Financial Services in the Greater Bay Area:

The GBA takes shape

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Introduction – the GBA takes shape

Introduction

The GBA takes shape

This paper is based on a series of in-depth interviews with a range of professionals from across the Financial Services industry, as well as other opinion leaders. The aim is to capture the market's view of the key issues facing the GBA and to identify areas of consensus and disagreement.

When we issued our first paper on Financial Services in the GBA in 2019, the clients we interviewed were chiefly focused on the topics of regulatory and technical alignment between the Mainland cities, Hong Kong and Macau. The GBA presented a series of challenges.

Last year, when we took the temperature of the market a second time, the emphasis had shifted to looking at what was possible: what could be achieved within and despite the various constraints and uncertainties of the GBA?

Over the last few months we have again interviewed clients from the banking, asset management and insurance sectors, as well as regulators and representatives from industry bodies and academia. For all these stakeholders, the GBA is now a tangible reality – not a distant prospect.

Apart from the various policies and innovations that we examine elsewhere in this paper, the GBA is taking physical shape. Qianhai has developed rapidly since plans were initially unveiled in 2013. Its municipal government has introduced a range of initiatives to support the development of financial services, including subsidies on office space and incentives to attract talent. Hengqin Island is integrating Macau with Zhuhai and providing a venue for Macau's economic diversification. The Northern Metropolis, announced in the Hong Kong Chief Executive's last policy address, will shift the centre of gravity in the city and encourage ever greater integration with Shenzhen.

One of the most widely anticipated economic reforms – Wealth Management Connect – is now up and running. This scheme brings much greater clarity to how GBA investors are defined, how regulators from different jurisdictions can work together, and how the GBA itself can become ever more closely integrated.

Rapid development, bold reforms and new market opportunities will prove a lot for market participants to digest. As Lincoln Chan, Chief Operating Officer of Micro Connect, points out: "The GBA is a huge jump. It will take another ten to twenty years to reach saturation." Prof. Li Chen, from the Chinese University of Hong Kong, agrees:

"The reforms in the GBA are bold policy experiments. While policymakers have emphasized the importance of generating replicable models and experience for other regions, there will be a trial-and-error process for the GBA policy initiatives to mature before they can be rolled out.

Prof. Li Chen
Associate Professor,
Centre for China Studies,
Chinese University of
Hong Kong

All of the above should be viewed in the context of the 14th Five Year Plan (FYP), which was launched last year. The plan places much emphasis on the banking sector supporting the real economy, as well as innovations such as the digital RMB. Green finance is also seen as critical to supporting sustained development. We will explore these and other issues in the rest of this paper.

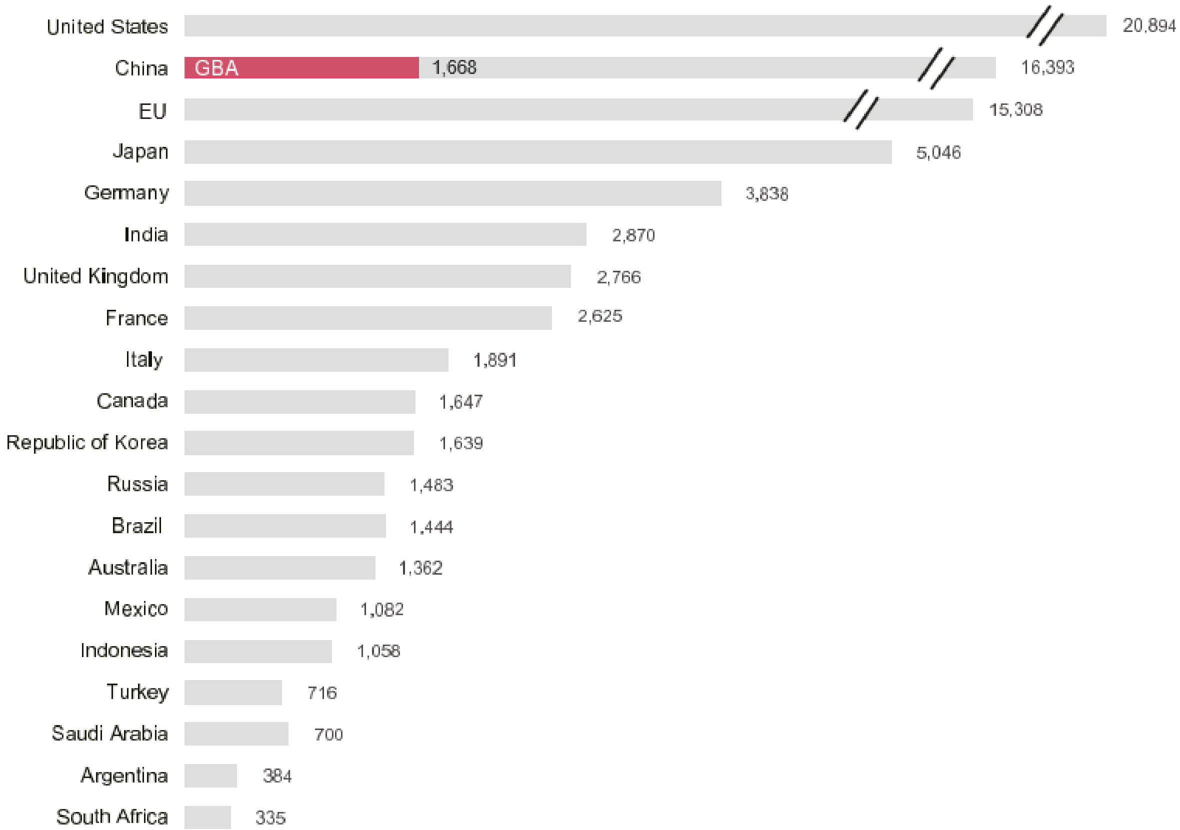
"The impact of the 14th Five Year Plan is fundamental to planning and cannot be ignored. We should emphasise Hong Kong's role in the plan.

