Speech

Speech by SFST at Hong Kong Securities and Investment Institute Autumn Dinner 2015 (English only)

Friday, October 23, 2015

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Securities and Investment Institute Autumn Dinner 2015 today (October 23):

Craig (Lindsay), distinguished guests, ladies and gentlemen,

Good evening.

I am pleased to join you today at the Hong Kong Securities and Investment (HKSI) Institute Autumn Dinner. This is an excellent opportunity for us to recognise the Institute's 2015 Senior Fellows for their contribution to the financial services industry and the Institute. We are also here today to celebrate the induction of Honorary Fellow Miss Au King-chi. Congratulations.

Since its establishment in 1997, the HKSI Institute has been a champion of high professional standards in the financial services industry. Indeed, during such times of uncertainties and turmoil, it is more important than ever for Hong Kong to maintain the highest regulatory standards. I trust that the HKSI Institute will continue to help ensure that professionals joining the industry are committed to upholding these standards.

This is important as the financial industry is constantly in need of new talent. This is particularly acute in the insurance business and the asset and wealth management sector. Indeed, the asset and wealth management industry has been the focus of our efforts in the past few years. The reasons are simple. According to IMF estimates, Asia is expected to contribute two thirds of the world's economic growth in 2015. As economic gravity continues to move to the East, more and more attractive investment opportunities are going to emerge from Asia. Centrally located in Asia with first rate infrastructure, Hong Kong is the ideal location for funds seeking to invest in Hong Kong and its neighbours. They include funds of various sizes and forms, public and private, employing a multitude of strategies. They are also investing across asset classes, from equities and bonds to real estates and commodities. Indeed, Hong Kong's combined asset management business has more than doubled in the past five years, growing from HKD 8.5 trillion in 2009 to HKD 17.6 trillion in 2014.

Rapid economic growth in the past years has also created much wealth in many parts of Asia, including Mainland China. After more than three decades of growth and reform, Mainland China is no longer just an investment destination for foreign capital - it has also become a fast growing source of capital in its own right. Chinese investors are keen to invest their funds overseas. Chinese corporations are also seeking to "go global" as part of their development strategies.

Hong Kong's close ties with the Mainland make us the ideal testing ground for successive liberalisation measures to facilitate the two-way flow of capital in and out of the Mainland. After two years of smooth operation in Hong Kong, the RQFII (Renminbi Qualified Foreign Institutional Investor) scheme is now expanded to other jurisdictions, broadening access to the Mainland's capital markets. This was followed by launch of the Shanghai-Hong Kong Stock Connect last November, an unprecedented arrangement that allows Hong Kong investors direct access to Shanghai's stock market and vice versa.

On the policy front, we aim to provide a more competitive tax and regulatory environment to help the industry capture these opportunities. We are preparing a legislative proposal to introduce the open-ended fund company as a fund vehicle. By giving the industry a more flexible choice of investment fund vehicle as an alternative to the unit trust form, we seek to attract more funds to domicile here. This will help Hong Kong develop itself into a comprehensive fund service centre from product design to marketing and distribution.

We have also extended the profits tax exemption for offshore funds to the private equity sector to attract more private equity funds to expand their business in Hong Kong. This will be conducive to the further development of our asset management industry, and in turn drive demand for other relevant professional services.

Our role as a hub for exchange traded funds (ETF) keeps growing as financial integration continues to deepen in Asia. To help promote the industry, we have waived all stamp duty on the transfer of ETFs this year. The number of ETFs listed in Hong Kong grew from 69 at the end of 2010 to 131 at the end of

August this year.

Implemented in July, the Mutual Recognition of Funds arrangement between Hong Kong and the Mainland is the latest bid to broaden cross-border investment channels. Under the scheme, qualified Hong Kong and Mainland funds may be offered directly to retail investors in each other's market subject to streamlined approval procedures. This will enhance the competitiveness of both sides in the international asset management arena. It will surely expand our industry's distribution network and attract more funds to domicile here. Simply speaking, there is no better time to be in the asset management industry in Hong Kong.

However, human resources remain the fundamental driver behind the growth of the wealth and asset management industry. To help the industry meet the demands of today's high net-worth individuals, the Government supported the setup of the Private Wealth Management Association in 2013. The Association has launched an Enhanced Competency Framework to promote professional competence and integrity among wealth management practitioners, and pursuant to the Framework, developed a professional qualification for Certified Private Wealth Professionals. To date, there are already over 1,100 certified private wealth professionals who have completed the programme and examination requirements under the framework.

We understand from the industry that students and graduates often do not understand the full spectrum of functional posts and career prospects within asset and wealth management. As a result, it is often difficult to attract talent to join more technical functions such as risk management, compliance and operations.

As such, the Government is planning to allocate $100 million to enhance training for the asset and wealth management industry as well as the insurance sector, subject to approval by the LegCo. We are going to reach out to university students to showcase different roles available in the front, middle and back offices of the industry. This will be complemented by summer internships at Hong Kong asset and wealth management institutions. We are also going to encourage in-service professionals to beef up their skills and knowledge through a financial incentive scheme for professional training. We will be working closely with the HKSI Institute and other institutions to implement these initiatives.

Training is crucial in the financial industry, where technological advances are changing the way we do things all the time. Recently, advances in computational power, data transfer, analysis, storage and encryption have given rise to new technologies such as big data analytics, cloud computing and mobile authentication. The application of these technologies in finance has come to be known as Fintech.

Broadly speaking, Fintech covers everything from payments and data analytics to financial software and digitised processes. Some Fintech applications have the potential to disrupt existing banking and finance practices, while many others promise to enhance customer experience and make incumbents more efficient than ever. You need to look no further than Mainland China to see how Fintech is transforming the way consumers access financial services.

In Korea, the web-based Fund Supermarket Korea was launched last year to enable investors to directly access a broad range of products offered by multiple fund providers. Collectively owned by the industry, the platform has led to management fees as low as a third of the cost of funds sold elsewhere. In Australia, the Australian Stock Exchange has launched the Fund platform, providing order routing, settlement and custody services for unlisted fund products. Meanwhile, KYC central registration systems have been introduced in India to smooth the due diligence process. Technology has a key role to play in all these initiatives.

Ladies and gentlemen, even though technology is changing the way we live and work, human resources remain fundamental to Hong Kong's success as an international financial centre. We look forward to working closely with the industry and training providers, including the HKSI Institute, to support the industry's development through the supply of first class talent.

Congratulations again to the Senior and Honorory Fellows. Thank you very much.

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