OVERVIEW OF HONG KONG FINANCIAL SERVICES INDUSTRY

Hong Kong
The International Financial Centre for Asia and beyond

May 2018
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Why Hong Kong?

One of the world’s most competitive and freest economy\(^1\)

- Strategic location and gateway to Mainland China
- Key conduit for investment and trade
- Linked exchange rate system
- Bilingual legal system and simple tax regime
- Deep pool of talent and centre of expertise

\(~70\%~\) of the world’s 100 largest banks operate in HK

\#1 Offshore renminbi ("RMB") business

\#1 IPO fund raising globally for 5 years, and top 5 in the past 9 years

\#1 >US$2,345 billion combined funds management business in HK\(^2\)

65\% of the World’s Top 20 Insurers carry out business in HK

US$62.8bn gross premiums in 2017

\#5 Global FinTech hub

\(^1\)Ranked the world’s most competitive economy in 2016 and 2017 and second most competitive economy in 2018 by the International Institute for Management Development; and the world’s freest economy by the Heritage Foundation for 24 consecutive years

\(^2\)As of 2016; excluding certain private equity funds that not within the Securities and Futures Commission ("SFC") regulatory ambit

Source: HKSAR Government Statistics; Deloitte
Strategic location

- Hong Kong is at the heart of Asia with all of the region’s key markets within four hours flying time.

- The combined Gross Domestic Product ("GDP") of markets within four hours of flying time from Hong Kong (US$18tn) matches the equivalents for New York (US$18tn) and London (US$17tn).

- Half of the world’s population is located within five hours flying time from Hong Kong.
Gateway to Mainland China

**Intermediary for Mainland trade**
90% of Mainland China’s external trade settled in RMB is intermediated through Hong Kong.

**Connected in stocks and funds**
Approved Hong Kong stocks can be transacted in Shanghai/Shenzhen without total limit; approved Hong Kong funds can be sold in Mainland (vice versa).

**Two-way capital flow with Mainland China**
Hong Kong represents a lion share of Mainland China’s inward and outward direct investment, as much as 61% and 58% respectively in 2016.

**Belt and Road Initiative | Greater Bay Area Development**
Increasing demand for Hong Kong financial products and services.

### China’s inward and outward direct investments 2016

- **Inward**
  - US$134bn
  - Hong Kong: 61%
  - Others: 39%

- **Outward**
  - US$196bn
  - Hong Kong: 58%
  - Others: 42%

*Source: Ministry of Commerce, People’s Republic of China*
Key conduit for investment and trade

Key channel for foreign and mainland investment
US$1.81tn and US$1.73tn of inward and outward direct investment. The sum of these two figures is 11 times of Hong Kong’s GDP.

Leading merchandise trade centre
Hong Kong is the world’s 6th largest exporter and 7th largest importer in terms of trade value, creating new opportunities for the financial industry.

Linked Exchange Rate System
Hong Kong dollar certainty against the US dollar.

Source: HKSAR Government Statistics; World Trade Organisation
Bilingual legal system and simple tax regime

Hong Kong’s rule of law ranks 16th in the world
• Hong Kong is ranked 16th in the Rule of Law Index 2016 of World Justice Project, while UK and US are placed 11th and 19th respectively.
• High integrity and strong intellectual property protection.

Simple and competitive low-rate tax system
• Ranked Top 3 out of 190 economies for its ease of paying taxes³.
• One of the lowest overall tax rates for businesses among the advanced economies.
• No capital gains tax, withholding tax on dividends and interest, or collection of social security benefits.
• No distinction between public and private companies. The profits tax rate is the same for foreign and local companies.
• Enterprises are encouraged to invest in research and development (“R&D”) with a 300% tax deduction on the first HK$2mn in eligible R&D expenditure and a 200% deduction for expenditure exceeding that amount.

³Paying Taxes 2018 (12th edition) jointly published by World Bank and PricewaterhouseCoopers
Deep pool of talent and centre of expertise

Deep talent pool and skilled workforce
Ranked 12th globally and ranked 1st in Asia for attracting and retaining highly skilled workers, according to the IMD World Talent Ranking 2017 by the world competitiveness center at the Institute for Management Development.

