

## **Annex – Summary of the white paper and consultancy study on Regtech development**

Banks' evolving business models, regulatory initiatives in response, and a challenging external environment continue to drive banks to explore the use of technology to enhance risk management and compliance. Technology is becoming increasingly powerful across both established and emerging areas, such as artificial intelligence, cloud and distributed ledgers. The traditional lens through which banks and regulators view compliance is changing, creating significant opportunities to leverage Regtech solutions across a wide range of application areas.

Against this backdrop, the HKMA commissioned KPMG to explore the current state of Regtech in Hong Kong, examine common practices and barriers to adoption, and outline a roadmap to accelerate adoption in the banking sector. The research for this white paper is based on surveys conducted with local banks and Regtech providers, as well as in-depth interviews with banks, Regtech firms, local and overseas regulators and other industry stakeholders.

### *Key findings*

- Substantial progress in facilitating Regtech adoption has been made in Hong Kong in recent years. Initiatives from the regulators, the growth and increasing role of relevant industry associations, and the presence of local and international Regtech firms are all recognised as positive developments.
- The effective implementation of Regtech solutions can reduce cost, improve risk management and increase efficiency for banks, as well as enhance supervision for regulators. More widespread adoption would also help to strengthen Hong Kong's position as an international financial centre, maintain the banking sector's competitiveness, and help Hong Kong fulfil its pivotal role in the Greater Bay Area's development.
- One-third of the surveyed banks have fully implemented at least one Regtech solution; there are significant opportunities to encourage banks that have yet to implement Regtech and those that have already adopted solutions to improve implementation and expand use cases into emerging areas.
- 26 specific application areas have been identified across six broad fields: Regulatory Compliance Obligations, Financial Crime, Conduct & Customer Protection, Regulatory & Tax Reporting, Risk Management, and Governance & Accountability. As a result of Regtech developments driven by the HKMA, financial crime, risk management and regulatory reporting are viewed as the areas with more mature solutions in Hong Kong. There are significant opportunities for banks to adopt solutions in these areas, and to explore new solutions in emerging application areas.
- Budgetary and capability constraints, as well as the lack of available and established solutions catering to local requirements are the main adoption challenges for banks and Regtech providers. There is a need for targeted intervention in order to overcome these challenges.

## Recommendations

The extensive research culminated in the formulation of 16 recommendations across five core areas which, if realised, would help to achieve a number of goals:

- Hong Kong as a global leader in Regtech;
- Extensive adoption of Regtech in the banking sector;
- Breeding ground of Regtech solutions for financial institutions; and
- Hong Kong as a hub for nurturing Regtech talent.

<b>Core areas</b>	<b>Recommendations</b>
Boost awareness	1. Encourage exchange of knowledge about Regtech by creating a Regtech knowledge hub
	2. Improve sharing of experience in implementing Regtech through issuing Regtech adoption practice guides
	3. Boost widespread awareness about Regtech across the industry by hosting targeted events
	4. Build acceptance of key technologies that enable Regtech adoption via targeted events and publications
Promote solution innovation	5. Accelerate Regtech adoption by exploring the benefits of providing financial incentives and other assistance
	6. Attract global Regtech firms to develop and showcase solutions for common problem statements by hosting a Regtech Challenge
	7. Address common pain points by encouraging the formation of consortiums
	8. Stimulate new innovation by facilitating better access to existing infrastructure and developing new infrastructure
	9. Encourage cross-border Regtech collaboration via targeted outreach
Regulator engagement with eco-system	10. Create an environment conducive to international Regtech implementation by continuing to engage regulators in other jurisdictions, including the Greater Bay Area
	11. Reaffirm the HKMA's focus on promoting Regtech development by continuing to communicate and share Regtech-related expectations and guidance to the broader Regtech community
Develop talent pool	12. Nurture a Regtech talent pool by developing a skills framework for Regtech adoption
	13. Formalise Regtech training by exploring the idea of introducing or enhancing Regtech modules for relevant industry courses
Sustain adoption	14. Expand the Regtech ecosystem by continuing to work with financial institutions and other regulators in Hong Kong

	15. Provide a clear way to measure and guide success in Regtech adoption by developing and publishing a Regtech Adoption Index
	16. Magnify impact of the initiatives by enhancing the collaboration with Regtech-related industry associations

The value of Regtech in banking is being brought to the fore in Hong Kong, with industry stakeholders starting to realise that Regtech and its underlying technologies are the way of the future for risk management and compliance. Hong Kong has the right foundations to support a thriving Regtech ecosystem: broader fintech capabilities, strong support for technology businesses, a large and established financial services sector, and supportive regulators. Our hope is for this white paper to encourage banks in Hong Kong to actively consider the business challenges that can be solved with Regtech, embrace and trial new technologies and proofs of concept, and ultimately accelerate the adoption of more Regtech solutions.