Amy Lo
Co-Head, Global Wealth Management,
Asia-Pacific, UBS

"The GBA is building a physical and financial infrastructure that is tailored to China's needs and priorities.

Chris ST Chan
Financial Services Markets Leader, GBA Services,
PwC Mainland China and Hong Kong

GDP of G20 and GBA ($US bn)



The GBA's GDP already exceeds that of several G20 economies

Source: CEIC

> The GBA is more than a manufacturing and financial services powerhouse: it is the source of much of the technical innovation that will drive the next era of growth. Its GDP already equals that of South Korea and Canada. It is expected to grow 2.5 times by 2030, so it's too big to miss.
>
> **Daniel Chan**
> Head of GBA, HSBC

1. Living circles

Section 1:

Living circles

The concept of a 'one-hour living circle' is fundamental to GBA development and is a key pillar of regulatory alignment in the initial phase of the GBA project. It is also a strategic priority for the FS industry as it develops its footprint in the retail market.

Our interviewees see boundless opportunities for deeper integration within the GBA. But they recognise that this will happen gradually and organically. It will be increasingly difficult to separate out financial services from the broader GBA development story. The sorts of reforms that have enabled Wealth Management Connect or permit a Hong Kong-based lawyer to practise elsewhere in the GBA will be mirrored by liberalisation in other areas, such as medicine.

In September 2021, the central authorities issued a 'Plan for Guangdong-Macau In-depth Cooperation Zone in Hengqin'. This foresees closer integration between Macau and the municipal government of Zhuhai and the provincial Guangdong government. Hengqin will be a venue for greater economic diversification for Macau.

In the following month's 2021 Policy Address, the Hong Kong Chief Executive announced a 'Northern Metropolis', comprising up to 1 million homes and enhanced transport links into the Mainland. Both these initiatives are further evidence of a clear shift in the GBA's centre of gravity.

> "The GBA is more than just Wealth Management Connect. There are many other opportunities, such as cross-border mortgages. Thanks to CEPA[1], Hong Kong-resident lawyers can now take an exam in Shenzhen and qualify to practice in the GBA.
>
> **King Au**
> Executive Director,
> Financial Services Development Council

> "Travelling from Hong Kong to Shenzhen by high-speed train is quicker than travelling from Central to the border. There is great transportation infrastructure being put in place already. However, the promotion of GBA integration will require more than just that. It requires an integration of mindsets, seeing the issues from different perspectives and overcoming the practical challenges of dealing with three legal and regulatory jurisdictions.
>
> **Catherine Tsoi**
> Chief GBA Officer, Sunlife

1. The Mainland and Hong Kong Closer Economic Partnership Agreement (CEPA) was signed in 2003.

There is a general consensus among our interviewees that more fluid travel and work patterns within the GBA will break down some dichotomies that are perhaps becoming dated. Chief among these is the view that Shenzhen is ‘all tech’ and Hong Kong ‘all finance’. As Peter Burnett of Standard Chartered argues:

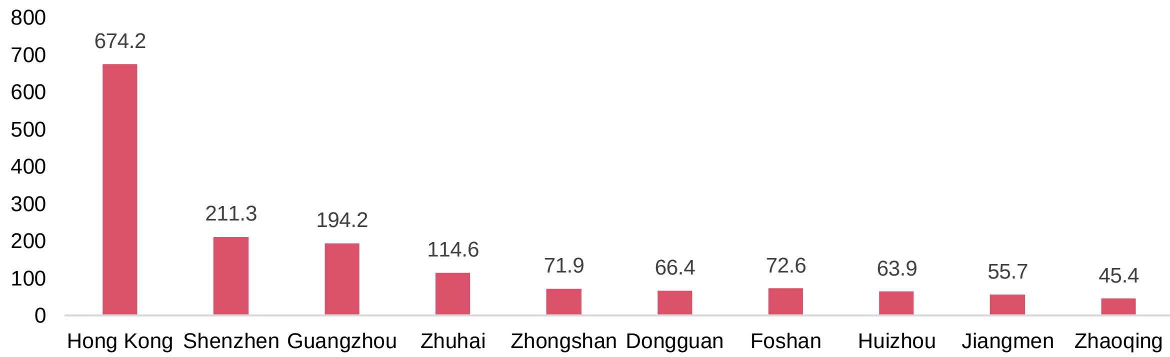
> Innovation and technology is a key pillar for the future development of Hong Kong. The Hong Kong Science and Technology Park has already created three unicorns. You can’t do that without working cross-border. The Lok Ma Chau loop may help in this regard. On top of financial services in the GBA, you’ll see the re-emergence of the real economy.
>
> **Peter Burnett**
> Managing Director, Standard Chartered (Hong Kong)

> Eleven cities within one hour of each other and a similar culture provide a good hunting ground. Proximity makes a difference – you can achieve a lot in just two days of meetings.
>
> **Amy Lo**
> Co-Head, Global Wealth Management, Asia Pacific, UBS

Figure 2

Lower rental costs may persuade businesses to look beyond Hong Kong and Shenzhen

Total occupancy cost, Grade A office space, 1H/2021 (RMB per sq m per month)



Source: Savills

2. Accelerated digitalisation

Section 2:

Accelerated digitalisation

COVID-19 has had contrasting effects on how our interviewees see the challenges and opportunities of the GBA. It has been a brake on much personal interaction, but has been an accelerator for digital adoption.

