

## Message from CEO



History would probably see Q1 2022 as an epoch moment. The crisis in Ukraine and the sanctions on Russia are not only a watershed in global geopolitics, but could also accelerate some structural changes in the global financial architecture. The surge in commodity prices has worsened inflation, shifted interest rate expectations and raised concern about the negative impact on many emerging economies. These developments together with the uncertainties in regulatory policies in number of business sectors in Mainland China have resulted in heightened market volatility. Locally, the Omicron virus has sadly caused the loss of a lot of lives and much disruption to the daily lives of the people in Hong Kong.



**Kwok-chuen Kwok**  
CEO, Hong Kong Academy of Finance

Despite these challenges, Hong Kong's financial markets have continued to function smoothly. Our Members have demonstrated their dedication to serving customers, protecting the safety of their staff and supporting the community. I trust that with the collective resilience and determination of the community, and the immense contribution of our medical professionals on the frontline, Hong Kong could recover soon.

On the part of the AoF, we had to cancel our Chinese New Year Reception and have switched immediately to a full virtual mode in all our activities. The webinar with Shriti Vadera, Chair of Prudential plc moderated by Dr Moses Cheng on 15 March was very well received. Our next major event on 12 April will feature Mr Joseph Yam, former Chief Executive of the HKMA and Prof Huang Yiping of Peking University. Over 1,000 people have signed up a few days after we issued notification about this event, showing the high level of interest on the subjects to be discussed, notably the development of the offshore RMB market in Hong Kong. There will also be another prominent speaker, Prof Michael Spence, Nobel Laureate in Economics and an International Adviser of the AoF, who will speak to us on 3 May. Prof Spence will discuss some of the global geopolitical-socio-economic paradigm shifts that are happening around us. I look forward to welcoming you in these webinars.

Our newly-launched Financial Leaders Programme (FLP) is very well received. Out of the many highly-qualified applicants, 20 have been admitted for the 2022 inaugural cohort. They are all nominated by their firms' CEOs to go through a structured and intensive leadership development journey from April to December this year. Meet these 20 rising stars in the [FLP section of the AoF website](#).

## Message from CEO



The HKIMR, AoF's research arm, released a new report on demographic changes and long-term asset markets in February. Contrary to public perceptions that ageing would lead to drawdowns in retirement funds and a reduction in overall savings, one key point highlighted in this report is that Hong Kong's ageing demographics in the coming years would lead to a further increase in demand for long-term assets. The report, together with other HKIMR's research work, can be downloaded from the [HKIMR section](#) of the AoF website.

To promote more sharing and interactions amongst Members, we have invited Eric Hui (Zurich Insurance) and Sammie Leung (PwC) to contribute articles on the topical issue of green and sustainability finance to this Quarterly e-Newsletter. These articles have also been posted on the [AoF website](#). If you would like to contribute your thoughts and insights to future issues of our e-Newsletter, please get in touch with us.

### **Kwok-chuen Kwok**

CEO, Hong Kong Academy of Finance  
March, 2022.

## Financial Leaders Programme



### ***Meet our 20 Financial Leaders Programme participants***

This newly-launched Programme is designed to nurture the next generation of senior financial leaders for Hong Kong. It attracted a lot of applicants who have to be nominated by their CEOs. A total of 20 highly-qualified financial talents have been selected from different financial sub-sectors to participate in the Programme from April to December 2022 on a part-time basis. Details of the 2022 Cohort are available at <https://www.aof.org.hk/flp/participants/2022-cohort>.

# Financial Leaders Programme



## Distinguished Speakers Series - Shriti Vadera, Chair of Prudential plc



The AoF held a webinar on 15 March 2022 under our Distinguished Speakers Series, featuring Shriti Vadera, Chair of Prudential plc. Dr Moses Cheng, Fellow of AoF and founder Chairman of Insurance Authority, moderated the webinar.

Following Pru's 2021 results announcement the previous week, Shriti outlined the strategic directions and risk management approaches of the insurance giant. Apart from offering macro and historical perspectives on the pandemic, emerging markets, China and Hong Kong, fintech, and green & sustainability etc., Shriti also reflected on her own career, stressed the importance of inclusion and diversity, and shared her vision for Royal Shakespeare Company.

Over 200 senior executives from the financial services industry and regulators joined the webinar. Impressed by the wit and wisdom of Shriti, the audience engaged in a lively discussion with her.



AoF Members raised questions in the Q&As session. (Top) Ms Luanne Lim, Chief Executive Hong Kong of The Hongkong and Shanghai Banking Corporation, (Left) Mr Thomas Cheong, President of Principal Asia, and (Right) Mr Michael Chan, Co-CEO of Bowtie Life Insurance Company.



