

# Speech by SFST at Financial Services Development Council Career Day 2019

## (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr James Lau, at the Financial Services Development Council (FSDC) Career Day 2019 this morning (October 26):

Laurence (FSDC Chairman, Mr Laurence Li), Tim (Chairman of the Securities and Futures Commission, Mr Tim Lui), distinguished speakers, ladies and gentlemen,

Good morning. I am delighted to join you all today at the FSDC Career Day. It is encouraging indeed to see so many young faces eager to learn about the financial services industry in Hong Kong.

Hong Kong is facing a challenging time, both due to macroeconomic factors and also domestic ones. But we have proven to the world that we remain resilient as Asia's top international financial centre. Our Linked Exchange Rate System is robust, our banking and insurance sectors are stable, and our securities market continues to thrive.

Going forward, the future of our financial industry is in your hands. Our financial services sector needs new blood like the young talents we see today. And I am glad that you are getting a head start by participating in today's event. The speakers today are all very experienced professionals and I trust that you have had a fruitful day.

Importance of embracing innovation in the financial services sector

This morning, I like to speak briefly about Fintech (financial technology) and innovation, which I think is a key transformational tool for Hong Kong as an established international financial centre. Yes, the world is changing, and Fintech is transforming or some say disrupting the traditional financial services industry. The impact can be seen at the individual level, the corporate level and the government level.

In terms of individuals, transaction disintermediation is already happening, and many marketing or other traditional jobs will be replaced or displaced. This can be due to artificial intelligence or simply obsolescence of job types due to new modes of mobile or remote transactions.

For corporates, many financial institutions adopt Fintech to cope with the changes in consumer preferences and deal with challenges brought on by tech companies that become their competitors.

Finally, governments similarly need to embrace Fintech to improve

productivity, promote financial inclusion and drive sustainable development. The public sector also has to address regulatory issues arising from such as cryptocurrencies. The recent controversy over Libra or other stablecoins illustrates the point. So governments need to leverage on Fintech to ride with the advantages of technology. But we also need to keep an eye out for possible disrupt impact on financial stability and investor protection.

Sweden and Estonia as economies with vibrant Fintech sectors

Last month I was in Sweden and Estonia to better understand the development of their vibrant Fintech eco-systems. Sweden is a leading Fintech centre in Scandinavia while Estonia has seen the rapid emergence of Fintech over the last decade. Sweden and Estonia are also small economies. Sweden has a population of around 10 million people while Estonia has only 1.3 million people.

Let me speak on Sweden first before I turn to Estonia. Sweden has long established itself as a country where innovation is the norm. Sweden consistently invests more than 3 per cent of its GDP in research and development. This is among the highest in the world. As for the number of unicorns, i.e. a start-up with a valuation of US\$1 billion, Stockholm has produced more unicorns per capita than any other region in the world except Silicon Valley.

And if you look at Fintech specifically, Sweden boasts 400 Fintech companies in payments and transfer, trading and exchange, wealth and cash management, accounting innovation, capital, debt and equity and insurance technology.

Why is Sweden so successful in Fintech? First, Sweden is very advanced in adopting and exploring digital technologies. This is true in the public sector, private sector, and society in general. In the World Digital Competitiveness Ranking published by the International Institute for Management Development (IMD) in Switzerland, Sweden came third among 63 economies.

A second reason is Sweden's free education system that emphasises interdisciplinary studies. The education system encourages innovation, design and engineering, and Swedish students love going into tech. In fact, the most common job in Stockholm is to be a programmer. By the way, my first job after graduating from the University of Waterloo is as a systems engineer and programmer too, with IBM.

The third reason is that the Swedes are globally minded. With a small domestic market, Sweden relies heavily on exports. Their Fintech companies therefore went global very early on. So an international mindset helps Swedish Fintech companies succeed in the global economy.

The fourth reason is that Sweden has a culture of giving back. Successful entrepreneurs commonly inspire and invest financially in the next generation of start-ups. In addition, Swedish companies are often led by

entrepreneurs keen to integrate the United Nations Sustainable Development Goals into their business models.

Last but not least, the Swedish government has been at the forefront of adopting new technologies. The Swedish government pushed out a widely developed broadband network in the 1990s and rolled out early access to fast internet.

Now, let me turn to Estonia. Since regaining its independence in 1991, Estonia was looking for a niche to leapfrog and catch up with the rest of the world. Innovation and technology was chosen as the driver. The number of Fintech companies established in Estonia increased dramatically in 2017 and 2018, and two-thirds of the Fintech companies in Estonia are currently less than four years old. For 2019, with 80-plus Fintech companies, the projections of Fintech companies in Estonia indicate a tripling of their revenues and exports over 2018.

What are the main reasons for the rapid development of Fintech in Estonia? As a young nation, Estonia may not share Sweden's educational and cultural environment and legacy, but it is nonetheless a technologically advanced country, very much like Sweden.

Estonia is one of the highest ranked countries in Europe for digital access with around 90 per cent of the population linked to the Internet. In a study by the Organisation for Economic Co-operation and Development (OECD), Estonia was ranked first for the average time spent on the Internet, which is about four hours a day. Estonia is also in the top three for mobile penetration in terms of mobile broadband subscriptions and average monthly mobile data usage.

Importantly, Estonia has a government that has actively embraced new technology. Estonia is known for its e-governance and e-tax systems, and e-ID too. 95 per cent of personal income tax returns in Estonia are filed electronically. The Estonian government also provides a wide range of e-services to its citizens. In particular, Estonia was the first country to offer internet voting back in a nationwide election in 2005.