As a number of commentators have observed, several years' worth of digitalisation have happened in months as a result of COVID. This has narrowed the gulf between 'digital natives' and 'late adopters', while putting the digital user experience top of mind. Mainland customers have been comfortable with digital platforms for years, and have high expectations. The scale of the challenge for any new entrants seeking to engage with the GBA customer base has been brought sharply into focus.

> "Technology doesn't come cheap, but Mainland Chinese consumers are very sophisticated in terms of digital experience. It's an unavoidable investment to ensure user experience doesn't change dramatically.
>
> **David Ng**
> Chief Operating Officer, CSOP Asset Management Limited.

The suspension of in-person meetings, networking events and cross-border trips has had remarkably little impact on business for our interviewees. Reluctantly or not, customers have taken to digital platforms and video conferencing. There is a consensus that new business may be impacted by the lack of face-to-face relationship building, but that this may take another year or so to be felt.

COVID has also coincided with a reassessment of how best to achieve digital engagement with customers. Banks globally have aspired to create compelling ecosystems such as those offered by the leading Chinese FinTech firms, with a range of services through multiple partners. This approach has been subject to a tough reappraisal, firstly by the Bank for International Settlements:

> "…the network effects that underpin big techs can be a mixed blessing for users. On the one hand, [they] can create a virtuous circle, driving greater financial inclusion, better services and lower costs. On the other, it impels the market for payments towards further concentration.[2]

The conclusion from the BIS that the FinTech 'walled garden' approach is not necessarily in the public interest has also been taken up at the policy level in China. The challenge for financial institutions seeking to gain traction in the GBA is to offer an excellent digital experience that adapts to the customer's needs. A magic formula that locks customers in may no longer work.

2. BIS Annual Economic Report 2021: https://www.bis.org/publ/arpdf/ar2021e3.htm

Another significant development is the Multiple Central Bank Digital Currency (CBDC) Bridge (mBridge) project. This is jointly conducted by the Digital Currency Institute of the People's Bank of China (PBoC), Hong Kong Monetary Authority (HKMA), Bank of Thailand (BoT) and the Central Bank of the UAE (CBUAE) with support from the Bank for International Settlements (BIS) Innovation Hub[3]. The mBridge project has validated the proposition that CBDCs can substantially increase the speed of cross-border wholesale payments from multiple days to near real-time, while also reducing cost.

Meanwhile, at the retail level, China's digital currency / electronic payment programme (DC/EP) is making significant strides. More than 140 million personal wallets have been opened, and over 150 million transactions conducted, amounting to RMB 62bn (USD 9.7bn) as of 30 October 2021. Building on the knowledge and experience gained in wholesale CBDC, the HKMA commenced Project e-HKD in June 2021. This is a retail or general-purpose CBDC (rCBDC) project that aims to study the feasibility of e-HKD.

> PwC is pleased to have played a key role in supporting the central banks in developing a proof of concept in the mBridge project. This game-changing platform will facilitate more efficient, lower-cost and 24x7x365 cross-border wholesale payments for the financial services industry. We expect that these wholesale and retail CBDC initiatives will greatly benefit cross-border transactions and the economy of the GBA.
>
> **Gary Ng**
> Risk Assurance Partner,
> PwC Hong Kong

SMEs form the backbone of the GBA, but historically have had difficulty in account opening and gaining access to credit. The HKMA's Commercial Data Interchange (CDI) initiative seeks to facilitate data sharing between banks and non-banks to enable lenders to make more informed credit decisions.

This wave of new digital tools and services may prove to be transformational for the GBA, especially when more innovative cross-border use cases are explored.

3. https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/10/20211004-3/

3. Differentiation in the marketplace

Section 3:

Differentiation in the marketplace

“

Serving GBA customers presents a unique challenge – they may be in different parts of the GBA at different times of day, travelling frequently. This is quite unlike serving customers based in Beijing or Shanghai.

Anthony Lin
CEO, Greater Bay Area,
Standard Chartered

The regulators have delivered a series of reforms and, in the shape of the GBA, have created an enticing sandbox for innovation. The challenge for market participants is to deliver a credible value proposition. This applies to whatever service a financial institution wishes to launch, but the challenge has been brought sharply into focus by the launch of Wealth Management Connect.

While the size of the prize is clear, the challenges of the GBA are also daunting. First of all, there is the power of incumbents and familiar names. Secondly, as discussed in the previous section, banks will almost certainly have to pursue a digital-first strategy. They will therefore need to figure out how to differentiate their offering in a crowded marketplace.

Eleanor Wan of BEA Union, highlights this challenge:

“

Even in the second and third tier cities, investors are loyal to the big Chinese banks. No matter how many RMs you hire, it is difficult to change their perception of foreign banks. However, they are very tech-savvy, so digital services will be vital.

Eleanor Wan
Chief Executive Officer,
BEA Union

Amy Lo of UBS acknowledges that incumbents may need to form strategic partnerships in order to break through into new markets:

“

We are not as agile as the FinTech players. We look at partnerships to leverage their expertise in marketing and social media in order to connect with clients.”

