The Financial Services Landscape in Hong Kong

Spring 2016
PwC champions and supports the financial services sector as it continues its transformation in response to changing needs and values and an increasingly complex business environment.

We help our clients navigate these challenges and opportunities, through advice and education. This guide provides a snapshot of the major events and developments that have shaped Hong Kong’s financial services landscape. It is intended as a starting point for those who may be new to the territory’s financial services sector.

We hope you find this guide useful. Should you have any questions, please do not hesitate to contact your PwC representative.

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**Hong Kong’s financial services sector at a glance**

- Effective supervision and transparent regulations reflecting international standards
- One of the world’s most liberal economies
- A stable currency regime with the exchange rate of the Hong Kong dollar pegged to the US dollar at around HK$7.8 to US$1
- Uniquely positioned as the premier capital formation centre for Mainland China, supporting its liberalisation of the Mainland capital account and opening of domestic capital markets
- Low tax rates and simple tax policy
- Autonomy to determine financial and monetary policies, and regulatory and supervisory policies and practices under “One Country Two Systems”
- A strong emphasis on the rule of law and fair markets
- No exchange controls and restrictions on capital inflows and outflows
- Financial services is one of the Four Pillar Industries in the Hong Kong economy, along with trading and logistics; tourism; and producer and professional services

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At the end of December 2015, there were 157 licensed banks, 24 restricted licensed banks and 18 deposit-taking companies in Hong Kong, together with 64 local representative offices of overseas banking institutions.

Hong Kong has one of the highest concentrations of banking institutions in the world. They come from 36 countries and include 71 of the world’s largest 100 banks. Together they operate a comprehensive network of 1,376 local branches, excluding their principal place of business in Hong Kong. Banks in Hong Kong can engage in a wide range of retail and wholesale banking businesses.

Hong Kong has arisen as a premier offshore RMB centre, thanks especially to the scheme for trade settlements in RMB and related financing activities. According to SWIFT, the RMB was the world’s fifth most-used payment currency in October 2015 (trailing the US dollar, Euro, British pound and Japanese yen), with Hong Kong the leading offshore RMB trading hub, handling about 70% of global payment in RMB.

As of end-March 2015, there were 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, certificates of deposit, bonds, stocks and ETFs.

At the end of June 2015, there were 2,626 SFC-authorised collective investment schemes, including 2,063 authorised unit trusts and mutual funds, 294 investment-linked assurance schemes, 243 pension/MPF-related funds and 26 other investment schemes.

In December 2014, the net asset value of authorised unit trusts and mutual funds totalled around HK$10,311 billion (US$1,322 billion). Hong Kong’s combined fund management business grew 10.5% to reach a record high of HK$17,700 billion (US$2,300 billion) total AUM.

The ETF market in Hong Kong has demonstrated remarkable growth in recent years. As of end-November 2015, there were 135 ETFs listed in Hong Kong, compared with 122 ETFs at the end of 2014.

In December 2015, seven cross-border funds were approved under Mutual Recognition of Funds (MRF) scheme, which consisted of three Hong Kong funds and four Chinese mainland funds.

In November 2014, the Shanghai-Hong Kong Stock Connect was officially launched, providing an alternative route for Hong Kong fund management companies to invest in one of the mainland’s bourses.
Hong Kong equity market

Hong Kong’s stock market was the fifth largest in the world and the third largest in Asia in terms of market capitalisation at the end of April 2015.

At the end of April 2015, 1,780 companies were listed on the Stock Exchange of Hong Kong (SEHK), with a market capitalisation of HK$30,995.2 billion (US$3,973.7 billion). 896 were Mainland enterprises, which together raised HK$4,531.4 billion (US$580.9 billion) from 1993 to the end of April 2015.

Hong Kong is one of the most active markets for raising initial public offering funds. In 2014, HK$232.4 billion (US$29.8 billion) were raised. A wide variety of products are traded in the stock market, ranging from ordinary shares to options, warrants, Callable Bull Bear Contracts, Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), units trusts and debt securities.

