

Norman T L Chan: What does it take to build a “Hong Kong Brand” for financial services?

Welcoming remarks and keynote speech by Mr Norman T L Chan, Chief Executive of the Hong Kong Monetary Authority, at the Treasury Markets Summit 2016, Hong Kong, 6 September 2016.

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Good morning, Ladies and Gentlemen,

1. Today I would like to talk about building Hong Kong as a “Brand” for financial services. So what is a “Brand” made up of? For merchandise goods, “quality” and “credibility” are two major components of a “Brand”.

Quality

2. Quality means the product or services are suitably designed, structured and built to meet the needs of consumers/customers. In the field of fashion or luxury goods, customers’ taste is evolving all the time but very often the “Brand” actually takes the lead in shaping the trend.
3. In the context of financial services, the concept of “quality” entails the availability of a wide range of financial products that can adequately and effectively meet the needs of customers with vastly different financial needs. For individual customers, such products range from the basic banking services for the mass market, to very sophisticated private wealth management services for high net worth customers. For corporate customers, quality products range from the basic transactional banking for the SMEs, to the very diverse and sophisticated services in treasury, hedging, and equity and debt financing for the very large corporates.
4. If Hong Kong is to become a “Brand” for financial services, it must be able to offer “quality” financial products and services. This means that we should have ample supply of financial products and services that:
 - (a) can effectively meet the needs of customers, be they individuals or corporates;
 - (b) are competitively priced; and
 - (c) are efficiently distributed through a network of intermediaries that treat customers fairly.
5. So where does Hong Kong stand now in terms of “quality”? If we benchmark Hong Kong against any of our regional peers, I would say Hong Kong stands out as one of the best in this regard. It is hard to pinpoint any key areas in which Hong Kong would have a material gap in offering a suitable and competitive product to meet the financial needs of the customers.
6. That said, it is wrong for us to feel complacent. The fact that we are good and competitive now does not mean we will remain so in the future. It is like “逆水行舟，不進則退”，“rowing a boat upstream, you either move forward or you drift backward”, but this principle is becoming even more relevant and important lately because of three recent trends:
 - (a) the world’s financial landscape is changing very fast, especially in the context of the China’s growth story and the internationalisation of RMB and the Belt and Road Strategy.

- (b) huge technological leaps in digital and internet application have drastically transformed the ways in which commercial and financial transactions are conducted.
 - (c) competition from neighbouring financial centres has intensified.
7. I would like to talk briefly along these three recent trends and how they may impact our effort to develop the quality aspect of “Hong Kong” as a “Brand” for financial services.

China’s growth story: reaching out and RMB internationalisation

8. This is a trend very familiar to most of you. It has very far reaching impact on Hong Kong’s positioning as the premier financial hub in Asia. China’s growth story, which began in 1980, has evolved from simply attracting inward direct investments and technology for manufacturing and processing trade, to becoming a major source of export of capital and technology abroad. In the last few years, the amount of China ODIs has grown very fast, reaching levels comparable to those of FDIs. This trend is likely to continue and intensify as China is embarking on an ambitious but necessary “Belt and Road” strategy. At the same time, the internationalisation of RMB, which began in 2009, is making very significant progress. Against this backdrop, there is an increasing demand from companies and individuals for high quality financial services to support newly developed cross-border trade, commercial and investment links arising from the growth story of China. The crucial issue for Hong Kong is whether it can develop and provide the products and services that suit the needs of the customers in this new era.
9. In this regard, I am pleased to say that Hong Kong has done reasonably well so far. Within a few years, Hong Kong has become the global hub for offshore RMB businesses, with the largest RMB liquidity pool and being the largest offshore RMB bond issuance and asset management centre in the world. As for the Belt and Road Strategy, Hong Kong as an IFC is uniquely well positioned to play a crucial role. However, since it is a new strategy aiming to cover markets that are less familiar to most of us, there will unlikely be too many “low hanging” fruits. Putting it bluntly, Hong Kong must work doubly hard to get into the game and stay ahead of the others. In this connection, the launch of the Infrastructure Financing Facilitation Office (IFFO) by the HKMA in early July is a concrete step to help Hong Kong capture the business opportunities that may lie ahead. This is only the beginning of a challenging process to build Hong Kong as the preferred platform for implementing the Belt and Road Strategy. Please rest assured that the HKMA stands ready to collaborate with the industry and the practitioners on this important mission.

The first panel of today’s Summit will discuss Hong Kong’s value proposition in the Belt and Road Strategy, including the facilitating role to be played by IFFO.

