

Speech by CE at Hong Kong Association of Banks Distinguished Speaker Luncheon (English only) (with photos/video)

The following is the speech by the Chief Executive, Mrs Carrie Lam, at the Hong Kong Association of Banks Distinguished Speaker Luncheon today (November 14):

Diana (Chairperson of the Hong Kong Association of Banks, Ms Diana Cesar), ladies and gentlemen,

Good afternoon. I'm pleased to be here today, speaking to a distinguished audience from the Hong Kong Association of Banks. As this year marks the 40th anniversary of the country's reform and opening up, and with an objective of steering Hong Kong to better integrate into the national development, I would like to share with you my recent experiences and observations in taking part in several national events.

In April this year, I attended for the first time in my capacity as the Chief Executive of the Hong Kong Special Administrative Region the Boao Forum for Asia, which adopted the theme of an innovative and open Asia for the prosperous development of the world. In his keynote address, President Xi Jinping stressed that reform and innovation are the drivers of progress and the world must strive to work together through dialogue and shared responsibility. In respect of further opening up, President Xi announced important measures such as enlarging market access, creating a more attractive investment environment, strengthening intellectual property protection and taking the initiative to broaden imports. Some of these measures are applicable to the financial services sector.

In August, I attended the inaugural Leading Group meeting chaired by Vice Premier Han Zheng as a full member to discuss the Guangdong-Hong Kong-Macao Greater Bay Area development. One of the initial focuses of the Greater Bay Area initiatives is to facilitate the flow of people, goods, capital and information within the Greater Bay Area, which naturally should be of considerable interest to the banking sector.

Then, earlier this month, I led two delegations to the Mainland: one to attend the First China International Import Expo in Shanghai and the other to Beijing and Shenzhen to celebrate the 40th anniversary of the reform and opening up of the nation. On the former occasion, I was pleased to hear President Xi's strong commitment to pursue a high level of opening up and to widen market access to the rest of the world. On the latter occasion, I was much encouraged by the clear recognition by President Xi of Hong Kong's contribution to the country's success in the past four decades.

Despite external uncertainties and the escalating trade conflicts around the world, principally between the world's two heavyweights, the United States of America and Mainland China, what I have seen and heard from our leaders have given me much hope and optimism for Hong Kong. I have no doubt that together with the Belt and Road Initiative, there are abundant opportunities for Hong Kong – the world's freest economy and an international financial centre after New York and London. The question is whether we – the Government and the industry – are sufficiently geared up to seize those opportunities in order to bring Hong Kong to a new height.

It has always been my conviction that Hong Kong's fundamentals are strong and Hong Kong people are talented. Despite being a small and open economy susceptible to global uncertainties, we are blessed with deep capital markets and a robust regulatory framework that will minimise any financial fallout. Indeed, the Hong Kong banking sector performed well in the first half of 2018. Of course in the same way the Hong Kong economy performed well in the first half of 2018, making a real growth of 4 per cent. The aggregate profit of retail banks increased by nearly 25 per cent in the first half of this year, year-on-year, while capital and liquidity positions remained strong. The average capital adequacy ratio of locally incorporated banks stood at 19.4 per cent, well above the international minimum requirement of 8 per cent.

But I believe the banking sector, like other sectors, will benefit from a more proactive government that stands ready to not only provide public service or regulate the market, but serve as a "facilitator" to create an environment that will enable our financial services sector to flourish while also acting as a "promoter" to market Hong Kong's strengths and competitiveness. Talking about promotion, I have brought with me a new publication on Hong Kong's financial connectivity and you can all pick up a copy when you leave this luncheon. We also need to play a more tech-savvy role to encourage innovation and technology in the banking sector. With this objective in mind, financial technology, or fintech, is a priority of my Government. As I outlined in my Policy Address last month, the Government believes in fintech. In order to accelerate its development, we have adopted a five-pronged approach: promotion, facilitation, regulation, talent and funding.

Our long-awaited Faster Payment System is very much part of that approach. Launched in September, it sets in motion a new era for payment. The System is unique in supporting multi-currencies, instant payments on a round-the-clock basis and full connectivity between banks and stored-value facility operators. A common QR code standard was also launched. This enables retail payments across a variety of e-wallets, offering convenience to merchants and customers alike. By providing an open platform for access by retail banks and stored value facility operators in Hong Kong, the Faster Payment System provides a level playing field for healthy competition among banks and payment service providers, promoting innovation and bringing more efficient and user-friendly service to the public, which will in turn benefit the banking industry as well. At last count, 21 banks and 10 stored-value

facility operators have embraced the System. As the System is still young, we will need to work together – government, regulators, the banking industry and the business community in general – to ensure that the System runs seamlessly for all concerned.

Another important development is the promotion of virtual banking, a much anticipated innovation with the promise of promoting financial inclusion by serving the retail segment, including SMEs. More than 60 local and overseas companies have indicated interest in applying for a virtual bank licence, and about 30 applications have been received to date. The Hong Kong Monetary Authority (HKMA) is now evaluating the applications and hopes to begin granting licences to virtual banks by the first quarter of next year.

As the Belt and Road Initiative gains momentum, demand for Hong Kong's financial services will surely proliferate. To help manage the demand, and create a clearing house for market information and communications, the HKMA set up the Infrastructure Financing Facilitation Office, the IFFO. To date, more than 90 stakeholders, including many from the banking sector, have joined the Office as partners. Indeed, the Hong Kong Association of Banks, in co-operation with the Office, organised in May a "Building a Sustainable Belt and Road" seminar, focusing on the potential for Belt and Road "partnership between Hong Kong banks and development banks".