Outstanding Business Schools
According to QS World University Ranking 2018, four universities in Hong Kong have been ranked in the top 40 places in the subject of Business & Management Studies in the world.

Hong Kong University of Science and Technology MBA claimed #14 in Financial Times Global Ranking. This is the ninth consecutive year that the programme has been ranked in the top 15 globally.

Conferences
The 11th Asian Financial Forum was held in Hong Kong in 2018, bringing together some of the most influential financial minds around the world, including central bankers, senior officials and top executives of international financial institutions.
Asset & Wealth Management
Leading fund management centre in Asia

Diversified distribution of fund management / advisory business
• ~ 2,800 SFC-authorised collective investment schemes available (Dec 2017).
• Connected with Mainland China under the Mutual Recognition of Funds Scheme – 10 Hong Kong funds were approved to be offered in Mainland China and recorded remarkable turnover.
• Registered and licensed fund managers; 1,348 licensed corporations (type 9 regulated activity), a 17% increase from 2016.

Combined Fund Management Business (end of 2016)$

Active exchange traded fund (“ETF”) market
• 127 ETFs listed with high turnover and market capitalisation recorded (>US$40 bn, Mar 2017).
• Hong Kong has launched inverse and leveraged ETFs.
• Mandatory Provident Fund (“MPF”) assets are allowed to be invested in ETFs (listed on Hong Kong or approved overseas stock exchanges).

Sizeable pension fund market
• MPF Annual inflow amounted to US$9bn in 2016.

$Excluding certain private equity funds that are not within the SFC regulatory ambit

Source: Capgemini (World Wealth Report); Hong Kong Trade Development Council (“HKTDC”); SFC
Leading fund management centre in Asia

Large variety of investment management categories

- Ranked 3rd in the investment management category, following London and New York.
- Assets under management by Hong Kong-domiciled SFC-authorized funds increased 12% year-on-year to US$132bn (Mar 2017).
- 66% of funds (excluding REITs) came from non-Hong Kong investors.
- 70% of funds are invested in the Asia-Pacific area.

Premier private equity ("PE") hub in Asia

- Second largest PE centre in Asia, managing about 15% of the total capital pool in the region or US$135bn (Dec 2017).
- Most of the PE funds in Hong Kong come from overseas and invest in companies in Asia, and 36 top Asia-focused funds are based in Hong Kong.
- Investors include pension funds, insurance companies, sovereign wealth funds and family offices.

Source: HKTDC; SFC
Booming Wealth and Private Banking Centre


- Largest wealth management centre for Mainland China.

- Expanding market potential due to escalating combined wealth in China: US$6tn of combined wealth of high net worth individuals (“HNWI”) in Mainland China & Hong Kong, representing ~30% of the total wealth of HNWIs in Asia-Pacific.

- The enhanced competency framework for private wealth management practitioners introduced by the Hong Kong Monetary Authority (“HKMA”) in 2014 continues to improve the overall quality of private banking professionals.

Source: Capgemini (World Wealth Report)
Development & Outlook

• Tax exemptions extended to certain types of PE funds; a legal and regulatory framework with tax exemption for open-ended fund companies enacted with optional and procedural details under way.

• Scale of asset managers will likely increase, due to expanding affluent population in Mainland China as well as the Belt and Road Initiative.

• Stock Connect available as an alternative route for investors in Hong Kong including fund management companies to invest in Mainland bourses.

• The soon-to-be-introduced open-ended fund companies structure will further promote Hong Kong as the Asian asset management centre for both conventional funds and PE funds.

