

Eddie Yue: Keynote address - Hong Kong FinTech Week 2024

Keynote address by Mr Eddie Yue, Chief Executive of the Hong Kong Monetary Authority, at the Hong Kong FinTech Week 2024, Hong Kong, 28 October 2024.

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Good morning everyone. Welcome to the 9th Hong Kong FinTech Week, an annual event where vision, inspiration and innovation come together to shape the future of fintech. It's wonderful to welcome so many old and new friends today to discuss this exciting topic.

This year's theme is "Illuminating New Pathways in Fintech". It captures where we are right now - at a critical juncture on our fintech journey. We are seeing an unprecedented acceleration in financial development, fuelled by cutting-edge technologies.

Having arrived at this point after marking a number of significant milestones along the way, it's perhaps time to take stock and ask ourselves "What's on the horizon for Fintech?"

What we have learned from innovation and fintech

Before I delve into that question, let's revisit our overarching vision, which is to nurture a vibrant fintech ecosystem. Like instruments in an orchestra, so do individual players in the fintech ecosystem, whether they are agile start-ups or established institutions, each have their own parts to play.

But let's be honest, a vibrant fintech ecosystem cannot be built overnight. Technology is continuously disrupting everything, including our financial markets. For many of us, embracing change isn't always easy, and sometimes the process of driving innovation may even feel uncomfortable and disorienting. But change is often also a good opportunity to reflect on how we can innovate to better serve the greater good.

Our Fintech 2025 strategy is a powerful testament to our commitment to innovation. Over the last few years, we have driven some positive transformations in our fintech ecosystem, and I would like to take the next few minutes to share three lessons we have learned along the way.

First, innovation is not an end in itself, but a means to solve real-world problems. Whether it's faster payments or better banking access for SMEs, technology is a means to help transform everyday experience and bring benefits to the real economy. One area we've been focusing on is enhancing cross-border payments. The link between our Faster Payment System (FPS) and Thailand's PromptPay is one example, providing consumers with a seamless cross-border payment experience and bringing us closer to a world of truly borderless transactions. Another example is the cross-boundary e-CNY pilot, which allows Hong Kong people to set up e-CNY wallets locally,

with linkage to the FPS for cross-boundary payments. Whether you are buying coffee in Bangkok or settling a bill in a Shenzhen restaurant, payment is as simple as if you were in Hong Kong.

Another example is the use of technology to address long-standing pain points in the data ecosystem. By linking up isolated data islands and combining sources from the public and private sectors, we are expanding and diversifying our data network. The linkage between HKMA's Commercial Data Interchange and the Government's data gateway is now fully operational, helping to address the industry's need for government data which can be used to support the credit needs of SMEs.

The second thing we have learned is the need to be bold in driving innovation. We need to have an "explorer" mindset to try out innovative ideas even if they are only at a formative stage. One good example is tokenisation, which is just taking shape as we pioneer different use cases and solutions with Project Ensemble to explore and define the tokenisation landscape. Working with the industry, we hope to showcase how innovation and regulation can work together to create new opportunities for our financial markets.

But a major trend like this inevitably comes with a need for clear guidance and market confidence, and we value your feedback and views as we navigate this evolving landscape. That is why we have been engaging with market players through the Ensemble and stablecoin sandboxes to help us formulate regulatory requirements that are risk-based and fit-for-purpose.

Our third lesson is the importance of collaboration. Innovation thrives when we come together – cross-sector and cross-border partnerships let us tap into network effects and our collective knowledge, while playing to our individual strengths.

Numerous collaborations are underway between the HKMA, various jurisdictions, and fintech players from both local and global markets. These partnerships, big and small, have proved to be essential building blocks that support further progress.

I've talked about the three lessons we've learned so far: focus on real-world problems, be bold and be collaborative. These lessons are steering us into the next phase of our fintech journey.

"What's on the horizon for fintech?"

So what's this next phase? While we have yet to chart out our Fintech 2030 Strategy, I can think of two areas that the HKMA should focus on in the next few years.

Our first area of focus is tokenisation, including the novel idea of "Finternet" coined by the Bank for International Settlements (BIS). Let me first make clear that tokenisation is not the same as crypto-assets. There has been some confusion because they both ride on blockchain technology, but don't mix them up. Crypto-assets are mostly speculative and our stance is to let the market grow and develop while putting guardrails around it to protect investors. Tokenisation, on the other hand, is an innovative way to record the value and ownership of money and assets in digital form on a programmable ledger. This will make it much easier for individuals, corporates, and financial

institutions to access and trade these assets, thereby creating a more inclusive ecosystem that benefits everyone, wherever and whenever they are.

We believe that tokenisation has the potential to create hyper-connectivity among users, data, and services that is essential to drive economic progress. This calls for a visionary shift to align with the constant advances in technology.

The BIS has also recently introduced the "Finternet" concept. This envisions an internet-like network of interoperable financial ecosystems that places individuals and businesses at the heart of financial interactions.

