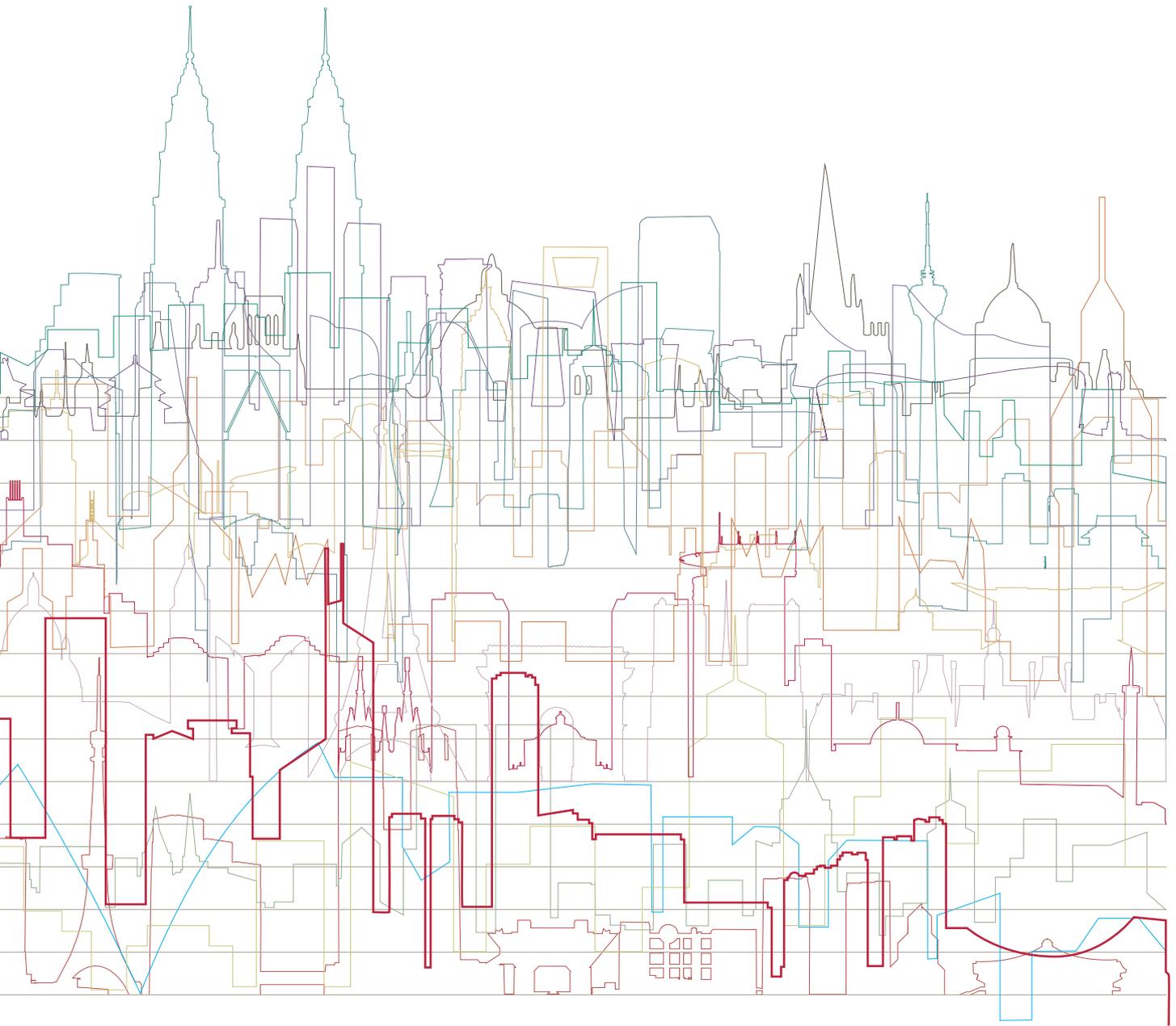




THE OXFORD METRICA SURVEY 2021 — THE REPORT

HONG KONG THE LEADING GLOBAL FINANCIAL CENTRE



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FOREWORD

We are delighted to present this report on the results of the Oxford Metrica independent survey on the financial future of Hong Kong. The report has been prepared for the Financial Services Development Council (FSDC) Board. Our terms of reference were to undertake a confidential survey of major financial services institutions in order to ascertain the views of their senior management, highlighting their key concerns regarding Hong Kong's current status and its future challenges and opportunities and the sources on which they base their judgement.

Oxford Metrica, which is well placed to design, conduct and report the results of such a survey, given its international network of top-level financial and business contacts, set out to conduct in-depth interviews with over thirty leaders in the financial sector including the emergent fintech area. The core of the report presents a detailed assessment of these views, supported by a range of factor analyses.

On a positive note, most of the participating institutions stated their intention to maintain or increase their presence in Hong Kong, were confident that Hong Kong's position would hold steady, at least over the mid-term, and looked to a number of core financial strengths that would continue to play a valuable part in securing Hong Kong's future. Equally encouragingly, respondents had not been unduly influenced by the negative political publicity surrounding Hong Kong in the media. The city's vibrant social and cultural life was also welcomed as a vital ingredient in sustaining Hong Kong's position as a world-class financial centre.

Most strikingly, respondents emphasised time and again that Hong Kong's continued role as a world-class financial centre would need to be deliberately nurtured and continually renewed. They welcomed a proactive approach being taken to safeguard the city's future as a financial centre, given the range of threats hanging over it and the other Asian and Chinese rivals snapping at its heels. Data protection and the availability of talent were highlighted as other challenges.

The survey has proved something of a contrarian roller-coaster, giving rise to a host of unexpected findings. Surprisingly, whilst interviewees were in agreement with the three possible themes for Hong Kong proposed in advance of the survey, namely, Hong Kong becoming a model for Asia in Environmental and Social Governance (ESG) reporting; forging a new role in fintech; and that of an enhanced role for the Greater Bay Area (GBA) in Hong Kong's future development, it was Hong Kong's leadership in Asia for the issuance of Green Bonds that was acknowledged. A very nuanced set of opinions were expressed which collectively suggest that Hong Kong should maintain international standards in ESG reporting, maintain a competitive position in fintech providing a conducive ecosystem is developed and create a niche role in the GBA project.

While all opinions expressed are those of the interviewees, we believe they provide a clear and definite platform on which to set the current and future agenda of the FSDC. They deserve to be given the most serious attention, given that they represent the distilled wisdom of financial leaders in over thirty institutions world-wide.

