The Financial Industry of Hong Kong

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Content

- Overview of the Financial Industry
- Banking Industry
- Securities Industry
- Insurance Industry
- Asset Management Industry
- Mainland’s Belt-and-Road Initiative and the Financial Industry
Background of the Author

• Worked in the financial industry for more than 15 years, including HSBC and other investment banks.
• Served as a member of Financial Services Panel and vice-chairman of Economic Services Panel of the Legislative Council of HK Government in the 90s.
• Published a book titled “The Development and Policy of the Financial Industry of Hong Kong”(in Chinese) in 2008, with a policy recommendation to integrate various financial regulatory bodies in Hong Kong into a super-regulatory entity.
  – This issue is still relevant today and the development of Hong Kong’s financial industry is always in my heart.
Overview of Hong Kong’s Financial Industry: The International Status

• As said before, the financial sector of Hong Kong accounted for about 16.6% of GDP and 6.3% of employment in 2014. Its GDP contribution increased to 17.6% in 2015.

• The banking sector expanded more rapidly, i.e. by a 9.2% average annual growth between 2009 and 2014 as compared with 4.8% for the other financial activities.
Overview of Hong Kong’s Financial Industry: The International Status

- As of end-2014:
  - 71 of the World’s top 100 banks operating in Hong Kong;
  - about 300 foreign-owned financial institutions operating in Hong Kong;
  - the world’s 13th largest banking centre in terms of external assets;
  - 5th largest centre for Forex trading;
  - 6th stock market in terms of market capitalization;
  - 2nd in terms of total equity funds raised;
  - about US$2,300 billion under asset management (3rd in the world); and
  - Top RMB offshore banking centre (accounted for about 70% of cross-border RMB transactions and deposits).
### Overview of Hong Kong’s Financial Industry: The International Status

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>1. 金融服務</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
</tr>
<tr>
<td>Financial services</td>
<td>168,300</td>
<td>255,900</td>
<td>346,000</td>
<td>365,900</td>
<td>+5.8%</td>
<td>+8.1%</td>
<td>+7.4%</td>
</tr>
<tr>
<td>(a) 銀行</td>
<td>(13.1%)</td>
<td>(16.2%)</td>
<td>(16.5%)</td>
<td>(16.6%)</td>
<td>+4.8%</td>
<td>+9.2%</td>
<td>+9.2%</td>
</tr>
<tr>
<td>Banking</td>
<td>94,700</td>
<td>147,800</td>
<td>218,600</td>
<td>229,100</td>
<td>+7.4%</td>
<td>+6.4%</td>
<td>+4.8%</td>
</tr>
<tr>
<td>(b) 保險及其他金融服務</td>
<td>73,600</td>
<td>108,100</td>
<td>127,400</td>
<td>156,800</td>
<td>+6.2%</td>
<td>+11.3%</td>
<td>+17.1%</td>
</tr>
<tr>
<td>Insurance and other financial services</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2. 旅遊</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
</tr>
<tr>
<td>Tourism</td>
<td>38,700</td>
<td>51,000</td>
<td>105,900</td>
<td>112,500</td>
<td>+5.1%</td>
<td>+12.7%</td>
<td>+18.3%</td>
</tr>
<tr>
<td>(a) 入境旅遊</td>
<td>(3.0%)</td>
<td>(3.2%)</td>
<td>(5.0%)</td>
<td>(5.1%)</td>
<td>+12.4%</td>
<td>+6.2%</td>
<td>+12.2%</td>
</tr>
<tr>
<td>Inbound tourism</td>
<td>28,400</td>
<td>40,300</td>
<td>89,000</td>
<td>93,600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) 外訪旅遊</td>
<td>10,300</td>
<td>10,700</td>
<td>16,800</td>
<td>18,900</td>
<td>+3.0%</td>
<td>+3.8%</td>
<td>+6.4%</td>
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<tr>
<td>Outbound tourism</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3. 貿易及物流</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
</tr>
<tr>
<td>Trading and logistics</td>
<td>354,400</td>
<td>377,800</td>
<td>500,500</td>
<td>515,700</td>
<td>+1.9%</td>
<td>+4.4%</td>
<td>+6.4%</td>
</tr>
<tr>
<td>(a) 貿易</td>
<td>(27.6%)</td>
<td>(23.9%)</td>
<td>(23.9%)</td>
<td>(23.4%)</td>
<td>+10.2%</td>
<td>+1.0%</td>
<td>+6.4%</td>
</tr>
<tr>
<td>Trading</td>
<td>286,900</td>
<td>323,000</td>
<td>432,600</td>
<td>440,900</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) 物流</td>
<td>67,500</td>
<td>54,800</td>
<td>67,900</td>
<td>74,800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Logistics</td>
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</tr>
<tr>
<td><strong>4. 專業服務及其他工商業支援服務</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
</tr>
<tr>
<td>Professional services and other producer services</td>
<td>139,600</td>
<td>201,500</td>
<td>260,200</td>
<td>273,200</td>
<td>+5.0%</td>
<td>+6.9%</td>
<td>+6.3%</td>
</tr>
<tr>
<td>(a) 專業服務</td>
<td>(10.9%)</td>
<td>(12.7%)</td>
<td>(12.4%)</td>
<td>(12.4%)</td>
<td>+7.0%</td>
<td>+8.7%</td>
<td>+10.0%</td>
</tr>
<tr>
<td>Professional services</td>
<td>46,500</td>
<td>66,300</td>
<td>99,700</td>
<td>106,700</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) 其他工商業支援服務</td>
<td>93,000</td>
<td>135,200</td>
<td>160,500</td>
<td>166,500</td>
<td>+3.7%</td>
<td>+6.0%</td>
<td>+4.3%</td>
</tr>
<tr>
<td>Other producer services</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td><strong>四個主要行業 = 1+2+3+4</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
</tr>
<tr>
<td>Four Key Industries = 1+2+3+4</td>
<td>701,000</td>
<td>886,200</td>
<td>1,212,500</td>
<td>1,267,200</td>
<td>+4.5%</td>
<td>+6.1%</td>
<td>+7.4%</td>
</tr>
<tr>
<td>(54.5%)</td>
<td>(56.0%)</td>
<td>(57.8%)</td>
<td>(57.5%)</td>
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<tr>
<td><strong>本地生產總值</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百萬元</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
<td><strong>百分率</strong></td>
</tr>
<tr>
<td>Gross Domestic Product (GDP)</td>
<td>1,285,300</td>
<td>1,581,800</td>
<td>2,097,800</td>
<td>2,204,000</td>
<td>+5.1%</td>
<td>+5.5%</td>
<td>+6.9%</td>
</tr>
</tbody>
</table>
Overview of Hong Kong’s Financial Industry: The International Status

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</thead>
<tbody>
<tr>
<td>1. 金融服務 (Financial services)</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(a) 銀行 (Banking)</td>
<td>72 200</td>
<td>92 700</td>
<td>97 500</td>
<td>99 700</td>
<td>+2.2%</td>
<td>+3.3%</td>
<td>+1.5%</td>
</tr>
<tr>
<td>(b) 保險及其他金融服務 (Insurance and other financial services)</td>
<td>97 200</td>
<td>118 800</td>
<td>134 200</td>
<td>136 800</td>
<td>+1.9%</td>
<td>+3.5%</td>
<td>+2.9%</td>
</tr>
<tr>
<td>2. 旅遊 (Tourism)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>(a) 入境旅遊 (Inbound tourism)</td>
<td>128 600</td>
<td>163 600</td>
<td>237 800</td>
<td>240 600</td>
<td>+1.2%</td>
<td>+6.5%</td>
<td>+8.0%</td>
</tr>
<tr>
<td>(b) 外訪旅遊 (Outbound tourism)</td>
<td>25 800</td>
<td>28 700</td>
<td>31 900</td>
<td>31 200</td>
<td>-2.3%</td>
<td>+1.9%</td>
<td>+1.7%</td>
</tr>
<tr>
<td>3. 貿易及物流 (Trading and logistics)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) 貿易 (Trading)</td>
<td>597 000</td>
<td>587 400</td>
<td>579 400</td>
<td>578 800</td>
<td>-0.1%</td>
<td>+0.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>(b) 物流 (Logistics)</td>
<td>188 100</td>
<td>196 600</td>
<td>187 800</td>
<td>186 100</td>
<td>-0.9%</td>
<td>-0.1%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>4. 專業服務及其他工商業支援服務 (Professional services and other producer services)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) 專業服務 (Professional services)</td>
<td>142 000</td>
<td>174 900</td>
<td>203 600</td>
<td>208 900</td>
<td>+2.6%</td>
<td>+3.9%</td>
<td>+3.6%</td>
</tr>
<tr>
<td>(b) 其他工商業支援服務 (Other producer services)</td>
<td>250 800</td>
<td>281 300</td>
<td>292 000</td>
<td>297 700</td>
<td>+2.0%</td>
<td>+1.7%</td>
<td>+1.1%</td>
</tr>
</tbody>
</table>