Hong Kong debt market

Hong Kong does not have a large debt market. However, Hong Kong dollar debt issuance in 2014 did reach a record high for a sixth consecutive year. This is a testament to the continued growth of the Hong Kong dollar debt market, attracting an increasing number of issuers to use this funding channel.

For 2014, the total issue volume increased 3.1% to reach HK$2,430 billion (US$311.5 billion). Growth in issuance was mainly driven by local corporates and overseas issuers. The amount of debt securities issued by local corporates reached a record high of HK$33 billion (US$4.2 billion), 30% more than 2013. Funding costs continued to show a downward trend during the year. The continuing low-interest-rate environment gave issuers an incentive to lock up funding under favourable market conditions. The tightening yield premium of non-government borrowings in the Hong Kong dollar market provided another incentive for corporate borrowings.

As of 31 December 2014, the total outstanding amount of exchange fund bills and notes, as well as other debt instruments were HK$1,409.8 billion (US$180.7 billion) and new issues other than exchange fund bills & notes were HK$252.7 billion (US$32.4 billion).

Foreign currency

The results of the latest triennial global survey of turnover in the markets for foreign exchange and over-the-counter interest rate derivatives, conducted in April 2013, show that Hong Kong was ranked as the fifth largest centre for FX activity and as the sixth when OTC interest rate derivatives were also included. The average daily turnover of FX transactions in Hong Kong increased by 15.6% to HK$2,141.9 billion (US$274.6 billion), and that of OTC interest rate derivatives increased by 51.1% to HK$217.6 billion (US$27.9 billion).

In the first half of 2015, total gross premiums increased by 13.6% year-on-year to HK$184.9 billion (US$23.7 billion). Long-term insurance business represented about 87% of the total gross premiums for this period, while general business accounted for the remaining 13%.

As at 30 June 2015, there were 158 authorised insurers in Hong Kong, of which 95 were pure general insurers, 44 were pure long term insurers and the remaining 19 were composite insurers.

According to the statistics provided by the Insurance Agents Registration Board, there were 2,487 insurance agencies, 48,657 individual agents and 27,439 responsible officers/technical representatives.

There were 684 authorised insurance brokers. All of them are members of the two approved bodies of insurance brokers, namely The Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association. In addition, there were 9,253 persons registered as chief executives/technical representatives of these.

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Hong Kong's financial services landscape

From the 90s to the present day we have seen the establishment of important institutions and regulatory frameworks which have enabled the city not only to cope with the Asian financial crisis, but also to take maximum advantage of the steady opening up of the Chinese economy.

Pre – 20th century

1930s

The People's Bank of China, or the central bank, agreed to provide a loan to the government of the British colony of Hong Kong, allowing the government to set up the British colonial bank in Hong Kong.

1940s – 1950s

Mar 2006

RMB Settlement System launched.

Apr 2006

On 15 April 2006, the Chinese central government announced the Qualified Domestic Institutional Investor (QDII) scheme, allowing Chinese institutions and residents to entrust Chinese commercial banks to invest in financial products overseas. Investment limited to fixed-income and money market products.

Jul 2007

The Chinese central government announced a public sale of the country's 5-year development plan for national economic and social development between 2011 and 2015. For the first time it carried a separate chapter for the development of Hong Kong and Macau. The blueprint, which promises measures to consolidate Hong Kong's financial role and status as an international financial centre, trade and shipping hub, and support Hong Kong's efforts to become an international asset management centre and an offshore RMB clearing house, was widely welcomed by the general public in Hong Kong.

Jun 2010

This Hui Shao, the first RMB-denominated IPO in the world, made its debut on 20 June 2010. The listing paved the way for more RMB-denominated IPOs in Hong Kong.

Mar 2011

The Chinese central government announced approval of a government-led five-year development plan for national economic and social development between 2011 and 2015. For the first time it carried a separate chapter for the development of Hong Kong and Macau. The blueprint, which promises measures to consolidate Hong Kong's financial role and status as an international financial centre, trade and shipping hub, and support Hong Kong's efforts to become an international asset management centre and an offshore RMB clearing house, was widely welcomed by the general public in Hong Kong.

