unsecured loans. This means that P2P alternatives may provide a likely and cost-effective way for customers to finance their needs, especially if liquidity across Asia can be shared via P2P platforms (e.g. between Japan and Vietnam).

⁸ World Bank, “Global Financial Development Report 2014” – “Who are the Unbanked?”

⁹ Capgemini, “World Wealth Report 2014”

¹⁰ McKinsey & Company, “How to prepare for Asia’s digital-banking boom”

Map: Financial Inclusion Regional Market Opportunities¹¹



¹¹ Data from World Bank Data Bank & CIA World Fact Book

The Chinese Market

Limited Legacies and a Sea of Opportunities

China possesses unique specificities that make it arguably more suitable than its western counterparts to introduce FinTech innovation within its banking sector.¹² Indeed, World Bank statistics show how China differs when it comes to the current banking infrastructure it has:

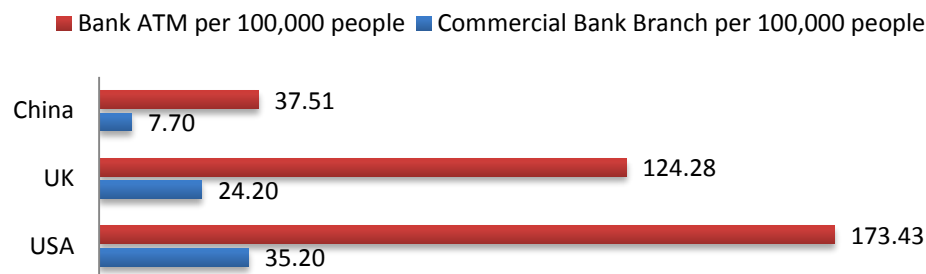


Figure 8: Banking Infrastructure Comparison

The fact that China lags behind in terms of ATMs and branch penetration reflects the fact it only started to engage in financial reforms in the 70s. However, the same cannot be said when looking at telecommunications infrastructure penetration within the country:

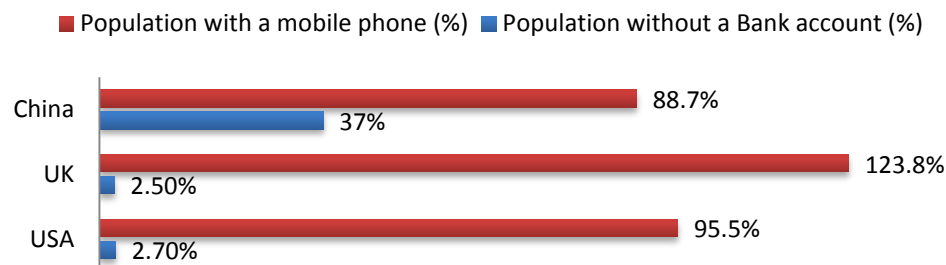


Figure 9: Mobile Vs Banking Penetration Comparison

¹² Even though it should also be recognized that the weak rule of law is a deterrent for certain FinTech startups.

A mismatch can be observed between China's physical banking infrastructure and its non-physical telecommunications infrastructure.¹³ As a result, it is easy to see how China will more naturally be drawn towards a digital financial sector, as opposed to one that is delivered through a brick-and-mortar presence. Indeed, this is already the case.

The Alibaba Group and the Rise of FinTech

Technology has increasingly blurred customers' perception of who can deliver a financial service. The capacity of depositing money and accessing it at any time to make a payment is not anymore reserved to deposit accounts held at banks. For example, the Alibaba Group has created a range of FinTech companies which are addressing some of the inefficiencies of the Chinese banking sector:

- **Alipay** - Payment processing handling over 1 million transaction per day¹⁴
- **Yu'E Bao** - Near substitute to current accounts, attracting more than \$94bn of deposits¹⁵
- **AliFinance** - SME Loans with over 409,000 borrowers receiving between \$3-5k¹⁶

Furthermore, China is also faced with another difficulty, which is the fact that 432m of its citizens are not banked. The implication of this is that those have no formal credit history on which banks can assess the risk of prospective clients.

However, 46% of the population is active on social media and over 20m users have made purchases using the social media network Tencent. Leveraging the richness of this data to evaluate the worthiness of future clients is something that FinTech can do and that banks and internet finance companies will be interested in.