四個主要行業 = 1+2+3+4
Four Key Industries = 1+2+3+4
總就業人數 = 1+2+3+4
Total employment
Overview of Hong Kong’s Financial Industry: The “Core Competence”

- A strong cluster of international and Mainland banks, and other services providers;
- Strong links with high growth areas: Mainland China and Asia;
- Free capital flows and highly liquid market;
- Rule of law;
- A sound and forward-looking regulatory regime;
- A highly educated financial professionals and easy entry of overseas professionals;
- A robust real-time interbank payment system in HK$, US$, Euro and RMB;
- Free press and free flow of information; and
- Excellent international connectivity.
Overview of Hong Kong’s Financial Industry: The “Core Competence”

• What has the Government done to strengthen the competitiveness of the financial industry?
  – Implementation of CEPA
  – Provision of infrastructure and policy to promote RMB businesses
  – Strengthening the regulatory system
  – Promotion of Islamic finance
  – Adopting liberal policy to permit foreign financial professionals working in Hong Kong
  – Enhancing financial education
  – Strengthening protection of investors, etc.
Overview of Hong Kong’s Financial Industry: The “Core Competence”

• The Roles of Regulatory Bodies:
  – For banking, it is regulated by the Hong Kong Monetary Authority.
  – The securities industry and the fund management industry are regulated by the Securities and Futures Commission under the Securities and Futures Ordinance.
  – As for the insurance industry, it is regulated by the Office of the Commissioner of Insurance under the Insurance Company Ordinance.
Overview of Hong Kong’s Financial Industry: The “Core Competence”

• Other than continuously enhancing the regulatory system and various advisory bodies for the financial sector, CY Leung’s Government set up the Financial Services Development Council in early 2013, with the following objectives:
  – Advising the government on strategies and measures to expand the scope of financial markets and enhance the competitiveness of Hong Kong as an international financial centre;
  – Providing a channel for stakeholders to express views and champion the interests of the financial services industry;
  – Supporting of the financial services industry in developing the core competence and knowledge of its practitioners; and
  – Promoting Hong Kong as an international financial centre in the Mainland and overseas.
Banking Industry - The 3-Tier Structure

- The banking industry alone accounted for about 10.4% of GDP and 2.7% of employment in 2014.
- Presence of World’s Largest 500 Banks in Hong Kong:

<table>
<thead>
<tr>
<th>Positions at 31 December 2015</th>
<th>Number of Overseas Banks (b)</th>
<th>Licensed Banks (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>World Ranking (a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 – 20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>21 – 50</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>51 – 100</td>
<td>27</td>
<td>24</td>
</tr>
<tr>
<td>101 – 200</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>201 – 500</td>
<td>43</td>
<td>48</td>
</tr>
<tr>
<td>Sub-total</td>
<td>156</td>
<td>158</td>
</tr>
<tr>
<td>Others</td>
<td>43</td>
<td>42</td>
</tr>
<tr>
<td>Total</td>
<td>199</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Hong Kong Monetary Authority
Banking Industry - The 3-Tier Structure

- Hong Kong incorporated a 3-tier banking system

### 2. Overview of the HKMA Authorisation Regime

<table>
<thead>
<tr>
<th></th>
<th>Licensed Banks (LB)</th>
<th>Restricted Licence Banks (RLB)</th>
<th>Deposit-taking Companies (DTC)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking Activities</strong></td>
<td>Operate current and savings accounts, accept deposits of any size and maturity from the public</td>
<td>Take deposits from public in amounts of at least HK$500,000 without restriction on maturity</td>
<td>Take deposits of at least HK$100,000 with an original term to maturity, or call or notice period, of at least 3 months</td>
</tr>
<tr>
<td><strong>Share Capital Requirement</strong></td>
<td>HK$300 million or equivalent</td>
<td>HK$100 million or equivalent</td>
<td>HK$25 million or equivalent</td>
</tr>
<tr>
<td><strong>Regulated Activities</strong></td>
<td>All of them are eligible for registering with the SFC to conduct Regulated Activities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Banking Industry - The 3-Tier Structure

• There were 157 commercial banks, 24 restricted licensed (investment) banks and 18 DTCs by end-2015.

• The government tightened regulatory requirements to improve stability of the banking sector, particularly after the Asian Financial Crisis in 1998 and the Global Financial Crisis in 2008.

• The number of financial institutions declined sharply after 1998, e.g. licensed banks from 185 in 1995 to 146 in 2010 (then increased to 157 in 2015); DTCs declined from 132 to 18 in 2015.
## Banking Industry - The 3-Tier Structure

### Licensed Banks

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Incorporated in Hong Kong</td>
<td>23</td>
<td>22</td>
<td>21</td>
<td>21</td>
<td>22</td>
</tr>
<tr>
<td>(ii) Incorporated outside Hong Kong</td>
<td>129</td>
<td>133</td>
<td>135</td>
<td>138</td>
<td>135</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>152</td>
<td>155</td>
<td>156</td>
<td>159</td>
<td>157</td>
</tr>
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</table>

### Restricted Licence Banks

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Subsidiaries of licensed banks:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) incorporated in Hong Kong</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>(b) incorporated outside Hong Kong</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>(ii) Subsidiaries or branches of foreign banks which are not licensed banks in Hong Kong</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>(iii) Bank related</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>(iv) Others</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20</td>
<td>21</td>
<td>21</td>
<td>21</td>
<td>24</td>
</tr>
</tbody>
</table>

### Deposit-taking Companies

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Subsidiaries of licensed banks:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) incorporated in Hong Kong</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>(b) incorporated outside Hong Kong</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>(ii) Subsidiaries of foreign banks which are not licensed banks in Hong Kong</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>(iii) Bank related</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>–</td>
</tr>
<tr>
<td>(iv) Others</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>26</td>
<td>24</td>
<td>24</td>
<td>23</td>
<td>18</td>
</tr>
</tbody>
</table>

### All Authorized Institutions

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>198</td>
<td>200</td>
<td>201</td>
<td>203</td>
<td>199</td>
</tr>
</tbody>
</table>

### Local Representative Offices

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>61</td>
<td>60</td>
<td>62</td>
<td>63</td>
<td>64</td>
</tr>
</tbody>
</table>

Source: Hong Kong Monetary Authority
Banking Industry - The 3-Tier Structure

• Japan encountered severe recession in 1990s. This greatly reduced its business operation in Hong Kong.
• Its number of banks in Hong Kong declined from 46 to 11 and DTCs from 37 to 1 in 2014.
• The US and local banks also declined, while Mainland and Taiwanese banks increased (Taiwan banks increased from 5 in 1999 to 19 in 2014).
• The capital adequacy ratio, as the core parameter to safeguard the banking stability in Hong Kong, remained high by international standards. There was not a single bank in Hong Kong encountering financial difficulty even during the Global Financial Crisis in 2008.
Banking Deposits - Foreign Currency Deposits Accounted for 51%

- Total deposits continued to increase from HK$2,664 billion in 1997 to HK$10,750 billion in 2015, by 304%

