

Press release

LCQ7: Measures to facilitate insurance and finance sectors

Wednesday, June 24, 2009

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 24):

Question:

In the face of the impact of the financial tsunami, the insurance and finance sectors have been the first to be dealt a serious blow. According to the provisional statistics released by the Office of the Commissioner of Insurance, new office premiums (excluding Retirement Scheme business) of long-term business for the first quarter of 2009 receded significantly by 60.5% to \$8.544 billion when compared with the same period in 2008, which was attributable to 24.2% and 83.5% drop in Individual Life and Annuity (Non-Linked) business and Individual Life and Annuity (Linked) business respectively. In fact, many middle-level management and frontline sales staff of the insurance and finance sectors have suffered significant drop in income, or even lost their jobs. In addition, as the Lehman Brothers incident has raised people's skepticism over investment products, many employees in the sectors are facing the threat of structural unemployment. In this connection, will the Government inform this Council whether:

(a) it will take measures to enhance the public's confidence in the insurance and finance sectors, in order to consolidate Hong Kong's status as an Asian financial centre; if it will, of the contents of such measures, if not, the reasons for that;

(b) it will provide specific assistance for employees in the insurance and finance sectors to help them out of the economic mire; and

(c) it is possible to establish "policyholders' protect funds" expeditiously in order to stabilise the market and stimulate the public's desire to take out insurance?

Reply:

President,

In the face of the financial turmoil, the regulators will continue to duly discharge their regulatory duties to ensure the stability of the financial system. The Government is committed to undertaking a series of other measures to meet the challenges arising from the financial tsunami and consolidate Hong Kong's position as an international financial centre. These measures are mainly aimed at improving the regulatory framework and enhancing investor protection; facilitating market development; and advancing financial co-operation with the Mainland.

Improving the regulatory framework and enhancing investor protection

In respect of the recommendations in the reports on the Lehman Brothers Minibonds Incident prepared by the Hong Kong Monetary Authority and the Securities and Futures Commission and the Action Plan drawn up, we have been working with the two regulators in vigorously implementing the various measures to optimise the existing supervisory framework and enhance investor protection. Some of the improvement measures for the initial phase have already been implemented, including the introduction of new administrative guidelines or codes to strengthen the regulation of the business operation and conduct of financial intermediaries. As for other improvement measures such as the establishment of a financial services ombudsman by statute and the establishment of a cross-sector Investor Education Council, we will seek to conduct a consultation exercise before end of this year and then consider their implementation.

In addition, we propose to establish a policyholders' protection fund (PPF) to enhance protection for policyholders in the event of an insurer's insolvency. We believe that this will help bolster public confidence in the insurance industry and promote the general stability of the insurance market. In the past few months, the Office of the Commissioner of Insurance (OCI) has maintained close liaison with the Hong Kong Federation of Insurers (HKFI) on matters that need to be considered in connection with the establishment of the PPF. We will consult the LegCo Panel on Financial Affairs on the framework proposal developed by the HKFI early next month. The OCI will take into account Members' views and then commission a consultancy study on the mode of operation and other details of the PPF.

Facilitating Market Development

We are actively taking forward various proposals to facilitate market development, including implementation of the "Government Bond Programme" to entrench the development of the local bond market and to attract inflow of more overseas funds. We will also amend the relevant taxation laws with a view to creating a level playing field for Islamic financial products vis-à-vis conventional ones and facilitating the introduction of more Islamic financial products in the financial market.

To facilitate business and enhance corporate governance, we are conducting the Companies Ordinance rewrite exercise. We will conduct a public consultation on the draft provisions in the fourth quarter of this year. In parallel, consultation on the review of the Trustee Ordinance will be completed within this year. The review seeks to enhance the competitiveness of our trust services industry and promote the development of the asset management market in Hong Kong.

We are revisiting the proposal of introducing a corporate rescue procedure for companies in financial difficulties so as to provide a "grace period for debt repayment", thereby providing an opportunity to those companies facing short-term financial difficulties but are viable in the longer term to turn themselves around. We will consult the stakeholders and the public on the proposed concept within this year.

Advancing financial co-operation with the Mainland

Free flow of capital, pooling of information, a highly efficient and transparent market, a regulatory and supervisory framework that is on a par with international standards and the pool of financial services professionals with global vision and good experience in serving Mainland companies are some of the many key factors for Hong Kong to develop into an international financial centre. The vast Mainland market has also provided us with abundant business opportunities. We will continue to capitalise on these advantages to advance the financial co-operation with the Mainland and attract more Mainland enterprises to use Hong Kong as a financial platform to expand their international and regional businesses. We will keep up our efforts in consolidating our role as the preferred offshore fund-raising centre for Mainland enterprises, providing professional and international corporate financing services. At the same time, we will continue to strive for lowering the threshold for Hong Kong financial institutions and financial services practitioners to enter the Mainland market and promoting the free flow of capital between the Mainland and Hong Kong with a view to driving the economic development in both places. The Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), which was signed last month, launched some further liberalisation measures with respect to the financial industry, such as allowing branches established by a Hong Kong bank in the Guangdong Province to set up "cross-location" sub-branches within the Guangdong Province and allowing qualified Mainland and Hong Kong securities companies to set up in the Guangdong Province joint venture companies to provide securities investment advisory service. We are actively following up on the implementation of these initiatives.

Promoting Renminbi business is another important area. We have been putting forward suggestions to the relevant Mainland authorities for further developing Renminbi bond business in Hong Kong. Good progress has been achieved recently. The Central Government has recently allowed the subsidiaries of Hong Kong banks on the Mainland to issue Renminbi bonds in Hong Kong. It is believed that the first issue will soon be launched. This new measure will not only expand the base of Renminbi bonds issuers in Hong Kong and offer investors with more choices, but also reinforce Hong Kong's role as a testing ground for issuing Renminbi bonds outside the Mainland. In addition, in April this year, the State Council decided to launch a pilot scheme of using Renminbi for cross-border trade settlements. Hong Kong has completed the necessary preparations for becoming the first place outside the Mainland to support Renminbi-denominated trade settlements. The relevant Mainland authorities are working closely on the formulation of the operational arrangements. We will continue to follow up closely with the relevant Mainland authorities.

We believe that the implementation of the above measures will help enhance the competitiveness of Hong Kong as a financial centre and promote the development of the market, thereby creating more employment opportunities in the financial industry. We also encourage the practitioners to make use of the Continuing Education Fund to take industry-related courses so as to upgrade their professional knowledge and quality as well as increasing their competitiveness in meeting the challenges ahead.

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