The Estonian Finance Minister whom I met last month told me that in Estonia, once a citizen has input certain data into a government apps, the person will not have to re-enter the same data again for other apps. I was also told this story that soon after independence, a neighbouring country offered to replace Estonia's telephone system along with a vast number of analogue telephones, i.e. with the traditional round dials. This sounded too good an offer to pass but Estonia declined the offer and decided to go digital and not get bogged down by the legacy analogue system. And the rest is history.

Hong Kong as a centre for financial innovation

Now I would like to come back to Hong Kong and review with you many of the key ingredients that have enabled Sweden and Estonia to be successful in

financial innovation.

First, like Sweden and Estonia, Hong Kong is a leading digital economy, consistently achieving top rankings in digital readiness and Internet access capabilities. Hong Kong currently has eleven submarine cable systems and overland systems. Our broadband networks cover nearly all commercial and residential buildings, and our household broadband penetration rate is around 93 per cent. Our mobile penetration rate of 276 per cent is also among the highest in the world. Free public Wi-Fi service is available in most public places such as major parks, tourist attractions and leisure and cultural facilities.

So we are all fortunate to be living and studying in a city with one of the most sophisticated telecommunications infrastructure in the world. This is the foundation for you to become digitally connected and have global access to ideas and information.

Secondly, in terms of education, our government recognises the need to equip our students with the skills required in the 21st century. For Fintech specifically, the Hong Kong Monetary Authority operates the Fintech Career Accelerator Scheme, which aims to provide practical experience for undergraduate and postgraduate students through internships in Fintech companies in Hong Kong and Shenzhen. These initiatives are in addition to the Government's pilot programme for talent training in the wealth and asset management and insurance sectors for existing professionals. And that was rolled out in 2016.

Six of our universities are offering Fintech degree undergraduate or postgraduate programmes. I encourage all of you to be intellectually curious, whatever degrees you are pursuing, and be observant of the opportunities brought about by the new economy. Indeed, both formal and informal education are important for gaining knowledge and experience as you develop your career in financial services and Fintech.

Thirdly, like Sweden, Hong Kong is a small and open economy vulnerable to the influence of the external environment. Hong Kong is a place where you can develop an international outlook and perspective. In fact, I am pleased to note that one in four university students in Hong Kong participates in exchange programmes lasting at least one semester during their time in university.

The Government has been operating a new Funding Scheme on International Youth Exchange since 2017, and we are also launching the Belt and Road Scholarships to encourage outstanding students along the Belt and Road economies to pursue studies in Hong Kong. This provides students in Hong Kong the opportunity to make acquaintances and understand the culture and business environment along the Belt and Road. Hence, I encourage all of you to keep abreast of international developments and develop a truly global mindset.

Here I should add that the Guangdong-Hong Kong-Macao Greater Bay Area provides a key driver for Hong Kong to develop innovation and technology with

the tech community in Shenzhen and the rest of the Greater Bay Area. Hong Kong universities are very strong in basic research whereas the tech companies in Shenzhen are very good in commercialisation of tech ideas and innovations. So there can be great synergy here and I encourage you to make good use of such collaboration opportunities.

## Government investment in innovation and technology

After talking about the three factors of tech infrastructure, education and international outlook and opportunities, let me turn now to our government investment in innovation and technology.

While the Swedish and Estonian governments had an early start towards digital government and smart city, our Government has for some years also placed innovation and technology at the heart of the policy agenda.

This administration has committed over HK\$100 billion to promoting research and development, nurturing local talent, attracting international expertise and supporting technology enterprises. These include HK\$10 billion to establish two world-class research clusters in the Hong Kong Science Park. One is on healthcare technologies and the other is on artificial intelligence and robotics technologies. This initiative has received enthusiastic responses from many top universities around the world.

In Fintech, the Cyberport community is one of the largest Fintech clusters in Asia and is pressing ahead in areas such as InsurTech, or insurance technology, RegTech, or regulatory technology, and LawTech, or legal technology. So I would really encourage all of you to take advantage of the many new initiatives in innovation and technology here in Hong Kong.

Finally, let me share with you two international rankings released just this month that reflect Hong Kong's impressive achievements as Asia's World City. In the World Bank's Doing Business 2020 Report released just two days ago, Hong Kong was ranked third in the ease of doing business out of 190 economies. This puts us behind New Zealand and Singapore, and ahead of Denmark and South Korea in 4th and 5th places. Our high ranking reaffirms our efforts to cut red tape and enhance regulatory efficiency and reflects our favourable environment for businesses to flourish.

Similarly, in the World Economic Forum's Global Competitiveness Report published this month, Hong Kong was ranked 3rd globally among 141 economies, up four places from last year and ranked just behind Singapore and the United States. Among the different measures, Hong Kong was ranked within the top 5 for institutions, infrastructure, information and communications technology adoption and macroeconomic stability.

In conclusion, I would note that despite the difficult external and domestic environment, Hong Kong retains its core strengths as an international financial centre with an unrivalled geographical location, the rule of law, an independent judiciary, the free flow of information and a wide pool of professional talents. These took over a century to build, with

countless hard work, sweats and tears. We rely on young people like you to safeguard our achievements and efforts built over these years, and I wish you every success as you launch your careers in the near future. Thank you.