

Chapter III : Financial Services

3.1 At the Chairman's invitation, the Secretary for Financial Services (SFS), Mr Stephen IP Shu-kwan, gave a presentation on the major programmes under his policy areas in 2001-02 (Appendix V-2).

Reforms in the banking sector

3.2 Members noted that during 2001-02, the Financial Services Bureau (FSB) would continue to monitor the implementation of the banking reform initiatives announced in July 1999 by the Hong Kong Monetary Authority (HKMA). Referring to recent announcements made by some banks on plans to impose charges for services rendered to small depositors, Mr LAU Chin-shek asked whether it was also one of the work targets of the FSB to protect the interest of small depositors.

3.3 In response, SFS stressed that while the Government fully noted members' concern, it was inappropriate for the Government to interfere in matters relating to the revision of banking fees and charges as this was a commercial decision. The Government attached more importance to ensuring that banks would operate in a fair and transparent manner, and that there was sufficient competition in the industry so that customers could have access to basic banking services and make free and informed choices. To this end, the HKMA would continue with the review on the Code of Banking Practice in consultation with the industry to ensure that customers would be provided with sufficient information on fees and charges for banking services, and be notified in advance about their changes. The Government also recognized the increasing need to address the issue of consumer protection as the banking sector became more competitive. The HKMA was reviewing its role in this respect and would refer to the experience of overseas jurisdictions. The Legislative Council (LegCo) would be informed of the findings of the studies when these were available.

3.4 On the progress of the proposal to introduce a deposit protection system in Hong Kong, the Chief Executive, HKMA (CE, HKMA) advised members that the HKMA was in the final stage of reviewing the submissions and views collected during the public consultation on the proposal and would submit its recommendations to the Government soon. If a policy decision to introduce such a system was made, the HKMA would work out the details for implementing the system by the end of 2001.

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3.5 In response to Mr CHAN Kam-lam's enquiry about the implementation of the final phase of deregulating the interest rate rules, CE, HKMA said that the HKMA had devised a set of specific and objective indicators for the purpose of evaluating the conditions for deregulation. Given the ample liquidity presently maintained in the banking sector, the HKMA did not envisage that the deregulation would adversely affect interest rates and the deposit base and profitability of banks. Providing that the prevailing economic and financial conditions were not unfavourable, the final phase of deregulation would take place in July 2001 as originally scheduled. The HKMA was closely monitoring developments in the external and local economic environment as well as the financial markets. The Banking Advisory Committee, the Deposit-taking Companies Advisory Committee and the Exchange Fund Advisory Committee were being consulted for a final decision on the matter. The Government would make an announcement shortly.

3.6 On the concern that increasing competition in the banking sector had adversely affected the profitability of banks and indirectly added pressure on increasing fees and charges, SFS said that the reform measures introduced by the HKMA were aimed at promoting competition and strengthening the banking system. The banking sector had remained robust and healthy as evidenced by the continuing growth in the aggregate profits of banks. Competition in the banking industry had also benefited customers by driving down the lending rates, the most prominent being reductions in mortgage interest rates. The Government Economist added that the banking sector had responded positively to increasing global competition in the industry. The majority of banks were actively pursuing cost control measures with a view to improving competitiveness.

3.7 Miss Emily LAU noted that the Government had not made any special provision in the Estimates of 2001-02 for conducting a study on the relevant legislation for the HKMA to clearly define its functions and powers, so as to enhance its public accountability and transparency. She asked whether the Government had any plan to conduct a review or undertake public consultation in this regard.

3.8 In response, SFS stressed that the HKMA was committed to maintaining its professionalism, accountability and transparency in discharging its duties and keeping its systems from political interference. Accordingly, the HKMA was conducting an internal review of its organizational structure and

powers to ensure that these objectives would be achieved. LegCo Members would be informed of the results of the review upon completion.

Human resources needs in the financial services sector

3.9 Members noted from the speech by the Financial Secretary on the 2001-02 Budget that an Admission of Mainland Professionals Scheme would be introduced to meet the shortage of professionals in the information technology and financial services sectors in Hong Kong. While agreeing that an adequate supply of professionals in the financial services sector was important for Hong Kong in maintaining its competitiveness as an international financial centre, some members expressed concern about the Government's proposal to admit Mainland professionals to work in Hong Kong, as this might jeopardize the job opportunities of local graduates. They also enquired whether the Government had any plan to undertake studies on the human resources needs in the financial services sector in order to bridge the gap between the demand for and supply of professionals through the provision of training and re-training programmes. Mr Henry WU was particularly interested in the role played by the Advisory Committee on Human Resources Development in the Financial Services Sector of Hong Kong in this regard.

3.10 SFS said that according to manpower surveys conducted within the financial services sector, there was a serious shortage of professionals in the sector. Furthermore, financial institutions reported an annual growth of over 4% in manpower demand, high job vacancy and turnover rates. The Government established the Advisory Committee on Human Resources Development in the Financial Services Sector (the Advisory Committee) in June 2000 as one of the measures to address the shortage problem, to provide an on-going mechanism to match the demand for and supply of human resources development programmes in the financial services sector. The Advisory Committee was composed of well-known representatives from the financial services industry, financial regulators and relevant training institutions. Since its establishment, the Advisory Committee had been holding regular meetings and conducting research and surveys in over 40 financial institutions to assess the human resources needs of the sector. Its first report was published in January 2001. The report recommended that the Government should relax its policy on the admission of professionals from the Mainland in the short term in order to meet the manpower shortfall. SFS said that under the Admission of Mainland Professionals Scheme, those to be admitted to work in the financial services sector would be

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professionals with high academic qualifications, knowledge and expertise in relevant disciplines. SFS would be pleased to provide the first report of the Advisory Committee after the meeting if so required.

3.11 As regards long term measures to address the shortage in manpower supply in the financial services sector, SFS said that the Advisory Committee would co-ordinate and motivate sector-wide support in human resources development. It would continue with its efforts to work closely with the industry, professional bodies, tertiary institutions and vocational training bodies to identify the skills and expertise required in this sector. It was hoped that appropriate human resources development programmes would be developed to cater for the needs of the sector.

Mandatory Provident Fund system

3.12 Noting that one of the matters requiring the FSB's special attention in 2001-02 was to oversee the full implementation and smooth operation of the Mandatory Provident Fund (MPF) system, Miss Emily LAU asked whether the volatility in the global and local financial markets in recent months had led to poor returns for investment funds and would adversely affect the interest of MPF scheme members. SFS responded that contributions to the MPF system were long term investments for the retirement benefits of the workforce. Past statistics revealed that retirement funds were able to attain satisfactory profits for periods extending over 20 years. The Mandatory Provident Fund Schemes Authority would step up its efforts in educating the public about the nature of the MPF system and its investment returns.