

**For discussion on
1 June 2015**

Legislative Council Panel on Financial Affairs

**Pilot Programme to Enhance Talent Training for
the Insurance Sector and the Asset and Wealth Management Sector**

PURPOSE

This paper briefs Members on the proposed pilot programme to enhance talent training for the insurance sector and the asset and wealth management sector.

JUSTIFICATIONS

2. The financial services industry constituted about 16.5% of Hong Kong's Gross Domestic Product and employed 238 000 persons in 2014, accounting for 6.3% of the total labour workforce. As projected by the latest Manpower Projection to 2022 prepared by the Labour and Welfare Bureau, the financial services industry is the fastest growing economic sector in terms of manpower requirements during the period from 2012 to 2022, with a projected average annual growth rate of 2.2%, much higher than that of 0.9% for overall Hong Kong. Shortage of manpower and quality personnel will hamper the development of the financial services industry.

3. In his 2014-15 Budget, the Financial Secretary tasked the Financial Services and the Treasury Bureau ("FSTB") to conduct a study on the training of professionals and skilled personnel in various sectors of the financial services industry. Through consultation with the financial services industry on the issue of talent training, we note that there is broad consensus that manpower shortage is particularly acute in the insurance and the asset and wealth management sectors. The industry has suggested that the Government could help promote the industry, enhance the professional competence of practitioners and, in particular, train up more talent for middle and back offices.

Insurance Sector

4. The insurance sector has expressed concerns that it is facing multi-faceted problems in talent training and development. At the macro-level, insurance is disadvantaged in competing with other sectors in financial services for talents due to a lack of understanding of the insurance industry and a low public awareness of the wide range of career opportunities and the career paths of professionals in different functions in insurance.

5. Sectorally, it is a global phenomenon that the general insurance business (e.g. health, employee compensation, motor, fire and property, marine and cargo insurance, etc.) has difficulties in recruiting young talents when compared to life insurance business due to its relatively diverse and technical nature, meaning that it takes more time to master various job skills and knowledge in general insurance than those in the life insurance business.

6. Functionally, the industry sees an acute shortage of skills in areas such as professional brokerage (e.g. advising corporate clients on the insurance cover for infrastructural projects) and technical areas of life insurance including underwriting¹, claims management², compliance and policy operation services³. These functions are technical and highly specialized, meaning that the learning curve for performing these functions satisfactorily is long and steep. Many of the skills have to be acquired on the job.

7. In terms of enhancing the professionalism of insurance practitioners, the industry generally welcomes additional resources to augment the quality of insurance-specific training courses and the production of training materials. At present, there are only a few high-end training courses, i.e. those with a higher level of technical contents and involve overseas experts, available in the market and they are expensive, often limiting participants to those supported by corporate sponsorship. Moreover, in order to meet new regulatory requirements in the next few years, such as the establishment of the independent Insurance Authority (“IIA”), the industry opines that practitioners need to be kept up to date with the details of the new regulatory requirements. Government financial support for organising such courses could make them

¹ Insurance underwriter evaluates the risks of insuring a particular person or asset and uses that information to set premium pricing for insurance policies.

² Insurance claims handling involves activities such as settling claims, detecting fraud, and carrying out subrogation recoveries.

³ Policy operation services involve activities pertaining to the maintenance of existing policies such as policy alternation, replacement for lost policies and explanation of policy coverage, etc.

affordable to a wider range of existing insurance practitioners, thus enhancing the competency, professionalism and regulatory compliance of the practitioners.

Asset and wealth management sector

8. Statistics indicate that asset and wealth management is a fast-growing sector within the financial services industry. According to the Securities and Futures Commission's Fund Management Activities Survey 2013, Hong Kong's combined fund management business sustained a year-on-year growth of 27% to achieve another record high of \$16,007 billion at the end of 2013. The total number of staff engaged in the fund management business increased by 15% from about 27 700 in 2009 to 31 830 in 2013.

9. With the fast economic growth and wealth creation in Asia, as well as continued financial market liberalization in the Mainland, we see profound development potential in this area. To sharpen Hong Kong's competitive edge as a premier international asset and wealth management centre, on the policy front, we have been implementing various initiatives to develop Hong Kong into a full-service asset management hub⁴.