Amy Lo
Co-Head, Global Wealth Management,
Asia-Pacific, UBS

Brand awareness is likely to be of critical importance in WMC, as banks are not currently permitted to offer investor advice. Investors may tend towards the most well-known names among the various funds on offer, some of which may already be familiar through Mutual Recognition of Funds.

Distribution is also key: Hong Kong and Macau-based banks seeking to capture as much Southbound business as possible in the first phase need to find the right Mainland partner bank – one with a sufficiently extensive network and customer base throughout the GBA.

Figure 3

Thirteen financial institutions appear in the Top 100 most valuable China brands

Overall Ranking (out of 100 China Brands, all sectors)	Brand	Category	Brand Value (USD mn)
6	Ping An	Insurance	44,359
9	ICBC	Bank	38,591
17	China Construction Bank	Bank	20,378
19	China Merchants Bank	Bank	19,367
21	China Life	Insurance	17,528
22	Agricultural Bank of China	Bank	17,511
27	Bank of China	Bank	12,832
50	CPIC	Insurance	5,980
63	Bank of Communications	Bank	3,800
72	Taikang Life Insurance	Insurance	3,235
85	China Minsheng Bank	Bank	2,310
93	New China Life Insurance	Insurance	1,892
95	PICC	Insurance	1,825

Source: "Top 100 Most Valuable China Brands – 2021" ((Kantar BrandZ)

An excellent digital user experience may prove to be a ‘necessary but not sufficient’ condition for market success. Investor education in product areas that are less well understood may also help develop brand awareness and customer loyalty:

> “Given the differences in product and investor preferences cross-border, investor education will be important to pave the way for a successful Phase 2 of WMC, where more sophisticated products and larger quotas can be offered.

Josephine Kwan
Asset & Wealth Management Partner
PwC Hong Kong

Ajay Mathur of DBS Bank also sees investor education as an opportunity to grow ESG investing:

> “In emerging markets, ESG is often not seen as a priority because it is perceived as low risk and low return. This isn’t necessarily true, so further education is needed.

Ajay Mathur
Head of Consumer Banking Group & Wealth Management, DBS Bank (Hong Kong)

4. Wealth Management Connect and future reforms

Section 4:

Wealth Management Connect and future reforms

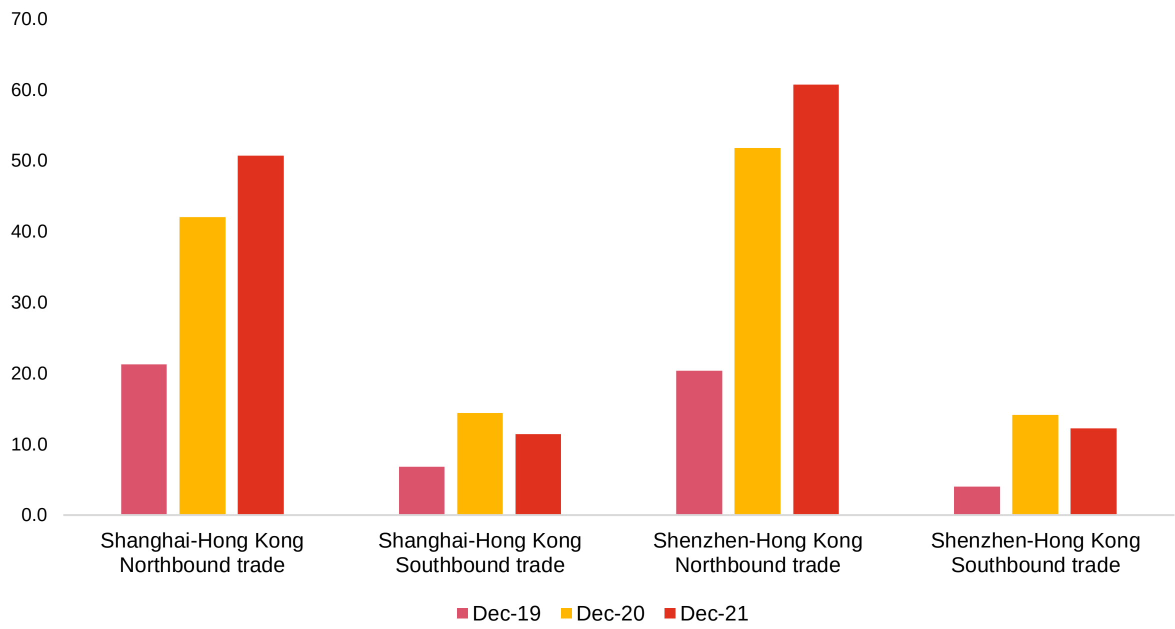
Since H-shares were launched in Hong Kong in 1993, the direction of travel for China's capital markets has seemed to be in little doubt. The pace of reform, however, has been frequently affected by macro-economic issues, such as the Global Financial Crisis and the value of the Renminbi.

A 'through train' for the trading of stocks between Hong Kong and Shanghai was first mooted in 2007, but then postponed amid global economic uncertainties. Eventually, the Shanghai-Hong Kong Stock Connect was launched in November 2014. On its first day of trading, the Northbound quota (i.e. offshore investors buying Mainland stocks) was fully utilised by 2pm. By the end of the trading day, just 17% of the Southbound quota had been taken up.

The Shanghai and, later, Shenzhen Stock Connect schemes with Hong Kong have since become trusted and familiar options for retail and institutional investors.