Many of the ideas and concepts from the "Finternet" resonate closely with the HKMA's tokenisation project. We envision a future where tokenisation integrates seamlessly with financial and real-world assets, enabling operations and transactions otherwise impossible with today's technology. Now you might be wondering, how can something as virtual as tokenisation connect with tangible assets?

Let's look at trade finance. Imagine you're an SME importing goods from overseas. Traditionally, you'd face a mountain of paper documents, like bills of lading and invoices. With tokenised electronic bills of lading, you can now transfer these digital assets to a financial institution in exchange for funding.

Unlike a mere PDF copy of a bill of lading, this approach allows you to track real-time shipment status on the blockchain, eliminates paper, reduces the need for verification, and lowers fraud risks. We are actively exploring this through the Ensemble Sandbox to resolve frictions in trade finance.

Tokenisation also ties in with green and sustainable finance, as it may open up new business models and opportunities for businesses and investors. For example, tokenised carbon credits traded on blockchain offer better transparency and credibility in carbon data, helping us tackle the issue of double counting that bedevils carbon trading today.

Another example can be found in the infrastructure for the electric vehicle (EV) industry. By leveraging real-time data from EV charging stations, we can turn the energy generated into a tokenised revenue stream for institutional investors. We are looking closely at this model, as it has the potential to be replicated in various settings, mobilising funds to support the transition to a low-carbon economy.

Our second area of focus is Artificial Intelligence (A.I.) and data, which will help build a smarter and data-driven financial future for everyone. I would like to expand on those two keywords "Smarter" and "Data-driven". When I say "Smarter", I'm talking about the need to promote digitalisation in the banking industry, while ensuring we have the right safeguards in place.

In recent years, the banking industry has been leveraging A.I. to promote efficiency, analyse data, and enhance customer experience. The HKMA stance is clear: we are committed to encouraging responsible A.I. adoption. Back in 2019, we already outlined the high-level principles on the use of A.I. by banks, and this policy guidance remains relevant today.

Then we see the explosive uptake of Generative A.I. (GenA.I.) in the past two years. GenA.I. has the potential to transform how financial institutions operate, innovate, and engage with their customers. As we stand at the dawn of this revolution, the HKMA recognises the opportunity to provide more targeted support to accelerate GenA.I. development, by collaborating with the best minds from various sectors. To achieve this, we have launched various cross-sectoral initiatives, including the FiNETech series, research projects, and training sessions, all aimed at expediting digital transformation.

Financial institutions are actively exploring the vast potential of GenA.I., from risk assessment to anti-fraud measures and customer interactions. In August this year, we launched the GenA.I. Sandbox in collaboration with Cyberport to unlock the full potential of tailored GenA.I. applications catering to the unique needs of Hong Kong's financial market. This innovative platform allows banks to pilot GenA.I. use cases in a risk-managed environment, complete with technical support and targeted supervisory feedback.

As we move forward, the HKMA will take an interactive and iterative approach, carefully evaluating the results of the Sandbox trials and sharing best practices. We will also provide additional supervisory guidance as necessary to ensure that the adoption of GenA.I. promotes responsible innovation, while maintaining the integrity of the banking sector.

So, what about "Data-driven"? The aim here is to harness the power of data to reinforce Hong Kong's leading position as a smart digital economy, both locally and globally. To do that, open data flow is key. Domestically, our two initiatives - Commercial Data Interchange and Interbank Account Data Sharing - will continue to integrate data networks which used to run in isolated silos. This will help simplify KYC and credit risk assessments, thereby helping SMEs secure bank financing more easily, faster, and hopefully more cheaply.

Meanwhile, we are working closely with the Mainland to facilitate cross-boundary data sharing, first by expediting the pilot for cross-boundary credit referencing with Mainland credit reference platforms. This will allow SMEs with cross-boundary operations to use this full set of credit data to enhance their access to bank financing. Internationally, we are collaborating with the BIS Innovation Hub on Project Aperta, which aims to connect domestic open finance infrastructures across jurisdictions, to enable secure and consumer-consented sharing of financial data. Seamless cross-border data portability will allow consumers to open overseas accounts much faster, and speed up international trade at reduced cost.

Closing

What the future may hold for us is uncertain, but we are committed to charting the next phase of financial innovation with continuing efforts in the two areas I just talked about: tokenisation and AI.

Ultimately, we envision a borderless fintech ecosystem where innovation will drive business development. To realise this vision, we must dream big and push the boundaries of what is possible. Let's all embrace the spirit of innovation and collaboration as we move forward together.

If we liken our Fintech journey to an orchestra playing a symphony, we are about to begin the next movement of our fintech symphony. We don't know whether it will be "allegro", or "adagio". What we know is that the stage is already set, the instruments are tuned, and the world is waiting. Hong Kong's commitment to shaping a vibrant and dynamic financial future has never been stronger.

Thank you and I hope you gain inspiration from the coming week.