10. Meanwhile, we have not lost sight of the need to promote the development of manpower resources for pursuing the growth of the sector. Industry feedback however indicates that there is not sufficient information to allow students and graduates to better understand the full spectrum of functional posts and career prospect of different sub-sectors within the sector. In particular, it is difficult to attract talent to join the more technical areas (e.g. risk management, compliance, operations), which leads to staff shortage problem. Given the intense staff poaching among firms, many individual firms have little incentive to invest in in-house training and development or to groom fresh graduates. There is also insufficient training resources and shortage of experienced local trainers and diversified training courses.

11. We need to ensure that our talent pool has the capacity and right skill set to meet the growing needs of the asset and wealth management sector. Enhancing talent training is therefore another area which is crucial for the further development of the sector.

⁴ For example, we have been taking forward the initiative to introduce a new open-ended fund company structure to attract more funds to domicile in Hong Kong, which will in turn help build up Hong Kong's fund development capabilities. The mutual recognition of funds arrangement between Hong Kong and the Mainland will be an added incentive for funds to domicile in Hong Kong.

PROPOSALS

12. Taking into account the views of the industry, we propose to launch a three-year pilot programme focusing on the insurance sector and the asset and wealth management sector, and allocate \$100 million to implement various initiatives to enhance talent promotion and training. Details of the pilot programme are provided in paragraphs 13-41 below.

Insurance Sector

13. For the insurance sector, the proposed initiatives are geared towards training and developing talents to fill the skills gaps in specific areas of insurance business, in particular, general insurance, professional brokerage and functional areas of life insurance including underwriting, claims management, compliance and policy operation services.

(1) Public education programme

14. Noting that the public does not have adequate understanding of insurance as well as the insurance industry, we propose to mount a three-year public education campaign starting 2015-16 to promote public awareness of the wide range of career opportunities in the insurance sector and the career paths of functional jobs in the sector. We wish to drive home the message that insurance is in fact an important risk management financial tool requiring professional skills and technical knowledge to perform different functional jobs, such as underwriting, claims management and professional brokerage, etc. and that the insurance industry is a promising and interesting sector that offers plenty of opportunities for career advancement. To ensure that the initiatives under the public education programme meet the needs of the industry, a working group with representatives from the three Self-regulatory Organisations (“SROs”), i.e. the Hong Kong Federation of Insurers (“HKFI”)⁵, Confederation of Insurance Brokers (“CIB”) and Professional Insurance Brokers Association (“PIBA”), will be set up to provide input and feedback to the Vocational Training Council (“VTC”) (please see paragraph 34 below on the implementation agent).

15. The proposed public education programme will target secondary and tertiary students, parents, teachers, and career masters in secondary schools. Focus group meetings would be conducted with these different groups of target audience to gauge their perception of the insurance industry and

⁵ The Insurance Agents Registration Board is set up by HKFI.

understanding of career opportunities in the industry. Taking into account their different needs, we would develop different engagement strategies. For example, for tertiary students, we would focus on the range of career opportunities, career pathways and the skillsets required for different functional jobs in insurance. We would also collaborate with the three SROs in organising outreach programmes, identifying prominent figures from the industry to speak as role models. For secondary students, the objective is to enhance their understanding of and the nature of jobs in the insurance industry. We would arrange interactive learning activities, develop learning kits such as information booklets, animations, comics and an e-learning portal.

16. As for publicity to promote the image of the insurance industry in general, subject to further discussion with the trade and the findings of the focus group meetings, we would make use of both traditional media targeting parents and the general public, and social media targeting students. Potential deliverables include newspaper advertorials, advertisements, printed materials and promotion through social media like discussion forums or social networking sites using short film or blogs. We also plan to set up a dedicated website to provide an interactive platform linking up employers in the insurance sector and the youth (e.g. reference can be made to www.discoverrisk.co.uk).

(II) Training allowance for work-and-learn programme

17. Most graduates are unfamiliar with the work of an insurance practitioner, thus according the insurance sector a low priority when considering career choices. On the other hand, the learning curve for some technical jobs in the insurance sector could be long and steep. A new recruit needs to spend years in mastering the basic know-how and skills, and acquiring experience to perform very specific jobs satisfactorily. For example, practising marine insurance requires the basic knowledge of both the marine industry and insurance industry as well as understanding of technical terms and laws related to carriage of goods, etc. We believe that a structured work-and-learn programme would be useful in filling these gaps as it allows candidates to receive class-room training on insurance knowledge for further progression of their careers, while acquiring hands-on work experience and making earnings during the study period.

