

Speech

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

Thursday, November 26, 2009

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Institute of Bankers' Annual Hong Kong Banking Conference today (November 26):

Dr (Patrick) Fung, ladies and gentlemen,

It is an honour and a pleasure to be invited to speak at the Hong Kong Institute of Bankers' Annual Hong Kong Banking Conference.

The effects of the financial crisis

It has been over a year since the curtains on the financial crisis went up with the first act of Lehman's spectacular fall from grace. Governments around the world have had no choice but to focus all their energy on kick-starting their economies and refining and strengthening their own financial regulatory regime. Fortunately for us, Hong Kong has tided over well and has not experienced any systemic failures. Our banking system continues to be fundamentally sound, healthy and robust. It remains liquid. The capital adequacy ratios of locally incorporated banks remain strong and are consistently well above the local statutory requirement and international standard.

However, we are not without problems of our own but they are just of a different nature compared to those faced by the West. Our attention has primarily been focused on handling complaints of mis-selling products which failed as a result of the collapse of Lehman Brothers. It highlighted the importance for banks to maintain proper business standards and practices in all areas of their business, and for employees to refrain from any dishonourable

and improper conduct.

Hong Kong's wealth management business

In the 60 years since its founding, Mainland China has achieved unprecedented economic growth and will soon become the second largest economy in the world. IMF forecasts that China's GDP will continue growing between 7.5% and 10.7% annually in the next five years. With a large and increasingly affluent population and a high saving rate, the vast Mainland market has provided Hong Kong with immense opportunities to expand the scope of our financial service with money coming out of the Mainland. The demand for investment products and wealth management from the Mainland is expected to be greatly increased. We should leverage on the opportunities presented by "One Country, Two Systems" and mould them into winning outcomes for both the Mainland and Hong Kong.

China is opening up. There are bound to be more opportunities for Hong Kong's banking sector with the rise and liberalisation of RMB business. Our cultural affinities, robust risk management systems, and close economic ties with the Mainland means that Hong Kong is best placed to serve as a testing ground for the development of RMB business outside the Mainland.

Nevertheless, opportunities will not turn into gold without effort on our part. We need to focus on improving market quality and facilitating market development in order to enhance the competitiveness of our wealth management business. The Government is canvassing views from a broad spectrum of stakeholders - bankers, fund managers, trustees, issuers, and distributors of investment products, lawyers, accountants, insurers and last but not least, our investing public. We want to hear your views on how Hong Kong could bring its wealth management business to the next level, how the sales process of investment products could be improved, what addition of protection we can offer to the investors.

Our end goal is to strengthen the protection offered to the

different stages of an investment covering its entire "life". First of all, when an investor is deliberating on where to put his money, he needs to have the tools and skills to understand his various options, from putting the money in the bank as deposits, to buying bonds, to the other extreme of investing in high risk and high return complex products. The Government can contribute by beefing up investor education and we are considering establishing an investor education council. Once the investor has acquired basic knowledge of his investment options, he can start to explore particular investment products available to him on the market. Adequate information on the products need to be made available to him in order for him to make an informed decision. When an investor finally approaches the sales desk, the sales professional needs to fulfil his duty of care towards the investor by giving sound advice. And finally, when things go wrong and disagreement emerges between parties, we need to have a mechanism to resolve the disagreement.

Any wealth management planning exercise is incomplete without considering insurance. The Government has not neglected this important slice of wealth management and is studying the establishment of an insurance authority and a policyholders' protection fund. Trust is also part and parcel of wealth management. We are rewriting the Company Ordinance and reviewing the Trustee Ordinance to meet the international practices of the 21st century and to make it more user-friendly for high-net-worth individuals to administer their trusts in Hong Kong. At the same time, we will strengthen our anti-money laundering regulation in line with international standards to optimise Hong Kong's business environment.

Banking staff code of practice and relationship with customers

Even if we establish the framework, rules and regulations conducive to the development of our wealth management business, we would only succeed if the frame is filled with professionals who carry on business with integrity, prudence and appropriate degree

of professional competence.

The code of practice for banking staff is not just a manual that staff recite to pass their exams but needs to be practiced to ensure good internal controls and sound risk management. Reputation risk, legal risk and operational risk could all arise due to improper conduct. Controlling the staff's conduct and building a solid and trusted relationship between banking staff and customer will not only avert many such risks but will also result in better customer service, better advice given.

The Government is pleased that both the Hong Kong Monetary Authority and authorised institutions have made significant and continuous steps in recent years to strengthen and implement the framework for a banking staff code of practice. It is also only right and logical, that banking staff are also required to observe the codes of conduct in the securities and insurance industries when they sell investment products and insurance policies.

Banking staff's role in maintaining Hong Kong as an IFC

The Hong Kong Institute of Bankers (HKIB) has been providing education and training services to Hong Kong's banking sector, since 1963. Over the years, it has strived to serve the needs of the local banking community. It constantly develops and improves its programmes for banking professionals in line with markets development and products innovation.

With the rise of Hong Kong's financial market to the international stage, increasing risks and challenges that comes with it, a higher level of expertise and proficiency is expected from banking professionals specialising in different functions. We need more high-calibre business managers, competent retail or wholesale banking professionals, talented wealth management advisers, and experienced risk managers. In order to keep pace with the rapidly changing market environment and international banking standards, all of these professionals must

be conscientious in upgrading their knowledge, acquiring the necessary professional qualifications, and widening their exposure to regional and international affairs.

Conclusion

Improving our market environment as a wealth management centre and having available a world-class talent pool of financial professionals go hand-in-hand in maintaining and strengthening Hong Kong as an international financial centre. As the Chief Executive highlighted in the 2009-10 Policy Address, the financial services industry is the most important economic pillar supporting Hong Kong. The role that HKIB has played is crucial to Hong Kong's goal to achieve greatness and write history in the financial markets.