

Comparison and Enlightenment of Financial Technology Regulatory Models in Hong Kong and Taiwan

Huashan Lai

The Chinese University of Hong Kong, Hong Kong 999077, China.

Abstract: Fintech has realized the deep integration of finance and technology, represents the future direction of financial development, but also brings new challenges to financial regulation. The fintech regulation in Hong Kong SAR is deeply influenced by the concept of financial liberalization and gives inclusive development space to financial institutions and technology companies, which is reflected in the "market-oriented" fintech regulation model. On the other hand, emphasizes the core position of administrative departments in fintech supervision, and builds an "administration-oriented" fintech supervision mode through the composite way of "development planning + institution construction". The mainland (mainland) can learn from relevant experience, focus on the balance between encouraging financial innovation and preventing financial risks in fintech regulation, implement a separate regulatory sandbox mechanism, and vigorously strengthen the application of regulatory technology.

Keywords: Financial Technology; Hong Kong and Taiwan; Supervision Mode; Regulatory Sandbox

1. Introduction

With an active financial trading market and a complete information technology industry, Hong Kong and Taiwan have the economic and technological foundation to realize "finance + technology", and create institutional space for the development of fintech through a sound financial supervision system^[1].

Hong Kong is a world-renowned financial, trading and shipping center, and its financial services industry is an important engine for its economic development. Currently, more than 70 of the world's top 100 banks by Tier 1 capital have branches in Hong Kong. Hong Kong is also the largest international fund management center and international private wealth management center in Asia, and has the largest pool of offshore RMB funds in the world. In the era of digital economy, the profound financial service industry in Hong Kong puts more emphasis on the digitalization and intelligent transformation of financial services^[2]. The strong demand for financial technology in Hong Kong has become the direct driving force for the development of financial technology in Hong Kong. The fully developed electronic technology industry in Taiwan can provide technical support for the digital transformation of financial holding groups, financial derivatives market and insurance market. Therefore, fintech has also become the future direction of the development of the financial industry in Taiwan.

With the advantage of global location, Hong Kong has realized the convergence of time zone with London and New York in the world financial market network, and has the advantage of creating 24-hour trading in the international financial market, providing a broad trading space for the fintech industry^[3]. At the same time, the HKSAR, backed by the hinterland of the Mainland market and supported by the national strategy of the Guangdong-Hong Kong-Macao Greater Bay Area, has become an important partner of the Mainland's fintech market. The mainland is the largest export market and source of trade surplus of Taiwan, and the economic division across the Taiwan Straits has formed a closely related industrial chain for a long time. Taiwan can obtain many opportunities for the development of fintech by virtue of the industrial chain across the Taiwan Straits.

2. Regulatory model

The fintech regulation in Hong Kong has been deeply influenced by the concept of financial liberalization. The Hong Kong SAR government and financial regulatory departments have created more space for the inclusive development of fintech enterprises. The SAR government plays the role of guide and service provider, and leaves fintech development to the market and capital to choose by themselves. Hong Kong's fintech regulatory model is reflected in the "market-oriented" fintech regulatory model^[4].

2.1 Fintech Regulation

In June 2021, the Hong Kong Monetary Authority (hereinafter referred to as the "Hong Kong Monetary Authority") released the "Fintech 2025" strategy, which aims to promote the construction of fintech infrastructure and stimulate the demand for fintech by guiding financial institutions to build a fintech ecosystem, so as to enhance the level of fintech development in Hong Kong with market-oriented forces. The "Fintech 2025" strategy focuses on five key areas: comprehensively promoting the digitalization of banks, deepening the central bank's research on digital currency, tapping the potential of data infrastructure, expanding the fintech talent pool and improving the efficiency of policy resources. (4) Digital transformation of banks, supporting data governance and digital currency have become the core of Hong Kong's fintech development strategy. With the continuous promotion of the "Fintech 2025" strategy, the banking industry in Hong Kong has widely applied compliance technology, payment technology, loan technology, investment technology, insurance technology and green technology in its daily operations.

2.2 Regulatory Space

The Regulatory Sandbox was first proposed by the UK's Financial Conduct Authority in 2015. The regulatory sandbox is the regulatory innovation in the era of fintech. By setting a "safe space" embedded in the real market, special provisions are made in the requirements of test subjects, test projects and test procedures, and experiments are conducted on financial innovative products (businesses) that have good development potential but cannot fully meet the compliance requirements at the present stage^[5]. Based on the test results, it is decided whether to market the test project. In light of the actual situation of separate regulation of the financial market in Hong Kong, the Hong Kong Monetary Authority shall set up a sandbox for the banking industry, the Securities and Futures Commission of Hong Kong ("the Securities and Futures Commission") shall set up a sandbox for the securities industry, and the Insurance Authority of Hong Kong ("the Hong Kong Insurance Authority") shall set up a sandbox for the insurance industry. It has formed a "three-pillar" regulatory sandbox system with Hong Kong characteristics, creating a market-friendly regulatory environment for financial institutions and technology companies in Hong Kong.