18. HKFI has initiated and launched a work-and-learn programme named the Young Insurance Executive Development Programme (“the Programme”) with the assistance of VTC since March 2015. A student enrolled in the course will attend classes at a VTC institute a day a week and work at an HKFI member insurer four days a week. Target candidates of the

programme are degree holders or Higher Diploma holders with more than one year working experience. Participating insurers have undertaken to provide on-the-job training, pay each student-worker an annual remuneration of no less than \$120,000, fully sponsor the student-workers' tuition fees payable to VTC⁶ and offer other full time staff benefits like annual leave and employees' compensation insurance, etc. Students successfully completing the Programme will receive a "Professional Diploma in Insurance" and they will be eligible to apply for professional membership of the Australian and New Zealand Institute of Insurance and Finance ("ANZIIF") and the Chartered Insurance Institute ("CII") which allows them to attain further career advancement⁷.

19. We propose to –

- (a) extend the Programme to cover professional insurance brokerage;
- (b) enhance the attractiveness of both programmes by offering a training allowance of \$30,000 per year to each student-worker (on top of the annual remuneration of no less than \$120,000 paid by the participating employer) during the 16-month traineeship (i.e. the total training allowance received by a student-worker during the 16-month traineeship will be \$40,000); and
- (c) restrict the placements under the Programme to areas where the industry has difficulties in recruiting new talents, such as general insurance, professional brokerage and functional areas of life insurance including underwriting, claims management, compliance and policy operation services. Target candidates of the programmes will be (a) degree holders; or (b) Higher Diploma holders with more than one year working experience. Experienced candidates who do not meet the academic requirements will be considered on a case by case basis. An appraising system would be in place to evaluate whether a student-worker's performance at work and attendance record at school were satisfactory before the allowance is awarded.

⁶ As at March 2015, the tuition fee is HK\$28,800 for 8 modules under the programme.

⁷ Successful graduates will be eligible to apply for Senior Associate memberships of ANZIIF and obtain exemption (up to 120 credits) from CII.

20. For participating employers, in addition to the package under paragraph 18 which includes providing on-the-job training, pay each student-worker an annual remuneration of no less than \$120,000 during the traineeship, fully sponsor the student-workers' tuition fees payable to VTC and offer other full time staff benefits like annual leave and employees' compensation insurance, etc., they have to guarantee that upon graduation, if the student-workers are employed by the companies concerned as full time employees, the employers would offer an annual remuneration⁸ of no less than \$150,000, which is the sum of the remuneration paid by the company plus the training allowance paid by the Government under the work-and-learn programme.

21. To broaden new entrants' horizon and enable them to gain international perspective as well as understanding of the global insurance market, we propose to offer sponsorship for a maximum of 10 places per year to top performing student-workers of the programme for a 2-week intensive immersion programme in overseas insurance institutions. Subject to refinements during implementation, the immersion programme would include exposure to international insurance markets and information sharing sessions with overseas insurance practitioners, etc.

(III) Internship programme

22. Short-term internship programmes allow university students to gain a better understanding of the operation of the industry which would facilitate their consideration in deciding their future career. We propose an incentive scheme whereby the Government and insurers and insurance broker companies jointly offer an attractive pay for summer internships. We propose that, out of the monthly honorarium that a student would receive, the Government would contribute up to 75% or \$7,000 (whichever is the lower) per month for an internship period up to two months, while the remaining sum of honorarium as well as the cost for provision of guidance and coaching should be contributed by the participating insurance companies and insurance broker companies.

(IV) Financial incentive scheme for professional training

23. The industry pointed out that there is demand for advanced training in technical aspects of insurance business (e.g. employees compensation insurance, maritime insurance, and legal concepts such as vicarious liability,

⁸ The remuneration comprises basic salary and other allowances such as meal allowance and transportation allowance, etc.

third-party liability, etc.) and topical areas such as the latest regulatory developments both locally and internationally (e.g. establishment of IIA and compliance requirements regarding anti-money laundering & counter-terrorist financing, etc.). Organising courses on these technical subjects would often require inviting overseas expert speakers or more resources to develop course materials. However, due to budgetary constraints, the SROs are not able to organise such high quality and in-depth training courses currently.