[To watch the video of the webinar.](#)



### *Hong Kong Insurers Join Hands to Advocate Green Insurance Creating Brighter Future for All with Professional Expertise*



**Mr Eric Hui**

Immediate Past Chairman of the Hong Kong Federation of Insurers cum Chairman of the Task Force on Green Insurance  
CEO, Zurich Insurance (Hong Kong)

#### **Task Force on Green Insurance steering industry best practice**

Committed to green insurance and supported by insurance industry leaders, The Hong Kong Federation of Insurers (HKFI) established the Task Force on Green Insurance (the Task Force) in 2020, and has been engaging the HKFI members through webinars on best practices in green insurance. The Task Force has also connected with various stakeholders, e.g. The Green Finance Association and The Hong Kong Observatory, and is currently working with the Centre of Green & Sustainable Finance under the Cross-Agency Steering Group in the capacity building and data working groups.

Looking ahead, the Task Force will team up with an appointed consultant to build an industry charter, to facilitate the work on disclosure framework, and to propose a data management structure for data use across industries.

#### **Importance of data in climate risk management**

On the macro policy-making level, inter-governmental agencies have to make use of data for measurements and form their frameworks, policies or targets. Similarly, country governments develop their Nationally Determined Contributions (NDCs) based on data, and accordingly assign emission targets across trades within their economies.

In Zurich Insurance Group, one major application of data is the approach we structure our targets and strategies when making our impact investment which stood at USD5.8 billion in 2020 and helped avoid 2.9 million metric tons of carbon emission. By 2025, we aim to decrease carbon intensity in our listed equity and corporate bond investment by 25%, and by 30% in our direct real estate investments. It is all science and data behind the formulation and execution.

When working on climate risk governance and related disclosures, we very often bump into a number of data gaps, e.g. carbon footprint of SME's, catastrophic damages by geospatial level, etc. Industries and corporates, along with our regulators, are working on such gaps by leveraging publicly available data and private service providers. It is indeed the opportunity for relevant consultants and startups to find their growth path by providing new data-related services for closing the gaps. As such, talents in the disciplines of ESG and climate data are welcome. Managing weather-related risks to sustain economies for the coming century is a core competence of the insurance sector. The insured loss data, catastrophe modeling, risk surveys and analysts of the industry will be tapped on for enriching the data required for climate risk management.

## Members' Corner



### *Hong Kong Insurers Join Hands to Advocate Green Insurance Creating Brighter Future for All with Professional Expertise*

#### **Hong Kong insurers contributing to "Net Zero" transition**

All businesses can set operating targets for decarbonisation. It could be as simple as reducing the real estate footprint, the use of fossil-fuel power and air travel. In particular, insurers can do a great deal in digitalisation to reduce the use of paper. Trees are just indispensable to decarbonisation. With this belief, Zurich Insurance Group is running a major reforestation project in Brazil for alleviating carbon emission and preserving life species.

As a global risk management center and insurance hub, Hong Kong aims to be a preferred Insurance Linked Securities (ILS) domicile. The ILS market has got a very good start with its first catastrophe bonds issued, and is expected to grow with rising business opportunities in the region and along with the Belt & Road Initiative.

In the coming decade, we will see more new materials, new technology, new energies or new supply chains as driven by the "net zero" transition among various industries. Property and Casualty insurers are there to cover their clients' risks arising from such transition processes.

Life and Savings insurers are no less important as they are instrumental to the sustainability of our community by promoting health, savings and annuity products. Insurers have been actively adding more ESG funds to their Investment-Linked Assurance Schemes (ILAS) products. Going forward, such ESG-based ILAS should be qualified under the Wealth Management Connect Scheme of the Greater Bay Area. Given the strength of the industry's distribution capability, such qualification will certainly draw more investment toward the green movement.

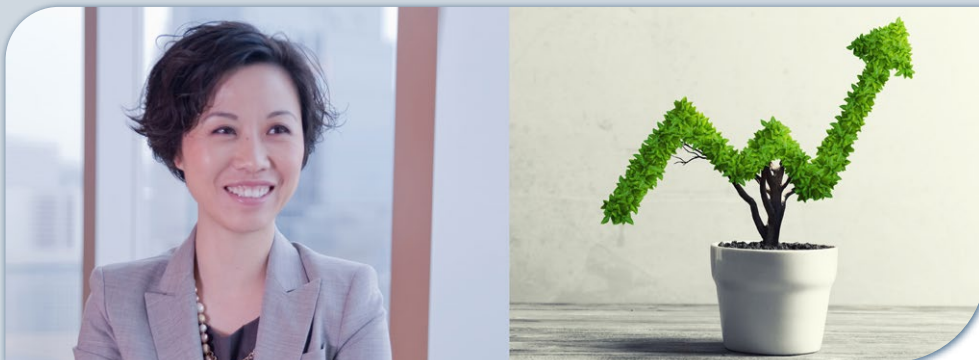
There are so much more Hong Kong insurers can do, together with other financial sectors, to promote green and sustainable finance for our brighter tomorrow.

