

Banking Industry in Hong Kong

Overview

- Hong Kong has one of the highest concentrations of banking institutions in the world.
- Approximately 70 of the largest 100 banks in the world have an operation in Hong Kong.
- There were 202 authorised institutions and 61 representative offices in Hong Kong as of end-Apr 2014.
- 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 third in the Global Financial Centres Index (GFCI) by the Z/Yen Group released in March 2014.
- 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 Authorized Institutions (April 2014)	
Licensed Banks	158
Restricted Licensed Banks	21
Deposit-taking Companies	23
Representative Offices of Foreign Banks	61
Total Employment (end-2013)	99,081

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 characterized 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-April 2014,



there were 158 licensed banks, 21 restricted licence banks and 23 deposit-taking companies. There were also 61 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.

According to the Global Financial Centres Index (GFCI) released by the Z/Yen Group in March 2014, Hong Kong ranked third in the financial centre league after New York and London. Since releasing the first semi-annual results in March 2007, GFCI has consistently ranked Hong Kong as the top international financial centre in Asia, ahead of Singapore and Tokyo

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 2013, around 15% of Chinese external trade was settled in RMB, up from 9% in 2011, 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, accounting for more than two-thirds of cumulative amount of trade settled in RMB since July 2009.

More than 10 per cent of the mainland's external trade is settled in RMB and Hong Kong is playing an increasingly important role in this development, with about RMB 3.8 trillion of the mainland's external trade settled in RMB in 2013 (after handling about RMB 2.6 trillion in 2012). From the debut of RMB trade in July 2009 to end-2013, banks in Hong Kong handled RMB trade settlement totalling RMB 8.7 trillion, which represented some 80% of the world's total. In the first two months of 2014, RMB trade settlement handled by banks in Hong Kong amounted to RMB886 billion, up 81% compared with the year-earlier period.

Besides, Hong Kong hosts the largest pool of RMB liquidity outside the Chinese mainland. RMB deposits in Hong Kong totalled RMB 920 billion as at end-February 2014,



more than tenfold the level seen when the pilot RMB cross border trade settlement scheme was implemented in July 2009.

Currently, there are more than 210 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.

Exports

Hong Kong's banking sector is highly external-oriented. Exports of investment banking services amounted to HK\$1,901 million in 2010, compared to HK\$1,447 million in 2009, up 31% YoY. The mainland is the major export market for Hong Kong's banking services.

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 RMB 1 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.

- For Hong Kong banks to set up branches or body corporate on the mainland, the total asset requirement at the end of the year preceding application is lowered to not less than US\$6 billion, compared with US\$20 billion otherwise for non-CEPA foreign banks.
- There is no requirement for setting up a representative office on the mainland before a Hong Kong bank establishes a joint venture bank on the mainland.



- For mainland branches of Hong Kong banks to apply to conduct RMB business:
 - they should have been operating on the mainland for more than two years and profitable for one year prior to the application.
 - the profitability assessment is based on the overall profitability position of all branches of the bank on the mainland instead of the profitability position of its individual branches.
- According to Supplement VI to CEPA, starting from October 2009, branches of Hong Kong banks in any municipality in Guangdong can apply with the relevant authorities to set up sub-branches in other municipalities within the province.
- Any foreign banking institution established on the mainland by a Hong Kong bank can establish specialised institutions for providing financial services to small enterprises in accordance with the relevant mainland requirements.
- From April 2012, any mainland-incorporated banking institution established by a Hong Kong bank can engage in the sale and distribution of mutual funds as per CEPA Supplement VIII.
- Under Supplement IX to CEPA, Hong Kong banks are allowed to provide custodian services for the settlement funds of securities firms' customers and margin deposits on futures transactions.
- From January 2014, Hong Kong banks' mainland-based operating institutions are granted under the provisions of Supplement X to provide Rmb services to enterprises on the mainland recognised as owned by Hong Kong investors, even where those investors are situated in a place other than Hong Kong.

The easing of restrictions under CEPA benefits not only Hong Kong newcomers to the mainland market, but also Hong Kong banks that have already operated on the mainland. As at end-May 2014, 10 Hong Kong banking and financial services providers (excluding insurance and securities) had obtained certificates of Hong Kong Service Supplier.

Hong Kong banks on the Chinese mainland

As of end-2013, there were 13 Hong Kong-incorporated banks with business operations on the Chinese mainland, including eight banks operating through subsidiary banks incorporated on the mainland. The 13 Hong Kong-incorporated banks continued to expand their branch network, maintaining over 440 mainland branches or sub-branches, either directly or through subsidiary banks. The aggregate on-balance-sheet non-bank exposures of the Hong Kong banking industry to the Mainland amounted to the equivalent amount of HK\$3.2 trillion, accounting for 17% of total assets of the industry.

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