Source: Global Financial Centres Index (Sep 2017); HKTDC; SFC
Banking
Robust banking industry by international standards

Internationally recognised

~70% of the world’s 100 largest banks operate in Hong Kong

Premier regional treasury centre

32% loans and advances were for use outside of Hong Kong

Strong capitalisation and deep liquidity

<table>
<thead>
<tr>
<th></th>
<th>Hong Kong</th>
<th>Mainland China</th>
<th>UK</th>
<th>US</th>
<th>Singapore</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits as a multiple of GDP</td>
<td>4.8</td>
<td>2.1</td>
<td>1.3</td>
<td>0.6</td>
<td>1.4</td>
<td>1.4</td>
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Solid foundation and opportunities

- Mature and innovative financial infrastructure and products
- ~US$3tn banking assets; asset quality of retail banks continuously healthy
- Opportunities in capturing trade, investment, FX and wealth flows between Mainland China and the rest of the world

*excluding loans and advances to finance merchandising trade and those where the place of use is not known

Source: Bank of England; Bank of Japan; U.S. Bureau of Economic Analysis; Economic and Social Research Institute of Japan; U.S Federal Reserve Board; HKSAR Government Statistics; HKMA; Ministry of Trade and Industry Singapore; Monetary of Singapore; National Bureau of Statistics of China; Office for National Statistics of the U.K. Statistics Authority; the People’s Bank of China
The global offshore Renminbi hub

Largest RMB pool outside Mainland China

- Pioneer in offshore RMB business since 2004.
- RMB618.4bn or around 50% of global offshore RMB deposits at banks in Hong Kong (including certificates of deposit)(Dec 2017).
- Nine banks designated as Primary Liquidity Providers to expand their market-making activities for offshore RMB instruments with the assistance of HKMA’s repo facility (RMB2bn each) and a general RMB10bn repo pool.
- Full range of RMB products and services, e.g., Hong Kong being the first to offer RMB-denominated investment and FX products, with CNH HIBOR fixing launched in 2013.

Share of RMB foreign exchange transactions by economy excluding Mainland China (Mar 2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>2017</th>
<th>2016</th>
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<tr>
<td>UK</td>
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<td>Hong Kong</td>
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<td>US</td>
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<td>France</td>
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<tr>
<td>Singapore</td>
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<td></td>
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<tr>
<td>Others</td>
<td></td>
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</tbody>
</table>

Share of global RMB payment transactions (value) by economy

<table>
<thead>
<tr>
<th>Country</th>
<th>2017</th>
<th>2016</th>
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<tbody>
<tr>
<td>Hong Kong</td>
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<tr>
<td>UK</td>
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<td>Singapore</td>
<td></td>
<td></td>
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<tr>
<td>South Korea</td>
<td></td>
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<tr>
<td>US</td>
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</tbody>
</table>

Source: HKSAR Government Statistics; HKMA; SWIFT
The global offshore Renminbi hub

**RMB financing**
- First and largest offshore RMB bond issuance market since 2007 – RMB212bn outstanding (Dec 2017).
- Outstanding RMB loan amount – RMB145bn (Dec 2017).
- Premier corporate treasury management hub for RMB cross-border cash pooling.
- Loan demand from Mainland Chinese entities in Hong Kong continue to expand.

**RMB clearing and trade settlement**
- Largest RMB clearing centre, handling more than 70% of all offshore RMB clearing.
- Turnover of RMB real-time gross settlement system averaged RMB904bn a day in 2017.
- First and largest bilateral swap agreement with China at RMB400bn, most recently renewed in 2017.

*Source: HKMA; SWIFT Tracker Report*
Development & Outlook

• Opportunities in trade, investment, foreign exchange and wealth flows between Mainland China and the rest of the world.

• Banks in Hong Kong enjoy lower barriers to enter the Mainland market (Total assets of US$6bn for Hong Kong banks vs US$20bn for non-CEPA foreign banks).

• Banking regulator welcomes innovation (e.g. e-cheque, FinTech Supervisory Sandbox, whitepaper on distributed ledger technology by the HKMA).

• Regional corporate treasury centres facilitated further by recent tax reform.

• Further development of the offshore RMB foreign exchange market to supplement the onshore market for price discovery and further internationalisation of RMB.