Figure 4

Stock Connect is now a well-established part of the investment landscape



Stock Connect daily turnover - buy & sell (RMB bn)

Sources: www.hkex.com; www.legco.gov.hk

The consensus view is that Southbound demand is likely to dominate WMC:

> “There is huge demand to diversify portfolios and to reduce concentration risk. The closed loop isn’t an issue – investors see it as the first step in capital account opening.
>
> **Dr Bi Mingqiang** President & CEO of China Citic Bank International

But Northbound business should not be discounted: our interviewees also point to a substantial base of Mainland investors resident in Hong Kong who may wish to invest back into Mainland China. The Chinese diaspora in East Asia may also be a source of Northbound demand.

“Mainland investors want to have more risk diversification tools, though the yield may not appear as high as onshore,” says James Tam, Banking and Capital Markets leader, PwC Hong Kong. “Meanwhile, the higher yield and variety of products available northbound will be attractive for Hong Kong residents.”

The relatively contained scale of the WMC scheme is unlikely to deter participants, according to one senior fund manager: “For some, China is ‘the last territory to conquer’, so they will invest even if the quota is small now.”

> WMC provides a great opportunity for first movers to efficiently acquire a meaningful customer book with clear investment and currency preferences.
>
> **Chris ST Chan**
> Financial Services Markets Leader,
> GBA Services,
> PwC Mainland China and Hong Kong

So far, around twenty Hong Kong-based banks and a quarter of Macau’s licensed banks have gained approval to participate in WMC. As stipulated in the detailed guidelines issued on 10 September 2021, the first phase of WMC will be limited to non-complex investment products. How WMC will develop, and the implications for other liberalisation schemes, is the source of much discussion.

As one senior banker suggests: “If WMC integration works well, it could either be expanded to the whole country or it could be leveraged to achieve fuller integration – like a Free Trade Zone for the GBA.” Already there is much anticipation of a ‘Phase 2’ that might involve more sophisticated investment options, including derivatives, and bring in institutional investors through substantially bigger quotas. Some hope that Phase 2 will encompass insurance products, while others argue that a separate Insurance Connect scheme will be required.

Catherine Tsoi of Sun Life argues that:

> “while it would be great to have investment linked insurance products sold under Wealth Management Connect, we also see value in having a separate Insurance Connect Scheme, where cross-border sales and services can be done seamlessly.
>
> **Catherine Tsoi**
> Chief GBA Officer, Sun Life

The success of WMC will add impetus to the roll-out of other GBA initiatives, such as Insurance Connect – for which WMC's operating model can also serve as a useful reference point. Insurance services centres in GBA cities would be an ideal platform for Hong Kong insurers to support their in-force policyholders in Mainland China.

> “Insurance Connect can be an important channel for the launch of cross-border insurance products that support the GBA's key visions. For example, cross-border motor insurance can encourage a comprehensive GBA transport system, while cross-border health insurance can underpin the GBA living circle concept.
>
> **Billy Wong**
> Insurance Leader,
> PwC Hong Kong

The ways in which WMC differs from Stock Connect and earlier ‘quota’ schemes (QDII, QFII, QDLP, etc.) may offer some clues to its future development. Firstly, WMC defines and ring-fences qualified GBA investors[4]. Secondly, it creates an active role for the banks involved, rather than just the stock exchanges.

4. Qualification requirements include net worth, years of investor experience and tax record in the GBA.

Assuming that risk management measures prove adequate – including innovations such as witnessed account opening – the likelihood is that the GBA will benefit from a deeper and more sophisticated investment environment in the next decade. As Mark Austen, of ASIFMA, argues:

> With WMC the stakes are relatively low, so regulators can watch how things happen, plug the loopholes and then raise caps.
>
> **Mark Austen**
> CEO, Asia Securities Industry & Financial Markets Association

The first weeks of WMC have been rather quiet: the continuing closure of borders as a result of COVID-19 has hampered account opening for Northbound investors. WMC has also generated a lot more publicity and interest in Hong Kong and Macau than it has among potential Southbound investors. This is understandable – for the two SARs, the GBA represents an increase in market size by an order of magnitude. Many Southbound investors may be waiting for Phase 2 and a broader range of investment opportunities at greater scale. But we should bear in mind that the Hong Kong-Shanghai and Hong Kong-Shenzhen Stock Connect schemes were also slow in their first six months of operations, but are now well-established features of the investment landscape.

> While the start of WMC has been slow due to travel and account opening restrictions, we believe this scheme is flexible and holds much promise to help Chinese investors diversify their investments beyond domestic products, especially if quotas and risk levels can be raised in Phase 2.
>
> **Josephine Kwan**
> Asset & Wealth Management Partner
> PwC Hong Kong

> There are 450,000 high net worth households in the GBA with at least RMB6 million in investible assets. Wealth Management Connect provides a great opportunity for HNWIs and mass affluents to diversify and globalise their investment portfolios.
>
> **Daniel Chan**
> Head of GBA, HSBC

Figure 5

At this very initial stage of WMC, investment flows are fairly balanced

Wealth Management Connect Quota Utilisation (As of 17 Jan 2022)	Used (RMB m)	Remaining (RMB m)	Utilisation (%)
Northbound	194.6	149,805	0.13
Southbound	127.3	149,873	0.08

Source: http://guangzhou.pbc.gov.cn

Following the successful launch of the Northbound leg of Bond Connect in 2017, the delay to the Southbound leg led some to question the pace of RMB liberalisation. These concerns were largely put to rest by the announcement that Southbound Bond Connect would finally go live on 24 September[5].

