

e-HKD, tokenised deposits and stablecoins adoption may empower Hong Kong's future economic development

Potentially generating an additional 0.5% in GDP growth per year for the next 10 years

HONG KONG, 19 March 2024 — The adoption of new mediums of exchange, including retail Central Bank Digital Currency (CBDC), tokenised deposits and stablecoins, could potentially add an additional HK\$160 billion of GDP for Hong Kong by 2032, according to a whitepaper released today. The whitepaper highlights some of the potential benefits for using retail CBDC in Hong Kong (i.e., e-HKD) and identifies requirements to help fully realise them.

The whitepaper “*Reimagining a Future Empowered by e-HKD, Tokenised Deposits and Stablecoins*”, co-developed by Boston Consulting Group (BCG), DLA Piper, HKT Payment Limited, paywith.glass, Venture Smart Financial Holdings Limited (VSFG) and ZA Bank, with inputs from the Hong Kong Monetary Authority (HKMA), highlights that emerging forms of medium of exchange may add value to the Hong Kong economy, potentially generating an additional 0.5% in GDP growth per year for the next 10 years.

Such growth is underpinned by multiple factors such as unlocking liquidity through tokenisation. At present, the size of assets potentially available for tokenisation in Hong Kong is estimated at around HK\$36 trillion, the majority of which are in residential property, at HK\$19.9 trillion. The ratio of financed home property to property value stands at 9%, which is lower than other markets like the UK and the US, suggesting that there is still untapped liquidity locked within assets.

As part of assessing the potential features and benefits of the e-HKD, three of the co-authors of the whitepaper (BCG, HKT Payment Limited and ZA Bank) took part in the HKMA's inaugural e-HKD Pilot Programme¹. This use case highlighted three potential benefits for users:

- **More competitive financing rates:** When money usage is enforceable across platforms (and even after refund), lenders have a new function to better manage credit risk, and thus potentially offer preferential financing rates for different loan usage.
- **Improved flexibility and access to financing:** Asset tokenisation leads to reduced operational costs and facilitates improved flexibility for smaller loan amounts for secured lending. Theoretically, any other real-world assets in tokenised forms can also be used as collateral.

¹ The e-HKD Pilot Programme use case was co-led by BCG, HKT Payment Limited and ZA Bank with strategic support from paywith.glass and VSFG and legal advisory support from DLA Piper. The pilot use case “tokenised property-backed secured lending with ring-fenced usage” involves tokenising a property belonging to the user and using the resulting token(s) to apply for a ring-fenced secured loan. Leveraging its programmability feature, the loan is then disbursed through hypothetical e-HKD wallet as payment to merchants in designated fields.

- **Faster loan disbursement process:** Using smart contracts, the loan amount can be disbursed to users automatically once pre-defined conditions for loan approval are met (e.g., users complete pledging certain tokens to the bank within a specified timeframe).

To fully realise the benefits of an e-HKD, three key requirements were identified in the report.

- **Creating new value for users:** Based on the consumer survey² conducted by some of the co-authors, more than 50% of survey respondents found use cases that featured programmability (e.g., ring-fenced usage loans, conditional payments) attractive if they create financial benefits.
- **High level of security and privacy protection:** Hong Kong consumers are concerned about the potential risks of e-HKD adoption, with around 70% of survey respondents citing cybersecurity and data privacy as key concerns.
- **Building a clear legal and regulatory framework:** Various legal and regulatory issues may arise from the use of e-HKD, such as the legal tender status of e-HKD and how the legal right of a real-world asset can be “linked” to a cryptographic token. Addressing these issues could help accelerate the acceptance of e-HKD by both businesses and consumers if introduced in the future.

Full version of the whitepaper is available at <https://web-assets.bcg.com/26/01/0dd587c64e9fbc9e744dc359bed3/reimagining-a-future-empowered-by-e-hkd-tokenised-deposits-and-stablecoins.pdf>.

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² The consumer survey conducted in August 2023 received responses from a total of 1,840 Hong Kong consumers across different age groups, educational backgrounds and occupations.

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About Boston Consulting Group

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology, and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

About DLA Piper

DLA Piper is a global law firm with lawyers located in over 90 offices across more than 40 countries spanning Asia Pacific, Europe, Africa, the Middle East, and the Americas. As a full service law firm we have extensive experience gained from working within every area of law. We are one of the largest international law firms in the region, providing clients with a comprehensive range of legal services including: Corporate; Intellectual Property and Technology; Tax; Finance and Projects; Litigation and Regulatory; Restructuring; Employment and Real Estate.