<table>
<thead>
<tr>
<th>Year</th>
<th>Hong Kong Dollar (\text{HK$ billion})</th>
<th>Total</th>
<th>Retail banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Demand</td>
<td>Savings</td>
<td>Time</td>
</tr>
<tr>
<td>2011</td>
<td>546</td>
<td>1,671</td>
<td>1,523</td>
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<tr>
<td>2012</td>
<td>639</td>
<td>2,011</td>
<td>1,526</td>
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<tr>
<td>2013</td>
<td>686</td>
<td>2,077</td>
<td>1,628</td>
</tr>
<tr>
<td>2014</td>
<td>787</td>
<td>2,242</td>
<td>1,772</td>
</tr>
<tr>
<td>2015</td>
<td>904</td>
<td>2,490</td>
<td>1,918</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign Currency (\text{HK$ billion})</th>
<th>Total</th>
<th>Retail banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Demand</td>
<td>Savings</td>
<td>Time</td>
</tr>
<tr>
<td>2011</td>
<td>333</td>
<td>1,234</td>
<td>2,284</td>
</tr>
<tr>
<td>2012</td>
<td>456</td>
<td>1,380</td>
<td>2,284</td>
</tr>
<tr>
<td>2013</td>
<td>511</td>
<td>1,619</td>
<td>2,659</td>
</tr>
<tr>
<td>2014</td>
<td>592</td>
<td>1,723</td>
<td>2,957</td>
</tr>
<tr>
<td>2015</td>
<td>718</td>
<td>2,005</td>
<td>2,715</td>
</tr>
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</table>

Total

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Retail banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Demand</td>
</tr>
<tr>
<td>2011</td>
<td>7,591</td>
<td>702</td>
</tr>
<tr>
<td>2012</td>
<td>8,296</td>
<td>869</td>
</tr>
<tr>
<td>2013</td>
<td>9,180</td>
<td>914</td>
</tr>
<tr>
<td>2014</td>
<td>10,073</td>
<td>1,049</td>
</tr>
<tr>
<td>2015</td>
<td>10,750</td>
<td>1,199</td>
</tr>
</tbody>
</table>

Source: Hong Kong Monetary Authority
Banking Deposits - Foreign Currency Deposits Accounted for 51%

- Mainland banks’ deposits market share increased from 22.2% in 1997 to 33.7% in 2015.
- Foreign currency deposits remained at 51% of total deposits in 2015.
- RMB deposits by end 2011 were about 8% of total deposits, which increased to about 10% in 2014 and then declined to 8% in 2015.
- The share of RMB deposits seemed to be strongly affected by the public’s expectation on the possible appreciation or depreciation of RMB.
Banking Assets
– Mainland Banks Accounted for 33.5%

• In 2015, total banking assets were HK$19,180 billion, 33.5% by Mainland banks (as compared with 16% in 2007); 5.3% by US (9% in 2007); 7.0% by Japan (6% in 2007); 14.3% by European (30% in 2007); and 39.9% (40% in 2007) by others (including HSBC, Standard Chartered, Hang Seng Bank, Bank of East Asia, etc.)
### Banking Assets – Mainland Banks Accounted for 33.5%

<table>
<thead>
<tr>
<th></th>
<th>Mainland China</th>
<th>Japan</th>
<th>US</th>
<th>Europe</th>
<th>Others</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>5,772</td>
<td>1,380</td>
<td>977</td>
<td>2,936</td>
<td>7,377</td>
<td>18,442</td>
</tr>
<tr>
<td>2015</td>
<td>6,431</td>
<td>1,341</td>
<td>1,017</td>
<td>2,736</td>
<td>7,656</td>
<td>19,180</td>
</tr>
<tr>
<td><strong>Deposits from Customers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>3,359</td>
<td>180</td>
<td>447</td>
<td>1,380</td>
<td>4,707</td>
<td>10,073</td>
</tr>
<tr>
<td>2015</td>
<td>3,620</td>
<td>301</td>
<td>488</td>
<td>1,402</td>
<td>4,938</td>
<td>10,750</td>
</tr>
<tr>
<td><strong>Loans to Customers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>2,366</td>
<td>512</td>
<td>248</td>
<td>1,121</td>
<td>3,030</td>
<td>7,276</td>
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<tr>
<td>2015</td>
<td>2,730</td>
<td>504</td>
<td>238</td>
<td>1,024</td>
<td>3,039</td>
<td>7,535</td>
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<tr>
<td><strong>Loans to Customers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>1,572</td>
<td>289</td>
<td>206</td>
<td>720</td>
<td>2,271</td>
<td>5,058</td>
</tr>
<tr>
<td><strong>Inside Hong Kong</strong></td>
<td>2015</td>
<td>1,802</td>
<td>306</td>
<td>191</td>
<td>644</td>
<td>2,311</td>
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<tr>
<td><strong>Loans to Customers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>794</td>
<td>223</td>
<td>42</td>
<td>401</td>
<td>758</td>
<td>2,218</td>
</tr>
<tr>
<td><strong>Outside Hong Kong</strong></td>
<td>2015</td>
<td>927</td>
<td>199</td>
<td>47</td>
<td>380</td>
<td>728</td>
</tr>
</tbody>
</table>

Source: Hong Kong Monetary Authority
Banking Assets
– Mainland Banks Accounted for 33.5%

• Other local banks are relatively small.
• Total banking assets declined from HK$8,400 billion in 1997 to HK$6,000 billion in 2002, down by 29%; mainly due to contraction of Japanese banks’ operation and weak economic activities.
• Mainland banks become more important for Hong Kong in recent years, accounting for 33.5% of total assets and 33.7% of deposits by end-2015.
Banking Assets
– Mainland Banks Accounted for 33.5%

• Total loans decreased sharply from HK$4,122 billion in 1997 to HK$2,035 billion in 2003, then increased to HK$7,535 billion in 2015.

• Mainland banks’ share increased from 11.2% in 1997 to 36.2% in 2015. Between 1994 & 1997, Japanese banks loans accounted for more than 50% of total loans and Hong Kong was used as a “Booking Centre” for their regional loans.

• Japan’s 80% loans were overseas loans during that period. As for other banks, about 80% loans were used in Hong Kong.
Property-related Loans Accounted for 50%

• Foreign currency lending accounted for about 45% of total loans in 2015.

• Among total loans of HK$7,535 billion in 2015, 70% were used by customers inside Hong Kong, 30% for customers outside Hong Kong (gradually increasing, mainly to China).

• For loans by retail banks using in Hong Kong, 22% were extended to building, construction, property development and investment, and 28% extended to individual to purchase of residential property in 2015.

• Property-related loans accounted for about 50% of total loans. The loan structure remained rather stable in recent years.
## Property-related Loans Accounted for 50%