So far, 41 Mainland banks have gained approval to take part in the scheme, as well as members of the existing QDII and RQDII schemes. As of September 2021, thirteen Hong Kong banks had been designated as market makers. The annual Southbound quota is RMB 500bn, with a daily limit of RMB 20bn. For comparison, as of August 2021, the total QDII quota awarded by SAFE was US$150bn (approximately RMB 967bn) distributed among 173 banks, securities houses, insurers and trusts[6].

Figure 6

New quota schemes have renewed interest in RMB liberalisation

Quotas awarded by SAFE under RMB internationalisation	
QDII Aggregate Quota (as of 31 Aug, 2021)	US$149.8
QFII Aggregate Quota (as of 31 May 2020)	US$116.3
RQFII Aggregate Quota (as of 31 May 2020)	US$722.9
Stock Connect Northbound Daily Quota	RMB52bn each for SH and SZ
Stock Connect Southbound Daily Quota	RMB42bn each for SH and SZ
Bond Connect Northbound Annual Quota	N/A
Bond Connect Southbound Annual Quota	RMB500bn (20bn daily limit)
WMC Northbound Aggregate Quota	RMB150bn
WMC Southbound Aggregate Quota	RMB150bn

5. https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/09/20210915-4/
6. https://www.safe.gov.cn/en/file/file/20210831/ca6f76a2d3c140abbb8f6d334ae3fef2.pdf?n=QDIIs(August30%2C2021)

The initial annual quota for Southbound Bond Connect is, therefore, roughly half the total QDII quota awarded since the scheme's launch in 2006. This, combined with the initial annual quota of RMB 300bn for Wealth Management Connect, has revived hopes of further RMB liberalisation. In particular, could the GBA be a sufficiently ring-fenced environment to allow carefully calibrated opening of the capital account?

The step-by-step approach that has characterised China's financial reforms over the past three decades looks likely to continue. Regulatory alignment will not magically happen overnight. But the expansion of the Connect schemes suggests that the GBA could be the forum for some significant future reforms.

"Mainland China's regulators understandably need to maintain control of capital flows. Given this, the multiple CBDC (or mCBDC) approach may offer an important way forward. While the Connect Schemes continue to be highly successful, mCBDC could take RMB liberalisation to the next level."

James Tam
Banking and Capital Markets leader,
PwC Hong Kong

5. Talent

Section 5:

Talent

Concerns about recruiting and retaining talent are widely held among our interviewees. Issues raised include the sheer number of staff required, the different skill-sets needed, and to what extent technology can fill the talent gap. Deploying staff in the different jurisdictions of the GBA and ensuring that qualifications are recognised as valid could also be made easier, our interviewees feel.

As discussed in Section 2, the customer base in the GBA is comfortable using digital platforms to research investments and make trades. However, there is a widespread view among our clients that new business generally requires face-to-face interaction. As King Au of the Financial Services Development Council points out:

> “
> It’s difficult to create the right environment for casual discussion remotely. Business can continue, but the impact is on relationship building and, therefore, new business .
>
> **King Au**
> Executive Director
> Financial Services Development Council

This requirement for in-person meetings is most strongly felt among the profitable high-net-worth sector: “Relationship managers for HNWIs can never be entirely replaced by FinTech,” says Dr Bi Mingqiang of China Citic Bank International. “They need face-to-face meetings before any major investment decision.”

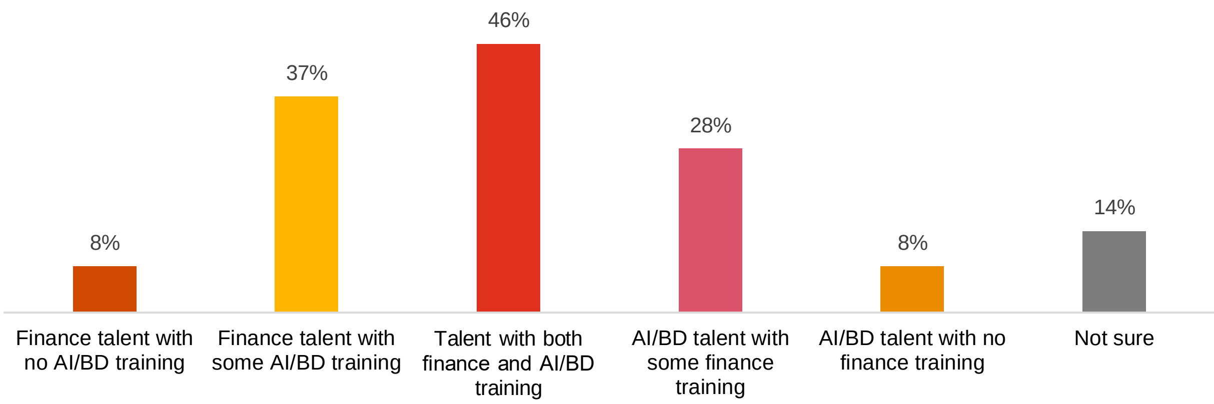
Apart from meeting growing market demand and coping with the constraints of COVID, financial institutions also need to find the right staff so that they can upgrade their digital offerings. The result is a fierce battle for talent and high levels of staff turnover.