• The Hong Kong Government is exploring with the Mainland authorities ways to open up more channels for two-way cross-border RMB fund flows.
Capital Markets
Leading global stock exchange

International fundraising leader

- Hong Kong ranked 1st in the IPO funds raised in the past three years.

- Market capitalisation of listed companies in Hong Kong is nearly 1,277% of the economy’s GDP – the largest in the world.

- Total market capitalisation of the Hong Kong securities market was US$4.4tn (Apr 2018).

- Average daily turnover is US$17.6bn (Jan-Apr 2018).

**IPO funds raised in 2015 - 2017 (USD bn)**

<table>
<thead>
<tr>
<th>Stock Exchange</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>HKEX</td>
<td>70</td>
<td>80</td>
<td>70</td>
</tr>
<tr>
<td>NYSE</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Shanghai SE</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>40</td>
<td>40</td>
<td>40</td>
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<tr>
<td>LSE Group</td>
<td>30</td>
<td>30</td>
<td>30</td>
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</tbody>
</table>

Source: Stock Exchange of Hong Kong (“SEHK”); World Bank
Leading global stock exchange

IPO of mainland firms on SEHK
- A preferred fund raising venue for Mainland enterprises – nearly half of the 2,186 companies are Mainland enterprises, representing 79% of the turnover value (Apr 2018).
- During 2009-2016, over a quarter of IPO funds raised by Mainland enterprises were from the Hong Kong capital market.

Equity Market
- Hong Kong is the world’s leading fundraising centre. A number of overseas companies such as Prada and Fast Retailing have chosen SEHK as a venue for either primary or secondary listing.
- The new rules effective on 30 Apr 2018 permit pre-profit or pre-revenue biotech companies that produce pharmaceuticals, biologics and medical devices to list in Hong Kong.
- Companies with weighted voting rights structure are also allowed to list in Hong Kong, provided that they can comply with a high market capitalization and other regulatory requirements. A new route is established to attract Greater China and international innovative companies for secondary listing in Hong Kong.

Annual IPO value of Mainland and all firms on SEHK

Percentage of IPO fund raised in Hong Kong to total IPO fund raised by Mainland companies

Source: HKSAR Government Statistics; SEHK; Baker McKenzie
Leading global stock exchange

Diversified listed companies and investors

- Listed companies by market cap (Oct 2015) (in USD)
  - 0.1-1bn, 66%
  - 1-10bn, 19%
  - >1bn, 3%
  - <0.1bn, 12%

- Cash market trading by investor type (2016)
  - Exchange participants principal trading, 24%
  - Overseas institutional, 33%
  - Overseas retail, 7%
  - Local institutional, 20%
  - Local retail, 16%

Robust debt securities market

- No. of listed debt securities in Hong Kong
  - 2012: 269
  - 2013: 403
  - 2014: 640
  - 2015: 762
  - 2016: 892
  - 2017: 1,047

- Debt Securities listed here include corporate bonds, convertible bonds, exchange fund notes and government/supranational bonds.
- More streamlined process than issuance of equity securities.
- Issuance of green bonds will be the next heat.

Source: SEHK
Other capital raising initiatives

Foreign exchange and derivatives
• Second largest foreign exchange market in Asia and fourth largest worldwide, with net daily turnover of forex transactions reaching US$437bn (2016).
• Ranked the largest OTC interest rate derivative centre in Asia Pacific by turnover.

Top 5 most active acquirer in Asia-Pacific
• US$287bn all time high deal value in 2015, +65% from over a year ago.
• Predominantly focused on consumer goods, technology, financial services and construction deals.
• Mergers & acquisitions business continues to thrive, given the significant number of companies with underlying Mainland China business and the sound (yet friendly) M&A regulatory regime in Hong Kong.

Source: HKSAR Government Statistics; Baker McKenzie; World Bank; Bank for International Settlements
Development & Outlook

- Increasing connectivity with Mainland investors and the Mainland market.

- The Shanghai-Hong Kong Stock Connect scheme covered 894 stocks and the Shenzhen-Hong Kong scheme covered 1,359 stocks (May 2018).

