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Fintech plans require return to basics — what is it for?

An eye-catching item in Financial Secretary Paul Chan Mo-po's budget last month was HK$50 billion spent to boost innovation and technology. Financial technology may be a place to find government subsidies, since Hong Kong is often accused of lagging behind in this field.

But we argue that it is better to return to basics when promoting fintech, by asking: "What you can do with it?"

Two decades after Hong Kong Telecom advertised a "better tomorrow" with cyber technology, most of its foresights are already realized. The Hong Kong Financial Services Development Council published *The Future of FinTech in Hong Kong* with similar aspirations, but the report seems to have been forgotten soon after its release last year.

The report reaffirms that fintech should unite with government initiatives in smart city, digital validation and cyber strategy in general. The report identifies five key areas of development: cyber security; smart payment and settlement; digital identification; smart wealth management and smart regulation. It is a fallacy that financial services can, like goods and other services, be shared with cyber technology. Unlike payment for purchases, financial services involve credit and trust.

Technology is always tool, not master. Finance is master in fintech. The five key areas of fintech development should be pursued in the context of law and practice in banking and finance, not technology.

Cyber security: Fintech depends on a cyber network and security is vital. There are two levels in cyber security: infrastructure and in-house network. Infrastructure is public domain, regulated to meet the highest safety standards. In-house networks have less demanding requirements and are more vulnerable to malicious attacks. The recent Yahoo and Equifax incidents are lessons to be learnt. Actually, there are international standards such as Key Control Codes of Center for Internet Security to follow for better data protection and system integrity. Some might think security problems would be resolved once and for all when networks are upgraded. But cyber security is inherently a cat and mouse game. There are always new challenges to overcome.

Smart payment and settlement: Interbank payment and settlement are fintech pioneers. Electronic orders replacing bills of exchange substantially improves efficiency. Cashless payment has already cascaded down to customer level (P2C) through applications such as Octopus. Cyber wallets for online shopping allow direct personal payment (P2P) without cash or check. Stored-value facilities such as Octopus are alternative deposits and are subsets of banking. Smart payments such as P2P, P2C or C2C are ultimately settled through banking system. Thus, the government-led Faster Payment System that covers smart payment might redefine what banking means. Fintech would allow connection of these payment systems through banking into a comprehensive cyber network facilitating real-time settlement across borders and currencies to mitigate credit and exchange risk. In fact international payment or remittance is already automated under the SWIFT system. Therefore, a cross-spectrum automated global payment network from business settlement to personal purse is taking shape.

Digital identification: Know your customer is not just a matter of personal identity but also creditability and financial capacity. If collaterals are taken in lending, ownership and market values should be determined. If wealth management is offered, risk and return appetites should be clarified.

Fintech offers more than digital identification for cyber and mobile services. It helps draw up three-dimensional profiles of customers with big data, including such features as background, credit history, investment preference and risk appetite.

Smart wealth management: Investment is placing surplus funds into business, turning it into working capital. Cyber technology may realize our dream of "getting the whole world in our hands". Fintech allows systematic collection, organization and analysis of market intelligence for better investment decisions. It helps draw up 3-D profiles of markets and products with big data, including fundamentals and performances. They help banks and brokers match available products in the market to customer demand, and also help customers match them to individual risk-return appetites.

Smart regulation: Banking and investment regulations follow the same concepts but take different approaches. Banking regulation focuses on depositor protection, based on asset quality and supplemented by reserves and liquidity thresholds. Investment regulation focuses on deal integrity, based on proper disclosure (like risk and return) and supplemented by conduct and behavior assurance. Application also differs. Banking regulation relies on accounting records, investment regulation on documentation.

Financial services are interrelated; cyber technology widens the regulatory horizon. A traditional authoritative approach is not necessarily the most effective. A collaborative approach with industry participation, through for example the Hong Kong Association of Banks, would be more practical and pragmatic.

Hong Kong would not have evolved from an entrepot to an international financial center without entrepreneurs, financiers and technological development. The key to fintech success is returning to basics. Ask not what fintech can do for you. Ask what you can do with fintech.

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