Finally, we would like to thank the staff and board of the FSDC who provided excellent support and advice throughout the course of the survey, in particular Dr Au King Lun and Dr Rocky Tung.



Dr Rory Knight
Chairman
Oxford Metrica

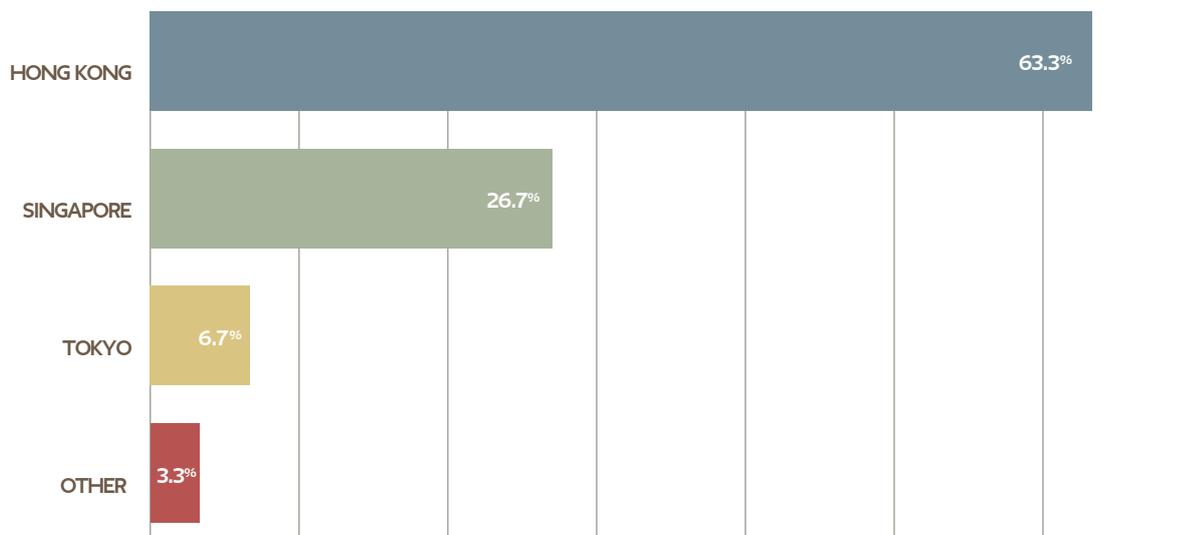
THE TEN KEY FINDINGS

- 1.** Encouragingly, interviewees had not been unduly influenced by the negative political publicity surrounding Hong Kong in the media. Instead they relied on trusted sources on the ground.
- 2.** Currently, Hong Kong is ranked as the leading IFC in Asia by close to 65% of respondents.
- 3.** The future of Hong Kong as a world-class financial centre would need to be nurtured and positive intervention will be needed now to maintain it.
- 4.** Most of the participating institutions intend to maintain or increase their presence in Hong Kong in the mid-term.
- 5.** As data security is a key issue globally, a firewall to safeguard and provide transparent access to data is seen as vital.
- 6.** The ability to develop Hong Kong's future talent pool in finance, both local and expatriate, should be strengthened.
- 7.** Moreover, Hong Kong's vibrant social and cultural life was welcomed as a vital ingredient in sustaining Hong Kong's position as a world-class financial centre.
- 8.** Respondents acknowledged Hong Kong's leadership in Asia for the issuance of Green Bonds. Hong Kong was encouraged to maintain international standards in ESG reporting.
- 9.** Similarly, given well-established Asian rivals, Hong Kong will only become a competitive fintech centre if the right ecosystem is developed.
- 10.** The Greater Bay Area (GBA) network could provide an important boost to Hong Kong while a differentiated and nuanced sectoral approach is called for.

HONG KONG'S CURRENT STATUS AS AN IFC

Hong Kong was judged by virtually all respondents to be the top international financial centre in Asia at present, ranking ahead of Singapore, the Chinese Mainland and Tokyo (see [FIGURE 1](#)).

Most respondents (71%) also saw Hong Kong as their chief gateway currently to mainland China. The minority (29%) - particularly those in the insurance sector - that did not view Hong Kong in this way did so largely on the grounds that they already had a direct local presence in mainland China or had engaged in joint ventures on the mainland.



In addition, 100% of asset managers interviewed rank Hong Kong the number one IFC in Asia and close to 70% of Investment banks agree. Furthermore, there was a bias to large firms domiciled in the US and Europe toward seeing HK as the leading Asian IFC. The consensus among respondents was that, although business risks to Hong Kong are perceived to be present, these have not damaged its status as the leading international financial centre. Encouragingly, respondents had not been unduly influenced by the negative political publicity about Hong Kong in the media, relying instead on intelligence from private sources *in situ*.

FIGURE 1. Ranking of Asian financial centres

HONG KONG'S KEY STRENGTHS

The **four basic strengths** currently underpinning Hong Kong's position as a world-class financial centre were ranked by respondents in the following order of importance:

1. Its large pool of capital
2. Its regulatory and legal environment
3. Its legacy infrastructure
4. Its position as leading IPO and listing centre, able to mobilise deep resources of wealth and an outstanding pool of financial services talent.

The legacy infrastructure for Hong Kong to remain a leading international financial centre in future were seen as **the rule of law, a tax friendly regime, an independent judiciary, well-functioning and liquid capital markets, excellent standards of regulation and open-door access to China**. Respondents hoped and widely expected that these features would continue to provide the basis for successful international participation in Hong Kong.

Few questioned Hong Kong's current status as a competitive financial centre or its ability to remain so, given the continuing existence of these essential ingredients. They were taken as axiomatic across the board and consequently did not emerge as differentiators in any of the various sub-groups according to sector, size, domicile base, etc.

At a more detailed level, respondents identified **no specific issues** in the following areas:

- Access to the Chinese market
- The Stock Connect Scheme
- Demands of the regulatory regime
- The solidity of the monetary authority
- The pegged exchange rate system.

All of these issues were examined in some detail in the interviews but no respondent expected them to become major issues of concern in future.

THREE CURRENT ISSUES OF OVERRIDING CONCERN

However three aspects of the current situation troubled respondents: the high costs of operating businesses in Hong Kong, competition for talent, and the obstructions to small businesses, particularly in the fintech area.

1. Operational costs

It was widely agreed that a major drawback to a Hong Kong presence is the cost of establishing and maintaining business operations there, in particular the high costs of real estate, both commercial and residential. However, on balance given the benefits of being based in Hong Kong, these costs are considered to be worth absorbing.

