FINTECH
Adoption and Innovation in the Hong Kong Banking Industry

HKIMR Applied Research
HKMA aims to provide conducive policy to facilitate Hong Kong’s Fintech development to achieve the following benefits:

- Promote financial intermediation and inclusion
- Enhance financial risk management
- Enhance customer experience and choice
7-Smart Banking Initiatives

- Research and talent development
- Closer cross-border collaboration
- Faster Payment System
- Fintech Supervisory Sandbox
- Open API
- Virtual Banking
- Banking Made Easy
Research on Fintech Adoption and Innovation in the HK Banking Industry (香港銀行業金融科技採用和創新調查研究)

- This report is the first in a series of HKIMR Applied Research reports on topics that are highly relevant to the financial industry and regulators in Hong Kong

- Carried out by AoF - HKIMR

- The HKIMR is the research arm of the AoF established in June 2019
Scope of Questionnaire Survey

- Conducted a survey to gather insights into important trends of Fintech development in Hong Kong
- 37 Incumbent Banks (18 Retail Banks, 19 Foreign Banks)
- 8 Virtual Banks
- In total, covering 80% of total customer deposits and 75% of total assets
Banks View Fintech More as Opportunity than Threat

(% of incumbent banks) 0% 10% 20% 30% 40% 50% 60% 70% 80%
Risk management services
Mortgage loans
Brokerage services
Personal finance
Trade financing
Investment & wealth management services
Custodian services
Savings & deposit account services
Corporate lending
Payment & fund transfer
Cash & liquidity management
FX transaction & remittance

Percentage of respondents – Views on Fintech’s impact in the next five years (areas of financial services)

- Opportunity
- Threat
Widespread Fintech Adoption across All Financial Services

Percentage of incumbent bank respondents – Fintech application status (areas of financial services and other bank operations)

- Already applied a broad range or a limited number of Fintech
- Not yet applied but plan to do so
- Have no plan to apply
Perceived Effects of Fintech on Incumbent Banks’ Deposits

**Deposit Stickiness**

- Deposits become significantly less sticky: 16%
- Deposits become moderately less sticky: 65%
- No impact on deposit stickiness: 11%
- Deposits become moderately more sticky: 0%
- Deposits become significantly more sticky: 0%
- Do not know: 8%

**Deposit Market Shares**

- Deposit market shares decrease significantly: 3%
- Deposit market shares decrease moderately: 54%
- No impact on deposit market shares: 22%
- Deposit market shares increase moderately: 8%
- Deposit market shares increase significantly: 0%
- Do not know: 14%
Technology Revolution: Major Fintech Innovations
Key Areas of Fintech Application by Retail Banks

- Big Data Analytics & Artificial Intelligence
- Mobile Technologies
- Distributed Computing
- Cryptography
- Cloud Computing and Open APIs
- Marketplace Platforms

Percentage of respondents that have adopted or plan to adopt innovations in the above areas
Most banks view themselves as proactive/reactive adopters rather than passive followers.
Some Early Signs of Payoff

Cost incidence

Profitability
Looking into the Next 10 Years: Potential Scenarios

- BETTER BANK SCENARIO
- NEW BANK SCENARIO
- DISTRIBUTED BANK SCENARIO
- RELEGATED BANK SCENARIO
- DISINTERMEDIATED BANK SCENARIO

Higher degree of traditional banks' role

Lower degree of traditional banks' role
Banks in Hong Kong are confident that through adaptation and innovation they will continue to play a key role in the next ten years.

73% and 63% of the incumbent and virtual banks consider the better bank scenario as highly possible.
Summary on Key Takeaways of the Fintech Report

- Banks view Fintech more as an opportunity than a threat.
- On average 86% of banks reported wide adoption of Fintech.
- Banks are proactive/reactive adopters of Fintech rather than passive followers.
- Early signs of payoff - higher level of Fintech adoption is associated with higher cost efficiency and profitability for banks.
- Banks are confident that they will continue to play a key role over the next 10 years.
All-encompassing Fintech Talent Development

- **Cultivating Young Talents**
  - Undergrad Fintech degrees: 130 annual intake
  - Postgrad Fintech degrees: 170 annual intake
  - Fintech Career Accelerator Scheme (FCAS): 500+ tertiary students participated since 2016

- **Reskilling Bank Practitioners**
  - Cyberport Fintech Training Programme: 2,000 practitioners to be trained in 2020
  - Training Webinars by Tech Firms: 900+ attendance
  - Fintech Competency Framework: To be launched in Q1 2021

Fintech Talent Pool
HKMA Fintech Talent Study in 2020

- Skills and demand gap of Fintech talents
- Market demand of Fintech talents
- Supply of local and international talents
- Prospects of Fintech profession
Find out more from the full report on