

HKMA (Hong Kong Monetary Authority) launches a Fintech Supervisory Sandbox (FSS)

The financial industry is being tremendously affected by the need for change with the digitalization of its products, services and processes. We, the consumers, have changed our way of seeing the world and acting on it. We have become more demanding, we know how to operate in networks and we have more information every day at our hands. Society demands customized and agile products and services and every time the corresponding authorities of the countries around the world seek not to be overtaken by these technologies, but to regulate them and give them space for their development. Hong Kong does not seek to be the exception and through the Hong Kong Monetary Authority (HKMA) has recently worked on taking actions that encourage the country's banks to adopt new technologies. As we know, one of the main strengths of Hong Kong is its financial development (in fact, this sector contributes 18% of its GDP and employs around 220,000 people or - proportionally speaking - 6% of its working force), however in terms of technology it has a slight delay compared to its neighbouring countries as China, a financial technology leader. Therefore, among other measures, in September 2016 the HKMA announced the launch of a Fintech Supervisory Sandbox (FSS), an area designed to monitor the activity of this industry through which it seeks to innovate with technology in the design and supply of financial products and services. The FSS works in collaboration with the Hong Kong Applied Science and Technology Research Institute (ASTRI), with the objective of providing financial institutions with all the necessary resources to develop technologies that can be used in the financial sector, while increasing the adoption of technology among institutions. The FSS is the new administrative side of the HKMA that opens a space in which the experiments destined to provide solutions to the industry will not require a wait for approval thanks to the proximity to the HKMA itself. This means that the participants of the centre can create applications or pilots without the need for a third party to make a development evaluation. After performing the necessary tests on the applications created, the HKMA will proceed to authorize the official release of these for public use. It is important to point out that the potential participants in the FSS can only be Fintech companies supervised by the HKMA, this because the pilot tests are carried out with real clients. As the goal of the HKMA is to focus on Fintech as biometric authentication, block chain and smart phone applications, avoids the risk that participating companies fail to implement their business model or product in the market at the end of the trial period, for the potential breach of the regulatory requirements, such as the minimum capital, since they would already comply with them from the moment of applying. In addition to the above, the HKMA evaluates case by case entering the sandbox taking into account the following minimum requirements:

- That the technological initiatives are implemented in Hong Kong, which is logical since the HKMA is responsible for maintaining monetary and banking stability in that country and therefore will look after its interests.
- The objective, its duration and the exit plan.
- That it has an adequate regime of consumer protection.
- That it has adequate procedures to mitigate the possibility of loss occurrence due to personnel or technology failures and external events such as cyber attacks.

What benefits can the FSS bring to Hong Kong?

1. Greater number of new business models, applications or technological products that are introduced in the financial market in an efficient manner and that comply with the regulatory framework. Being previously tested and determining its functionality, only those technologies that really work and have an application in the industry will go to the next stage.
2. As the Fintech seek to solve specific problems of the segment they are engaged in, these are very promising to address limitations to financial inclusion.
3. Achieve reduction in costs when using digital channels.
4. Acceleration in technological evolution.
5. Security for users by having secure systems with state-of-the-art technology for the administration of their assets.

6. Effective management. Fintech development not only saves time invested in processes, but at an economic level. Faster and automated management or improvements in cost management are just some of the examples.

It should be noted that in addition to promoting innovation, the role of FSS is to promote efficiency, growth, diversity and competition within the financial sector. But for this to work, stability must also be ensured. The closest objective is to get small and large companies to evolve at the same pace as the technologies and to provide both of them with an opportunity to benefit from the progress that is being made. Although it is impossible to predict one hundred percent what the future of Fintech will be, what is impossible to deny is that users ask for big changes to companies when it comes to paying and protecting our money. We are no longer willing to pay large fees for making transfers or acquiring services or products online because we know there are alternatives. In the next ten or fifteen years we expect a breakthrough in terms of security and authentication methods. It is a priority to protect the identity of online users and that is why we are seeing how certain banks have eliminated the conventional use of passwords by more secure methods such as biometric technologies. It is a fact that the technological companies advance competing among themselves in the financial sector in Hong Kong and the rest of the world, positively threatening the financial sector with creativity and virtually unlimited innovation. Faced with this unprecedented scenario, financial institutions around the world finally seem to begin a process of adaptation and change towards a digitalization of the sector. This requires having the latest technologies focused on improving the user experience, aimed at a new generation currently familiar with the online world. The future is challenging and at the same time hopeful. However, we must not lose sight of the responsibility of governments with this relatively recent phenomenon that proclaims security and transparency, through an efficient regulatory framework. **Me Julien Dif**