24. Our proposal is to subsidize the SROs in organising high-quality training courses focusing on the above functional or topical areas in insurance. We propose to set up a Vetting Committee (“VC”) comprising practitioners and other relevant stakeholders to consider proposals submitted by the three SROs⁹. The VC would formulate a set of detailed assessment criteria, with reference to the relevance of the course content, effectiveness, reasonableness of cost and other factors, such as track records and experience of the partnering training institutes (if any), quality of speakers, targeted audience and expected level of attendance, etc. The proposal aims to provide high-end courses at an affordable cost for practitioners who wish to enhance their professional knowledge. We propose that the SROs charge participants a registration fee and the remaining costs for organising the courses would be reimbursed by the Government according to the actual expenses. A post-course report covering level of attendance and evaluation by participants, etc. will need to be submitted to the VC upon completion of the course.

Asset and Wealth Management Sector

25. To attract more new blood to expand the pool of talents (particularly for the more technical areas) and enhance the professional competency of the sector for pursuing the growth of the asset and wealth management sector, we propose to implement the following initiatives (paragraphs 26-33 below).

(I) Promotion and education initiatives

26. We propose to reach out to undergraduate students of the University Grants Committee (“UGC”)-funded institutions by launching various promotion and education initiatives, such as talks by industry practitioners, career seminars, job fairs, etc. The aim is to draw attention not only to the careers in the asset and wealth management sector, but also the different roles available in the whole spectrum of the industry, from front, middle to back offices, in turn helping enhance undergraduate students’ understanding of the sector and attract students to join the profession upon graduation. We will

⁹ SROs may partner with training institutes in organising the courses.

pursue the initiatives through collaborative effort with the industry associations and the UGC-funded institutions. We will also take the opportunity to promote other talent training initiatives as mentioned below.

(II) Internship programme for undergraduate students

27. Internship experience would give the young generation early exposure to the wide spectrum of career opportunities in the sector. We propose to invite local financial institutions to participate in the programme and offer intern places related to asset and wealth management during summer vacation. The programme will be open to local non-final year undergraduate students of UGC-funded institutions¹⁰. We propose that the internship period for each intern will last four weeks, and that each financial institution will take up two rounds of interns over eight weeks during summer. Participating financial institutions will be required to offer intern students meaningful exposure to the asset and wealth management field¹¹.

28. We propose that, out of the monthly honorarium that a student would receive, the Government could contribute up to 75% or \$7,000 (whichever is the lower) for an internship period of one month, while the remaining sum of honorarium as well as the cost for provision of guidance and coaching should be contributed by the financial institutions. Both student interns and participating financial institutions will be asked to provide an assessment after the internship.

(III) Financial incentive scheme for professional training

29. We propose to implement a financial incentive scheme for professional training, which aims –

- (a) to enhance the competency and professionalism of the in-service practitioners within the asset and wealth management sector to upgrade themselves throughout their career; and
- (b) to assist other practitioners within the financial services industry (particularly those working in small and medium sized institutions) in acquiring the knowledge and skills to enable them

¹⁰ We propose that the selection criteria of students for joining the internship programme should be decided by individual UGC-funded institutions.

¹¹ We propose that participating financial institutions should be required to provide a brief, before the start of the internship period, on the objective for the internship experience, and the duties/exposure that will be given to the student interns.

to enter into the asset and wealth management field.

30. We propose that in-service practitioners of the financial services industry¹² will be eligible for the scheme. They will be reimbursed 80% of the fees upon satisfactory completion of a course¹³ under the selected programmes of the scheme. Each individual may apply for fee reimbursement for more than one course, up to a ceiling of \$7,000 per person over the three-year period.

31. We propose that, initially, courses under five selected programmes offered by two non-profit-making training institutes, namely Hong Kong Securities and Investment Institute (“HKSI”) and the Hong Kong Institute of Bankers (“HKIB”), will be covered by the scheme. These selected programmes will cover a wide range of investment/financial products and services, as well as ethics, risk management and compliance, which will enable participants to enhance their knowledge about the front, middle and back office roles of the asset and wealth management sector¹⁴.

