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The future of banking in Hong Kong

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As Hong Kong bids to become a global capital for international banking, two leading figures in its banking sector talk to Global Financial Strategy about the challenges and opportunities in store.

Hong Kong is regularly touted, by pollsters, business insiders and officials alike, as the heir apparent to New York or London.

The raw statistics are impressive.

Already it has one of the largest representations of international banks in the world, with over 70 of the world's top 100 firms having operations there. Around 150 banks in total have licenses to trade in Hong Kong of which around 125 are incorporated abroad.

But how much further can this industry grow? Substantially more, according to Carrie Leung, chief executive of the Hong Kong Institute of Bankers.

Such is the potential for banking in Hong Kong that she says it is "reasonable" to assume that the number employed by firms there will rise from around 90,000 currently to top 100,000 within a decade - a rate of 1,000 extra a year.

"More and more banks are establishing their head offices in Hong Kong," says the chief executive, who herself used to work for Standard Chartered, which is regularly rumoured to be considering re-headquartering from London. "A lot of foreign - European and Indian - banks will come to Hong Kong because they want to get into China," she says.

"A lot of Chinese banks, too, have established a presence here," she continues. "[Chinese] banks such as ICBC [Industrial and Commercial Bank of China] and China Construction Bank were traditionally only operating in China, but now they are based in Hong Kong."

Leung notes the large numbers of foreign nationals that flock to Hong Kong to take up middle and senior management positions in the city, but says it is the local workforce which is in many respects its lifeblood.

"You can bring in people from overseas, but you still need a large number of local people to run your operations," the chief executive says. Yet despite its growth, or perhaps because of it, she says the banking sector is facing a "recruitment crisis".

"There has been [a crisis] - last year and this year. We have a shortage of manpower." This dearth of workers is mainly around the mid-level she says, involving supervisors and managers, and is being exacerbated by banks transferring Mandarin speaking staff to new operations in China.

"The solution," she says, "is to train and attract more people - from across different industries to join banking - and to recruit more people from overseas."

Hong Kong authorities may be active in trying to lure firms to China, but they need to focus on talented individuals too, she explains.

Yet despite the growth in the banking sector, many firms outside Asia have still not appreciated the full benefits of Hong Kong, according to Donatella Oliboni, chairman of the Hong Kong Foreign Financial Institutions Association.

"European financial institutions haven't yet fully realised - 100 per cent - the advantage they might have in coming here," says the chairman of the HKFFIA, whose 50 members from 30 different countries include the likes of Bank of America, Lloyds Banking Group, UBS, BNP Paribas and Banco Do Brasil.

If anyone should know it is Oliboni, whose day job is as chief representative for Banca Popolare di Vicenza, a small Italian bank, and who has been living and working in Hong Kong for the past thirteen years.

Aside from the tax incentives and the potential to service a firm's increasingly mobile international clientele, administratively the jurisdiction is also one of the smoothest places to operate, she contends.

"Hong Kong has still one of the most impressive environments in the world [in terms of] rule of law, transparency, efficient services. Everything is so efficient, you can solve matters more quickly than in other countries."

In terms of banking regulation, the authorities do their best to ensure that firms do not end up with a headache, suggests the Italian. "It is far less onerous to set up in Hong Kong," she says. "The authorities are always available.

"They are trying to make things smooth and simple - that is one of the big advantages of Hong Kong. Here with one day's notice you can arrange a meeting with the authorities and your senior people. It is unthinkable in Europe - impossible for some countries in Europe - to arrange a meeting with the banking regulator at the last minute."

But, perhaps most importantly, Hong Kong has its umbilical cord link with China.

The continual expansion and development of the offshore renminbi market is only strengthening the city's international centre status, she says. "It is one of the main focuses for Hong Kong."

In August, the Hong Kong Monetary Authority reported that renminbi deposits by overseas corporates with banks there increased by 140 per cent in the first six months of 2011.

Total renminbi deposits in banks rose from ¥315bn (€36.6bn/$49.6bn) to ¥550bn (€63.8bn/$86.6bn), an average rise of ¥40bn (€4.6bn/$6.3bn) a month.

"It is growing fast - incredibly fast - and is a matter of interest for banks all over the world. That is why here both local and foreign banks are very aggressive for this type of business," says Oliboni.

Just last month Beijing issued new rules on how foreign firms can bring offshore renminbi funds into China, and all eyes are on the People's Bank of China to find out what further it may do to "internationalise" the currency abroad.

As China continues to loosen controls on its currency, the Italian says Hong Kong will only become more attractive to foreign firms, who will inevitably seek to cash in on the burgeoning market. This will allow banks there to steal a march on rival centres in the region, she adds.

"The policies that China will put in place to facilitate the development of the Hong Kong offshore RMB market will represent an additional point of attraction for foreign financial institutions. It will ensure they set up their operation in Hong Kong - rather than in Singapore."

So can Hong Kong's bankers and authorities be confident about the future? "I don't have a crystal ball," says Oliboni, "but I am optimistic.

"If you keep your competitiveness, your freedom and your rule of law - as Hong Kong has - you don't have to be afraid. This is your strengthen and your advantage."