Speech by SFST at business luncheon co-organised by the Swiss-Hong Kong Business Association and the Hong Kong Economic and Trade Office in Berlin (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr James Lau, at business luncheon co-organised by the Swiss-Hong Kong Business Association and the Hong Kong Economic and Trade Office in Berlin on October 24 (Zurich time):

Introduction

Good afternoon. I am delighted to join you all today in Zurich to speak about the opportunities in Hong Kong for the Swiss business community. We have a cosy setting today, so I will speak briefly and leave more time for discussion.

First, given the longstanding Swiss tradition and expertise in helping individuals and families manage their wealth, I will speak about opportunities for Swiss financial institutions in wealth management in Hong Kong.

Secondly, given that the Swiss biotech sector has gone from strength to strength in the past decade, I will speak about the budding biotech industry in Hong Kong, and the opportunities for bilateral collaboration in this area.

Wealth management in Asia

It should come as no surprise to you that Asia is the world's fastest growing market in wealth management. While a variety of consultancy firms have come up with slightly different estimates for the size of this market, all reports point to Asia, and China in particular, as a key driver for global wealth creation.

To begin with, a report by the Boston Consulting Group (BCG) estimates that personal wealth in Asia ex-Japan rose from US$21.6 trillion in 2012 to US$36.5 trillion in 2017. This represents an increase of 69 per cent in five years and an annual growth rate of 11.1 per cent.

For high-net-worth individuals with investable assets of US$1 million or more, Capgemini estimates that the number of individuals in this segment in Asia Pacific grew from 3.7 million in 2012 to 6.2 million in 2017. In addition, the total financial wealth held by these individuals grew from US$12 trillion in 2012 to US$21.6 trillion in 2017.

There are also reports on those who are at the very top of the wealth pyramid. A study by Wealth-X shows that Hong Kong surpassed New York City in 2017 as the city with the highest number of ultra-high-net-worth individuals, or those who have a net worth of at least US$30 million.

According to the study, around 10 000 ultra-high-net-worth individuals in Hong Kong have a combined wealth of close to US$1.3 trillion. Wealth-X also estimates that Hong Kong is home to 93 billionaires, putting it in second place behind New York City, which has 103 billionaires.

In Switzerland, Credit Suisse publishes a Global Wealth Report annually. What is interesting about this report is that it singles out China as a separate category from the rest of Asia because of its size and importance.

According to Credit Suisse, China accounted for a mere 4 per cent of global wealth in 2000, but has been responsible for 15 per cent of global wealth growth since then. Wealth in China has grown at an annual rate of 12.5 per cent, equivalent to a six-fold rise over the 17 year period to reach US$29 trillion in 2017.

But what is perhaps more important than the above figures is a set of projections on the future prospects. Wealth-X, for example, projects that Asia will see a 61per cent increase in the next five years in the number of individuals with a net worth of US$5 million or more. This 61 per cent growth figure compares to the corresponding figures of 38 per cent for North America and 34 per cent for Europe.

As for China specifically, Credit Suisse estimates that the country will add a total of US$10 trillion to the stock of global wealth in the next five years. The number of millionaires in China is also expected to rise from 1.9 million in 2017 to 2.7 million in 2022, representing an increase of 41 per cent.

The various sets of data I quoted above cover different time periods and target groups. But what is obvious is that Asia is going to be a promising market, if not the most promising, in terms of wealth management. And China is certainly going to be the key growth market in Asia.

Hong Kong as a hub for Swiss banks and Swiss professionals

So where does Hong Kong come into this picture? My proposition to you today is that Hong Kong is the ideal location for Swiss banks and professionals to access the fast growing wealth market in China and the rest of Asia.

According to a survey on asset and wealth management activities in Hong Kong for 2017 conducted by our securities regulator, the Securities and Futures Commission, Hong Kong has a total of US$3.1 trillion in assets under management, making us Asia’s largest international fund management hub.

