

# NEW REGULATORY TRIAL GROUNDS FOR FINTECH FIRMS IN HONG KONG - REGULATORS ANNOUNCE ADDITIONAL FINTECH SANDBOXES

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Legal Briefings - By **Valerie Tao and Michael Tan**

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Last Friday (29 September 2017), Hong Kong financial regulators announced new initiatives aimed at fintech firms, including several new regulatory sandboxes:

The Hong Kong Monetary Authority (**HKMA**) [announced](#) plans to launch **Fintech Supervisory Sandbox 2.0**, an enhanced sandbox that follows on the heels of its Fintech Supervisory Sandbox launched a year ago (further details of which are set out in our e-bulletin [here](#));

The Securities and Futures Commission (**SFC**) [announced](#) the launch of a **Fintech Regulatory Sandbox** and [issued further clarification](#) on the meaning of “relevant experience” for responsible officers at fintech firms (see the SFC’s press release [here](#)); and

The Insurance Authority [announced](#) two pilot initiatives - the **Insurtech Sandbox** and **Fast Track**.

The regulatory sandboxes will be linked up across the regulators via a common interface so as to provide a single point of entry for pilot trials of cross-sector fintech products and services.

These developments follow the trend of regulators around the world looking to increase the competitiveness of their financial services market by encouraging innovation through financial technologies.

### **HKMA - Enhanced Fintech Supervisory Sandbox 2.0**

The HKMA continued its march to bring the financial services industry in Hong Kong into a “new era of smart banking” by announcing a plethora of new initiatives. This includes the enhanced Fintech Supervisory Sandbox 2.0 which will be launched by the end of 2017.

The enhanced sandbox will include a Fintech Supervisory Chatroom which will provide speedy feedback at a much earlier stage of fintech projects, so as to reduce the risk of abortive work and expedite the rollout of new fintech products and services. According to Mr Norman Chan (Chief Executive of the HKMA), the chatroom will be manned by experts from the HKMA’s [Fintech Facilitation Office](#) and Banking Supervision Department.

In addition, the chatroom will give fintech firms direct access to the sandbox without the need to go through an HKMA authorised institution.

Further information about the enhanced sandbox can be found on the HKMA webpage [here](#).

### **SFC - Fintech Regulatory Sandbox and guidance on “relevant industry experience” in fintech**

The SFC launched its [Fintech Contact Point](#) and [Fintech Advisory Group](#) in March 2016. The Fintech Regulatory Sandbox launched on Friday provides a confined regulatory environment for fintech firms to conduct regulated activities before their services are offered to the wider public. They will have a “safe place” to trial innovative investor solutions and at the same time bring their internal control systems into line with the regulatory environment. This will come hand in hand with closer supervision by the SFC. The aim is for both firm and regulator to work together to identify and address any risks or concerns in relation to the fintech services and ensure investor protection.

The sandbox is open to both licensed corporations and start-up firms that intend to carry on a regulated activity under the *Securities and Futures Ordinance*:

The qualified firm must be fit and proper, utilise innovative technologies and be able to demonstrate a genuine and serious commitment to carry on regulated activities through the use of fintech;

The establishment or activities of these firms should also increase the range and quality of products and services for investors and benefit the Hong Kong financial services industry.

The qualified firm must be licensed, ie, a start-up firm will need to apply for a licence. To minimise risk to investors during the period when the qualified firm operates in the sandbox, the SFC may impose licensing conditions, such as those which limit the types of clients which the firm may serve or the maximum exposure of each client. Further information and guidance can be found on the SFC webpage [here](#).

As mentioned above, the SFC has issued a [circular](#) clarifying its guidance on what “relevant industry experience” means in the context of fintech. This is one of the factors the SFC will look at when assessing the competence of individuals applying to become responsible officers. Where a regulated activity uses highly innovative technology, the applicant’s previous experience in the relevant technology may be essential in integrating the technology into the regulated activity. Therefore, an applicant’s experience in developing and/or maintaining a technology, platform or system which is central to the regulated activity may be considered relevant industry experience.

### **Insurance Authority - Insurtech Sandbox and Fast Track**

Similar to the SFC and HKMA fintech sandboxes, the Insurtech Sandbox will provide a controlled environment for authorised insurers to experiment with new technology without the need to achieve full compliance with usual regulatory requirements. This will allow insurers to gain market data and user feedback before offering their services to the market.

Fast Track is a further pilot initiative aimed at expediting new authorisation applications from insurers using solely digital distribution channels. It will give the Insurance Authority the opportunity to review proposed digital distribution channels at an early stage.

These initiatives are aimed at promoting the development and the application of new technologies in the insurance sector through close collaboration with the Insurance Authority. The Insurtech Facilitation Team (renamed from “Fintech Liaison Team”) acts as a point of contact for insurtech firms. Further information can be found on the Insurance Authority’s webpage, [Insurtech Corner](#).

## **Spotlight on Fintech - what this means for you**

The above developments clearly show the importance being placed by the regulators on making Hong Kong a leading Fintech hub.

If you are thinking of entering into the fintech space, you will now have a safe place to get your products and internal controls up to speed before bringing your services to market in Hong Kong.

However, clients should be mindful not to misconstrue these new fintech trial grounds as regulatory lacunae. The SFC in particular has emphasised that:

The sandbox is not a means to circumvent legal and regulatory requirements – for example, a firm which fails to meet the fit and proper requirement may have its licence revoked;

Firms will be under closer supervision and are expected to have adequate investor protection measures in place; and

As mentioned above, additional safeguards may be imposed through licensing conditions – these can only be removed once a firm has demonstrated that its services and internal control procedures are satisfactory.

## KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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