> “
> Talent shortages have been exacerbated by travel restrictions. Recruitment from Mainland China to Hong Kong has been challenging, as there has been little appetite for relocations, but the situation is improving.
>
> **Chris ST Chan**
> Financial Services Markets Leader,
> GBA Services,
> PwC Mainland China and Hong Kong

A number of interviewees cite the HKMA's FinTech 2025[7] initiative as underlining the need for sufficient tech talent. As well as encouraging all Hong Kong banks to "fully digitalise their operations, from front-end to back-end", the initiative prepares the ground for a Central Bank Digital Currency (CBDC) and the launch of Commercial Data Interchange (CDI), as outlined in Section 2.

Figure 7

Apart from finance skills, institutions are looking for knowledge of AI and big data



Talent demand over the next 2 years. Source: Hong Kong Institute for Monetary and Financial Research

Simply put, bankers say that they can't find the tech talent to develop platforms. But even if they could, no platform would be a magic wand to make talent shortages disappear. The talent challenge is multi-faceted: there are cultural and language issues; some locations are seen as more desirable than others; and do managers from one part of the GBA truly understand the aspirations of clients in another? As Amy Lo of UBS points out "In Hong Kong we have seasoned professionals but we lack people who truly understand entrepreneurs."

Catherine Tsoi, of Sun Life, concurs: "Talent is a big topic in the promotion of the GBA development. Both the government and companies have a role to play in attracting, developing and retaining talent in the region. Employers who are able to offer career prospects, provide reskilling and upskilling training opportunities as well as foster a culture of openness and empowerment with flexible workplace arrangements will be better positioned in the quest for talent in the GBA."

7. https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/06/20210608-4/

“China has a unique legal system. Studying PRC legal principles of civil, constitutional and securities law is quite a learning curve, especially for Hong Kong legal practitioners with time-pressed schedules. But with GBA lawyers we can be more efficient and have greater outreach.

Joyce Tung
Partner, Tiang & Partners

Our interviewees, while recognising that governments alone can’t solve these problems, would like to see some policy changes. For example, current immigration rules allow the recruitment of senior technical staff from overseas, but not junior ones. Mutual recognition of qualifications and standards would also help.

Mark Austen, CEO of ASIFMA, would like to see “back office staff in Shenzhen able to support Hong Kong operations and vice versa. They should be able to trade markets in Mainland China while based in Hong Kong. We are very focussed on dual licensing – people need to work on both sides of the border.”

Market participants recognise that they, too, have a role to play in moving the talent agenda forward. “Talent development,” says King Au of the FSDC “is one of our key mandates.” HSBC is training 5,000 staff between Hong Kong and Guangdong to be ready for WMC. The bank also works with Hong Kong Science and Technology Parks to help start-ups with financial literacy.

One example of a measure to ease pressures on talent is a GBA lawyer qualification pilot programme, which enables experienced Hong Kong lawyers to practice PRC law in specified civil and commercial matters. “This is the result of years of planning and discussion between the Ministry of Justice in Beijing and the Department of Justice in Hong Kong to identify practice areas with the greatest needs. These include corporate finance, cross-border insolvency and dispute resolution,” explains Joyce Tung of Tiang & Partners. “The Department of Justice has also been working on other pilot programmes, such as allowing Hong Kong liquidators and PRC bankruptcy administrators to apply for mutual recognition of each other’s courts, so as to support regional growth in specific areas of professional services.”

The solutions arrived at by the legal profession could be a useful reference for the financial services industry. Different licensing requirements in Mainland China, Hong Kong and Macau have restricted cross-border marketing activities – particularly under WMC. Given the importance of investor education to the scheme’s success, temporary or restricted licenses have been called for by industry participants.

6. “The Greener Bay Area”

Section 6:

"The Greener Bay Area"

"

The financial sector will continue to play an accelerator role in greening the GBA. Decarbonisation requires innovation as well as financing – and many investors and bankers have been proactively riding on the business opportunities to enable and support the transformation of real economies in a lower carbon model.

Sammie Leung
Partner, Climate & Sustainability Services, PwC Hong Kong .

"

ESG has become a foundation of investment mandates and the anchor of the product suites of every investment firm.

David Ng
Chief Operating Officer,
CSOP Asset Management

"

HK has a key role to play in establishing, leading and promoting a client-focused ESG regime.

Chris ST Chan
Financial Services Markets Leader,
GBA Services,
PwC Mainland China and Hong Kong

Over the last year, ESG has become a ubiquitous topic in every part of financial services. Any discussion of the GBA that didn't consider the ESG dimension would be incomplete.

A recent article by three PwC partners[8] in the magazine of the Hong Kong Institute of Bankers highlighted how, despite its prominence, Green Finance is still at an early stage of development. Multilateral bodies are still engaged in agreeing common taxonomies. This prompts Lincoln Chan of Micro Connect to argue that "the opportunity is in the 'E' – not the 'S' or 'G'. They mean different things for different people, but with 'E' there is a common language and consensus."