Dec 2011

Foreign investors allowed to invest in the Mainland China's bond and equity markets through funds issued by qualified fund management and securities companies in Hong Kong under the RMB-Quota Foreign Institutional Investors (QFII) scheme.

Sep 2012

Launch of RMB clearing house in Hong Kong.

Jun 2013

Launching the cross-border RMB investment scheme in 2014.

Sep 2013

China’s Shanghai Pilot Free Trade Zone (FTZ) was officially launched on September 29, 2013. The establishment of FTZ has been recognised as a social economic reform initiated by China's new leadership. The pilot experiment focused on financial reform, signaling of customs supervision framework, simplification of administrative systems, and creation of more favourable regulatory and tax environment for foreign investors.

Sep 2013

Launch of the Cross-Border RMB Investment Scheme (CBRIS) and the China (Shanghai) Pilot Free Trade Zone (FTZ).

Jun 2014

Launch of the Shanghai – Hong Kong Stock Connect, allowing mutual investment in onshore A share and offshore H share stock markets in Hong Kong and Mainland China.

The opening up of China’s financial markets and development of Hong Kong as the global offshore RMB trading hub

Jun 2003

The Chinese mainland and HK SAR signed Closer Economic Partnership Arrangement (CEPA), which covered three broad areas: trade in goods, trade in services and trade and investment facilitation. CEPA aimed to foster closer economic ties between the mainland and Hong Kong by phasing out tariffs and non-tariff barriers.

Nov 2005

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Feb 2004

Hong Kong first offers offshore market to launch RMB Business Scheme. The scheme initially covered RMB trading services, including deposit-taking, currency exchange, remittance and debt and credit cards. Over the years, Hong Kong has developed into an offshore RMB business centre with the deepest and most liquid RMB market in the world. Hong Kong's total Real Time Gross Settlement system is a critical node in facilitating market participants from all over the region to handle RMB transactions both with Mainland China and offshore markets.

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Jun 2007

The State Council announces approval for financial institutions on the Mainland China to issue RMB-denominated bonds in Hong Kong. The first offshore RMB bond was issued by the Ministry of Finance in 2007. The RMB bond market in Hong Kong, or the “on-shore RMB market”, continued to develop steadily and is now the largest outside Mainland China. By the end of 2019, the outstanding RMB bond balance reached HK$3.2 trillion (US$415 billion) at the end of October 2015.

Jul 2009

Cross-border trade settlement using RMB introduced in Hong Kong, allowing enterprises to settle transactions with their Mainland counterparts using the RMB.

Sep 2011

The HKMA introduced for the first time a joint venture clearing house for Hong Kong investors who can invest RMB-denominated bonds in the onshore bond market.

Dec 2011

Foreign investors allowed to invest in the Mainland China's bond and equity markets through funds issued by qualified fund management and securities companies in Hong Kong under the RMB-Quota Foreign Institutional Investors (QFII) scheme.

Jun 2012

Launch of the cross-border QFII scheme in China. The China and Hong Kong governments announced the cross-border QFII scheme, allowing Mainland China and Hong Kong investors to conduct cross-border RMB investments in the two regions.

Jul 2013

The QFII/RQFII cross-border lending scheme was established in January 2014. The scheme was established to allow Mainland China and Hong Kong investors to lend and borrow RMB to each other. The scheme reduces interest rate risk and improves liquidity in the RMB market. Hong Kong banks are allowed to conduct cross-border RMB lending to Mainland China with the approval of the Hong Kong Monetary Authority (HKMA).

Dec 2013

Launching the cross-border RMB investment scheme in 2014.

Sep 2013

implementation of the Mainland-Hong Kong Mutual Recognition of Funds scheme.

May 2017

Launching of the RMB Clearing House in Hong Kong.

Dec 2017

Launch of the cross-border QFII scheme in China.

Dec 2018

Launch of the cross-border RMB settlement system.

Dec 2019

Launch of the cross-border RMB investment scheme in China.

Dec 2020

Launch of the cross-border RMB settlement system.

Dec 2021

Launch of the cross-border RMB investment scheme in China.

Dec 2022

Launch of the cross-border RMB investment scheme in China.

Dec 2023

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