### Retail Banks

<table>
<thead>
<tr>
<th>Sector</th>
<th>2011</th>
<th></th>
<th>2012</th>
<th></th>
<th>2013</th>
<th></th>
<th>2014</th>
<th></th>
<th>2015</th>
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<tbody>
<tr>
<td></td>
<td>HK$</td>
<td>%</td>
<td>HK$</td>
<td>%</td>
<td>HK$</td>
<td>%</td>
<td>HK$</td>
<td>%</td>
<td>HK$</td>
<td>%</td>
</tr>
<tr>
<td>Hong Kong’s visible trade</td>
<td>242</td>
<td>9</td>
<td>257</td>
<td>9</td>
<td>349</td>
<td>10</td>
<td>316</td>
<td>8</td>
<td>294</td>
<td>8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>129</td>
<td>5</td>
<td>121</td>
<td>4</td>
<td>139</td>
<td>4</td>
<td>163</td>
<td>4</td>
<td>160</td>
<td>4</td>
</tr>
<tr>
<td>Transport and transport equipment</td>
<td>115</td>
<td>4</td>
<td>129</td>
<td>4</td>
<td>156</td>
<td>5</td>
<td>176</td>
<td>5</td>
<td>185</td>
<td>5</td>
</tr>
<tr>
<td>Building, construction and property development, and investment</td>
<td>719</td>
<td>26</td>
<td>734</td>
<td>24</td>
<td>786</td>
<td>23</td>
<td>829</td>
<td>22</td>
<td>856</td>
<td>22</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>207</td>
<td>7</td>
<td>222</td>
<td>7</td>
<td>266</td>
<td>8</td>
<td>310</td>
<td>8</td>
<td>262</td>
<td>7</td>
</tr>
<tr>
<td>Financial concerns (other than authorized institutions)</td>
<td>113</td>
<td>4</td>
<td>118</td>
<td>4</td>
<td>169</td>
<td>5</td>
<td>203</td>
<td>5</td>
<td>224</td>
<td>6</td>
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<tr>
<td>Individuals:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– to purchase flats in the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme</td>
<td>46</td>
<td>2</td>
<td>42</td>
<td>1</td>
<td>42</td>
<td>1</td>
<td>42</td>
<td>1</td>
<td>41</td>
<td>1</td>
</tr>
<tr>
<td>– to purchase other residential properties</td>
<td>794</td>
<td>28</td>
<td>860</td>
<td>29</td>
<td>896</td>
<td>26</td>
<td>976</td>
<td>26</td>
<td>1,070</td>
<td>27</td>
</tr>
<tr>
<td>– other purposes</td>
<td>245</td>
<td>9</td>
<td>270</td>
<td>9</td>
<td>320</td>
<td>9</td>
<td>362</td>
<td>10</td>
<td>398</td>
<td>10</td>
</tr>
<tr>
<td>Others</td>
<td>199</td>
<td>7</td>
<td>243</td>
<td>8</td>
<td>291</td>
<td>9</td>
<td>393</td>
<td>10</td>
<td>416</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,808</td>
<td>100</td>
<td>2,996</td>
<td>100</td>
<td>3,414</td>
<td>100</td>
<td>3,768</td>
<td>100</td>
<td>3,908</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Hong Kong Monetary Authority
Banking Performance – Stability under Volatility

• Despite very low interest rates in Hong Kong (the saving deposits rate has been zero for many years and the best lending rate remains at 5%.

• Interest rate margin remained at about 1.40% since 2013. This has enhanced a stable banking environment.

• Moreover, the cost to income ratio for retail banks declined to about 43% in 2015.

• The Capital Adequacy Ratio remained at a high level of 15.8% in 2011, up further to over 18% in 2015.
HIBOR, Composite Rate and Best Lending Rate (BLR) (2015)

Source: Hong Kong Monetary Authority
Consolidated Capital Adequacy Ratio of Locally Incorporated Banks

Source: Hong Kong Monetary Authority
Banking Performance – Stability under Volatility

• From a longer historical perspective, Hong Kong’s banking industry underwent great volatility since the Asian Financial Crisis in 1998, with contracting loan portfolio and rising bad debts for several years.

• Return on asset (a profitability measure for banks) was only 0.28% in 1998. But the banking industry remained stable.

• Banking rebounded significantly in 2004 and 2007 was a very profitable year.
2008 was the worse year for banking and finance globally, given the global subprime debacle and meltdown of international investment banking industry.

Return on asset for all financial institutions declined again from 1.21% in 2007 to 0.49% in 2008. It increased to 0.72% for all financial institutions in 2011 (rather low, 1.01% for retail banks).
Asset Quality of Retail Banks

Source: Hong Kong Monetary Authority
Banking Performance – Stability under Volatility

- Major banks in Hong Kong needed to provide huge bad-debt provisions in 2008.
- As for retail banking, return on asset was 1.48% in 2007, declined to 0.88% in 2008 and raised to 1.01% in 2011, and further improved to 1.39% in 2013. It went down to about 1% in 2014 and 2015, with significant decline in the growth rate of pre-tax operating profits.
- In particular, loan growth was very slow and bad debts increased significantly in 2015.
Retail Banks’ Performance

Source: Hong Kong Monetary Authority
Banking M&A Activities – Mainland Financial Institutions Entering the Market

• Trends for merger and acquisition intensified in 2000s:
  – e.g. Bank of East Asia purchased First Pacific Bank (2000)
Banking M&A Activities – Mainland Financial Institutions Entering the Market

• The major reasons were:
  • --(i) intensifying competition;
  • --(ii) attaining economies of scale;
  • --(iii) entering the Hong Kong banking market by Mainland financial institutions.

• The 10 sister banks of Bank of China merged into Bank of China (HK) in 2001 as well.
Banking M&A Activities – Mainland Financial Institutions Entering the Market

• More recently, the ownership of several local banks also changed hands:
  – Wing Hang Bank was acquired by OCBC of Singapore in 2014;
  – Chong Hing Bank by Yue Xiu Enterprises (Holdings) Ltd. in 2014; and
Banking Supervision
- Stability is the Key

• The Banking Ordinance provides the legal framework for banking supervision in Hong Kong.

• Section 7 (1) of the Ordinance stated the primary function of the Hong Kong Monetary Authority (HKMA) is to “promote the general stability and effective working of the banking system”.

• The HKMA has the responsibility to promote proper standards of conduct, encourage sound and prudent practices, maintain flexibility for business development, and to prevent illegal or improper practices in the banking industry.
Banking Supervision - Stability is the Key

• Given the global financial crisis in 2008 which was led by the collapse of financial derivatives, the HKMA has strengthened its proactive approach in the supervision of derivatives activities, focusing on three areas:
  – controls—to ensure that banks have adequate internal control systems to manage risks of derivatives activities;
  – capital—to ensure that banks have adequate capital to support possible losses in derivatives activities;
  – capability—to ensure that there is adequate expertise within the HKMA to develop risk management policies and to supervise banks’ derivatives activities.

** Recently, controlling property lending risk is the key.
Securities Industry

- Hong Kong ranked 6\textsuperscript{th} internationally in 2014 in terms of market capitalization.
- IPO fund raising in Hong Kong ranked 1\textsuperscript{st} in the world for 3 years up to 2011. It became 2\textsuperscript{nd} in 2013 and 2014.
- The total number of IPOs listed in the Main Board was 104 in 2015 (with 30 H Shares and 14 Red Chips), equivalent to two newly listed companies every week.
- In terms of the annual trading value, it did not change much between 2010 and 2014, but there was a significant increase in 2015.
- The buoyant market in 2015 was partly due to operation of the Shanghai-Hong Kong Stock Connect.
Securities Industry

• Market capitalization increased rapidly from HK$6,700 billion at end-2004 to HK$20,700 billion at end-2007, mainly due to listing of many large Mainland companies in Hong Kong.

• During the Global Financial Crisis In 2008, Hang Seng Index and share prices of many major listed companies once declined by more than 60%.

• For example, share prices of HKEx (0388) dropped from a high of HK$265.6 to HK$49.7.

• The activity of initial public offering (IPO) contracted sharply in 2008 as well.
Structure of Stock Broking Industry - Small Brokers Losing Out

- There were 505 active brokers by the end of 2015.
- The largest 14 brokers (mostly international firms) accounted for 53% to 57% of market share in recent years, while the next 50 firms accounted for 33% to 36%.
As for the smaller ones (more than 400), they only accounted for 10% to 12%, down from about 35% in 1997. Mainland brokerage firms expanded rapidly in Hong Kong in recent years. There are about 70 of them now.

Among all the transactions, 73% of businesses went to international firms.

Local firms are relatively small and weak in their business support.

Among local retail investors’ transactions, about 48% went through these small firms.
H Shares and Red Chips—Increasing Influence by the Mainland Market

- H shares are companies incorporated in the Mainland that are traded on Hong Kong Stock Exchange (HKEx).
- Many of them also floated their shares in the Mainland’s market (A Share) as well.
- Red chip shares are stocks of Mainland companies incorporated outside the Mainland and listed in Hong Kong.
- H shares accounted for 22% of the total market capitalization in 2015, while Red chips shares for 21%.
H Shares and Red Chips—Increasing Influence by the Mainland Market

• The total market capitalization for China-related shares was 44% in 2015, as compared with 28% in 2004.
• Hong Kong market has been affected more directly by Mainland’s economic and market development in recent years, rather than by Hong Kong’s domestic economy and international markets.
• These shares accounted for more than 50% of the daily transaction.
H Shares and Red Chips—Increasing Influence by the Mainland Market

• Many international funds invest in these shares as a proxy for investing in the Mainland market directly.