Among those respondents without an existing presence in Hong Kong only one planned to enter the market there, while the rest cited operating costs as the prime reason for settling elsewhere. The two respondents who have recently, or are about to downsize, cited such costs as being the reason for reorganising. Significantly, political uncertainty was not identified as a critical factor in their decisions.

2. Competition for talent

The existence and maintenance of a pool of top talent was identified as a key factor to Hong Kong's status as a world-class financial centre. While it was noted that Hong Kong has in the past been a very popular posting for expatriate executives, many of whom have gone on to become permanent residents.

There are early signs that the international competition for talent has intensified, and that it is becoming more difficult to recruit from abroad. Therefore, the costs of expatriate employees are likely to increase significantly.

3. Obstacles confronting small businesses

Many respondents based in Hong Kong and throughout Asia and especially in the field of fintech identified the challenges that small firms faced in starting up and running their businesses in Hong Kong.

It was felt that the process of incorporation was more complicated. For instance, the time taken to establish a bank account in Hong Kong is currently well in excess of six months - an issue about which considerable frustration was expressed by respondents. Furthermore, licensing and company formations was cited as a hurdle for small businesses.

HONG KONG'S FUTURE AS AN IFC

Risks to Hong Kong are mounting. The predominant view of respondents was that Hong Kong's future as a world-class financial centre would need to be continually nurtured and renewed. They urged positive and active intervention be undertaken to strengthen the city's proposition as a leading financial centre, given the range of challenges hanging over it, and the other Asian rivals snapping at its heels.

As Hong Kong is a significant part of China, it was evident from all conversations that respondents felt Hong Kong has the ability to adapt and to forge a new role as a world-class financial centre. Nevertheless, some challenges were needed to be overcome. **How quickly and comprehensively Hong Kong policy adapts to a changing world would be of paramount importance.**

Noteably, **confidence in Hong Kong is still holding firm for now** (see [FIGURE 2](#)). Hong Kong will continue to enjoy the status of leading international financial centre in Asia for the mid-term, most respondents agreed. Indeed the majority of financial institutions and firms interviewed were planning to maintain or even increase their presence in Hong Kong over the next five years.

However this mid-term confidence was less certain. Hong Kong needed not to rest on its laurels. **Other rival centres such as Singapore, Seoul and Tokyo, were seen as well placed and eager to compete for this leadership position.**

While it is clear that international institutions currently operating under Hong Kong jurisdiction are not yet planning to leave *en masse*, they are eagerly looking for policy responses that satisfy their questions about Hong Kong's ability to hold onto its position as a world-class financial centre. Illustrating that Hong Kong's future as an IFC is not considered to be dependent on political developments. The sensitivity of these views across respondents is analysed below.

BREAKDOWN BY SECTOR, SIZE AND DOMICILE

In general, factors such as size and sector counted far more than place of domicile. There would appear to be a **small firm effect**. The Radar Diagrams B, C and D illustrate that, whereas US-domiciled large firms are the most optimistic, smaller and especially Asian-based fintech respondents are less so.¹

With respect to expanding their presence in future, European-based, mid-size asset management firms were significantly more positive in contrast to fintech firms. On the other hand, the expansionary intent of European asset managers may reflect that as mid-sized firms they have greater capacity for growth. The mid-sized sector may therefore be worthwhile to focus on when promoting Hong Kong as a financial centre in future. Potential policies are presented in the final section below.

¹. See pages 13 & 14 for the Radar Diagrams

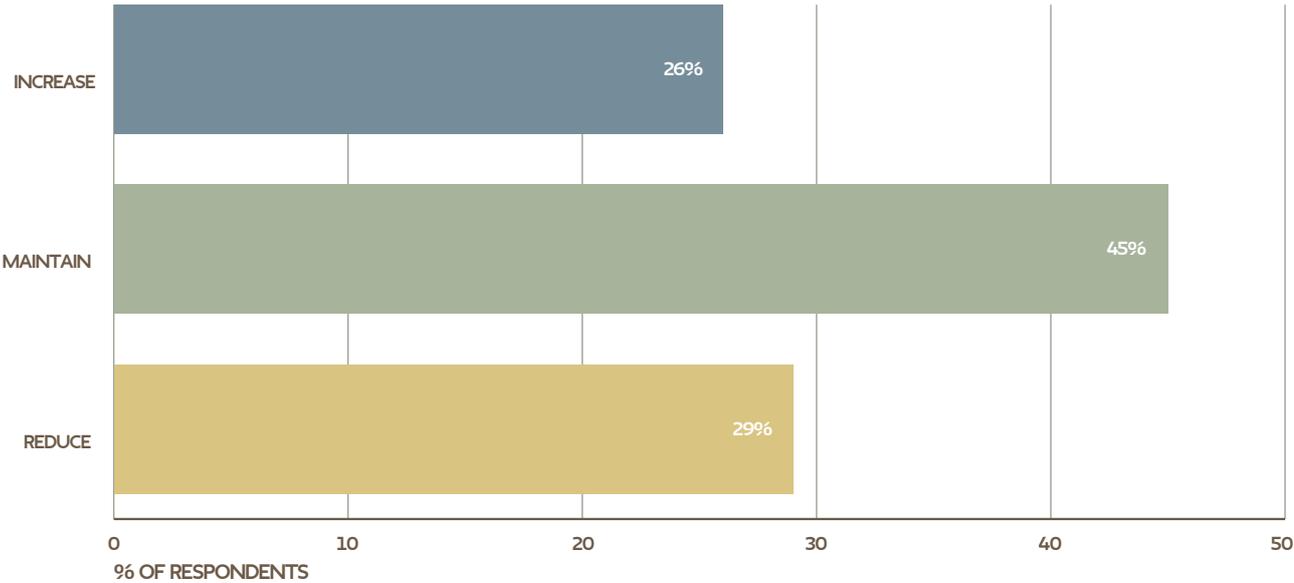


FIGURE 2. Planned future exposure in Hong Kong

‘I believe Hong Kong will continue to be an area of potential growth and will adapt and survive.’

Chairman of a leading US insurer

‘Hong Kong will continue to remain attractive as an alternative venue for listings.’

US-based asset manager

‘Hong Kong has been above its expected glide path for the last decade but may now be below that trajectory for the next decade’

Asian head of a European insurer

THE CHALLENGES

Whilst many factors are intensifying the uncertainty surrounding Hong Kong's future as a world-class financial centre, and geopolitical issues in particular do not fall under the direct control of Hong Kong, most respondents believed that the city has scope to help mitigate these risks and maintain its competitiveness among rival financial centres.

