

Norman T L Chan: HKMA Fintech Day

Speech by Mr Norman T L Chan, Chief Executive of the Hong Kong Monetary Authority, at HKMA Fintech Day, Hong Kong, 11 November 2016.

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MY, George, Julia, Frank, Herman, Albert, distinguished guests, ladies and gentlemen,

1. It gives me great pleasure to welcome you all to this HKMA Fintech Day, which is part of the Fintech week. Today we have a great gathering with speakers and participants from diverse background of the financial and technology sectors, including banks, stored value facility (SVF) operators, fintech firms, fintech investors, regulators and many others. I am sure the discussions today both on and off the stage will be extremely interesting.
2. The event today is organized by the Fintech Facilitation Office (FFO) of the HKMA together with our three strategic partners: the Applied Science and Technology Research Institute (ASTRI), Cyberport and the Hong Kong Science and Technology Parks (the Science Park). As you are aware, we set up the FFO in March this year with the mission to facilitate the development of fintech in Hong Kong.
3. In the last few months, the FFO has organized many activities to bring together users and solution providers of fintech, so as to build an ecosystem to promote the adoption of new technologies in the banking sector. The FFO will continue to develop this collaborative platform together with ASTRI, Cyberport and the Science Park. In a few moments the HKMA will be signing a Memorandum of Understanding with each of them to formalize the framework of cooperation.
4. Now I would like to report on the latest progress of four major fintech projects launched by the FFO earlier. First, following my announcement of the launch of the Cybersecurity Fortification Initiative (CFI) in May, the FFO has been making very good progress in developing the three pillars of the CFI. A three month industry consultation of the first pillar of CFI, the Cybersecurity Resilience Assessment Programme, was completed in August, with positive responses from the banking sector. Taking into account the comments received, the FFO is finalising the Assessment Programme and will announce the detailed framework next month for implementation by banks in Hong Kong. Regarding the second pillar of the CFI, the Cybersecurity Intelligence Sharing Platform, again good progress is being made. The computer platform will be in operation and available to the banking sector next month as planned. The last pillar of the CFI is the Professional Development Programme, a training and certification programme for the cybersecurity professionals. A six-week consultation with the cybersecurity professionals and industry associations was conducted in the summer. The industry in general welcomes the programme and has suggested the need to recognise certain equivalent qualifications in the market for conducting the cybersecurity assessment and testing. We agree with this suggestion, and have already formed an industry expert panel with the task of identifying equivalent qualifications and working out the implementation details. The programme will be rolled out next month as planned. All in all, with the support of the banking industry and the stakeholders, the CFI implementation is on track and on time.
5. Second, the HKMA has commissioned ASTRI to carry out a comprehensive study on distributed ledger technology (DLT). The very fact that DLT allows information or records to be transferred and updated by network participants in a trustworthy, secure and efficient way, carries enormous potential in its application. However, while the value proposition of DLT is gradually crystallising, the use of DLT in financial services may bring about new risks and challenges in its application. As a regulatory authority, the HKMA needs to have a better understanding of these issues before DLT can be adopted for wide application in the banking sector.

6. In this connection, I am pleased to announce that the first stage of this research project is completed and a white paper is published by ASTRI today. While the white paper affirms the good potential of DLT for application in financial services, it also highlights a number of possible issues which need to be carefully dealt with if DLT is adopted by the banking sector. For example, the decentralised model may pose some challenges for constructing an effective governance structure and oversight mechanism. Some legal issues have yet to be thoroughly examined, such as the application and enforceability of laws for the cross-border DLT models, mechanisms for handling liability and dispute resolution if there is no centralised party administering the DLT platform, and compliance with personal data protection principles in relation to data sharing and perpetual storage. Also, traditional cybersecurity issues still apply to DLT, including denial of access attacks and other cyber attacks.
7. The next stage of ASTRI's study will deliver more detailed findings from a number of the proof-of-concept trials, along with assessment on whether some of this work can be put into action. It will also address the regulatory implications of DLT, and the general control principles for DLT for the banking and payment industry. We plan to deliver the next set of results in the form of another white paper in the second half of 2017.
8. Third, as I announced in September, we are setting up the HKMA-ASTRI Fintech Innovation Hub. I am now pleased to say that, following intensive preparation, the Hub is ready for use as from today. The Hub is equipped with high-powered computing resources and supported by the experts at ASTRI to allow banks, payment service providers, fintech firms and the HKMA to brainstorm innovative ideas, try out and evaluate new fintech solutions in a safe and efficient manner. All in all, the Hub will cater for the big and small institutions alike in supporting their research and adoption of fintech.
9. Last but not least, the HKMA launched the Fintech Supervisory Sandbox in September in order to create a regulatory environment that is conducive to fintech development. The Sandbox enables banks to conduct pilot trials of their fintech initiatives in a controlled production environment without the need to achieve full compliance with the HKMA's usual supervisory requirements. So far, two banks have already made use of the Sandbox to conduct pilot trials of their biometric authentication and securities trading services. A few banks are discussing with us and planning to make use of the Sandbox for conducting their project trials in the coming few months, in areas such as blockchain, artificial intelligence and many more.
10. In parallel to all these fintech projects that the FFO has launched, the HKMA has issued 13 Stored Value Facilities licences in two batches under the newly established regulatory regime. These licensees range from mobile and Internet payment service providers to prepaid card issuers. As payment and SVF operators are important stakeholders in the fintech ecosystem, we have also invited five of the SVF licensees to join today's event and share their experience in relation to the latest e-payment developments in Hong Kong.
11. In conclusion, ladies and gentlemen, we have lined up a full day's programme with top fintech experts and regulators as speakers. I am sure that all of you will find today's discussions fruitful and insightful. Thank you very much.