My Government is also working to promote Hong Kong's advantages. We have many, from our extensive corporate and investment banking networks to our deep capital markets, including the world's largest offshore Renminbi market, and sophisticated financial and business services. Add our competitive and simple tax regime, and excellent communications and transportation networks, and it's clear we have what it takes to manage the treasury activities of multinational and Mainland corporations investing in the Belt and Road.

To create an even more tax-friendly environment for corporate treasury operations, we recently amended the Inland Revenue Ordinance, allowing interest deductions under profits tax for corporate treasury centres. The amendment also reduces the profits tax of qualifying entities by 50 per cent. Industry feedback has been positive, with more than 140 corporations benefiting to date.

Risk management is essential to the projects of the Belt and Road, and we have the potential to emerge as the Belt and Road's risk management centre. A number of multinational insurers and reinsurers in Hong Kong have the experience and knowledge to underwrite major infrastructure risks. In this regard, the Insurance Authority and the China Banking and Insurance Regulatory Commission have come to an agreement. When a Mainland insurer cedes business to a qualified Hong Kong professional reinsurer, the capital requirements of the Mainland insurer will be reduced. This will increase the competitiveness of Hong Kong reinsurers in capturing reinsurance business ceded by Mainland insurers.

The Insurance Authority is also setting up the Belt and Road Insurance Facilitation Platform. It will bring together key stakeholders to provide

insurance and reinsurance services. It will also help Mainland companies taking part in Belt and Road projects find the insurance services they need right here in Hong Kong.

As for the Guangdong-Hong Kong-Macao Greater Bay Area, with nearly 70 million people and a collective GDP of about US\$1.5 trillion, Hong Kong as an international financial centre is well placed to provide the financial services to support its development.

While physical connectivity in the Greater Bay Area has been much enhanced by the recent opening of two major cross-boundary infrastructure projects – the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong high-speed train and the Hong Kong-Zhuhai-Macao Bridge, we plan to boost demand for cross-boundary financial services, thereby creating more opportunities for the financial services sector. We are also exploring ways to provide more financial services to Hong Kong residents living in the Greater Bay Area, from simplifying procedures for opening a bank account to allowing the use of Hong Kong e-wallets.

Indeed, some connectivity has already taken place. Hong Kong Fintech Week, which ended early this month, illustrates the promise of innovation and technology for Hong Kong and the Greater Bay Area. This five-day event, which drew more than 8 000 professionals from more than 50 economies, became the world's first cross-border fintech gathering, moving the proceedings to Shenzhen on the final day.

It's estimated that there are about 35 companies in the Greater Bay Area with a value of more than US\$100 billion. My Government is committed to enhancing the competitiveness of our financial services sector so as to unleash the potential of these Greater Bay Area companies. We are determined to stay ahead of the curve, welcoming a new economic environment, while making Hong Kong's listing platform more attractive to issuers from a great variety of jurisdictions. That's why, earlier this year, we expanded our listing regime to allow the listing of companies from emerging and innovative sectors. As at the end of October, two companies with dual-class share and four pre-revenue biotech companies have listed on our stock exchange under the new regime. And by the way, also for the first 10 months of this year, Hong Kong ranked the world's number one in terms of funds raised through IPOs amounting to HK\$250 billion.

The Greater Bay Area development is a great opportunity to cement our position as the key international gateway to the Mainland. With the support of the Central Government, multiple mutual access arrangements between Hong Kong and Mainland financial markets are in place. The launch of Stock Connect, Bond Connect and the mutual recognition of funds arrangement over the last few years are testimony to Hong Kong's indispensable role in the internationalisation of the Renminbi and the opening up of the Mainland markets. And it was gratifying to hear President Xi himself acknowledging Hong Kong's contributions. Through the Greater Bay Area, we hope to expand further the channels for two-way, cross-border Renminbi fund flow, strengthening financial co-operation within the region.

These, and many other promising opportunities, cannot become reality without the talent to drive them. With that in mind, I welcome the HKMA's recommendation which we have accepted to establish an Academy of Finance in Hong Kong in mid-2019. The Academy will develop tomorrow's financial leaders, while serving as a centre for monetary and financial research.

The HKMA also launched the Fintech Career Accelerator Scheme with the Hong Kong Applied Science and Technology Research Institute and 12 banks in 2017-18 to expand the fintech talent pool in Hong Kong. The Accelerator Scheme was upgraded in January this year to help nurture talent at varying degrees of career development, offering a full-time placement programme, summer internships and a graduate programme organised with Cyberport and Hong Kong Science Park.

We also welcome fintech talent from the Mainland and overseas. Indeed, Hong Kong's first Talent List, which was launched in September to attract quality people from around the world in a more effective and focused manner to support Hong Kong's development, features 11 targeted professions, including fintech.

Ladies and gentlemen, I am confident that talent, coupled with the unwavering commitment of this Government as well as yours, will bring the banking and financial services sector as well as the Hong Kong economy to new heights. I look forward to working closely with you all as we take forward initiatives to consolidate Hong Kong's leading position as an international financial centre.

Once again, my thanks to the Hong Kong Association of Banks for inviting me to speak to you today. I wish you all the best of business. Thank you very much.