We have one of the leading Fintech practices in the region, advising clients on all aspects of the fintech and digital assets ecosystem. We pride ourselves on delivering quality client experiences that go beyond the scope of legal counsel, by creating innovative solutions that help our clients achieve their business goals through compliant and legal business models.

At DLA Piper, we believe great businesses can make a better world. That's why, every day, we help our clients succeed. Bold thinking and trusting relationships are at the heart of our work, helping clients embrace change and seize opportunities. Together, we can make business better.

About HKT Payment Limited (Stored Value Facilities Licence Number: SVF0002)

HKT Payment Limited, a wholly-owned HKT Limited subsidiary, was granted the stored value facilities license by the Hong Kong Monetary Authority in 2016, and provides mobile payment service in Hong Kong under the Tap & Go brand.

Tap & Go is the first mobile wallet in Hong Kong incorporating Mastercard, UnionPay, FPS and Tap & Go closed-loop payment, allowing users to make payments seamlessly and reliably over a secured app as the city moves fast towards a cashless society. With its extensive local merchant network, users can enjoy spending at more than 100,000 points of sale including physical stores and online platforms. Tap & Go users can also enjoy the convenience of seamless payment in China including transportation and flexible conversion between HKD and RMB anytime, anywhere.

About paywith.glass

paywith.glass is Digital Asset/Real-Time Payment (DA/RTP) infrastructure which seamlessly blends the speed of real-time payments with Satoshi Nakamoto's peer-to-peer electronic cash vision. It addresses existing system limitations by introducing robust privacy constructs, security measures and anti-exploitation features, while preserving scalability.

This asset-agnostic infrastructure embodies a user-centric, privacy-focused and globally scalable multi-Central Bank Digital Currency (mCBDC) architecture. With native support for tokenised asset minting and burning, real-time compliance, a self-sovereign digital identity model and support for self-custody, the paywith.glass

architecture meets the demands of today's instant world and those of tomorrow's digitally native generation.

Through its native support for the coexistence of multiple digital assets including Central Bank Digital Currencies (CBDCs) and cryptocurrencies and along with a focus on addressing cash flow constraints and financial inclusion issues, paywith.glass is an ideal choice for forward-thinking governments and innovative businesses. It combines user-centric mobile payment features with real-time settlement, security, accessibility and global scalability, surpassing the capabilities of legacy payments networks and the DLT-only systems already on the market. Notably, paywith.glass already provides the supporting infrastructure to power the digital sterling pilot via the Digital FMI Consortium in the UK.

About Venture Smart Financial Holdings (VSFG)

Venture Smart Financial Holdings Limited (VSFG) is a global financial services platform headquartered in Hong Kong, striving to integrate traditional wealth management with the future of finance, while supporting Hong Kong as an international virtual asset centre.

In June 2020, VSFG became the first virtual asset manager in Hong Kong approved by Securities and Futures Commission (SFC) to manage portfolios that may invest up to 100% in crypto assets, and within this space launched Hong Kong's first SFC-regulated Bitcoin Tracker fund, followed by a cryptocurrency hedge fund.

VSFG is dedicated to the research and development of products and services that can integrate traditional and virtual assets under a compliant regulatory framework, helping family offices and institutions to allocate their assets in an orderly manner in both traditional and virtual worlds. By combining Web3 and blockchain technologies to financial services, we have formed a dedicated team and new business called IDA to spearhead Hong Kong's efforts in developing Finance 2.0 globally.

About ZA Bank

ZA Bank Limited ("ZA Bank"), licensed by the Hong Kong Monetary Authority ("HKMA") on 27 March 2019, is one of the first batch of virtual banks in Hong Kong. On 24 March 2020, ZA Bank officially launched its services to the public, making it the first fully operating virtual bank in Hong Kong. On 22 March 2021, ZA Bank officially launched Business Banking to deliver an innovative banking experience to local small and medium-sized enterprises. ZA Bank was established by ZhongAn Technologies International Group Limited ("ZA International"). With its "Community-Driven" approach, ZA Bank encourages users to directly contribute to its product development and design processes, helping the bank create innovative services that better serve the needs of Hong Kong customers.

Based on market data as of 30 June 2023, ZA Bank has gained the support of 700,000 users, becoming the largest virtual bank in Hong Kong in terms of user base with a leading position in the virtual banking industry in terms of customer deposits and assets. The bank was named Virtual Bank of the Year – Consumer (Hong Kong) in the The Asset Triple A Digital Awards 2023.

ZA International was established in Hong Kong in December 2017, by ZhongAn Online P&C Insurance Co., Ltd. (HKEX stock code: 6060), an online-only insurtech company in mainland China, to explore international business development, collaboration and investment opportunities in the area of fintech and insurtech in overseas markets.