32. Depending on the feedback of industry practitioners to the scheme, we will consider including more relevant training courses in the scheme, say in the second or third year of the pilot programme. We will also consider introducing other incentive schemes for professional training, for example, sponsoring high-quality training courses with qualified speakers at an affordable cost for practitioners who wish to enhance their professional knowledge.

33. Applications will be considered on a first-come-first-served basis, and will remain open for applications until funding is fully committed.

¹² Our current thinking is that an applicant must be in full-time employment with a financial institution (e.g. he/she is employed by an organization licensed/registered by the Securities and Futures Commission/Hong Kong Monetary Authority), but not necessarily be in the field of asset and wealth management.

¹³ We propose that when seeking reimbursement of course fees, an applicant should provide documentary proof issued by the course provider certifying that the applicant has completed the course to the satisfaction of the provider.

¹⁴ Subject to further discussion with HKSI and HKIB, the selected programmes will include the Enhanced Competency Framework programme, fundamental programmes on asset management, risk management, compliance, clearance and settlement, etc., programme on financial planning and wealth management for retail wealth managers, and postgraduate diploma in credit, treasury, operations and wealth management for private wealth managers.

IMPLEMENTATION, CONTROL AND REVIEW MECHANISM

Insurance Sector

34. For the initiatives for the insurance sector, we plan to entrust VTC as the implementation agent. Support from VTC includes arranging outreach programmes to schools and coordinating inputs of industry to implement the publicity initiatives. For the work-and-learn programme, apart from being the course provider, VTC would promote the programme and provide administrative support such as verification of student-workers' attendance and their employers' fulfilment of stipulated conditions. VTC will also be required to maintain communication with employers and student-workers to ensure compliance with the stipulated conditions. VTC would serve as the Secretariat of the VC for the financial incentive scheme for professional training. VTC would enter into a service agreement with the Government setting out its contractual obligations in clear terms. VTC would be required to set up proper control and monitoring measures such as submitting regular progress reports and records to the Government on the implementation progress, and problems encountered and remedial measures taken. Under the Vocational Training Council Ordinance (Cap. 1130), VTC's financial accounts are subject to internal audit by the auditor appointed under the Ordinance. All financial records of VTC are also subject to the examination of the Director of Audit. Participants would be required to complete post-activity evaluation forms. Upon completion of the pilot programme, VTC should also provide an evaluation of the overall effectiveness of the programme.

Asset and Wealth Management Sector

35. We propose to engage the HKSI to provide services for the implementation of the pilot programme. The HKSI was set up in 1997 as a company limited by guarantee by leaders in the securities and investment industry, with the support of the SFC and the Hong Kong Exchanges and Clearing Limited ("HKEx"). It is currently a leading training institute with the main objective of promoting and developing proper conduct, integrity and high standards of professional competence of practitioners of the securities and futures industry. It is non-profit making¹⁵, with income from membership fees, course and examination fees, as well as financial contribution from the SFC to cover its expenditures.

¹⁵ According to the HKSI's Articles of Association, the income and property of HKSI shall be applied solely towards the promotion of its objectives, and no portion shall be transferred to members of HKSI.

36. The HKSI understands the training needs of the industry practitioners and has developed an extensive network with the industry and other training and tertiary institutions. Indeed, the HKSI Board comprises senior management of reputable financial institutions, academia from tertiary institutions, as well as representatives from the SFC and HKEx. This will enable the HKSI to seek closer collaboration with tertiary institutions and the industry to bring the initiatives in line with the needs of the industry.

37. We propose to enter into an agreement with the HKSI¹⁶ which will require it to collaborate with industry associations and other training institutes in planning and implementing the initiatives. We will also require the HKSI to submit an annual implementation plan and budget before milestone payments are made to it. The HKSI will be required to submit regular progress reports on the implementation progress, any problems encountered and remedial measures taken, alongside annual audited accounts. Towards the end of the pilot programme, the HKSI should provide an evaluation of the overall effectiveness of the programme.

38. We will set up a Steering Committee, to be chaired by FSTB, comprising representatives from the industry associations, academia, HKSI and HKIB to monitor the operation and progress, as well as to review the implementation of the pilot programme and make recommendations.

