

Banking Industry in Hong Kong

Overview

- Hong Kong has one of the highest concentrations of banking institutions in the world, with about 70 of the largest 100 banks in the world having an operation in Hong Kong.
- There were 195 authorised institutions and 57 representative offices of overseas banks in Hong Kong as of end-December 2016.
- The stature of Hong Kong as a key financial centre is built on its high standard of market transparency, disclosure and prudently supervised financial institutions.
- Hong Kong ranked fourth in the Global Financial Centres Index (GFCI) released by the Z/Yen Group in September 2016.
- Hong Kong has arisen as a premier offshore Renminbi (RMB) centre, thanks especially to the scheme for trade settlements in RMB and related financing activities.

Industry Data

Number of Authorised Institutions (December 2016)	
Licensed Banks	156
Restricted Licensed Banks	22
Deposit-taking Companies	17
Representative Offices of Foreign Banks	57
Total Employment in Domestic Banking Units (end-September 2016)	101,813

Sources: Monthly Statistical Bulletin, Hong Kong Monetary Authority; Quarterly Report of Employment and Vacancies Statistics, Census & Statistics Department

Service Providers

The banking system in Hong Kong is characterised by its 3-tier system, which is formed by 3 types of banking institutions, namely licensed banks, restricted licence banks and deposit-taking companies, which are authorised to take deposits from the general public.

The 3 tiers of deposit-taking institutions operate under different restrictions. Only licensed banks and restricted licensed banks can be called banks. As of end-December 2016, there were 156 licensed banks, 22 restricted licence banks and 17 deposit-taking



companies. There were also 54 representative offices of overseas banks.

Range of Services

Banks are among the most important channels for fund-raising in the region. The significance of Hong Kong's banking sector can be reflected by its prominence in the region. The quality of Hong Kong's banking system enables it to play a major role in serving well beyond its boundary. Many Hong Kong-based banks have set up operations in other parts of Asia, typically the Chinese mainland.

Hong Kong is at the forefront of being a Fintech hub in Asia amid a pro-entrepreneur and transparent regulatory environment with a focus on collaboration as well as access to incubators and accelerators. Electronic cheque (e-Cheque), a new online payment instrument, was launched in Hong Kong in December 2015. At the initial stage, nine banks offer the e-Cheque issuance services.

According to the Global Financial Centres Index (GFCI) released by the *Z/Yen Group* in September 2016, Hong Kong ranked fourth in the financial centre league after New York, London and Singapore. Since releasing the first semi-annual results in March 2007, GFCI has consistently ranked Hong Kong as one of the top international financial centres in Asia.

Renminbi (RMB) Businesses in Hong Kong

RMB business in Hong Kong was first launched in 2004, which first allowed Hong Kong banks to provide personal RMB business, and has since been continually expanded. With the introduction of the pilot scheme for RMB trade settlement in July 2009 and its expansion in July 2010, banks participating in RMB business in Hong Kong can now offer a wide range of RMB services to their corporate customers, including trade finance, RMB certificate of deposits, RMB bonds and other related products and services.

The RMB trade settlement scheme and related facilitation arrangements have brought about many benefits, allowing traders to gain access to a range of new RMB services (including L/C issuance, packing loan, import invoice financing, export invoice discounting, and factoring), reducing the transaction cost of buying/selling in RMB, as well as allowing them to exchange, receive and keep RMB trade receipts offshore.

Over the past years, RMB trade settlement has become an increasingly popular option among foreign traders doing business with China. In 2015, around 26% of Chinese external trade was settled in RMB, up from 22% in 2014, marking a growing importance of RMB as the trade settlement currency.

Hong Kong has been playing an important role in RMB cross-border trade settlement. According to the *Society for Worldwide Interbank Financial Telecommunication (SWIFT)*, RMB was the world's sixth most-used payment currency as of December 2016 (trailing the US dollar, Euro, British pound, Japanese yen and Canadian dollar), with Hong Kong being the leading offshore RMB hub that handles about 70% of global payment in RMB.

From the debut of RMB trade in July 2009, banks in Hong Kong had handled RMB trade settlement totalling about RMB15 trillion as of end-2014. In the first ten months of 2015, RMB trade settlement handled by banks in Hong Kong amounted to RMB5.7 trillion, a year-on-year (YOY) growth of more than 10%.



Besides, Hong Kong hosts the largest pool of RMB liquidity outside the Chinese mainland. RMB deposits excluding RMB certificates of deposits totalled RMB854 billion as of end-October 2015, more than tenfold the level seen when the pilot RMB cross border trade settlement scheme was implemented in July 2009.

As of end-March 2015, there are 224 banks in Hong Kong participating in the RMB clearing platform, while a wide range of RMB products and services is available in Hong Kong's offshore RMB market, including trade finance, certificate of deposits (CDs), bonds, stocks and ETFs.

Liberalisation of China's Banking Sector

China became a WTO member in December 2001 and all commitments for the banking and financial services had been completely phased in by 2006. In line with China's WTO commitments, the Chinese government has promulgated the "*Regulations of the People's Republic of China on Administration of Foreign-funded Banks*" with effect from December 2006. The major provisions, among others, are as follows:

- A foreign bank on its own or jointly with any other foreign financial institution can apply to establish a wholly foreign-funded bank in China.
- A foreign financial institution partnering with a Chinese company or enterprise can apply to establish a Chinese-foreign joint venture bank in China.
- The minimum registered capital for a wholly foreign-funded bank or a Chinese-foreign joint venture bank shall be RMB1 billion or an equivalent amount in convertible currencies.
- A foreign bank that applies for establishing a branch shall satisfy the requirement, among others, that it have the total assets of not less than US\$20 billion at the end of the year prior to the submission of the application.
- A wholly foreign-funded bank or a Chinese-foreign joint venture bank may engage in foreign exchange and RMB businesses, including the retail banking businesses like receiving deposits from the general public and conducting bank card businesses.
- As a result, Chinese and foreign banks are now subject to a unified regulatory regime, competing directly with one another under the same market environment and the same supervision regulations.

Closer Economic Partnership Arrangement between Hong Kong and the Mainland (CEPA)

Hong Kong's banking sector is one of the liberalised sectors benefiting greatly under *CEPA*, with lower barriers set for Hong Kong banks entering the mainland market. Currently, banking services are covered by the *Agreement of Trade in Services (ATIS)* signed in November 2015 between the Hong Kong government and the *Ministry of Commerce of China*. This agreement further liberalise the services market and extend the geographical coverage to the whole Chinese mainland. Under the *ATIS*, the following banking and other financial services (excluding insurance) are opened to Hong Kong's banking institutions on the Chinese mainland:

1. Acceptance of deposits and other repayable funds from the public;



2. Lending of all types, including, inter alia, consumer credit, mortgage credit, factoring and financing of commercial transaction;
3. Financial leasing;
4. All payment and money transmission services;
5. Guarantees and commitments;
6. Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, in money market instruments, foreign exchange, derivative products (including but not limited to futures and options), exchange rate and interest rate instruments, transferable securities and other negotiable instruments and financial assets, including (bullion);
7. Participation in issues of all kinds of securities;
8. Money broking;
9. Asset management;
10. Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments;
11. Advisory and other auxiliary financial services;
12. Provision and transfer of financial information, and financial data processing and related software by providers of other financial services.

The banking sector also operates a negative list with various restrictive measures on banking and financial services offered under the ATIS. Further details of the lists can be found [here](#).

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