¹³ A similar observation can be made for the APAC region, see the map: Financial Inclusion Regional Market Opportunities

¹⁴ Shrader L. and Duflos E., 'China: a New Paradigm in Brancheless Banking'

¹⁵ Yu'E Bao is a service that offers Alipay customers the possibilities to invest their idle cash in money market funds. Those accounts are redeemable on demand and pay higher interest on "deposit" held.

¹⁶ Shrader L. and Duflos E., 'China: a New Paradigm in Brancheless Banking'



There is fierce international competition for this growing industry. And you need the right support from government to win this global race – you need the best investment environment, the right tax system, the appropriate regulatory rules, the best infrastructure, and a government that gets out there in the world and sells your products and services.”

George Osborne

The Rise of FinTech Hubs

An International Movement

Since New York and London were established as FinTech Hubs, an increasing number of cities have sprung up, wishing to follow a similar path:

- **Sydney** has recently commissioned a report to evaluate the necessary steps needed to become a FinTech Hub.¹⁷
- **Dublin** has officially announced the hosting of the FinTech Innovation Lab in partnership with Accenture and the government agency Enterprise Ireland.¹⁸
- **Singapore** has extended its \$200million state-owned VC fund to EU tech start-ups and invested in Startupbootcamp.¹⁹



Figure 10: Recent FinTech Centres in the News

The rise of those three locations serves as another confirmation of the interest given to the FinTech sector. However, this also means that there is an increased competition within that space.

¹⁷ KPMG & The Committee for Sydney, “Unlocking the Potential: The FinTech opportunity for Sydney”

¹⁸ Finextra, ‘Accenture brings FinTech Innovation Lab to Dublin’

¹⁹ Techcrunch, ‘Singapore’s Infocomm investments brings fund to Europe, invests in Startupbootcamp FinTech’

Putting Hong Kong on the Map

Hong Kong is joining a small group of cities around the world which are supporting the development of the FinTech eco-system. Leadership in that space is key as it can attract talent, capital and diversify the financial sector. Not only this, but it may also affirm Hong Kong as a financial centre which is in line with the 21st century and let it export its vision beyond its borders.

A reflection of this can be seen with London, as it has early-on appreciated the benefits associated with being a FinTech capital for the world. In an unprecedented move, a range of stakeholders have aligned their efforts to firmly establish the City’s leading position. Today the UK provides valuable case studies, amongst which:

- The establishment of a FinTech Trade body: *Innovate Finance*
- The Financial Conduct Authority (FCA) initiative: *Project Innovate*

Those are some of the many examples which can serve as both a roadmap and benchmark for future FinTech hubs. This shouldn’t come as a surprise, as a marking feature of leading financial centres is their capacity to create and export standards.

Importantly, Hong Kong’s future FinTech Hub should be seen as a complementary offering alongside the other services it proposes as a financial centre (e.g. investment management, insurance, professional services). If the economic and financial impact of this diversification will take time to materialize, it is nonetheless important that the reflections start today.

Indeed, the competition comes from established and emerging financial centres either domestically (e.g. Shanghai, Shenzhen), regionally (e.g. Singapore, Sydney) or internationally (e.g. London, Toronto). This competitive pressure serves as a reminder that Hong Kong’s capacity to retain leadership should also come from its ability to rethink itself in the light of shifts caused by recent technological, market demand and regulatory changes.

International Stakeholders' Views

External stakeholders shared their opinions about Hong Kong's FinTech potential:

Views from London:

"Hong Kong is not a FinTech hub yet. However, Hong Kong has the right combination of infrastructure, finance and regulation to become a major hub quickly – after all, a recent research from Washington State University identified Hong Kong as the most attractive place in the world to launch a start-up.

1st
In terms of
attractiveness to
launch a start-up

Asia's banking environment is unique in its diversity. 4% have a bank account in Cambodia, but 100% in Hong Kong. The FinTech opportunity resides in the creation of a banking proposition that will leapfrog the conventional model in underbanked countries, and at the same time be pulled by high innovations in more advanced countries.

London has become a FinTech capital in less than 5 years thanks to the combination of a favorable ecosystem (e.g. financial institutions, entrepreneurs, investors), a supportive regulatory environment, and a momentum created by multiple accelerators. Hong Kong already has the ecosystem, a supportive regulatory environment and start-up accelerators are elements that can be implemented."