39. Taking into account the views of the Steering Committee, we will review the usage of funds regularly and fine-tune the implementation details in the light of practical experience and feedback. Refinements to the proposed initiatives may be introduced where appropriate within the overall scope of the pilot programme during the implementation period.

ALLOCATION OF FUNDING AND EXPECTED BENEFITS

40. The Government has set aside a total of \$100 million to take forward the proposed pilot programme. For initial planning, we envisage that the funding may be allocated to the following initiatives, with appropriate refinements in the course of implementation –

¹⁶ According to the HKSI's Articles of Association, the HKSI has the power to enter into any arrangements with the Government that may seem conducive to the objects of the HKSI.

	Initiative	No. of persons to be benefited in three years	Estimated funding (\$ million)
<u>Insurance Sector</u>			
(a)	working with the insurance sector on publicity and outreach (paragraphs 14-16 above)	n.a.	25.0
(b)	providing training allowance to student-workers of the work-and-learn programme and sponsorship for overseas immersion programme (paragraphs 17-21 above) ¹⁷	120 ¹⁸	7.2
(c)	providing internship subsidy to university students (paragraph 22 above)	150	2.1
(d)	providing subsidy to the three SROs for organizing more in-depth training courses for practitioners (paragraphs 23-24 above)	Cannot be estimated at this stage ¹⁹	12.0
	<i>Sub-total</i>		46.3

¹⁷ Given that the work-and-learn programme would take 16 months to complete, the training allowance for students-workers would be provided until the third year intakes complete the course, i.e. the use of money will straddle more than the three years after the commencement of the pilot scheme.

¹⁸ The overall target is to train a total of 120 student-workers within the three years. The number of intakes per year is suggested to be flexible, depending on the number of applicants and available placements.

¹⁹ The cost per training course can vary a lot depending on the scale, the qualification of the speakers and mode of delivery, e.g. a focused workshop on Employee Compensation insurance for 50 participants may cost about \$100,000 but the development of professional training materials and on-line courses on professional indemnity insurance or marine insurance law and practice may cost more than \$800,000 which can benefit many practitioners. The industry has thus advised that it is difficult to provide an estimate on the number of courses / beneficiaries at this stage. Proposals submitted by the SROs will be vetted by the VC based on a set of detailed assessment criteria (paragraph 24 refers).

	Initiative	No. of persons to be benefited in three years	Estimated funding (\$ million)
<u>Asset and Management Sector</u>			
(e)	Promotion and education initiatives (paragraph 26 above)	n.a.	5.0
(f)	Internship programme for undergraduate students (paragraphs 27-28 above)	450	3.2 ²⁰
(g)	Financial incentive scheme for professional training (paragraphs 29-33 above)	5000 ²¹	35.0 ²¹
	<i>Sub-total</i>		43.2
Administrative cost ²²			
		<i>Sub-total</i>	10.5
		Total	100

41. We propose a flexible approach to setting the split among different initiatives under the insurance sector and the asset and wealth management sector to cater for actual demand.

CONSULTATION WITH STAKEHOLDERS

42. Since the announcement of the 2014-15 Budget initiative to enhance talent training for the financial services industry, we have conducted focus groups with the insurance sector and the asset and wealth management sector.

²⁰ Assuming that the Government contributes up to \$7,000 of the monthly honorarium to be paid to a total of 450 student interns over the three-year period.

²¹ We expect that about 2400 in-service practitioners will attend courses under the five selected programmes, which will require \$16.8 million (assuming that each practitioner will be reimbursed 80% of the course fees, up to \$7,000 per person). We also propose to reserve \$18.2 million for including more relevant training courses and other incentive schemes for professional training at a later stage over the pilot period. We hope that an additional 2 600 in-service practitioners will be benefitted (this is only a rough estimate which would be subject to change depending on the actual courses/programmes/initiatives to be included to the scheme).

²² Including administrative fees to the implementation partners and contract staff cost.

We have also consulted the industry and the relevant stakeholders on the details of the pilot programme to ensure that the programme devised can meet the needs of the industry and achieve its objectives.

WAY FORWARD

43. Subject to funding approval by the LegCo Finance Committee for implementing the proposed three-year pilot programme, we aim to roll out the various initiatives starting early 2016.

Financial Services and the Treasury Bureau
May 2015