THE TALENT POOL

Maintaining and expanding the talent pool, both local and expatriate, in financial services emerged as a key to success. Respondents reported early signs that recruiting the most qualified candidates was becoming increasingly difficult. Given the additional impact of the pandemic, financial firms indicated that talent availability is a challenge needing to be urgently addressed for Hong Kong to continue to enjoy its position as a world-class international financial centre.

Most international firms indicated that they were moving away from the traditional expatriate employment model, as many expatriates have become permanent residents for long periods, and were now integrating a larger proportion of local staff. Despite this, expatriates could offer an international perspective and are expected to continue to play an important role in Hong Kong retaining its world-class status. The challenge will be to find ways to ensure that Hong Kong continues to be a popular posting for expatriates while at the same time attracting the best and brightest young graduates locally to join the financial services industry.

CULTURE WILL COUNT

Most respondents identified Hong Kong's vibrant social and cultural life as an essential ingredient in its position as an international financial centre. Such vibrancy plays a key role in attracting and retaining talent, whether international or local, and needs to be actively nourished. Indeed the future health of Hong Kong's cultural life was considered a key index of Hong Kong's standing as a world-class financial centre. Important cultural elements were sports, arts and leisure activities. Although firm size did not influence this view, it emerged more strongly among European firms than others. Respondents' views on future key challenges are summarised in [FIGURE 3](#).

THE THREAT OF US SANCTIONS

As the war of words between the US and China lingers, many respondents, especially those in US firms, expressed concerns about the impact on their business. They particularly highlighted the threat of the delisting of Chinese companies in US markets. Although in the short term this might benefit Hong Kong in so far as many of these firms might migrate to the HKEX, it could impact damagingly on Hong Kong financial services sector in the long term if the tension escalates. The uncertainty about this threat is seen as still manageable at the moment but may intensify in the longer-term.

DATA SECURITY CONCERNS

Data security has emerged as a primary concern for business globally and was another major concern of respondents. There has been a growing perception that private data are exposed to discernably more risk, and providing assurances to alleviate these concerns will be key if Hong Kong is to maintain its position as a world financial centre. Radar Diagram B (page 15) shows this concern to be more prevalent among Western firms than Asian ones and pertains mainly to client data. Interestingly, however, this data issue was seen as slightly less significant in the asset management sector.

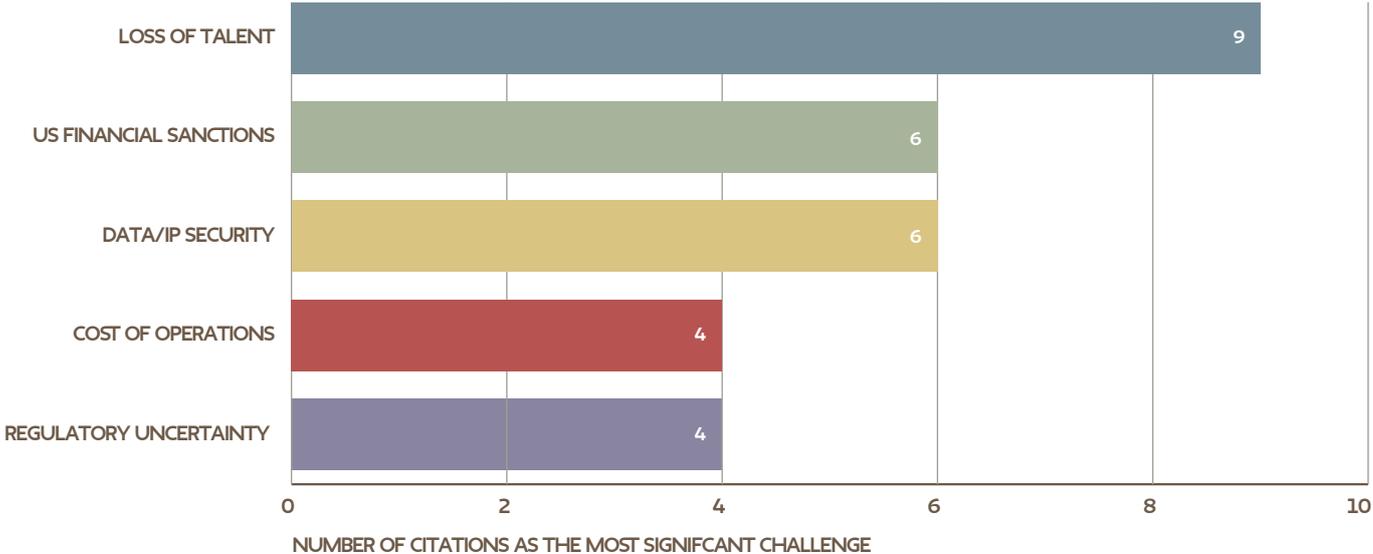


FIGURE 3. Key future challenges

‘Higher education and cultural appeal will be key.’

Asian head of a leading Australian investment bank

‘The two biggest risks confronting Hong Kong are talent and data security.’

A London-based board member of a leading US investment bank

‘There is a risk surrounding the uncertainty of regulation.’

Chairman, European insurer

THE THREE THEMES

Prior to the survey three specific themes were identified that could be pursued to enhance Hong Kong's standing as an international financial centre. These were, respectively, the rise of responsible investing and of environmental, social and governance (ESG) movement; carving out a new role in fintech services; and the contribution of the Greater Bay Area (GBA) network. The exercise engaged in extensive discussions with respondents on all of these issues, the results of which are summarised below:

1. A BEACON FOR ESG

Participants acknowledged the global emergence of ESG is of increasing importance. The question of its relevance to Hong Kong as a global IFC was frequently cited among participants and exhibited the least variation between sectors and domiciles (although Europe was slightly ahead of the other regions). They expressed broad-ranging support for Hong Kong promoting ESG and for keeping up with international standards, and there was much praise for the work the Hong Kong Exchanges (HKEX) is already undertaking in the area of ESG reporting and encouraged it to continue its efforts to improve ESG reporting standards.