Huy Nguyen Trieu

Author of the Disruptive Finance Blog

Managing Director at a London Bank (*Views are his own*)

**Disruptive
Finance**

Views from Berlin:

"Financial Services are a comparative advantage of Hong Kong, particularly in their role as a connector between China and the rest of the world. In order to maintain and cement its advantage, the financial services industry in HK needs to evolve in line with its market's behaviours and needs, an evolution that is fundamentally driven by technology.

50%
Individuals in
APAC are
unbanked

I see mobile banking/payments and alternative credit scoring as a huge opportunity in APAC. There are various figures, but roughly 50% of APAC, around 1-1.5 billion people are unbanked. Mobile phone penetration is high and would serve as an ideal medium for managing money and facilitating transactions. Leveraging the mobile banking solutions to help drive innovative credit scoring techniques, thus facilitating access to credit for this market, is an exceptional opportunity.

HK has a good foundation for a FinTech ecosystem that will drive innovation. Financial services expertise, high standards of education and a strong university, technology skills, a history of entrepreneurship, solid institutions, and, critically, an experienced white collar workforce providing management and leadership. These elements must all come together to successfully drive FinTech development in HK."

NEW BUCKLAND

Nasir Zubairi

Principal
New Buckland

Views from Helsinki:

“Hong Kong has a prestigious history in finance, but also high levels of education and entrepreneurship. However, to become a true FinTech hub it also needs to embrace change and an ability to challenge the very institutions that have made Hong Kong the financial powerhouse that it is. If Hong Kong can do that, and enable new companies and people to enter the market with new ideas, it is extremely well placed to be a very major hub.

At 7% growth rates, according to the World Bank, the APAC region is the fastest growing in the world. Many APAC countries are in a position where they can completely jump over the legacy solutions European and American countries are struggling with. By putting those two factors together it is clear we have only seen glimpses of the explosion ahead. In other words, the opportunity is certainly massive, but players will need to be smart.

7%
Economic growth
rate of the APAC
region

Nordic companies represented 33% of all billion dollar exits in Europe, yet represent only 3.5% of the European population. This is not a coincidence. Few tech companies here aim to stay within their home markets. Relating this fact to Hong Kong, there is a need to push entrepreneurs to reach ever higher levels of ambition as well as think from day 1 about how to export their product/service beyond their own border. When this happens, I believe there should be some extremely exciting times ahead.”

**SO
LU**

Kristoffer Lawson
Founder & CEO
Solu

Views from Tokyo:

“Hong Kong's edge lies in the fact that amongst other potential FinTech hubs, Hong Kong offers the strongest access to the Chinese market. Furthermore, the fact that Hong Kong is already an established financial centre provides the emerging FinTech eco-system with a good environment in respect to funding and mentoring. Combined with the fact that Hong Kong offers a corporate-friendly environment, this provides FinTech start-ups with a good place to locate their business and grow from there.