• Thus, the international perception about the Mainland’s market, economic and political development would have become an important factor affecting the market performance of Hong Kong as a whole.
Investors’ Structure—Institutional Investors Accounting for 75%

- The total market transaction value remained at about HK$17 trillion between 2010 and 2014, which increased sharply to about HK$26 trillion in 2015.
- According to the “2014 Survey on Investors” undertaken by the HKEx, there were not much structural changes recently.
Institutional Investors Accounting for 75%

- But if we compare with the same Survey in 2007, we could observe several major changes:
  - foreign institutional investors: 39.3% market share in 2007 decreased significantly to 33.8% market share in 2014;
  - domestic institutional investors: 25.2% in 2007 decreased slightly to 24.4% in 2014;
  - domestic individual investors: 27.5% in 2007 decreased significantly to 20.5% in 2014;
  - foreign individual investors: 3.8% in 2007 increased slightly to 4.9% in 2014;
Investors’ Structure—Institutional Investors Accounting for 75%

– proprietorship trading by securities firms: 4.1% in 2007 increased sharply to 16.4% in 2014;

– among international investors, US accounted for 25.6% of market share, UK for 27.7%, Europe (excluding UK) for 10.4%, Mainland China for 13.1% and Singapore for 10.4%, and

– foreign investors are mainly institutional investors, except those from Mainland China (retail investors accounted for 63% of Mainland’s investment in 2014).
IPO and Fund Raising Activities - World’s Number 1

• Between 2009 and 2011, HK ranked 1st in terms of IPO fund raising globally.

• HK ranked 2nd in 2013 and 2014. Secondary fund raising was even more than IPO funds. Top-10 largest IPOs between 2003 and 2007 were all Mainland companies and 9 of them were financial institutions.

• Subsequently, the Top-10 IPOs between 2009 and 2011 were having more diversified origins, with only 5 Mainland companies
# Top-10 IPOs on the HKEx (2009 to 2011)

<table>
<thead>
<tr>
<th>Company</th>
<th>Funds raised (US$ billion)</th>
<th>Headquarter Country*</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIA Group Ltd</td>
<td>20.4</td>
<td>US</td>
</tr>
<tr>
<td>Agricultural Bank of China Ltd</td>
<td>12.0</td>
<td>PRC</td>
</tr>
<tr>
<td>Glencore International Plc</td>
<td>10.0</td>
<td>Switzerland</td>
</tr>
<tr>
<td>China Minsheng Banking Corp., Ltd</td>
<td>4.0</td>
<td>PRC</td>
</tr>
<tr>
<td>China Pacific Insurance (Group) Co., Ltd.</td>
<td>3.6</td>
<td>PRC</td>
</tr>
<tr>
<td>China Longyuan Power Group Corporation Ltd</td>
<td>2.6</td>
<td>PRC</td>
</tr>
<tr>
<td>Sands China Ltd</td>
<td>2.5</td>
<td>US</td>
</tr>
<tr>
<td>PRADA S.p.A.</td>
<td>2.5</td>
<td>Italy</td>
</tr>
<tr>
<td>Metallurgical Corporation of China Ltd</td>
<td>2.3</td>
<td>PRC</td>
</tr>
<tr>
<td>United Company RUSAL Plc</td>
<td>2.2</td>
<td>Russia</td>
</tr>
</tbody>
</table>

*According to the classification adopted by the authors of the source document

**Figure 2-3: 2009-2011 Top 10 IPOs in terms of funds raised on the HKEx**

Source: Based on HKEx information
IPO and Fund Raising Activities
- World’s Number 1/2

• In 2011, international IPO listing (52%) was more than Mainland listing (37%). HKEx seemed to be successful in attracting international listing.

• However, international IPO almost disappeared since 2011, probably due to the weak European market and their performance was not perceived as successful.

• Corporate finance businesses of large IPOs were concentrated with international investment banks, e.g. Morgan Stanley, Goldman, Deutsche Bank, Merrill Lynch, HSBC, Citi, etc., together with BOC Finance. Other smaller local sponsors involved in smaller IPOs only.
Shanghai-Hong Kong Stock Connect - Capital Market Liberalization

• To facilitate evolving global demand for RMB-denominated financial products, Premier Li Keqiang announced pilot scheme of Shanghai-Hong Kong Stock Connect in April 2014.

• The pilot scheme allows direct trading of A shares in Shanghai and H shares in Hong Kong under one single account.

• This is an important step for Mainland China to liberalize the capital market.
Shanghai-Hong Kong Stock Connect - Capital Market Liberalization

• The capped market aggregate trading quotas of Rmb300b northbound and Rmb250b southbound will eliminate immediate volatility risk, as it is small compared with SEHK’s market capitalization of HK$24.8 trillion as of end December 2013 and Rmb15.1 trillion for the SHEx.

• The SH-HK Stock Connect Programme commenced operation in November, 2014.
Shenzhen-Hong Kong Stock Connect

• The Shenzhen-HK Stock Connect—another milestone
• --launched on 5/12/2016, delayed for a year due to a sell-off in the Mainland market in 2015.
• --trading 881 SZ-listed stocks up to a quota of Rmb13b a day
• --trading 417 HK-listed stocks up to a quota of Rmb10.5b a day.
• --1st day trading:  Rmb 2.67b northbound, HK$923m southbound. (as compared with SH-HK Stock Connect: Rmb6.8b northbound, HK$4.4b southbound, same day)
• --12/6/2017: SZ-HK:  northbound Rmb4.2b; southbound HK$2.8b; SH-HK:  northbound Rmb5.1b, southbound HK$8.7b. (Two southbounds accounting for HKEx total turnover of about 13% on 12/6/2017.)
## SH-HK/SZ-HK Stock Connect

<table>
<thead>
<tr>
<th></th>
<th>Hong Kong Exchange (12/06/2017)</th>
<th>Shanghai Stock Exchange (12/06/2017)</th>
<th>Shenzhen Stock Exchange (12/06/2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Main Board</td>
<td>GEM</td>
<td>A Share</td>
</tr>
<tr>
<td>No. of listed companies</td>
<td>1,741</td>
<td>287</td>
<td>1,280</td>
</tr>
<tr>
<td>No. of listed H shares</td>
<td>222</td>
<td>25</td>
<td>n.a.</td>
</tr>
<tr>
<td>No. of listed red-chips stocks</td>
<td>152</td>
<td>6</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total no. of listed securities</td>
<td>9,744</td>
<td>288</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total market capitalisation (Bil. dollars)</td>
<td>HKD 28,225</td>
<td>HKD 303</td>
<td>RMB 29,983</td>
</tr>
<tr>
<td>Total negotiable capitalisation (Bil. dollars)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>RMB 25,213</td>
</tr>
<tr>
<td>Average P/E ratio (Times)</td>
<td>13.43</td>
<td>43.87</td>
<td>16.65</td>
</tr>
<tr>
<td>Total turnover (Mil. shares)</td>
<td>145,101</td>
<td>1,479</td>
<td>14,660</td>
</tr>
<tr>
<td>Total turnover (Mil. dollars)</td>
<td>HKD 87,826</td>
<td>HKD 641</td>
<td>RMB 170,176</td>
</tr>
<tr>
<td>Total market turnover (Mil. dollars)</td>
<td>HKD 88,267</td>
<td>RMB 172,586</td>
<td>RMB 217,336</td>
</tr>
</tbody>
</table>
Securities and Futures Commission - Tightening the Listing Requirements

- The Securities and Futures Commission (SFC), as a statutory institution, is one of the four regulatory bodies for the financial markets.
- Other than regulating securities and futures markets, SFC also supervises Hong Kong Exchanges and Clearing Ltd.
- SFC should strike a balance between legitimate activities and innovation, and the containment of illegal activities and potential market risk.
Securities and Futures Commission
- Tightening the Listing Requirements

