Research Office
Legislative Council Secretariat

Fact Sheet

Development of the financial services sector in Hong Kong

FS04/2022

1. Introduction

- The financial services sector[1] plays an important role in Hong Kong's economy and long-term development:

  - The **contribution** of the financial services sector **to Hong Kong's Gross Domestic Product reached 23.4% in 2020**, nearly double that of two decades ago (12.8%).

  - The financial services sector is a high value added sector. In 2020, the average value added brought about by each person engaged in the sector amounted to as high as $2.18 million, much ahead of the corresponding figures for the other three pillar industries (i.e. trading and logistics, professional and other producer services, and tourism).[2]

  - In terms of employment, statistics from the Census and Statistics Department showed that **in the second quarter of 2022**, the financial services sector **employed 267 000 persons, or 7.5% of total employment in Hong Kong**. Yet, the figure has decreased significantly by 18 700 (6.6%) on a year-on-year basis. **The sector's diminishing manpower requirement and possible talent drain** have sparked worries among commentators.

  - A burgeoning financial services sector can certainly boost activities and employment in the industry, as well as support the real economy of Hong Kong. Moreover, the performance of the financial services sector is pivotal to the city's strategic position. **The National 14th Five-Year Plan supports Hong Kong in enhancing its status as an international financial centre**, strengthening Hong Kong's development as a global offshore Renminbi business hub, an international asset management centre and a risk management centre, and deepening and widening mutual access between the financial markets of the Mainland and Hong Kong.

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1 The sector comprises banking, insurance, and other financial services (securities, futures, investment banks, investment advisers, trustees and custodians, etc.).

2 In 2020, the average value added brought about by each person engaged in trading and logistics, professional and other producer services, and tourism were $0.82 million, $0.52 million, and $0.19 million respectively. See Census and Statistics Department (2022c).

- According to the latest **Global Financial Centres Index** ("GFCI") Report published in September 2022, Hong Kong fell from third to fourth place in the ranking of international financial centres, behind New York, London and Singapore. Hong Kong was ranked second in Asia, still ahead of the sixth-ranked Shanghai, the seventh-ranked Beijing and the ninth-ranked Shenzhen. It is worth noting that **the rating difference between some major financial centres and their counterparts who are ranked one place above and one place below them was only one point**. **This, to a certain extent, reflects the fierce competition among international financial centres**.

GFCI Top 10 Ranks and Ratings in 2022

	September 2022 (Latest)		March 2022		Change in	
	Rank	**Rating**	**Rank**	**Rating**	**Rank**	**Rating**
New York	1	760	1	759	-	▲1
London	2	731	2	726	-	▲5
Singapore	3	726	6	712	▲3	▲14
Hong Kong	4	725	3	715	▼1	▲10
San Francisco	5	724	7	711	▲2	▲13
Shanghai	6	723	4	714	▼2	▲9
Los Angeles	7	722	5	713	▼2	▲9
Beijing	8	721	8	710	-	▲11
Shenzhen	9	720	10	707	▲1	▲13
Paris	10	719	11	706	▲1	▲13

Source: Z/Yen Group (2022).

- In respect of the competitiveness of individual financial businesses, the Hong Kong stock market has ranked first globally six times since 2010 (but fourth in 2021) in terms of **funds raised through initial public offerings**; according to a global survey conducted by the Bank for International Settlements, the Hong Kong **foreign exchange market** ranks fourth in the world in terms of the turnover of transactions; Hong Kong is also the world's largest **offshore Renminbi ("RMB") business hub** with its offshore RMB payments taking up 75% of the global total;[3] on **wealth management**, Hong Kong is currently the second largest cross-border wealth management hub in the world and the second largest private equity fund base in Asia; in terms of **insurance density (i.e. premiums per capita)**, Hong Kong ranks second in the world and first in Asia.

[3] The reference year of the latest survey is 2019.

2. Policy measures introduced in recent years by the Government and financial regulators to develop the financial services sector

- The Government and financial regulators have implemented a number of measures to promote the development of the financial services sector and enhance the regulatory regime. They are outlined below:

  - **Expanding mutual access with the Mainland capital market**: Following the launch of the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connects and the Northbound Bond Connect, last year saw the implementation of the Cross-boundary Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA") and the Southbound Bond Connect, along with the inclusion of Exchange-traded Funds ("ETFs") in Stock Connects linking markets in Shanghai and Shenzhen with Hong Kong. Preparations are underway to establish mutual access arrangements between the Mainland and Hong Kong interest rate swap markets, with a view to enriching the variety of financial products covered by mutual access.