US\$50m
VC funding for
Japanese FinTech
in 2013

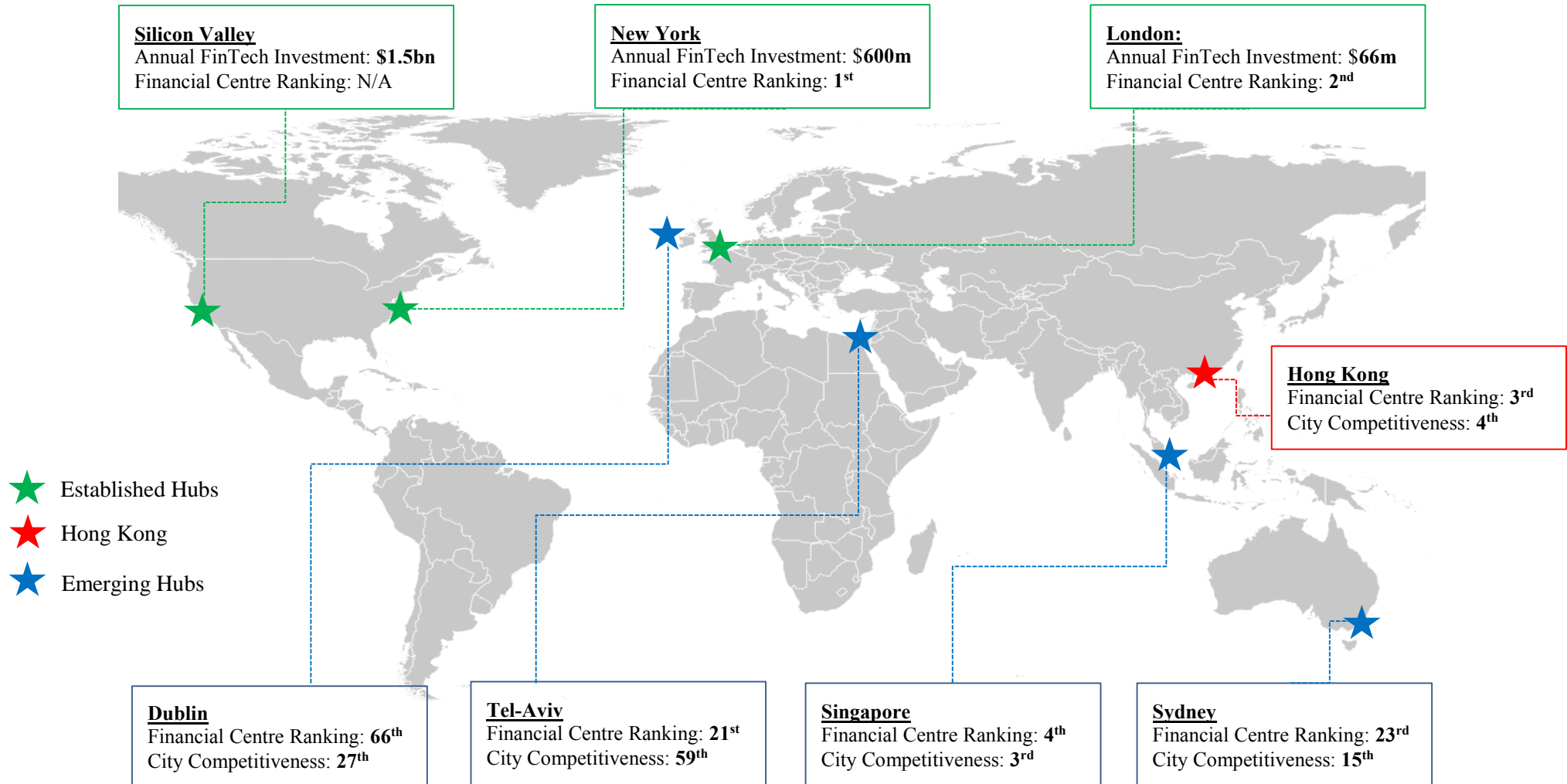
The APAC region has a wide range of opportunities on which FinTech start-ups can build a valuable business case. For example, Crowdfunder has identified the possibility to offer more efficient (e.g. channels, price, time) credit to SMEs in the South-East Asian Region.

Hong Kong offers two interesting parallels with Japan. Firstly, the FinTech industry is still at an early stage but rapidly growing. Financial regulators have authorised five P2P lenders in Japan and the FinTech VC funding for Japanese FinTech represented US\$ 50million in 2013. Secondly, if for most industries our domestic market offers sufficient market size to grow, this is not necessarily the case for certain FinTech start-ups. For example, in respect to the local P2P credit market the current interest rate environment has pushed Crowdfunder to consider from day 1 the opportunities to export our solution, and liquidity, to the rest of the world.”


Crowdfunder

Tomoyuki Sugiyama
Director
Crowdfunder, Inc.

Map: Established & Emergent FinTech Hubs in the World²⁰



²⁰ Sources: KPMG & The Committee for Sydney, “Unlocking the Potential: The FinTech opportunity for Sydney”, Citi & The Economist, “Hot spots, Benchmarking global city competitiveness”, Long Finance, “The global Financial Centres Index 15”

"I often meet very passionate young founders. They are gutsy and dare to see a future that is quite different from the past. We need to learn how to be flexible to 'capture' and leverage their energy and find a way to infuse it into our mature operations and markets"

Li Ka Shing – Asia's richest man



Departing To
HONG KONG

Proposed Recommendations

Catalyzing a Booming Market

Hong Kong is known today as a leading financial centre. However, in order to retain that edge in future, Hong Kong has to rethink itself as a financial hub that can effectively support an economy that is increasingly digital.