The Boston Consulting Group estimates that Hong Kong has US$1.1 trillion of offshore wealth under management, putting it in second place after Switzerland, which is the largest offshore wealth hub in the world with US$2.3 trillion of assets under management. According to BCG, for the five years from 2012 to 2017, offshore wealth managed in Hong Kong has grown at a compound annual growth rate (CAGR) of 11 per cent, compared to 3 per cent for Switzerland.

As Swiss institutions seek to capture the growth in Asia, we welcome you to come to Hong Kong to reinforce our expertise in wealth management, including the setting up of trusts, foundations and family offices, and the advising of philanthropic endeavors and even passion investments in art and wine.

I am pleased to note that there are already 15 Swiss banks in Hong Kong, at least one of which has been here for more than 50 years. Swiss companies find themselves in good company in Hong Kong, where there are over 8,700 overseas and Mainland companies, including 1,530 companies that have designated Hong Kong as their regional headquarters.

Indeed, Swiss banks are a welcome and important segment of the wealth management community in Hong Kong. The Hong Kong Private Wealth Management Association, which includes a number of Swiss banks, signed an Memorandum of Understanding (MoU) with the Swiss Bankers Association in January this year to enhance mutual collaboration.

Building on the MoU, I am pleased to note that last month was successfully held in Hong Kong, for the first time, the Hong Kong-Swiss Financial Seminar was successfully held in Hong Kong with a specific focus on private wealth management. In addition, the two associations will also explore an exchange program for practitioners to foster a more in-depth understanding of the private banking industries in Hong Kong and Switzerland.

Biotech Industry in Hong Kong

Now I turn to my second topic on the biotech industry in Hong Kong. Innovation and technology are among the top policy priorities of the Hong Kong Government. While Hong Kong may be better known internationally as a global financial centre, we also have strong research capabilities in biotechnology and biomedicine.

Universities in Hong Kong are the prime spawning grounds of innovation and experimentation in biotechnology. The Central Government’s Ministry of Science and Technology has approved the establishment of 16 State Key Laboratories in partnership with six universities in Hong Kong. Nearly two thirds of them conduct research in biotechnology related areas such as liver research, emerging infectious diseases, pharmaceutical biotechnology, molecular neuroscience, digestive disease and cancer.

Hong Kong has two medical schools with extensive experience and knowledge in working with multi-national pharmaceutical companies. A distinct advantage for Hong Kong is that clinical trials conducted in three Hong Kong hospitals (Queen Mary Hospital, Prince of Wales Hospital and Hong Kong Eye Hospital) can be used to support the filing of new drug applications with the China National Drug Administration, giving Hong Kong substantial advantage in advancing new medicines for the vast Chinese market.

Hong Kong also has a number of eminent biotechnology researchers whose scientific accomplishments are widely acclaimed by the international communities.

Research teams led by Professor Malik Peiris and Professor KY Yuen in the University of Hong Kong were the first to discover the SARS coronavirus responsible for the mysterious epidemic hitting Hong Kong and rest of Asia a decade ago. Their works have advanced understanding of various emerging infectious diseases.

Professor Dennis Lo at the Chinese University of Hong Kong pioneered the development of non-invasive prenatal diagnostic tests for multiple genetic disorders. This is based on his groundbreaking discovery of circulating fetal nucleic acids in the plasma of pregnant women. Professor Lo's technology has been used in over 90 countries. Professor Lo was named as the Thomson Reuters Citation Laureate – Chemistry in 2016, just two days after he was awarded the Future Science Prize – Life Science Prize, seen as China's Nobel prize, for the same contribution.

Professor Lo's latest endeavor to develop products to detect cancer in early stage has also resulted in a US$100 million merger agreement with a U.S. life sciences company GRAIL. The U.S. company is backed by investors such as Bill Gates, Amazon, Alphabet, Tencent, as well as leading pharmaceutical companies such as Johnson & Johnson, Bristol-Myers Squibb, Merck and Celgene.