• Mandates of SFC are:
  – developing and maintaining competitive, efficient, fair, orderly and transparent securities and futures markets in Hong Kong;
  – helping the public to understand working of the market;
  – providing protection to investing public;
  – minimizing crime and misconduct in the market;
  – reducing systemic risk in the industry; and
  – assisting the government in maintaining financial stability.
Securities and Futures Commission  
- Tightening the Listing Requirements

- SFC tightened enforcement on smaller sponsors in recent years, as business performance of some new IPOs deteriorated sharply immediately after listing.
- The quality of some of these Mainland private firms was dubious.
- In October 2013, SFC introduced criminal charges on illegal activities of sponsors. The regulatory focus of SFC is to improve the quality of listed companies and the standard of sponsors, in order to protect the interest of investors and enhance the reputation of Hong Kong as an international financial centre.
Securities and Futures Commission
- Tightening the Listing Requirements

- SEHK is frontline regulator of all listing-related matters and issuers listed on its markets.
- Under SF (Transfer of Functions—HKEx) Order, SEHK is responsible for vetting prospectuses for any share applications.
- SEHK’s listing-related functions are discharged by the Listing Department and Listing Committee (with 28 members). LC acts as an independent review body for decisions made by LD.
Securities and Futures Commission - Tightening the Listing Requirements

- SFC performs a lead role in market regulation.
- SFC is having the powers to object to the listing of, and to suspend trading in or de-list, any securities under the Listing Rules.
- SFC is having the powers of investigation and enforcement in cases involving corporate misconduct under SFO.
- SFC has a statutory duty to supervise and monitor SEHK’s performance of its listing-related functions and responsibility.
Securities and Futures Commission - Tightening the Listing Requirements

• Under dual filing regime, SEHK passes copies of materials submitted by listing applicants to SFC. SFC may object to listing if disclosure materials appears to contain misleading information.

• On 17/6/2016, SFC and HKEx jointly issued a consultation paper entitled “Proposed Enhancements to SEHK’s decision-making and Governance Structure for Listing Regulation” (consultation period extended from 3 months to 5 months).
Securities and Futures Commission
- Tightening the Listing Requirements

• Proposed listing regulation regime:
• --Two new committees namely Listing Policy Committee and Listing Regulatory Committee will be established. These two committees will respectively decide listing policy and initial public offering applications and post-IPO matters that have suitability concerns or broader policy implications.
• --Listing Committee and Listing Department will continue to be decision maker for IPO.
Securities and Futures Commission
- Tightening the Listing Requirements

• Membership of LPC: 7 members, Chairperson and 2 deputy chairpersons of LC, CE of HKEx, Chairperson of Takeovers Panel, CEO of SFC and one senior executive of SFC.

• Membership of LRC: 6 members, 3 senior executives from Corporate Finance Division of SFC, Chairperson and two deputy chairpersons of LC.

• Chairperson of LC will act as chairperson of both LPC and LRC.
Securities and Futures Commission
- Tightening the Listing Requirements

• According to SFC, objectives are enhancing market quality, efficiency, accountability and transparency. But there are a lot of queries about these. No decision has yet been made.

• Major concerns:
  • Establishment of LRC and LPC under SEHK might breach SFO.
  • LRC would slow down applications instead.
  • Less members would give rise to concentration of power. SFC accounted for 50% of LRC.
Insurance Industry

• The insurance industry is a core part of the financial industry, but its relative importance is much smaller than the banking sector.

• Its relative importance did not change much in recent years as well, because Hong Kong has been a mature insurance market and its exportability is very limited.

• Major insurance companies in Hong Kong are international and Mainland companies. Local insurance companies are relative small.
Insurance Industry

• In recent years, due to the further liberalization of capital market in the Mainland, more citizens from the Mainland choose to purchase life and investment-related insurance products in Hong Kong.

• Hong Kong’s insurance market has been expanding gradually in recent years, though there was a decline in total insurance premiums during 2007 and 2009.
Total Premium of the Long-term and General Insurance Business

Source: Office of the Commissioner of Insurance
Recent Business Development - Steady Growth in Recent Years

• According to the Office of the Commissioner of Insurance (OCI), the insurance industry’s gross premiums increased 10.9% to HK$365.8 billion in 2015.

• Long-term insurance business increased by 11.9% to HK$319.8 billion, while new long-term business expanded faster at 15.1% to HK$131.3 billion.

• This accounted for about 88% of the insurance market.
Recent Business Development
- Steady Growth in Recent Years

• New premiums from individual life and annuity (non-linked) businesses increased by 23.7% to HK$120.4 billion.

• The new long-term business from Mainlanders visiting Hong Kong accounted for about 20% of the total new personal businesses.

• Hong Kong’s insurance market is attractive to the Chinese for its mature regulatory regime, product diversity, low transaction cost, better rate of return and security in compensation arrangement.
Recent Business Development - Steady Growth in Recent Years

- Gross premiums of general business grew 4.7% to HK$46 billion.
- 2015 was a difficult year for Hong Kong’s general insurance business.
- Overall underwriting profits of general businesses decreased sharply to HK$1.7 billion in 2015 from HK$3 billion in 2014.
- The underwriting performance of the motor business and shipping business suffered heavy losses in 2015.
Recent Business Development - Steady Growth in Recent Years

- Property, accident and health insurance businesses have been the more profitable areas.
- Regarding the reinsurance business, though gross premiums only declined marginally, the underwriting profit dropped from HK$742 million in 2014 to HK$444 million in 2015.
Underwriting Profit/Loss of General Insurance Business

Source: Office of the Commissioner of Insurance
Insurance Companies - Dominating by International Firms

• As at end-2015, there were 157 authorized insurers.

• 86 companies were incorporated in Hong Kong and the remaining 71 were incorporated in the Mainland and 21 overseas countries, with Bermuda (12), the US (11) and the UK (11) taking the lead. Many Mainland insurance companies have entered the Hong Kong market in recent years.
Insurance Companies - Dominating by International Firms

- Among the 157 insurance companies, 93 are pure general insurers, 45 are pure long-term insurers and the remaining 19 are composite insurers.
- The top-10 companies only accounted for about 45% of the total gross premium.
- In recent years, major Mainland insurance companies secured public listing in Hong Kong as well, including China Life Insurance.
- Hong Kong has been the best equity funding platform for Mainland’s insurance companies.
Insurance Intermediaries & CEPA - Liberalization of Mainland’s Markets

• Under CEPA, Hong Kong government has been promoting Hong Kong’s insurance business and related services providers to enter the Mainland market.

• Hong Kong’s insurance agency companies and brokers have been allowed to set up wholly-owned operation in Guangdong effectively from 1/3/2015.

• They would provide respective agency and brokerage services for Mainland insurance companies.
Insurance Intermediaries & CEPA - Liberalization of Mainland’s Markets

• As for the agency business, the major criteria for a qualified Hong Kong agent would have been in the agency business for over 10 years and having annual business revenue not less than HK$500,000.

• As for the brokerage business, the major criteria for a qualified Hong Kong broker would have been in the brokerage business for over 30 years and having total asset over US$200 million.
Regulatory Development
- Setting up a New Insurance Authority

- Since the enactment of the Insurance Company Ordinance in 1983, the Office of Commissioner of Insurance (OCI), a government department, regulates insurance companies and three Self-Regulatory Organizations (SROs) supervising insurance intermediaries. Since the global financial crisis in 2008, the Government reviewed the regulatory regime of the insurance industry.

- In July 2010, the government issued a consultation paper to establish an Independent Insurance Authority (IIA).
Regulatory Development
- Setting up a New Insurance Authority

• The aims of IIA are:
  – strengthening the direct regulation of insurance companies and agents according to international standards
  – providing better protection to policy holders
  – promoting development of the insurance industry

• The Authority would also have the power to investigate illegal activities of companies and agents (similar to the authority of Securities and Futures Commission) directly.