Technological advancement and financial services

10. The second emerging trend that I highlighted earlier relates to technological advancement in recent years, which has drastically transformed the ways in which banking and finance can and should be conducted in the real world. Technology has provided many new and very convenient means to conduct financial transactions, ranging from the basic payment and banking services to the more sophisticated trading and investment activities. While very few people would dispute the convenience and speed in which new technology can offer in financial services, there is an important catch that no regulators should and could overlook. The issue is whether the new technology is safe enough for the consumers and investors.
11. There are two aspects of safety: the operational dimension and the investor protection dimension. Just like the physical world, the digital space is full of risks. There is no lack of hackers and fraudsters who spare no time in stealing money

from the innocent people. More fundamentally, the use of new technology does not in any way alter the nature of financial transactions. For example, the marketing and selling of financial or wealth management products through the internet or mobile devices carry the same, if not higher, risks as those sold through face-to-face channels. Does the public accept less or no consumer or investor protection, such as suitability test and product due diligence, simply because new digital technology is being used? I don't think so, judging from the strong investor reactions after the collapse of many internet-based crowd funding platforms on the Mainland and overseas.

12. While regulators like the HKMA must exercise care when new technology is introduced in financial services, there are understandable concerns amongst the Fintech industry that overly rigid or conservative regulations may stifle new technology and innovation. So how do we in the HKMA deal with this issue? Let me say this: the regulatory philosophy of the HKMA is that we adopt a risk-based and technology neutral approach. Specifically, we would endeavour to see through the nature and magnitude of the risks involved in a financial transaction or product without positive or negative discrimination on whether a new technology is used. However, it is important not to misinterpret this "technology neutral" approach as one that is insensitive to the contributions that Fintech and innovation can bring to the financial sector. The more correct narrative is that, without compromising consumer and investor protection, the HKMA embraces the use of Fintech and innovation. A practical demonstration of our effort in supporting Fintech development in Hong Kong is the setting up of the "Fintech Facilitation Office" (FFO) by the HKMA earlier this year. In May, the FFO launched its first major initiative, namely, the "Cybersecurity Fortification Initiative". It is a major endeavour involving the key stakeholders in the banking as well as the Fintech industry. In the interest of time, I do not propose to say much about this important initiative today.
13. What I would like to say is that, in order to further facilitate Fintech development in Hong Kong, the HKMA has decided to launch two new initiatives today.

Fintech Innovation Hub

14. First, I am pleased to announce that the HKMA will collaborate with the Applied Science and Technology Research Institute (ASTRI) to set up the "***Fintech Innovation Hub***". It will be equipped with all necessary system and support resources to enable players of the banking and payment industry to conduct proof of concept trials of products and services through the use of new technologies, and do it safely – as this controlled environment is separated from their internal systems. Also, the Fintech Innovation Hub allows regulators to provide early inputs to the trial works before the actual implementation. While some of the largest banks have built their own laboratories, this new Fintech Innovation Hub will cater for the big and small institutions alike such that the industry as a whole would be able to adopt new technologies more speedily and in a more collaborative manner.
15. Among its potential uses, this Fintech Innovation Hub, as a neutral testing ground, will be ideal for two types of activities. First, industry players can test new Fintech solutions which involve the collaboration of multiple parties and are intended to be commonly adopted in the industry. A good example is biometric authentication. New concepts in various facial or voice recognition techniques could be demonstrated by the developers in the Fintech Innovation Hub to gather feedback from potential users and to receive regulatory guidance from supervisors at an early stage. This should help shorten the time-to-market of useful industry-wide solutions. Second, I envisage that the Fintech Innovation Hub will also benefit the HKMA. In this place, we could explore with innovators options and possibilities of using new technologies, such as Big Data Analytics and other "regtech" initiatives, to achieve our objectives

more effectively without creating undue risks or burden for our internal systems or databases.