- Net fund flow under Southbound Trading via the stock-connect schemes recorded HK$846.7bn, while net fund flow under Northbound Trading stood at RMB389.2bn (Q1 of 2018).

- The possibility of other “connects”, including ETF Connect and Southbound Bond Connect, will be explored.
Insurance
Insurance business hub

Regional Insurance Business Hub in Asia
• Hong Kong ranks 1st in Asia in insurance density and 2nd in Asia in insurance penetration in 2016.
• Asia’s highest concentration of insurers – 160 (Mar 2018).
• 65% of the world’s top 20 insurers carrying out business in Hong Kong.
• US$62.8bn total gross premiums in 2017, +9.1% from a year ago and the value added by the insurance industry accounted for 3.7% of Hong Kong’s GDP.
• Abundant services providers are available in the industry: 159 authorized insurers and >66,000 appointed insurance agents (Dec 2017).

Cross-border Insurance and Reinsurance
• Wide range of insurance products and coverage appealing to Mainland consumers – up to Dec 2017, office premiums derived from new policies issued to Mainland visitors almost reached US$6.5bn.
• CEPA encourages cross border insurance and reinsurance services
  • Mainland insurance companies to cede business to Hong Kong insurance/reinsurance companies with RMB as the settlement currency.
  • Hong Kong insurance companies to expand outward reinsurance business placement to Mainland insurance companies.

International Maritime Centre: Significant marine insurance opportunities
• 4th largest shipping registry in the world (by tonnage).
• International Union of Marine Insurance to set up its first Asian Chapter here.

Source: HKSAR Government Statistics; Brand Hong Kong; Munich Reinsurance Company; Insurance Authority
Development & Outlook

• Unprecedented potential in Asian insurance markets.
  - 40% of global insurance market by 2020 (projected)
  - 62% of the aged population globally by 2050 (projected)
  - Belt & Road Initiative drive demands for insurance on infrastructural projects
  - Mainland enterprises seek to “go global” and may establish captive insurance companies in Hong Kong, given the mature insurance infrastructure here

• Recent Government initiatives to promote the insurance sector:
  - Establishment of the Insurance Authority.
  - Establishment of the statutory licensing regime for insurance intermediaries is underway.
  - HK$100mn three-year pilot programme to enhance talent training for the insurance & asset management sectors.
  - Development of personalised products enabled by the adoption of financial technology is under way.

Source: HKSAR Government Statistics; Insurance Authority
FinTech and Green Finance
Leading telecommunication hub for Asia

>90% Residential Fixed Line Penetration Rate

>90% Household Broadband Penetration Rate

>18mn Mobile Subscribers, of which 45% are 4G

49,000 Public Wi-Fi access points
Regional cooperation in FinTech

- FinTech cooperation agreements signed with partners such as Australia, Dubai, Gibraltar, Singapore, Switzerland and the UK.

- The HKMA and the Office of Financial Development Service of Shenzhen (“OFDS”) will jointly organise a FinTech award to recognise and reward outstanding FinTech products and solutions of Hong Kong and Shenzhen financial institutions.

- The HKMA, Cyberport in Hong Kong and the OFDS are also exploring the feasibility of establishing cross-border soft-landing facilities in Shenzhen, encouraging Hong Kong FinTech firms to expand their businesses, and Mainland firms to establish themselves in Hong Kong.
Supervisory sandboxes have been launched to facilitate FinTech applications:

- The HKMA upgraded the FinTech Supervisory Sandbox (“FSS”) to FSS 2.0 in Sep 2017, giving FinTech firms direct access to the FinTech Supervisory Chatroom.

- SFC launched a regulatory sandbox in Sep 2017 to provide a confined regulatory environment for qualified firms to conduct SFC-regulated activities utilising FinTech.

- Insurance Authority launched a new sandbox in 2017 to facilitate pilot runs of innovative InsurTech applications.