  - **Promoting offshore RMB business**: The People's Bank of China ("PBoC") and the Hong Kong Monetary Authority ("HKMA") have expanded the size of the currency swap under the existing agreement to RMB800 billion (HK$940 billion), which is the largest in the world. The SAR Government and HKMA have been discussing with the Mainland authorities in preparation for allowing stocks traded via the Southbound Stock Connect to be denominated in RMB.[4]

  - **Enhancing listing regime in the securities market**: To attract China Concept Stock companies to list in Hong Kong, the Hong Kong Exchanges and Clearing Limited has, since January 2022, allowed Greater China companies without weighted voting rights structure and which are from traditional sectors to seek secondary listing in Hong Kong, and has given more flexibility to issuers seeking dual primary listings. In the same month, the listing regime for special purpose acquisition companies ("SPAC") was also established.

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[4] The authorities plans to **introduce a bill into the Legislative Council within this year to provide for a statutory exemption from stamp duty on stock transfers for specified transactions conducted by market makers for Hong Kong dollar ("HKD") and RMB dual-counter stocks**, so as to promote the liquidity of RMB-denominated stocks and price efficiency, and facilitate trading by investors.

- **Promoting asset management business**: The Government has completed an industry consultation on the proposal to provide tax concession for eligible family-owned investment holding vehicles managed by single family offices, and is now working on formulating legislative proposals. **The amendment bill is expected to be introduced into the Legislative Council ("LegCo") in the second half of 2022**.

- **Supporting the development of the insurance industry**: The Government is deliberating implementation arrangements with the Mainland authorities for the early establishment of after-sales service centres by the Hong Kong insurance industry in the GBA and the provision of third-party liability insurance on the Mainland for cross-boundary vehicles.

- **Promoting green finance**: In March 2022, the Green and Sustainable Finance Cross-Agency Steering Group completed a preliminary feasibility assessment for Hong Kong to pursue carbon market opportunities, and commenced the follow-up work. Furthermore, to promote and encourage the issuance of green and sustainable bonds, the Government issued a total of HK$20 billion worth of inaugural retail green bond in May 2022 and lowered the application threshold for the Green and Sustainable Finance Grant Scheme in the same month such that the minimum loan size was lowered from HK$200 million to HK$100 million in respect of applications for subsidies for covering external review costs under the scheme.

- **Promoting financial technology ("Fintech")**: HKMA and PBoC launched the GBA Fintech Pilot Trial Facility in February 2022 to provide a "one-stop platform" for the conduct of pilot trials of cross-boundary Fintech initiatives concurrently in Hong Kong and other Mainland GBA cities. Over 20 financial institutions and technology firms have expressed interest in using the platform. In September of the same year, the Financial Services and the Treasury Bureau also launched a new round of the Fintech Proof-of-Concept Subsidy Scheme to encourage Fintech companies or research institutes to work in partnership with financial institutions. Separately, **LegCo is scrutinizing the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022**, which aims to introduce **a licensing regime for virtual asset service providers**. HKMA has completed the initial consultation on e-HKD as well. A study on the specific arrangements of e-HKD is expected to commence in the fourth quarter of this year.

- **Nurturing financial talents**: In February 2022, the Government launched a new round of the Financial Practitioners Fintech Training Programme to provide online training programmes and subsidize the sector to organize relevant training. In September of the same year, it introduced the Pilot Scheme on Training Subsidy for Fintech Practitioners, under which industry practitioners who have attained recognized qualifications can receive reimbursement of up to 80% of the training costs. A three-year Pilot Green and Sustainable Finance Capacity Building Support Scheme will also be launched in the fourth quarter to subsidize industry practitioners to participate in relevant training.

- **External Promotion**: HKMA will host the Global Financial Leaders' Investment Summit on 2 November 2022. The event is expected to be attended by around 200 members of the financial community, with more than 30 institutions being represented by their group chairmen or CEOs. The Summit will be made a physical event to enable the financial leaders to see for themselves the resilience and vibrancy that define Hong Kong, and the opportunities that the city offers to pivot their businesses to the burgeoning Asian markets.