• IIA established on 7/12/2015 and will start to regulate insurance companies on 26/6/2017. It will take over regulations of insurance intermediaries from three SROs through a statutory licensing regime as well.
Asset Management Industry

- Hong Kong’s fundamental strengths in asset management are:
  - (i) rule of law
  - (ii) openness
  - (iii) simple tax system
  - (iv) robust regulatory scheme
  - (v) deep talent pool
  - (vi) advanced financial infrastructure; and
  - (vii) locating in the high growth region.
Asset Management Industry

• Hong Kong’s strong foundation as an asset management centre supported by following important development in financial sector:
  – world leader in equity initial public offering
  – Asia’s private banking hub
  – second largest hub for private equity funds in Asia
  – leading hub for hedge funds investing in Asia
  – premier offshore RMB business centre.
Recent Business Development - Strong Growth

• According to the Annual Fund Management Activities Survey by SFC (2014), the combined fund management business in Hong Kong increased to reach a record of HK$17,682 billion, up 10.5% as of the end of 2014.

• Hong Kong’s asset management business remained a preferred platform for international investors, who contributed a historic high of HK$12,404 billion and accounted for 71% of the fund management business.

• Asset managed directly in Hong Kong increased by nearly 18% to HK$6,856 billion.

• The number of corporations licensed for asset management by the SFC has also topped 1,000 in 2014.
Recent Business Development - Strong Growth

The combined fund management business in Hong Kong hit another record high of $17,682 billion at the end of 2014.

Chart 1: Combined Fund Management Business ($ bn)

- Combined Fund Management Business ($ bn)
- Trailing three-year average ($ bn)

Source: the SFC
Recent Business Development - Strong Growth

Components of Combined Fund Management Business

Combined fund management business
$17,682 bn

Non-REIT fund management business
$17,476 bn

Asset management business
$12,770 bn

Other private banking business of RI
$3,095 bn

Fund advisory business of LC
$1,611 bn

Market capitalisation of REITs
$206 bn

Legend:
REITs: real estate investment trusts
RI: registered institutions
LC: licensed corporations
IC: insurance companies

Source: the SFC
Recent Business Development
- Strong Growth

• All market players recorded strong performance during 2014:
  – Non-REIT asset management business increased by 11.9% to HK$12,770 billion, of which HK$6,856 billion was managed directly in Hong Kong.
  – The aggregate business of licensed asset management and fund advisory corporations amounted to HK$12,920b, up 9.6%.
  – Registered institutions recorded an 11.6% increase in their asset management and other private banking businesses to HK$4,104 billion.
  – Insurance companies recorded a 24.7% increase in their assets under management to HK$452 billion.
  – 72.5% of the assets managed in Hong Kong were invested in Asia.
Mainland-HK Mutual-Recognition-Fund Scheme - Another Breakthrough

• In May 2015, China’s Securities Regulatory Commission (CSRC) and Hong Kong’s SFC decided to embark on the Mainland-HK Mutual Recognition of Funds Initiative.
• The CSRC and SFC have established cooperative mechanism for cross-border regulation and enforcement to ensure that Mainland and Hong Kong investors would receive equal protection.
• Towards the end of 2015, the Hong Kong and Chinese securities regulatory authorities approved the first batch of funds under this Scheme.
• Up to mid-2016, it seemed that there has been more investment interest from Mainland investors in funds managed by Hong Kong, than the other way round.
Latest Policies to Promote Asset Management - High Priority of the Government

• Asset management is a high value-added economic activity and Hong Kong government has been enhancing its development vigorously.

• Recent new policies are the following:
  – extending the profit tax exemption for offshore funds to the private equity sectors
  – improving connectivity of markets and mutual recognition arrangement
  – promoting of financial technology and infrastructure
  – earmarking HK$100 million to enhance the manpower training for asset management and insurance sectors.
Mainland’s Belt and Road Initiative and the Financial Industry

- The “Belt and Role Initiative” (BRI) is a major economic social and political vision of China to engage the world and to foster a win-win situation with partnership countries.
- In order to support this new infrastructure drive, China led to establish the US$100 billion Asian Infrastructure Investment Bank, with the participation of 57 countries as founding members.
- China also set up a US$40 billion Silk Road Infrastructure Fund in 2014 to look for feasible and profitable investment projects along the ancient trading route.
Mainland’s Belt and Road Initiative and the Financial Industry

• Concurrently, the New Development Bank BRICS (US$50 billion) could be another development lender.

• According to an estimation by Asian Development Bank in 2009, the infrastructure needs in Asia alone were gigantic, with a total cost estimated to be US$8 trillion between 2010 and 2020.

• According to China’s Ministry of Commerce, the total accumulative outward investment amounted to US$881 billion as at the end of 2015, with about 60% directed to, or channelled through, Hong Kong.
Hong Kong’s Financial Role in BRI - Financing Hub for BRI Projects

• Given this increasing financial needs, Hong Kong has long been the springboard for China’s trade, investment and fund raising.

• In particular, Hong Kong is:
  – the international financial centre supporting Mainland’s development;
  – the first and largest RMB offshore banking centre;
  – the largest platform for IPO in recent years
  – the most favourable operational platform in terms of financial infrastructure, taxation system, legal framework and related professional services.
Hong Kong’s Financial Role in BRI - Financing Hub for BRI Projects

- China now is the third largest outward investing economy, after US and EU.
- With its sustained high growth, China has:
  - Substantial foreign capital inflows
  - Big current account surplus
  - Huge foreign reserves
  - High level of domestic savings
- All these factors will continue to support a strong expansion of OFDI from China globally.
- Hong Kong, as a financial centre, should be able to provide the necessary funding support under BRI.
## New Business Strategy of Selected Banks under the BRI

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Business Strategy under BRI</th>
</tr>
</thead>
</table>
| Bank of China (HK)      | • taking over its parent’s branch network in six ASEAN countries.  
                         | • transforming into a regional bank for promoting BRI business.  
                         |                                                                                                                                   |
| HSBC                    | • very strong presence in Asia-Pacific  
                         | • establishing a special task force to explore new business opportunities under BRI.  
                         | • providing comprehensive services to BRI-related businesses.                                                                 |
| Standard Chartered      | • a prominent international financial institution in countries under BRI for more than 100 countries.  
                         | • expanding its project finance team in Hong Kong.                                                                                       |
| DBS                     | • strong presence and experience in ASEAN.  
                         | • assisting China’s SOEs to seek business partners and opportunities in ASEAN.                                                                                      |
| Chong Hing Bank         | • establishing strategic alliances with financial institutions in major countries in South-east Asia.                                                                                                                |
Companies in Hong Kong Involved in BRI infrastructure Investment - Increasing Rapidly

- A significant number of Chinese firms (e.g., CITIC, China Southern Power Grid Corporation, China Development Bank, China Merchants, etc.) involved in China’s overseas infrastructure investment are listed companies in Hong Kong or bond issuers in Hong Kong.
- Some Chinese firms may have used Hong Kong as the management centre for such projects as well.
- Additionally, Hong Kong’s professional firms have already provided services to these projects and the demand will be increasing.
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Country</th>
<th>Project Name</th>
<th>Project Nature</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLP India</td>
<td>India</td>
<td>Jhajjar Power Plant (Coal-fired)</td>
<td>Built &amp; Operation</td>
<td>Many difficulties, but in progress</td>
</tr>
<tr>
<td>China Merchants Holdings (Int’l) Co., Ltd.</td>
<td>Vietnam</td>
<td>VũngTàuInt’lContainer Port</td>
<td>Built &amp; Operation</td>
<td>Suspended</td>
</tr>
<tr>
<td></td>
<td>Sri Lanka</td>
<td>Colombo South Container Terminal</td>
<td>Built &amp; Operation</td>
<td>Completed and in progress.</td>
</tr>
<tr>
<td>Hutchison Port Holdings Ltd.</td>
<td>Cambodia</td>
<td>Kampot International Port</td>
<td>Built &amp; Operation</td>
<td>Newly signed MOU.</td>
</tr>
<tr>
<td>Hutchison Global Comm. Ltd.</td>
<td>Cambodia</td>
<td>ibizCloud Service</td>
<td>Design &amp; Technical Support</td>
<td>In progress.</td>
</tr>
<tr>
<td>DTZ/Cushman &amp; Wakefield</td>
<td>Cambodia</td>
<td>“Fantasy Angkor” (tourism infrastructure)</td>
<td>Planning</td>
<td>Well performed.</td>
</tr>
<tr>
<td>Spence Robinson Ltd.</td>
<td>Cambodia</td>
<td>Kratie Agriculture and Technical Schools</td>
<td>Supervisory Consultant</td>
<td>Highly appraised.</td>
</tr>
</tbody>
</table>