Hong Kong as an international hub for innovation and technology

Let us take a look at the opportunities for collaboration between Hong Kong and Switzerland in biotech. First, we would welcome Swiss biotech companies and research institutes to establish a presence in Hong Kong.

Switzerland has much to offer in the area of innovation and technology. Switzerland has been rated by Cornell University as the world's most innovative economy for the past seven years. Your universities and technical institutes are also consistently ranked among the finest in Europe.

Venture capital firms invested close to half a billion francs in Swiss biotech start-ups last year, and one very successful biotech company was acquired for US$ 30 billion. When I accompanied our Chief Executive to visit the Technologiepark Basel in January this year, we saw a park full of biotech start-ups that work in close collaboration with the pharmaceutical companies in a vibrant ecosystem.

In Hong Kong, we have earmarked 1.3 billion Swiss francs in our most recent Budget for setting up two research clusters, one on healthcare technologies and the other on artificial intelligence and robotics. The goal is to attract the world’s top scientific research institutions and technology enterprises to Hong Kong to conduct R&D projects in collaboration with local universities and research institutes.

In fact, in recent years, we have already attracted a number of renowned institutes to establish a presence in our city. The renowned Karolinska Institutet of Sweden opened its first overseas research facility at the Hong Kong Science Park in late 2016. The facility focuses on stem cell biology, biomedical engineering, biotechnology and regenerative medicine.

In June this year, the Institut Pasteur, the University of Hong Kong and the Hong Kong Science and Technology Parks Corporation signed a MoU in Paris to set up an interdisciplinary research centre for immunology, infection and personalized medicine in Hong Kong. The Guangzhou Institute of Biomedicine and Health, which focuses on stem cell research, will also establish a branch in Hong Kong.

Indeed, a vibrant cluster of some 100 international and local biomedical technology companies has taken root in the Hong Kong Science Park. The business focus of these companies includes chemical drugs, medical devices, biologics, regenerative medicines, bioprocessing, molecular diagnostics and also Chinese medicine.

We are also developing an 87 hectare Hong Kong-Shenzhen Innovation and Technology Park at the edge of Hong Kong near Shenzhen. We have earmarked around 2.5 billion Swiss francs for the initial infrastructure development, and the goal is to attract top-tier enterprises, research institutions and higher education institutes from both sides of the Shenzhen River as well as those across the globe.

Hong Kong as a listing platform for biotech companies

Now, as Secretary for Financial Services and the Treasury, it would be remiss of me not to mention that Swiss biotech companies can consider a secondary listing, or even a primary listing on our stock exchange. On April 30 this year, we launched a new listing regime in Hong Kong that permits the listing of pre-revenue biotech issuers as well as companies from emerging and innovative sectors with weighted voting right structures.

In the biotech chapter of our listing regime, there are three principles underlying biotech issuer suitability. First, the product must be regulated by a competent authority, such as the US Food and Drug Administration, China National Drug Administration, or the European Medicines Agency.

Second, the issuer must have at least one product beyond concept stage, and this product should be subject to human testing. Third, the issuer must have received meaningful investment from at least one sophisticated investor, for at least six months before the IPO. The investment should also remain at IPO.

In addition, the issuer should be primarily engaged in R&D of its core product for a minimum of 12 months. The primary reason for listing should be to raise capital for R&D to bring its core product to commercialisation.

Our listing regime also has specific guidance for biotech issuers in pharmaceuticals, biologics, medical devices and other biotech products. I appreciate that Swiss biotech startups can also list in Switzerland but Hong Kong would offer an option to access Asian capital and expand their market catchment.

Conclusion

Ladies and gentlemen, in conclusion, I hope I have illustrated for you the opportunities for the Swiss business in wealth management as well as in the biotech sector in Hong Kong. I look forward to meeting many of you during the rest of the luncheon, and hopefully I will have the chance to welcome you to Hong Kong in the near future! Thank you.