Fintech Supervisory Sandbox

16. Meanwhile, there is also a quite commonly-held perception that the development of Fintech in the financial services sector in Hong Kong has been slow. I do not subscribe to this view, at least insofar as the banking sector is concerned. In the past few months, banks and stored value facility operators have already launched new payment facilities built on smart phones and Near Field Communication technology. These facilities have the potential of altering fundamentally the way consumers make payments. Many banks have also reported to the HKMA their intention to roll out very soon new technology with a view to providing more secure and efficient services to customers. I mentioned earlier biometrics authentication technology involving voiceprints and fingerprints. This is indeed something that many banks are planning to roll out. Additionally, blockchain, robotics and augmented reality are also being explored by banks to improve their services or streamline their operations.
17. To further support the development of Fintech in the banking sector, I am pleased to announce today the launch of HKMA's second initiative, which is the "***Fintech Supervisory Sandbox***". This Sandbox allows banks to conduct testing and trial of newly developed technologies and applications on a pilot basis. Within the Sandbox, banks can try out their new Fintech products without the need to achieve full compliance with the HKMA's usual supervisory requirements. This will enable banks to gather real-life data and user feedback on their Fintech products or services more easily and in a controlled environment, so that they can make suitable refinements to their products before the full launch. The HKMA does not intend to stipulate an exhaustive list of the supervisory requirements that may potentially be relaxed within the Sandbox. Examples of these requirements include security-related requirements for electronic banking services and the timing of independent assessment prior to launching of new technology services. Banks intending to access the Sandbox are advised to get in touch with the HKMA early.

My HKMA colleagues stand ready to discuss with the banks individually on the appropriate supervisory flexibility that can be made available to them within the Fintech Supervisory Sandbox.
18. Further details of the Fintech Innovation Hub and the Fintech Supervisory Sandbox will be announced by the HKMA later today.

Competition from neighbouring centres

19. Ladies and gentlemen, I have spent quite some time talking about Fintech today. Now I would like to talk about the third emerging trend that will impact the development of Hong Kong as a "Brand" for financial services, which is the intensification of competition amongst financial centres. We all recognise that money managers and asset owners are very smart and extremely mobile. They do have a choice on where they park and manage their money and wealth, and they know it very well. Therefore, it is not a question of whether Hong Kong is good or not. Even if we are good, it is a question of whether we are better than our competitors, many of whom have high aspirations and are catching up fast. Hong Kong as a Brand for financial services does not enjoy a monopoly or franchise. We must remain vigilant and diligent at all times if we wish to continue to maintain a competitive edge.
20. In this connection, I am pleased to say that, after several years of concerted effort between the HKMA, the TMA and the financial industry, we have finally succeeded in changing our tax regime to help make Hong Kong a more attractive platform for multinational corporates to conduct their group cash management and treasury

functions here. However, a good product in itself is not good enough. A good product still requires good and effective marketing. This is what any world class brands always do. So the HKMA will, in the months and years ahead, collaborate with the industry to reach out to the corporates on the Mainland and overseas to promote Hong Kong as the hub for corporate treasury centres. This is an ongoing endeavour for which the support of the TMA and its members is greatly needed.

Credibility

21. As I am running out of time, I just wish to have a brief word on the second component of a Brand, and that is credibility. It is not enough just to sell good quality products to customers. Like any world class brands in cars, watches and luxury goods, post-sale maintenance or support service is equally important. In other words, the success of a “Brand” also rests on establishing a reputation for being credible – to deliver a product that stands up to what it is sold for.
22. Credibility is even more important when it comes to financial services. This is because financial products usually have a finite life, and very often customers need to renew or purchase similar or different products from time to time. To develop into a long-lasting and successful “Brand”, Hong Kong must be able to provide a platform for offering products that can effectively meet the changing needs of customers. While such needs are always evolving, one thing never changes, and that is “fair treatment of customers”. In the context of pricing, consumer/investor protection, distribution, dispute handling and resolution, the interests of the financial firms or intermediaries must not take precedence over those of the consumers or investors. This is a difficult mission to accomplish as it requires not only a robust and yet user-friendly regulatory regime, but also a corresponding change in the culture, values, mind-set and behaviour of the financial firms and their staff. As hard as it seems, I strongly believe that we cannot afford not to accomplish this mission. We must try harder and harder until we have got it right.

I simply cannot envisage how a financial centre can thrive and sustain its competitiveness over time if it cannot build a credible reputation for treating customers and investors fairly.

Conclusion

23. Ladies and gentlemen, with quality products credibility of fair treatment, trust of customers will follow naturally. Customers who use Hong Kong for their financial needs would feel safe because they know, and trust, that their moneys and wealth are in good hands and that their interests are being looked after. If you earn the trust of the customers, you have won their loyalty as well. With the reputation and words of mouth, more customers would wish to use Hong Kong as the hub for their financial transactions. However, the regulators and the Government cannot do it alone. The private sector, the industry and the practitioners must also own this mission and, most importantly, join hands with the public sector to do it together. This is how we can build “Hong Kong” as a world class brand for financial services. Thank you very much.