However, while many endorsed ESG initiatives as valuable, necessary and indeed unavoidable, the almost unanimous view of respondents is that it was crucial that Hong Kong maintained international standards in ESG reporting instead of creating a standard of its own. The question whether Hong Kong should mount a campaign to become one of the leading centres in ESG reporting standards attracted one of the lowest levels of support among the respondents, and again there is little variation among sub-groups. Indeed many felt that there could be a risk of deterring listings by applying standards that were too onerous. The overall message therefore is: Hong Kong should keep in line with international standards but not run too precipitately in advance of them. Respondents acknowledged Hong Kong's leadership in Asia for the issuance of Green Bonds. However, they were of the view that Hong Kong is unlikely to be a global standard setter in ESG reporting.

Several arguments were adduced in support of this view. Firstly, Hong Kong may not have a prominent protagonist in this field to wield the necessary influence. Examples of where such leadership have emerged all involved impetus from an investing institution; Norges Bank Investment Management (NBIM), the investment management arm of Norway's central bank, CalPers in the US and the Korean National Pension Scheme (NPS) were cited as examples. It was suggested that Hong Kong asset owners and institutions should be encouraged to become more active proponents of ESG. Secondly, although a number of respondents were ESG enthusiasts and pointed to the issue of Green Bonds as an indication of future potential, the majority felt ESG has some way to go before achieving full international acceptance, and that it is unlikely to be pioneered by Hong Kong alone. Currently, some in business still see ESG as a fad or a form of virtue signalling, which has the capacity to develop into a widely accepted practice and set of standards, but has not yet done so despite its attendant hype. Thirdly, widely perceived transparency issues were identified with regard to ESG in Asia, which is by no means leading the world in this field - although of course this may change over time.

‘ESG status is hard to achieve without significant asset owner backing.’

Asian head of one of the largest US financial services firms

2. HONG KONG AS A LEADING HUB FOR FINTECH?

The consensus view of respondents is that although Hong Kong may not easily become the leading global centre in fintech, it should strive to develop this sector. This emerged as the clearest answers given to all the questions in the survey (see FIGURE 4). Tellingly, respondents in the fintech sector themselves are the most pessimistic in this regard, and, as shown in the Radar Diagrams, there is little variation in this view among other sub-groups.

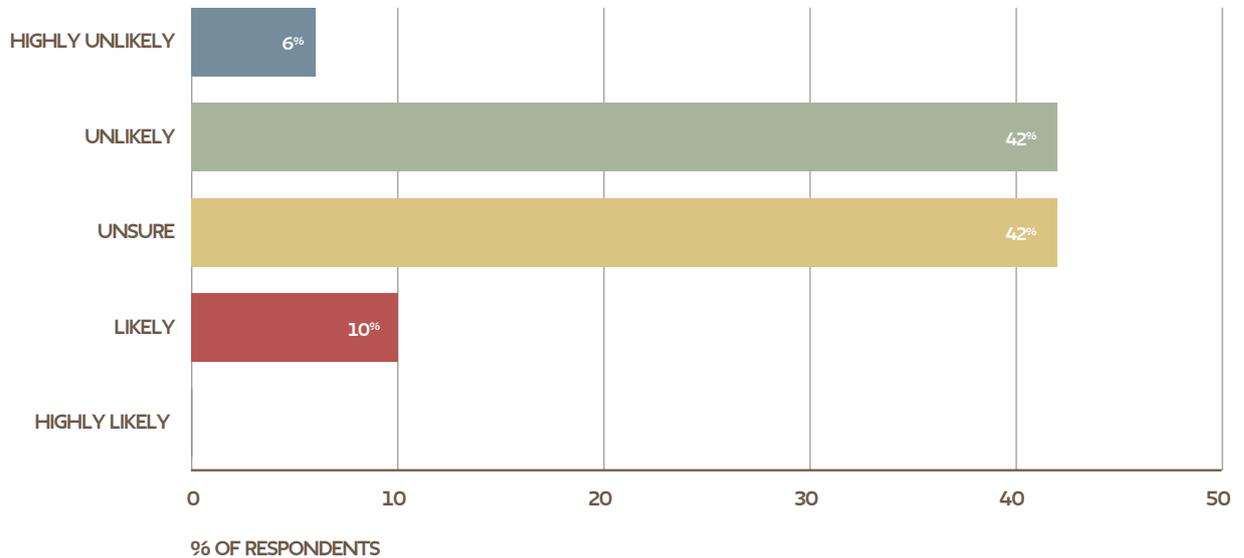


FIGURE 4. Hong Kong a future fintech hub without a new ecosystem?

Many reasons were adduced in support of this view, ranging from the lack of a large local consumer market and talent pool in this field to competition from Shenzhen, other technology hubs in Mainland China and other centres in Asia. The fact that Hong Kong has been encouraging DeFi and digital currencies at an institutional level was seen as positive there is however a perceived need to also focus at the small firm and start-up level. The Cyberport and the Science Park whilst having carried out worthwhile initiatives, there needed to be a greater effort to develop a nurturing ecosystem for fintech. It is emphasised however that many respondents did not have first-hand experience of these initiatives and their views are entirely perception based.

Many respondents suggested that with an established ecosystem in fintech, Hong Kong could become more competitive. Suggestions were made for Hong Kong to pursue a niche strategy for fintech and develop the conditions for specific aspects of fintech to flourish. However such a targeted approach is unlikely to be spontaneously generated in the current business climate.

‘Shenzhen currently is ahead of Hong Kong in their fintech offering.’

CEO of the largest Korean digital currency exchange

‘Fintech in Hong Kong requires the backing of large institutions in order to succeed.’

Head of International Operations at a leading US Bank

3. AN ENHANCED ROLE FOR HONG KONG IN THE GREATER BAY AREA (GBA) NETWORK?

The GBA development was unanimously welcomed by respondents as being a source of great economic potential. They see it as offering a significant boost to Hong Kong and recommend strongly backing this initiative. Apart from the fintech firms, which showed themselves somewhat less confident in the *status quo*, this strategy is one of the most highly supported among all sub-sectors and the one displaying the lowest variation of opinion. One frequently cited benefit of participating in the GBA is the lower housing costs elsewhere in the region which could reduce staff costs overall. The expansion of the GBA will further the link between mainland and Hong Kong goods and services exports, and as a consequence Hong Kong as an IFC will benefit.

Despite this almost universal optimism about the GBA, only half actually predicted an immediate expansion in their business with this initiative. While asset and wealth managers, including some family-offices, indicated they looked to expansion of their mainland business through the GBA, the insurance sector saw little marginal benefit through it largely because they are already well established on the mainland. A small minority (4%) actually expected their business to reduce as Hong Kong integrates into the region.