**The above article only reflects the opinion of the writer and does not represent the positions of the Hong Kong Academy of Finance.**

## Members' Corner



### *Financing a Greener Economy*



**Ms Sammie Leung,**  
Partner, Climate and Sustainability Leader in Mainland China and Hong Kong, PwC



### ***Financing a Greener Economy***

Climate change has emerged as a key agenda item for business and political leaders around the world. Climate risk management and decarbonisation have also gained a lot of traction in both the public and the private sectors in Hong Kong. Policymakers, banks, investors and insurers have been finding ways to help address climate-related risks, many of whom are also making efforts to re-strategise and reinvent their business models to take advantage of the opportunities arising from the green movement.

Leveraging Hong Kong's status as an international financial hub, policymakers have taken a number of proactive measures to drive the climate agenda, not only to ensure the stability of the city's financial systems but to also maintain its competitiveness. The Green and Sustainable Finance Cross-Agency Steering Group<sup>1</sup> is keen to strengthen Hong Kong's leading position in the green finance space.

Several climate-related regulatory requirements came into effect in 2022. Banks and asset managers are expected to incorporate climate risk factors into their money lending and investment decision-making processes<sup>2</sup>. Listed issuers<sup>3</sup> are also required to disclose their risk assessment process and the actions taken to address climate-related risks. The push from regulators has undoubtedly been effective in urging corporates to take a closer look at climate risk management.

Investor demand is another driving force behind the climate agenda. Integrating ESG factors into investment decision-making is no longer a novel or just a 'nice-to-have' concept. It has become part and parcel in the investment space, and many institutional investors believe ESG and climate factors help them generate alpha and manage beta. Fund managers such as BlackRock and SSGA issued updates on their 2022 voting policies to emphasise climate and net-zero transition, as well as board diversity. The rise of shareholder activism is also notably seen in the success of investment group Engine No.1 last year in garnering shareholder support to ultimately replace a quarter of Exxon Mobil's board with new directors in support of ESG movements. BlackRock also forecasted that 20% of all its ETFs will be tied to ESG ratings by 2028.

I have seen an uptrend in the issuance volume of green or transition-themed loans and bonds. Not only do banks now play a key role in providing capital to enable and accelerate decarbonisation on a transactional level, some have even gone the extra mile in collaborating with climate solution providers to assist their corporate clients in their decarbonisation journey. Financial institutions are also taking steps to phase out coal-related activities. For example, DBS, Bank of China and AIA have all announced their timeline and plans to terminate the financing and underwriting of coal-mining and coal-fired power projects.

My consultancy work has given me the front-row seat to witness the tremendous developments in the ESG space in recent years. In particular, our finance sector is gradually accumulating the knowledge and capabilities needed to identify, understand, assess, measure and formulate responses to climate-related risks. Quite a number of industry practitioners are already benefiting from the early mover advantage in ESG financing and enabling the real economy by facilitating the transition to a lower-carbon business model. Lastly, the climate movement has created tremendous opportunities for practitioners of all levels and roles, helping them achieve business success and personal growth while doing good for the planet.

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<sup>1</sup> The Green and Sustainable Finance Cross-Agency Steering Group is co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission. Members include the Environment Bureau, Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority. The Steering Group aims to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies.

<sup>2</sup> The Hong Kong Monetary Authority (HKMA) also issued the Supervisory Policy Manual module GS-1 on climate risk management to guide authorised institutions in building climate resilience by incorporating climate considerations into governance, strategy, risk management and disclosure. The Securities and Futures Commission (SFC) published its conclusions in 2021 on the proposed amendments to the Fund Manager Code of Conduct, requiring fund managers to incorporate climate-related risks in their daily operations.

<sup>3</sup> The updated Appendix 27 by the Hong Kong Exchanges and Clearing (HKEx) requires listed companies to disclose a new "comply or explain" aspect, Climate Change, where companies should outline how they are impacted by climate-related issues and actions taken to manage them.

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## Research



### Applied Research

The HKIMR released a new Applied Research report on **Demographic Changes and Long-term Asset Markets: Opportunities and Developments in Hong Kong** in February 2022.

The key takeaways of the report are:

- **Demographic changes in Hong Kong will lead to an increased demand for long-term assets by up to 32% over the next 30 years, with an increasing share of demand from customers after retirement;**
- Market participants in Hong Kong see **growth opportunities in several key areas** amid the demographic transition. For example, **83% of the respondents would move towards ESG adoption in their investment strategies and 89% would consider the GBA initiatives in their strategic plans;** and
- **Encouraging broad participation of institutional and retail investors and capturing opportunities arising from key trends** are important themes to promote a healthy development of Hong Kong's long-term asset markets.



