Speech

Speech by SFST at Hong Kong Institute of Bankers Annual Banking Conference (English only)

Friday, September 25, 2015

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Institute of Bankers (HKIB) Annual Banking Conference today (September 25):

Ladies and gentlemen,

Good morning.

I'm very glad to join you all this morning at the HKIB Annual Conference. I last spoke to this conference in November 2009, which was quite after the aftermath of the global financial crisis, not a very happy time. Six years on, as we speak, the financial world is no doubt safer. Yet the recent turbulence in the financial markets has reminded us of the challenges that we are facing.

I don't want to bore you with too many numbers but as you know, in the last couple of months, we saw some financial turbulence around us. The Shanghai Composite Index has fallen by more than 40 per cent from the peak reached in mid-June. The Renminbi has devalued by 3 per cent against the US dollar since the change of the exchange rate mechanism in August. Although the magnitude has been modest so far, the move has caused the market to revise their expectations about the RMB exchange rate.

China is not alone in seeing market volatility. The Malaysian Ringgit has depreciated by about 25 per cent against the US dollar in the past 12 months. This is followed by a nearly as dramatic drop of 17 per cent by the Indonesian Rupiah.

The developed world is not spared. The S&P 500 Index corrected by more than 10 per cent in late August. Financial market volatility is usually an indicator for economic performance. Indeed, the OECD has just cut its 2015 global outlook forecast and also the Chinese growth forecast has been revised downwards by some of the think tanks and international associations. In Hong

Kong, the Hang Seng Index fell from the peak by more than 20 per cent now.

The recent volatility in the Chinese stock market has drawn much attention around the world. Many market participants are wondering what it means as far as the Chinese economic growth is concerned. China is a big contributor to the world's economic growth and a slowdown in the Chinese economy obviously has implications for countries around the world, including exporters of manufactured goods or raw materials to China. The weakening of the growth prospects in China and the world is one of the reasons the Federal Reserve has decided to put the interest rate hike on hold.

Then, how should we position ourselves in the new, and more difficult, environment? Before I talk about technology, let me talk first about the development of our financial market, especially how it is linked up with the Mainland's market. In the past several years, as you know, we have launched many initiatives in the area of financial market development, including the RMB offshore market, the Shanghai-Hong Kong Stock Connect, the mutual recognition of fund management products, and other policies supporting the growth of our fund industry. Together with our traditional role as an equity market for Mainland firms, Hong Kong's financial market development is closely and strongly tied to the Mainland economy.

In the past, we have taken advantages of both the economic growth on the Mainland and market reform initiatives to broaden our market. Now, we have a very strong offshore RMB market, and we are building up a fund management centre and a wealth management centre in Hong Kong.

There are a lot of newspaper stories around the world but I think in Hong Kong we always know that the path of China's opening and market reform does not follow textbook models. In Hong Kong, we know better than others that market opening and integration is a complicated and challenging process. Hong Kong has long participated in China's reform and opening process, and positioned itself as the stage for innovation and experimentation. Hong Kong's value proposition remains as strong as ever.

We will continue our work to develop our financial market to meet the financial needs of the Mainland economy. But in the more difficult environment ahead of us, we should strive to uphold the quality of our market.

It is how we perform in the more risky environment that demonstrates the strength and long-term appeal of our market.

Our market has been well tested; many people in this room here have seen many crises, big and small. A key lesson to draw from our history is that Hong Kong becomes stronger by maintaining the quality of our market. In the many diverse areas including the risk management of our banking sector, the functioning of the trading and clearing in the stock exchange, the listing standards for IPOs, and investor protection, Hong Kong has improved our market quality over the years. I just want to remind ourselves that in the coming years, as we compete with other financial centres, in a world with heightened market uncertainty and volatility, and as we build stronger bridges connecting China with the rest of the world, the task of building a more robust regulatory system is even more important.

Of course, we should not pay less attention to market development. We should continue with our efforts in building up the offshore RMB market, positioning our equity market as a preferred listing venue for companies, and promoting Hong Kong as an asset management centre. But drawing lessons from the past, I believe that it is more important for us to promote our reputation as a well regulated market with robust risk management practice.