3. Fintech Regulatory Model

Different from the fintech regulatory environment of Hong Kong Special Administrative Region, which focuses on the free growth of the market, Taiwan emphasizes the core role of administrative agencies in fintech regulation, and focuses on the construction of an "administration-oriented" fintech regulatory model through the composite way of "development planning + institution construction".

3.1 Lead

In August 2020, the financial supervision and administration department of Taiwan issued the Fintech Development Path Map. For a period of 3 years, it adheres to the three principles of functional and behavioral supervision, science and technology neutrality and friendly innovation, and tries to realize the tasks of promoting fintech license, improving the rules of digital financial system and strengthening cross-departmental supervision under the administration-led mode. Ultimately, create an executive-led fintech ecosystem^[6]. To this end, the Fintech Development Path Map carries out forward-looking planning and layout from eight aspects: single-window communication platform, data sharing, institutional rules and ethics, capacity building, digital infrastructure, park ecosystem, external communication and regulatory technology.

3.2 Guard against financial risks

Taiwan's "administration-led" regulatory sandbox is characterized by a strict system, which has formed a regulatory sandbox system including innovation experiment supervision, protection of participants in innovation, financial technology counseling, review and evaluation of financial technology innovation experiment, etc., which is conducive to the prevention and control of financial technology risks. In terms of innovation experiment supervision, the financial supervision and administration department in Taiwan is the implementation body of the regulatory sandbox, and fully evaluates the fintech applications in the box test according to whether the fintech applications are innovative, whether they can effectively improve the efficiency of financial services, whether the risks are controllable, and whether the investor protection measures are complete.

In terms of the protection of participants participating in innovation, applicants for in-box testing should conclude contracts with participants to provide fintech products or services in line with the principles of fairness, rationality and good faith. During the supervision of sandbox testing, applicants should fulfill their duty of care as kind managers and ensure that their obligations to participants should not be lower than those promised in the soliciting advertisement. At the same time, the applicant should provide the participants with a way to withdraw from the innovation experiment, and clearly specify the scope of the innovation experiment, rights and obligations and related risks in the contract^[7]. In terms of fintech guidance, the financial supervision and administration department in Taiwan is obligated to provide fintech companies with consultation on financial regulations, guidance on technological innovation and business model innovation, assistance in evaluating the necessity of applying for fintech innovation experiments, and assistance in the application of financial technology innovation experiments. In order to promote the agglomeration of fintech industry, relevant authorities should organize the establishment of fintech innovation parks and fintech digital sandbox platforms to encourage the sharing of financial data resources. In terms of the review and evaluation of financial technology innovation experiments, the financial supervision and regulation department in Taiwan is responsible for holding review and evaluation meetings, focusing on the review and evaluation of innovation experiments on improving the efficiency of financial services, reducing financial operating costs and improving the welfare of financial consumers.

4. Conclusion

In fintech regulation, Hong Kong and Taiwan attach great importance to the adaptation of financial regulatory system to emerging fintech business forms, and apply modern information technology widely in regulatory practices. However, there are still significant differences between the two places in the overall idea of fintech regulation, fintech development planning, regulatory sandbox application and regulatory characteristics of fintech. The mainland (mainland) should focus on improving the application scope of regulatory sandbox and regulatory technology in fintech regulation, and build a classified regulatory model of fintech that meets the needs of the mainland (mainland) market by combining the advantages of the two fintech regulatory models of "market-oriented" in Hong Kong SAR and "administration-oriented" in Taiwan. The exploration of the fintech regulation mode in Hong Kong and Taiwan has certain enlightenment significance for the mainland to further improve the fintech regulation.

References

- [1] Vladimir Zuev, Elena Ostrovskaya. Setting Up a System of Global Financial Supervision[J]. International Organisations Research Journal, 2016, Vol.11(04): 106-126.
- [2] Busch Danny, van Rijn, Mirik BJ. Towards Single Supervision and Resolution of Systemically Important Non-Bank Financial Institutions in the European Union (Article)[J]. European Business Organization Law Review, 2018, Vol.19(02):301-363.
- [3] Christopher P. Buttigieg;Mark Bamber.Institutional architecture for financial supervision: a case study[J]. Law and Financial Markets Review, 2020.
- [5] Fintech HK Accelerating the Future, Invest HK, Available from: <https://www.hongkong-fintech.hk/media/ffecxs4v/investhk-fin-tech-it-sc-sep2021-final.PDF>, Access on: December 4, 2022.

[6] The financial sector financial high continuous innovation "into the development of financial technology, financial supervision and regulation department in Taiwan area, Available from: https://www.fsc.gov.tw/ch/home.jsp?id=96&parentpath=0&mcustomize=news_view.jsp&dataserno=202109280004&dtable=New, Access on: December 4, 2022.