To do so, Hong Kong will need to establish a clear strategy which will capitalize on its current competitive advantages (e.g. infrastructure, financial focus and human resources), but also address some of the identified gaps (e.g. access to risk capital and fostering innovation). Finally, it is important to identify the regional specificities which will drive FinTech innovation. In other words, establishing Hong Kong as a FinTech hub will both be shaped by successful international examples but also affected by the region's specific demands and needs.

Indeed, whilst banking services penetration is not as comprehensive as in Europe and America, the way Asian customers digitally interact today can be at par with, if not ahead of, their western counterparts. Furthermore, the banks' capacity to provide banking services to either an unbanked population or a rising middle class whose behaviour is increasingly performed digitally is supporting the development of products and services which may not necessarily have equivalents in the rest of the world.

Keeping the Current Momentum of Change

Each suggested policy recommendation identifies a relevant stakeholder. Furthermore, having a coordinated effort emanating from entrepreneurs, public bodies, the private sector and academic institutions would enhance the impact each policy would otherwise have on its own.

Finally, when appropriate, those recommendations have been linked to a current initiative to make the most of the current moment of change:

Entrepreneurs & Start-ups:



Organize events focused specifically around FinTech so as to share knowledge and experiences. Replicate the principle of the StartmeupHK "FinTech day", have recurring meet-ups locally. Involve international stakeholders either directly or during webinars so as to gain from their outside perspective on the sector.

Public Bodies



Engage in a dialogue with the FinTech sector and help set up the policies agenda. This can be achieved by involving the newly-created Financial Services Development Council (FSDC) into a FinTech consultation and expand on Invest HK's effort to attract global talent, including FinTech entrepreneurs.

Private Sector:

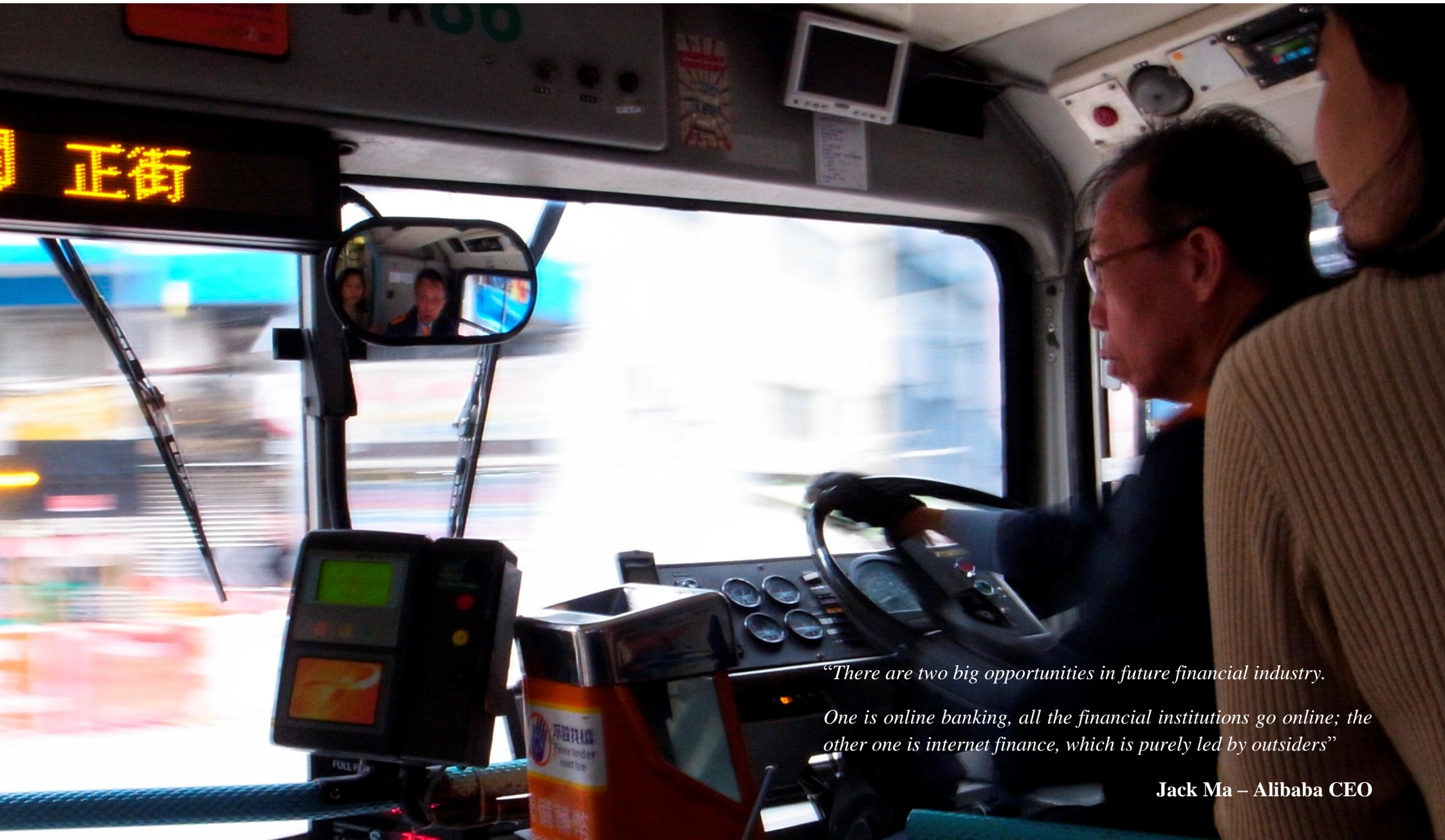


Increase the mentoring and networking opportunities to help entrepreneurs as the regulations and processes in the finance sector are quite distinct, especially on a regional basis. In that respect, continue the development led by places such as Cyberport, Startupbootcamp, which alongside the FinTech Innovation Lab APAC, supports FinTech start-ups throughout the year.

Universities:



Leverage on their expertise in specific fields such as Technology and Law. For example, the Asian Institute for International Financial Law (AIIFL) may offer an influential source of information. Finally, provide incentives for students to start their own business instead of automatically thinking of pursuing a corporate career will provide the sector with a lot of bright graduates. In that respect, the Technology Start-up Support Scheme for Universities (TSSSU) is a very important initiative.



“There are two big opportunities in future financial industry.

One is online banking, all the financial institutions go online; the other one is internet finance, which is purely led by outsiders”

Jack Ma – Alibaba CEO

More Information

About the Author

Janos Barberis is currently supporting a new UK retail bank to secure a banking license authorization from the PRA & FCA. He was the first hire, in a current team of 12, and has been involved in shaping the business proposition of the bank as well as introducing part of the bank's FinTech offering.

In parallel, he is working towards the establishment of Hong Kong as a FinTech hub, which can help APAC's financial transition towards a digital age. To achieve this objective, Janos is bringing his enthusiasm and vision for the city alongside his diverse professional and academic experience.

About FinTech.HK

Founded in July 2014, www.FinTech.HK and its associated twitter account [@FinTechHK](https://twitter.com/FinTechHK) were created to catalyse the fast-growing FinTech start-up scene in Hong Kong. This is achieved by keeping the sector informed with brief and relevant newsfeeds which are posted and updated daily.

Today, thousands are being kept informed via the platform. Tomorrow, FinTech.HK is looking to foster the establishment of a not-for-profit association that can effectively promote Hong Kong's FinTech sector by:

- Speaking up as a single voice to facilitate the mobilization of resources
- Collaborate with other sectors to bring over necessary capital and expertise
- Support the government and regulators in devising beneficial policies

The association will be composed of different partners who all contribute to the skill set necessary to provide the right environment for FinTech companies so as to disrupt, impact and thrive.

About the Report:

This report will be produced bi-annually (in November and May) in order to capture the changes within Hong Kong's FinTech Ecosystem and inform stakeholders of the progress made, the challenges ahead and emerging opportunities.

About the Logo

Proudly designed in Hong Kong, the logo reflects three important elements:

- **Modernity:** Clear and sharp lines pointing towards growth
- **Continuity:** Inspired by imperial seals used across Asia for millenniums
- **Local:** Hong Kong's iconic skyline, known by all, is represented



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StartBase.Hk ([link](#))

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Photographic Credit:

Artofphoto '[Flight departing to Hong Kong](#)' (page 21)

Chrischan1017, '[Central Hong Kong](#)' (page 26)

Fintastique, '[Hong Kong Skyline At Night](#)' (page 6)

Iakov Kalinin, '[Hong Kong Harbour](#)' (cover)

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Disclaimer

Whereas every effort has been made to ensure that the information in this document is accurate, neither FinTech.Hk nor Janos Barberis accept liability for any errors, omissions or misleading statements, and no warranty is given.