‘The growth in economic output from the GBA will enhance Hong Kong as an IFC’

Chairman, Financial Services Association, Europe

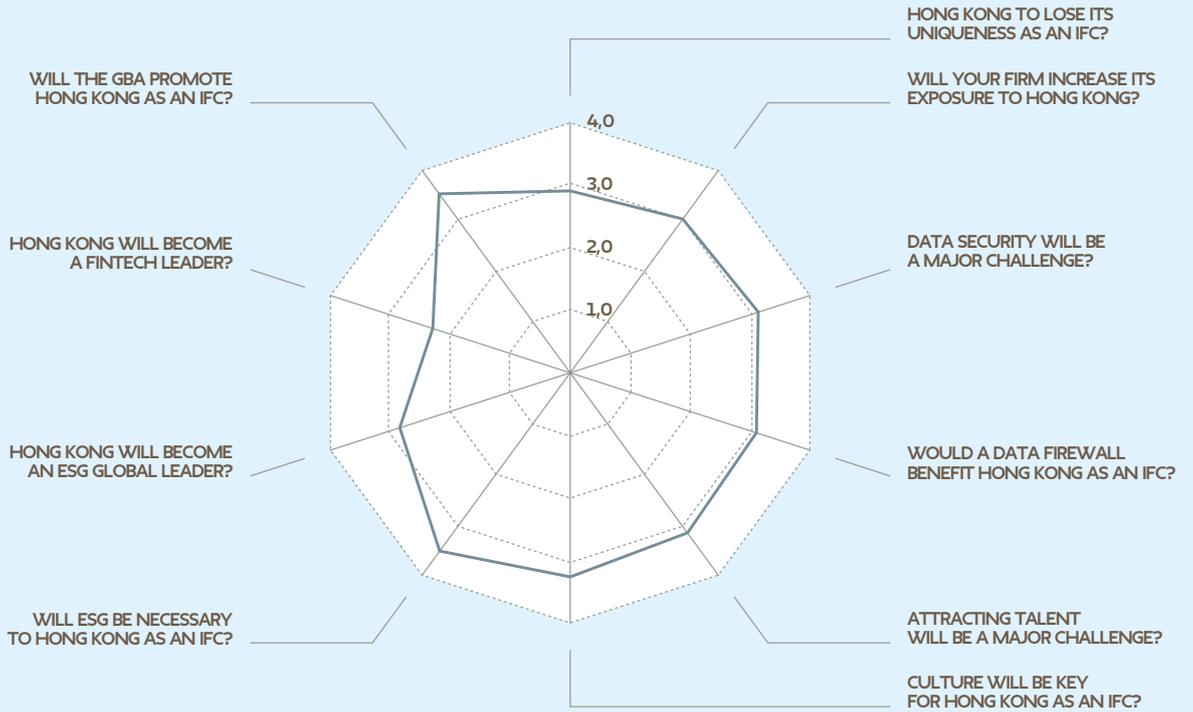
‘The GBA could allow Hong Kong to become a greater capital hub.’

President of a US-based securities firm

‘Hong Kong will facilitate mainland wealth going international’

Partner, International real estate firm, London

➡ SEE APPENDIX A
FOR A DESCRIPTION OF HOW
TO READ A RADAR DIAGRAM



A

AGGREGATE FACTORS

— ALL

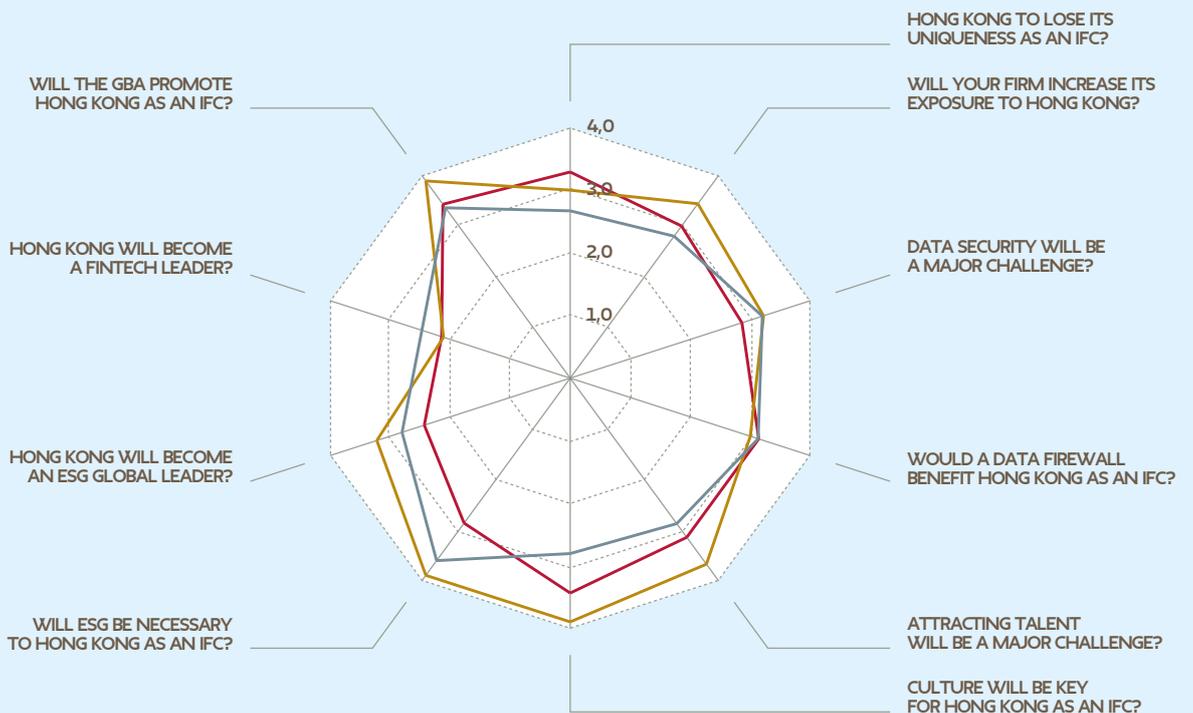
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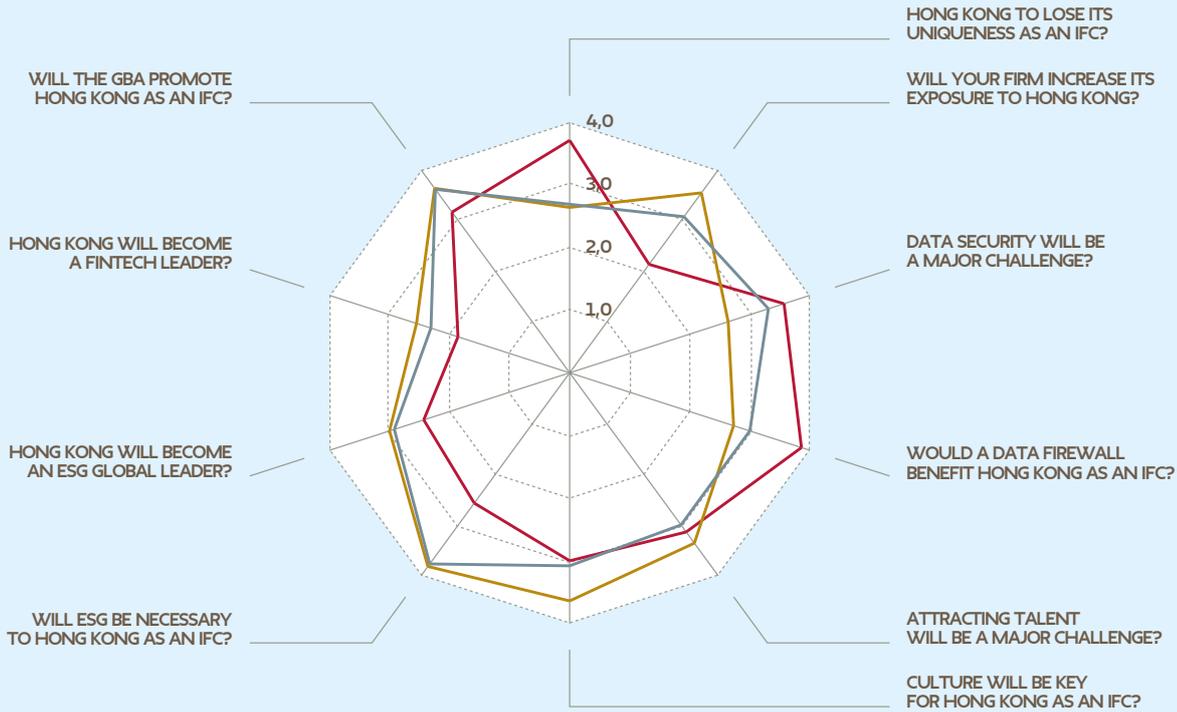
DOMICILE EFFECT