FSDC, as well as the HKMA and Hong Kong Applied Science and Technology Research Institute (“ASTRI”), have respectively published reports on the development and future of FinTech and distributed ledger technology in Hong Kong.
Fostering pipeline of FinTech talent

• HKMA launched the upgraded version of the FinTech Career Accelerator Scheme with other industry associations in January 2018 to enhance the FinTech talent pool in Hong Kong to meet the growing industry demands.

• The Chinese University of Hong Kong launched a new four-year undergraduate programme in FinTech in 2017, the first of its kind in Hong Kong.

• The Hong Kong Polytechnic University also launched a new 2-year full-time Bachelor of Science in Financial Technology programme.

• The University of Hong Kong launched a FinTech massive open online course in May 2018, the first of its kind in Asia.

Source: HKTDC
Green Finance

• Cumulative labelled green bonds issued in Hong Kong amounted to US$2bn in January 2018. Issuers include Link Real Estate Investment Trust and the Mass Transit Railway Corporation Limited.

• Government proposes to launch a green bond issuance programme with a borrowing ceiling of HK$100bn to provide funding for green public works projects of the Government.

• Airport Authority Hong Kong is planning to issue a green bond for the construction of the third runway.

• China’s 12th Five-year plan further emphasises on the green economy and the 13th Five-year Plan also proposes the development of green industries, providing a favourable policy environment for the green financing industry.

• Launched in 2010, the Hang Seng Corporate Sustainability Index Series is the first index series of its kind to focus exclusively on the environmental, social and governance (“ESG”) performance of Hong Kong and Mainland China Stocks.

• Hong Kong is the Asian headquarters of the United Nations Principles for Responsible Investment, which supports corporate investors to incorporate ESG factors into their investment and ownership decisions.

• The Hong Kong Quality Assurance Agency has launched green finance certification scheme to provide third-party conformity assessments for issuers on their green-financial instruments by making reference to a number of international and national standards.
Professional Services & Financial Infrastructure
World class professional services

Home to headquarters / branch offices of top international firms

- The only city in the world with both English and Chinese enjoying the same legal status.
- Presence of regional headquarters of major international accounting and tax advisory firms.
- > Half of the Global 100 law firms established here, with a focus on IPO and M&A deals.
- > 1,400 regional headquarters of consultancy firms set up here.

Well-established Payment & Settlement System

- The interbank Real Time Gross Settlement systems (for RMB, Hong Kong dollar, US dollar and Euro), debt securities and stocks settlement and custodian systems, and system links for cross-border transactions provide multi-currency and multi-dimension platforms to handle cross-border transactions in all major currencies besides Hong Kong dollar, covering global banking, equity and debt markets. Even Special Drawing Right -denominated financial products can be cleared and settled in Hong Kong.

- Individuals and enterprises can issue or deposit e-cheques via the internet.

- Licenses granted to 13 stored value facilities (“SVF”) to foster the development of local e-commerce and relevant IT sectors (May 2017). Major SVFs in Mainland China have set up their subsidiaries in Hong Kong.
Development & Outlook

• Belt and Road Initiative will drive significant demand in Hong Kong’s world-class professional services.

• Increasing prevalence of choosing Hong Kong as the Alternative Dispute Resolution (“ADR”) forum – Number of arbitration and mediation cases handled in Hong Kong reached 460 in 2016, with total disputed amount at about HK$19.4bn.

• Escalating popularity of Hong Kong as the ADR forum given the bilingual legal system.
Disclaimer: The Financial Services Development Council endeavours to ensure the accuracy of the information provided in this publication, but does not guarantee its accuracy and accepts no liability for any errors.
About the Financial Services Development Council

The Hong Kong SAR Government announced in January 2013 the establishment of the Financial Services Development Council (FSDC) as a high-level and cross-sector platform to engage the industry and formulate proposals to promote the further development of Hong Kong’s financial services industry and map out the strategic direction for development. The FSDC advises the Government on areas related to diversifying the financial services industry, enhancing Hong Kong’s position and functions as an international financial centre of our country and in the region, and further consolidating our competitiveness through leveraging the Mainland to become more global.

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