3. Challenges faced by Hong Kong in developing the financial services sector

- Due to geopolitical developments and the reduced movement of people around the globe amid the COVID-19 pandemic, many financial institutions have redeployed their human resources and adjusted geographical layout of their business. Reportedly many financial activities and professionals have shifted from being scattered around the world to being more concentrated, and tend to move or return to places where quarantine measures have become less stringent (e.g. Singapore, the United States and Europe). As such, **Hong Kong may face the challenge of an outflow of financial business and related professionals** and also the uncertainty as to whether they will move back/shift to Hong Kong in the future.

- According to the "World Talent Ranking" of the International Institute for Management Development in Lausanne, Switzerland, Hong Kong's ranking in terms of its ability to retain the local talent while drawing from the international talent pool (i.e. **"Appeal" factor**) has **dropped a further eight places to 26th** in 2021.[5] In the ranking report on international financial centres mentioned in Section 1 above, the ranking organization also opines that **"continuing travel restrictions"** in places like Hong Kong **"affect their ability to conduct normal levels of business"**.[6]

- In view of the **rapid pace of product and business innovation in the financial services industry**, **attracting talents is particularly important for the development of certain new and emerging areas of financial services**, such as Fintech, family offices and green finance.

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[5] In 2016, Hong Kong was ranked as high as fourth in the relevant ranking.
[6] Z/Yen Group (2022).

- At the same time, it can be seen from the various modernization to regulatory measures in Section 2 that **the Government and financial regulators need to review and optimize the regulatory framework and approach in a timely manner** to ensure that Hong Kong's financial system can align with the development of the global and regional financial markets. Removing various developmental barriers without compromising regulatory standards and investor protection is essential to maintain the competitiveness of Hong Kong's financial services sector.

4. Latest financial services sector development policies in Singapore and the United Kingdom

Singapore

- Following the issuance of "Financial Services Industry Transformation Map" ("ITM")[7] in 2017, the Monetary Authority of Singapore further issue the **Financial Services Industry Transformation Map 2025** ("ITM2025") in September 2022 and set an average annual growth target (in terms of economic value added) of 4% to 5% during 2021 to 2025 together with the goal of creating 3 000 to 4 000 jobs in the sector per annum over the same period, hence resulting in about **20 000 new positions in 5 year**. ITM2025 comprises five key strategies:

    - Enhance asset class strengths (foreign exchange, insurance, asset and wealth management, and Fintech) in which Singapore plays a key regional or global role;

    - Digitalize financial infrastructure (including bonds, fund settlement utility, and trade finance);

    - Catalyze Asia's Net-Zero Transition through facilitating carbon trading and green finance;

    - Shape the Future of Financial Networks; and

    - Foster a Skilled and Adaptable Workforce.

[7] The "ITM" issued in 2017 covered the period from 2016 to 2020, when the financial services sector recorded an annual growth in value added of 5.7% and annual increase in new positions at 4 100.

- ITM2025 not only lists out Singapore's existing measure to promote financial services sector, it also pledges **S$400 million (HK$2.2 billion) grant funding to the Talent and Leaders in Finance programme over 2021 to 2025** and provides **S$100 million (HK$550 million) grant funding over 2021 to 2025 for supporting green finance-related projects** (e.g. green Fintech, climate risk and reinsurance, and solutions for sustainable and transition finance).

The United Kingdom

- The UK government emphasizes its support to develop **Fintech** and **green finance**. For Fintech, in addition to blockchain/distributed ledger technology and virtual assets, the government established the **Centre for Finance, Innovation and Technology to identify barriers to growth for UK Fintech and make recommendations.** Regarding green financial, the UK government issued its first Green Gilt in 2021 and eventually issued £16.1 billion (HK$143 billion) of such bonds during the 2021-2022 financial year. Separately, the **Bank of Infrastructure was set up in 2021** as well. With an eventual capital target of £22 billion (HK$195 billion), the policy bank will invest in renewable energy and carbon capture, storage and transport sectors, and partner with local authorities on climate change projects.

- The UK government further pledges to **issue an annual "State of the Sector" report** starting from 2022. The first report was published in September 2022, reviewing and looking forward to developments in regulatory regimes and various financial businesses, and conducted a **comparison of financial services sector performance between UK and selected peers**.

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Hong Kong

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Note: ^ Internet resources listed in this section were accessed in October 2022.