— ASIA

— EUROPE

— US





ASSET MANAGERS

INVESTMENT BANKS

FINTECH

SECTOR EFFECT

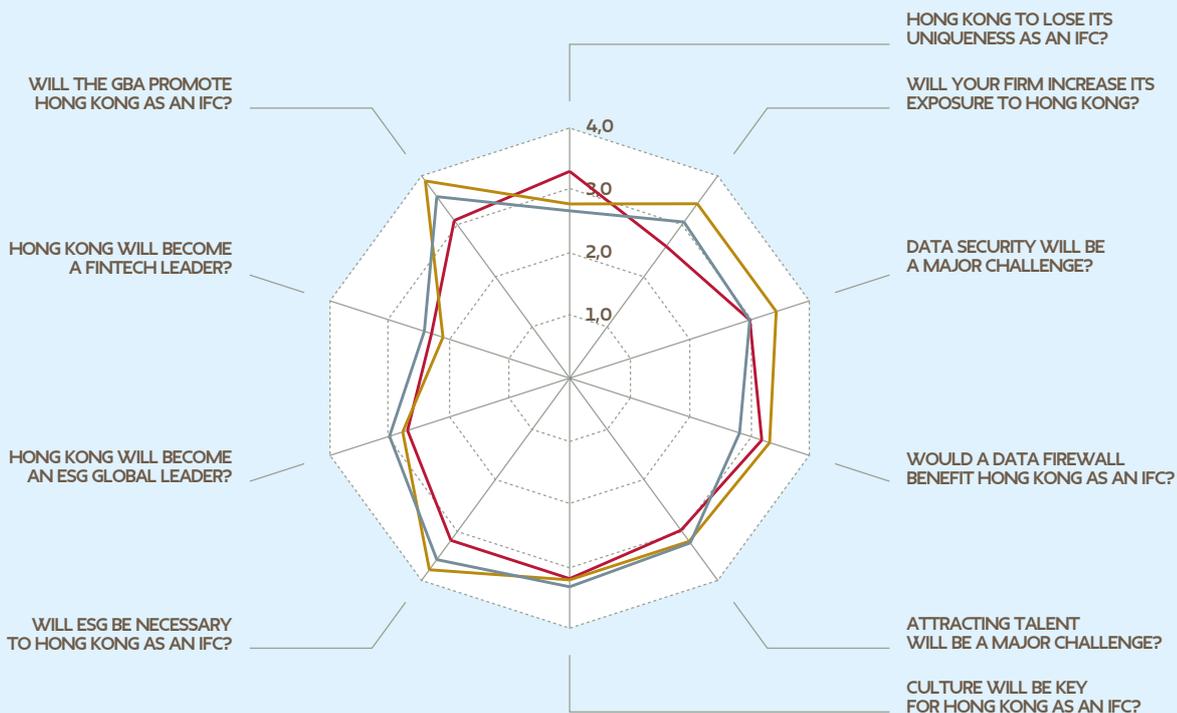


LARGE

MEDIUM

SMALL

SIZE EFFECT



APPENDIX A: SURVEY METHOD

This paper reports the results of an extensive and intensive interview-based survey of senior decision makers across the global financial services sector. Fifty key decision makers were targeted in the major sectors of the financial services industry with the aim of interviewing between thirty and thirty-five of these. The selection was designed to develop an interview population which was balanced across geographies and sectors. The additional fifteen were considered to be a reserve for a subsequent follow-up survey. Distribution by sector and region is provided in Appendix B. The survey population is thirty-four of which five are anonymous.

The survey was conducted in three phases:

PHASE 1: DEVELOPING & TESTING THE SURVEY

An instrument with ninety-one questions and data points was developed divided into nine sections, each of which had a section of discussion points and a set of pro-forma questions. The structure was designed to ensure consistency across the sample, although some sub-sector differentiation was necessary to capture the specificity of sectors such as insurance and fintech.