8. *Banking Today*, May-June 2021. https://www.hkib.org/storage/files/136/BT118/BT118_Cover%20Story.pdf

Eleanor Wan of BEA Union concurs that the level of interest in ESG is not matched by the clarity of definitions:

> Institutional investors are asking their fund managers to look into ESG. While some are clear on their exact requirements, others need guidance on their ESG policy because the definitions are too broad.
>
> **Eleanor Wan**
> BEA Union

But David Ng of CSOP points to a number of 'S and G' areas where progress has been made:

> Diversity, gender inclusion, corporate governance, listing rules, the working of exchanges – these have all come a long way.
>
> **David Ng**
> CSOP Asset Management

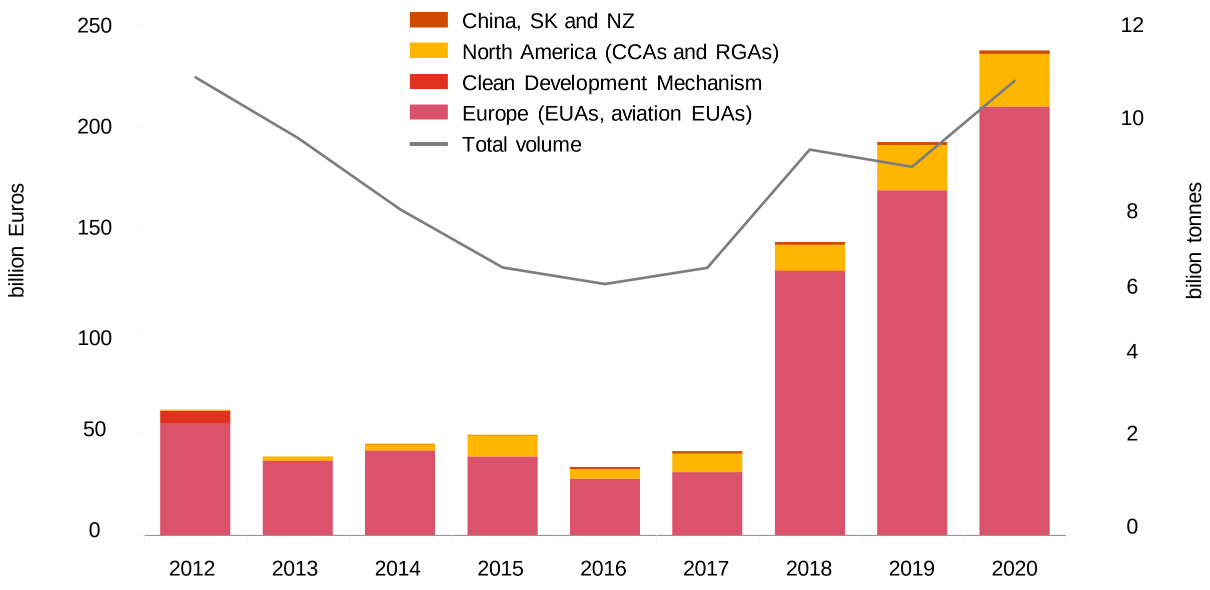
The recent decision by Hong Kong Exchanges and Clearing to take a stake in the Guangzhou Futures Exchange[9] is a sign of how important emissions trading will be in helping China to achieve its goals of peak emissions by 2030 and carbon neutrality by 2060.

> The marginal cost of reducing emissions is much lower here than in Europe or the US. There is big potential not only for the internal operation of firms but also for the management of their extended supply chains. This requires firms in the region to embrace green growth strategies and planning, with the support of a variety of professional services providers, to promote and capitalize on carbon market development together.
>
> **Prof. Li Chen**
> Chinese University of Hong Kong

9. https://www.hkex.com.hk/News/News-Release/2021/210827news?sc_lang=en

Figure 8

Europe and North America currently dominate global carbon trading



World Carbon Markets 2012-2020, total value by segment, total volume

Source: Refinitiv, January 2021

> In the short term [ESG] might be mainly a cost with a marginal return from a financial perspective. But in the longer term, it is a must for all banks to support ESG, and also an obligation to ensure fairness for our future generations. From a risk management perspective, following ESG rules could help us avoid bad lending decisions.
>
> **Dr Bi Mingqiang** President & CEO,
> China Citic Bank International

Conclusion

For the last two years, travel between the three jurisdictions of the GBA has been severely curbed. However, despite the almost complete absence of business trips and professional networking opportunities, the GBA project has continued to make tangible steps forward. The most notable of these steps was the successful launch of Wealth Management Connect. But many other initiatives are cited in this paper, such as the long-awaited Southbound Bond Connect and the beginning of cross-border recognition of professional qualifications.

As we set out in Section Two of this paper, COVID-19 has forced us to transform the way we work and execute business – and we have adapted quickly. The overwhelming consensus among the market professionals we interviewed for this paper is that business volumes have held up remarkably well over the last two years.

This resilience, combined with the continued progress that has been made over the last two years, bodes well for the future of the GBA. Once constraints on travel and face-to-face meetings are lifted, these new initiatives can be fully embraced. We may see a significant acceleration in the progress of the GBA over the next couple of years.

This progress will be supported by developments in the physical infrastructure of the GBA, such as Hengqin, Qianhai and the Northern Metropolis. But potentially even more important will be technological developments. A solution such as Commercial Data Interchange, designed to support under-funded SMEs, could turbo-charge the GBA. Other innovations, such as mCBDC, eCNY and a potential eHKD, could radically transform wholesale and retail banking in the GBA and further afield.

Our interviewees are eager to see further progress. Many are already anticipating the types of products, classes of investor and volumes that might be included in the next phase of Wealth Management Connect. But they are also aware of the considerable challenges in establishing a presence in a crowded marketplace. Investor education and digital service offerings will be key ways to cut through.

Last December, at the 4th GBA Financial Development Forum, Hong Kong Financial Secretary Paul Chan Mo-po gave a speech in which he laid out how the GBA vision is central to the 14th Five-Year Plan. Financial services, in turn, are central to the GBA. The Five-Year Plan places great emphasis on financial market inter-operability in the GBA and, particularly, Hong Kong's role as a hub for RMB internationalisation and asset management. The developments as we progress through the Plan and leave the epidemic behind promise to be significant.

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