Sources: various companies’ websites, annual reports and media reports.
Currently, the PBOC applies a “seven-engines” approach to push forward RMB internationalization:

- expanding currency swap contract coverage and amount with other central banks (more than 30 countries)
- launching new offshore RMB clearing centers (20 cities)
- setting up more free trade zones (e.g., Shanghai, Tianjin, Guangdong, Fujian)
- further liberalization of capital account items;
- introducing new RMB investment schemes (e.g., RQFII)
- setting up new multinational financial institutions (e.g., AIIB, BRICS Bank)
- providing direct RMB quotations with 10 international currencies, widening RMB daily trading bands (plus and minus 2%) and adopting a basket of currencies as reference for the daily exchange-valuation of RMB.
PBOC set up the first offshore RMB clearing bank in Hong Kong in 2003.

The major reasons for developing RMB Businesses in Hong Kong are:

- promoting the internationalization of RMB
- using HK as an experimental platform for further liberalization of the capital account
- assisting Hong Kong’s economic development; and
- securing more financial resources for the Mainland.
RMB Deposits—Ups and Downs

• RMB deposits increase rapidly until 2014
  – partly due to higher interest rates (RMB interest rate remained at about 2.5% for six-month deposits in June 2016) and appreciation expectation.
• Total RMB deposits by end 2011 was about Rmb600b. Only about Rmb30b were extended as loans in 2011.
• By end-2014, RMB deposits accounted for about 12% of total deposits in the Hong Kong banking system, having risen to Rmb1,000b from Rmb62.7b in 2009 when it represented only 1.1% of total deposits in Hong Kong.
RMB Deposits—Ups and Downs

• However, as RMB started to depreciate against the US$ since mid-2015, though remained rather stable based on a basket of currencies, total RMB deposits in the Hong Kong banking sector declined substantially.

• It declined by about 25% to Rmb759b by 3/2016, further down to Rmb 528b by 4/2017.
## RMB Deposits—Ups and Downs

<table>
<thead>
<tr>
<th>Year (end-of-period)</th>
<th>RMB Deposits</th>
<th>RMB CD</th>
<th>RMB Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>861</td>
<td>193</td>
<td>116</td>
</tr>
<tr>
<td>2014</td>
<td>1,004</td>
<td>155</td>
<td>188</td>
</tr>
<tr>
<td>2015</td>
<td>851</td>
<td>159</td>
<td>297</td>
</tr>
<tr>
<td>3/2016</td>
<td>759</td>
<td>129</td>
<td>282</td>
</tr>
</tbody>
</table>

Source: Hong Kong Monetary Authority
RMB Deposits—Ups and Downs

Source: Hong Kong Monetary Authority
RMB Loans Increasing Gradually

- In 10/2011, foreign companies have been permitted to use RMB for Foreign Direct Investment (FDI) into China.
- Using RMB for FDI would reduce many administrative procedures with State Administration of Foreign Exchange of China.
- Also, foreign banks have been permitted to use RMB for their capital requirement regarding operation in China. Several foreign banks, including HSBC (China), Standard Chartered (China), Hang Seng (China), have used RMB funding for new capital injection in their Mainland’s operations.
RMB Loans Increasing Gradually

• The total amount of RMB loans continued to increase. At end-2013, the outstanding amount of RMB loans in Hong Kong stood at Rmb116b, of which Rmb31b was trade finance (thus loans only accounted for 73%).

• RMB loans in Hong Kong increased quite rapidly to Rmb297b by the end of 2015 despite the decline in RMB deposits.

• The cross-border channels have also been opened for banks in Hong Kong to make RMB loans to entities in the Mainland.
RMB Trade Finance and Settlement -- Expanding Rapidly

- In 2011, only about 7% of Mainland’s international trade were settled in RMB, compared with about 40% of Japanese trade settled in Yen.
- This was about Rmb2,000b in 2011, with 90% through Hong Kong.
- Trade settlement in RMB developed rapidly in recent years, to Rmb6,800b in 2015.
- Since 3/2012, international trade using RMB settlement has been extended to cover all firms within Mainland China.
## RMB Trade Settlement and Average Daily Turnover (RMB, billion)

<table>
<thead>
<tr>
<th>Year (end-of-period)</th>
<th>RMB Trade Settlement</th>
<th>RMB Average Daily Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>3,841</td>
<td>395</td>
</tr>
<tr>
<td>2014</td>
<td>6,258</td>
<td>733</td>
</tr>
<tr>
<td>2015</td>
<td>6,833</td>
<td>947</td>
</tr>
<tr>
<td>3/2016</td>
<td>1,131</td>
<td>821</td>
</tr>
</tbody>
</table>

Source: Hong Kong Monetary Authority
RMB Bonds in Hong Kong -- Ample Opportunities

• In 2011, Mainland Government set the ceiling of Mainland companies issuing RMB bonds in Hong Kong as Rmb50b, with Rmb25b allocated for banks and Rmb25b for non-banks.

• In 2014, Rmb197b of RMB-denominated bonds were issued in Hong Kong, compared to Rmb112b in 2012.

• The total RMB debt outstanding by end-2015 was Rmb 368b.

• Currently, there is no restriction on the use of the fund raised from a RMB bond issue. For the remittance of the fund into Mainland China, an approval from the relevant Mainland authority would be needed.
# RMB Bonds (RMB, billion)

<table>
<thead>
<tr>
<th>Year (end-of-period)</th>
<th>Newly Issued RMB Bonds</th>
<th>Outstanding RMB Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>117</td>
<td>310</td>
</tr>
<tr>
<td>2014</td>
<td>197</td>
<td>381</td>
</tr>
<tr>
<td>2015</td>
<td>--</td>
<td>368</td>
</tr>
<tr>
<td>2016</td>
<td>--</td>
<td>348</td>
</tr>
</tbody>
</table>

Source: Hong Kong Monetary Authority
RMB Bonds in Hong Kong - Ample Opportunities

• In 2014, there were 15 Mainland property companies issued RMB bonds in Hong Kong and the number reduced to only 5 in 2015.

• Given lower RMB interest rates in the Mainland (a few percentage points lower than that in Hong Kong) and ample liquidity, Mainland companies tended to resort to the domestic bond market instead of the offshore RMB bond market since mid-2015.

• The issuing of RMB bonds in Hong Kong is sensitive to the interest rate differential between Hong Kong and the Mainland.
RMB Financing Activities

Source: Hong Kong Monetary Authority
Concluding Remarks

• In order to promote BRI, the Infrastructure Financing and Facilitation Office has just been set up under the Hong Kong Monetary Authority.

• Another BRI office has also been established under the Chief Executive’s Office soon.

• Three high-level Conferences were organized by the HKSAR Government in 12/2015, 5/2016 and 12/2016.

• The Hong Kong Trade Development Council has organized many overseas visits to promote BRI and also set up a comprehensive website on BRI.
Concluding Remarks

• Other than the traditional banking products, a wide range of RMB financial assets is available in Hong Kong for international investors.

• These include investment funds, commodity-linked products, ETFs, REITs, equities and insurance products.

• In particular, the RQFII Scheme, introduced in Hong Kong in 2011, provides a channel for international portfolio investment in the equity and bond markets in Mainland China.

• Furthermore, the HKEx introduced other RMB financial products in recent years, including the RMB Currency Futures in 2012 and RMB London Metal Mini Futures in 2014.

• Hong Kong will continue to be the major fund-raising and fund-operating centre for BRI-related projects, which will lead to additional demand for HK’s professional services as well.