The nine sections were:

1. Interview information
2. Current perspectives on Hong Kong
3. Business approaches in Hong Kong
4. Current challenges facing Hong Kong
5. Future business development plans in Hong Kong
6. Theme one, ESG
7. Theme two, fintech
8. Theme three, the Greater Bay Area project
9. Media sources

PHASE 2: INTERVIEWS VIA VIDEO CONFERENCE

Oxford Metrica informed the participants that it had been commissioned to conduct an independent survey. The interviews were conducted under the assurance of anonymity although all interviewees stated that they looked forward to receiving a copy of the final public domain report. There is ample scope to put the results into the public domain as a white paper without necessarily referring to any policy issues.

A pilot set of five interviews were conducted to refine the instrument, these participants were then re-interviewed using the final format. All interviews were conducted by the same two Oxford Metrica principals to ensure consistency, with duplicate note-taking to accurately capture information. Calls typically lasted between 50 and 70 minutes. In most cases there was a follow-up call which typically involved a senior executive inviting their Asia head to join the call. The data and information were subsequently transcribed onto a survey data worksheet for further analysis.

PHASE 3: ANALYSIS OF RESULTS

A cross-sectional analysis was carried out to establish the major factors emerging from the sample. Ten such factors were identified, and a standardised series of Radar Diagrams (see [PAGES 13 & 14](#) and the section below) were created as a way of displaying the major independent factors in summary. It was necessary to scale and standardise the data to present the results on the same diagram, and it should not be assumed that all factors presented have equal importance as no attempt was made to rank them. In addition, a qualitative analysis of the material was made to provide the basis for the write-up of this report.

READING RADAR DIAGRAMS

The Radar Diagrams present 10 key factors of Hong Kong's role as an IFC and highlights the importance of each factor.

Each factor is scaled from 1 to 5, where 5 implies a high likelihood of occurring & 1 a low likelihood.

There are four Radar Diagrams presented on the Radar Diagrams in [PAGES 13 & 14](#):

RADAR DIAGRAM	EFFECT	COHORTS
A	Aggregate	All
B	HQ Domicile	Asia Europe North America
C	Sector	Asset Managers/Owners Investment Banks Fintech
D	Size	Large Market capitalisation more than 5bn USD Medium Multinational & publicly traded companies with a market capitalisation of less than 5bn USD Small Privately held firms with only one global office.

APPENDIX B: PARTICIPATING INSTITUTIONS

FIGURE B1. Participating institutions by sector

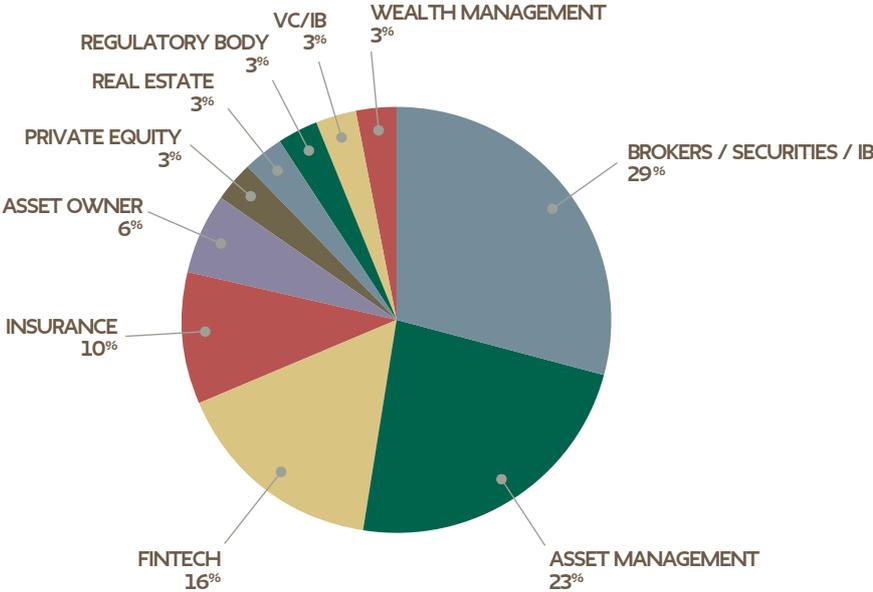
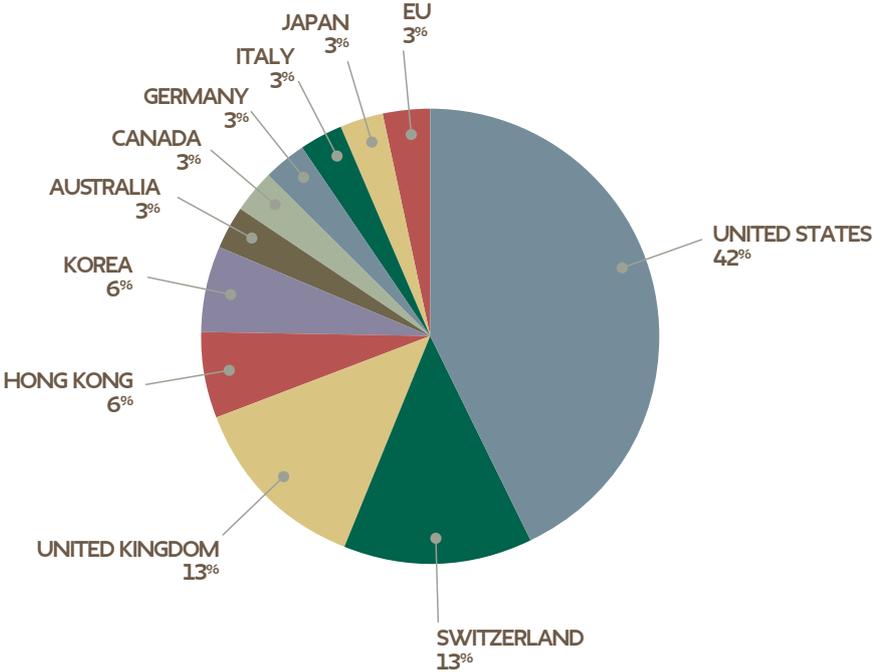


FIGURE B2. Participating institutions by HQ domicile



OXFORD METRICA

Oxford Metrica is a strategic advisory firm, offering informed counsel to boards. Our advisory services are anchored on evidence-based research in risk and financial performance. Our work includes statistical analysis and index construction for banks and insurers, risk and performance analytics for asset managers, due diligence support in mergers and highly customised services for corporate boards.

Dr Rory Knight, is Chairman of Oxford Metrica and of Investments at the John Templeton Foundation. He was formerly Dean of Templeton, Oxford University's business college. Prior to that Dr Knight was the vize-direktor at the Schweizerische Nationalbank (SNB) the Swiss central bank.

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