In building a robust regulatory system for Hong Kong, we should try to harness the innovations and technologies. What is happening around the world now certainly throws a lot of challenges to many existing players. We should embrace innovations and technologies in a way to enhance the quality and robustness of our financial system. Of course, innovations can go wrong; we have seen that in the past. I hope that in Hong Kong, given our history of managing a very good regulatory system, we know, and we should know, how to harness the technologies to improve our regulation, our risk management, and to lower the costs of dealing with regulation. This is one of the challenges that we have to face when we talk about going forward with regulation and technology.

Looking down the road, there are exciting market opportunities before us. Patrick (Chairman of the Executive Committee of the HKIB, Dr Patrick Fung) mentioned the "One Belt, One Road" initiative, which I think is one of the most exciting things happening in the region. As the leading business and logistics centre in Asia, Hong Kong is ready to act as a hub city as part of China's "One Belt, One Road" vision. Since the announcement of the Belt-Road initiative, there has been a lot of discussion in our town about what it means, and what role Hong Kong can play. The Belt-Road initiative is a visionary plan that covers many areas and they can boil down to trade facilitation and economic co-operation among the economies in the region. From the economic and financial perspectives, the Belt-Road promotes economic growth, financial development and trading among the economies in the region.

Even though we have talked about the difficulties the world faces, Asia still remains a bright spot as far as growth is concerned. To realise the full economic potential requires further investment to improve the transport and logistics links and further trade and economic integration in the region. Infrastructure investment is needed, and it is easy to see why the region will need the fund-raising facility, and the professional expertise to build the infrastructure.

It is with this vision in mind that the Asian Infrastructure Investment Bank, or the AIIB, was set up. Infrastructure projects call for huge capital commitments and long implementation and payback periods. The AIIB will also need advice on project financing, financial management and foreign exchange management. Many activities along the Belt-Road will also be conducted in RMB. I encourage Hong Kong's banking industry to make the most of this opportunity to start to develop the expertise in infrastructure fund-raising, and knowledge of the economies in the region.

Although the AIIB and the Belt-Road initiatives continue to evolve, there is absolutely no need for us to wait. Hong Kong is known to be a doer and I encourage Hong Kong businesses to take the initiative now and engage your partners in countries along the Belt-Road. The Belt-Road plan is about economic co-operation and trade facilitation, and Hong Kong is the major business and financial hub in the region. Many of our companies are already investing in the region, and we can do more to promote Hong Kong's advantages and increase our trade with these economies.

With excellent connectivity with China and the rest of the world, Hong Kong is also a beachhead for Mainland enterprises seeking to "go global". The Hong Kong Government is putting in place measures to attract multinational and Mainland enterprises to establish corporate treasury centres in Hong Kong. We will be working to expand our network of comprehensive double taxation agreements, and arrange high-level trade missions, to promote trade and investment between Hong Kong and the region. We look forward to your help in engaging the companies and business partners in this region.

Finally, a word about innovation and technology. At the World Economic Forum at Davos, Premier Li Keqiang identified innovation as the new growth engine for the Chinese economy. The same could be said of the Hong Kong economy. In the world of finance, many Fintech innovations show us a future that is cool and exciting. Seeking to apply technology in finance, Fintech encompasses payment technologies, data analytics, crowdfunding, cybersecurity, etc. Fintech companies also come in different shapes and forms. While there are Fintech applications that may be disruptive to current banking and finance practices, many others are trying to improve customer experience and helping incumbents to be more efficient and to identify new ways in doing business.

The Government has set up a steering group to study how to develop Hong Kong into a Fintech hub with help from industries, research and development institutions as well as our regulators. I am chairing that steering group and I have the pleasure of meeting many of these start-ups, Fintech companies and innovative offices in established banking and financial institutions. We will continue to work closely with the industry to embrace these new innovations together.

The theme of this year's conference, "Reshaping Banking for a New Normal", is a timely one indeed. The "New Normal" period is no doubt an evolving one. The "New Normal" could mean slower growth of the world or higher volatility in the financial market, but it could also mean exciting growth prospects arising from the rise of Asia. The "New Normal" also means new technology giving us new ways to reach customers and meet their needs. We look forward to working closely together with the banking industry to prepare for the new but not quite normal times ahead of us.

Thank you.

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