Disruptions and trade-offs, as always

Out of the Box
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I recently have been much news coverage about how Hong Kong is falling behind in mobile payment, even though the territory was a leader two decades ago with the Octopus card. While there are many proponents of the need to modernize, there are also many naysayers, saying that Hong Kong is different because we value privacy over convenience, more so than in the mainland.

On the issue of privacy vs convenience, I can provide some experience in the realm of personal finance. When I arrived in the United States as a student in the 1970s, the ATM card was just starting to be used and not widespread, and credit cards were not that common either. The "advanced" US was still a cash-based economy and society.

After I had a steady income, I got a bank account, and the associated credit and ATM cards. Friday bank visits became less important as now I could just withdraw money even when the bank was closed.

Then, around the millennium, came online banking: I applied for a mortgage about 20 years ago totally online. Still, some documents needed to be mailed by hand, but today, one can probably do everything without any hard-copy papers.

Before international ATM networks were established, having enough money to spend when traveling to a foreign country was a major undertaking. One way was to buy traveler's checks, which we would then exchange into local money upon arrival in the foreign country — and these days are long gone too.

My main point is that during the evolution of payment systems over the past few decades, privacy vs convenience was always an issue, but convenience in all cases won out in the end. Most of us now cannot imagine living without ATM and credit cards — just as the same goes for Gmail and the like.

I still remember when I first learned about Gmail, that it is "free," but also that Google in principle has access to all our e-mail. Of course, we now know Gmail's business model: data is revenue. Most of us still choose to use Gmail because we make our own choice based on a trade-off between privacy and convenience.

With increased government surveillance and hackers roaming everywhere, I would argue that that balance has tilted even more to convenience, as in some sense nobody's data is private anymore.

Online and mobile finance and the associated trade-off is just one example. With the advent of artificial intelligence and robotics, there is also the trade-off between human jobs vs economic productivity, between human creativity and machine efficiency.

Even universities have to face such disruptive technologies. Massive open online courses, flipped classrooms and 100 percent online degrees have forced universities to react. One example is the Minerva University, which is international, but campus-less and relies heavily on online teaching. Another is Georgia Tech's 100 percent online master's degree in computer science, the first of its kind. How the developments play out remains to be seen.

What about closer to home, in Hong Kong? The Octopus card has often been described as "ahead of its time" or "suffering from its own success." It has missed the opportunity of dominating mobile payment in Hong Kong and China. Complacency was one reason, and a report that the Hong Kong Monetary Authority was not ready to give permission to Octopus to launch its new product for several years did not help.

Time is running out for Octopus, as the MTR will start accepting AliPay and WeChat Pay soon.

What about other potential disruptions to pillars of Hong Kong's economy? Take real estate development. The way local developers sell homes is not modern (or even civilized), with crowds queuing for hours to see a mock-up flat, and sales agents practicing high-pressure sales tactics.

In many developed countries, much of this inspection and sales process is now done online, with virtual reality offering multiple views of the flat and with mortgage lenders a click away. I understand there is a reason for this phenomenon, but you can bet that millennials, who buy most things they need online, will not stand for this when they are in a financial position to buy a flat.

When that day comes, or when the first developer offers the convenience of a modern online system, the disruption will happen abruptly. And disruption can come not just from within, but also from the outside. If Hong Kong does not innovate, it will be too late when we realize that we are falling behind.