**Demographic Changes and Long-term Asset Markets**  
Opportunities and Developments in Hong Kong  
February 2022

Hong Kong Institute for Monetary and Financial Research  
HKIMR Applied Research Report No. 1/2022



The full report can be viewed [here](#).



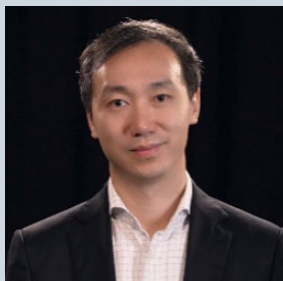
[To watch a video clip of the summary of the report.](#)

## Research



### Applied Research

In March 2022, four Applied Research papers exploring topics that are relevant to market participants and regulators in Hong Kong were published. These papers are related to Fintech, climate risks, and recent developments on the microstructure of financial markets.



#### **What Matters in FinTech Credit Assessment – Behavioral Traits or Algorithms?**

(Professor Chen Lin, The University of Hong Kong)

*"Banks are able to maintain their information advantage, and therefore growth, by exploiting the synergies between both sides of their balance sheets through technology adoption."*



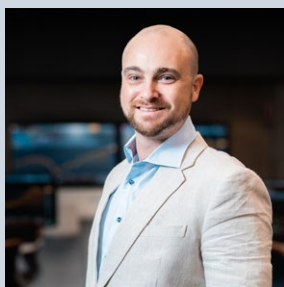
#### **A Machine Learning Based Anatomy of Firm-level Climate Risk Exposure**

(Professor Kai Li, Peking University)

*"We construct measures of firm-level climate risk exposure using natural language processing techniques... Firms with high exposure to Disaster experience a decrease in sales and profitability."*



## Research



### The Impact of Procyclical Margin Requirements on Financial Market Liquidity in Hong Kong

(Professor Sean Foley, Macquarie University)

*"We find limited evidence of a direct relationship between margin levels and stock liquidity...The fact that the Hong Kong markets did not suffer the same extreme dislocations [during the COVID-19 pandemic] as its global peers may be attributable to the existence of individual stock futures and their diverse group of market makers."*



### Financial Intermediaries and Co-Movements in Pricing Efficiency: The Case of Exchange-Traded Funds

(Professor Frank Li, Singapore Management University)

*"Our evidence suggests that lead market makers matter in ETF mispricing comovement because they are subject to capital constraints when correcting mispricing."*

The executive summary and full text of the four papers can be viewed [here](#).

## Research



### Monetary Research

Since last December, the HKIMR has published the following studies on relevant topics in monetary and financial economics:

WP NO. 30/2021

#### Is the Cost of Corporate Debt Influenced by ESG Factors? Evidence from the EMEAP Region

(by Angela Sze, Iris Tang, Winnie Li and Ip-Wing Yu)

WP NO. 29/2021

#### Big Techs vs Banks

(by Leonardo Gambacorta, Fahad Khalil and Bruno M. Parigi)

WP NO. 28/2021

#### Stock Liquidity Shocks and Banks' Risk-Taking Behaviour

(by Nan Hu)

All HKIMR working papers can be viewed [here](#).

### Research Seminars/Webinars



HKIMR Webinar - "The Impact of ESG Rating on the Asymmetrical Volatility-Return Relationship: Early Evidence from a Weight-Tilted Hang Seng Index" on 14 January 2022 by Joseph K. W. Fung, Hong Kong Baptist University

## Upcoming Events



HKIMR - AoF Expert Speakers Series 專家講座  
宏觀經濟最新發展, 美聯儲收緊貨幣政策及離岸人民幣市場的發展  
**Macroeconomic Developments,  
Fed Tightening and Offshore RMB Market Development**

演講嘉賓  
SPEAKERS

任志剛先生  
Mr Joseph YAM

黃益平教授  
Prof HUANG Yiping

主持  
MODERATOR

郭國全先生  
Mr KWOK Kwok Chuen

12/04/2022 16:00 - 17:00 (HKT)



### HKIMR - AoF Expert Speakers Series

Speakers: **Prof Huang Yiping**

Sinar Mas Chair Professor of Finance and Deputy Dean of  
the National School of Development, Peking University  
**Mr Joseph Yam**

Non-official Member, Executive Council  
Fellow, AoF

Moderator: **Kwok-chuen Kwok**

CEO, AoF

Registration : [Here](#)



[Registration  
Here](#)



### Distinguished Speakers Series

Speakers: **Prof Michael Spence**

Nobel laureate in economics

Moderator: **Mr Norman T.L. Chan**

Senior Adviser, AoF



For any enquiry about this Newsletter, please contact us through hotline (+852 2597 0900), email ([info@aof.org.hk](mailto:info@aof.org.hk)) or at AoF's address (Units 1005-1011, 10th Floor, One Pacific Place, 88 Queensway, Hong Kong).

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