Hong Kong’s Unique Role in Enhancing Financial Connectivity in the Greater Bay Area

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Executive Summary

Since the formulation of the Guangdong-Hong Kong-Macao Greater Bay Area (the “GBA”) initiative in 2017, local governments and business communities have placed high expectation on the coordinated development among GBA cities. With the aim of coordinating efforts in accordance with the development blueprint announced in Feb 2019, stakeholders have been proactively engaging in conversations on leveraging the competitive advantages of each city to continuously foster the flow of people, goods, capital and information in the GBA.

On the financial services front, the HKSAR Government and financial regulators have been working closely with Mainland authorities and have successfully implemented a number of facilitation measures set out in the “Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area” (“Outline Development Plan”), including progress made in remote onboarding for Mainland bank account opening, and promoting the usage of Hong Kong digital wallets in the GBA, etc.

With an aim of enhancing the role of Hong Kong’s financial services industry in the GBA, the Hong Kong Financial Development Council (FSDC) has formed a dedicated Working Group comprising practitioners and scholars familiar with the subject. Through consolidating views from the Working Group and market participants, the FSDC proposes the following policy recommendations around areas closely related to people's financial service needs, including cross-boundary payment and transfer, bank account services, mortgage financing, insurance and wealth management:

a. To connect payment and transfer infrastructure in the GBA;
b. To enhance the convenience of remote account opening;
c. To foster cross-boundary property-backed mortgage loans;
d. To develop cross-boundary insurance business; and
e. To expand two-way wealth management and investment channels.

The FSDC notes the HKSAR Government and financial regulators are in close communication with Mainland authorities for further implementation of measures set out in the GBA initiative in a timely manner, under appropriate conditions. The FSDC also takes note of the release of the Opinions Concerning Financial Support for the Development of the Greater Bay Area by four major financial regulators in the Mainland, which provides for a more detailed and comprehensive implementation framework. Hence, this report, relying on information available as of the date of publication, aims to put forward some of the market expectations and to provide recommended ways for implementation of the announced measures, with a view to facilitating capital flow in the GBA; and for Hong Kong’s financial services sector to play it’s unique and vital role in the coordinated development of the GBA.
Background and Overview

The concept of “Guangdong-Hong Kong-Macao GBA” was included in national documents for the first time in 2015. In July 2017, the National Development and Reform Commission (NDRC) and local governments of Guangdong, Hong Kong and Macao jointly signed a “Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area” in Hong Kong, marking the official starting point of the GBA strategy. In February 2019, the Outline Development Plan was released, setting out the overall development blueprint for the GBA and specifying the strategic advantages and roles of each city in the area.

Hong Kong, as one of the four core cities highlighted in the Outline Development Plan, should play a “core engine” role in the development of the GBA, including “to consolidate and enhance its status as international financial, shipping, trade centres as well as an international aviation hub, strengthen its status as a global offshore Renminbi (RMB) business hub and its role as an international asset management centre and a risk management centre, promote the development of high-end and high value-added financial, commercial and trading, logistics and professional services, etc., make concerted efforts to develop the innovation and technology industries, nurture emerging industries, establish itself as the centre for international legal and dispute resolution services in the Asia-Pacific region, and develop into an international metropolis with enhanced competitiveness.” At the same time, the Outline Development Plan also points out that the approach of development “driven by poles” should be adopted by leveraging the combination of Hong Kong-Shenzhen in enhancing the overall competitiveness and global influence of the GBA.

Clearly, the GBA initiative is not only an opportunity for Hong Kong to march into a new stage of growth for itself, but also a platform for it to present its value in regional development. And the various measures related to the financial service sector - such as “to consolidate its status as international financial centre”, “to strengthen its status as a global offshore Renminbi (RMB) business hub and its role as an international asset management centre and a risk management centre” and “to support Mainland enterprises in establishing capital operation and corporate treasury centres in Hong Kong” - highlight the pivotal role of the financial service sector thereof.
Overview of the Greater Bay Area

The GBA, with a total area of 56,094 square kilometres and population of 71.2 million, recorded GDP of USD 1.64 trillion and per capita output of USD 23,075 in 2018, according to statistics from the Hong Kong Trade Development Council. As shown in the table below, comparing to the other world-class bay areas, the GBA has an edge in terms of land area, population, real GDP growth, passenger throughput and port throughput. As for the GDP share of tertiary industry, the tertiary industry accounted for 77.5% of GDP on average in the other three bay areas, as compared to the 66.1% in the GBA, indicating growth opportunities in the tertiary industry which may arise from potential restructuring of industries.

<table>
<thead>
<tr>
<th></th>
<th>Guangdong-Hong Kong-Macao GBA</th>
<th>San Francisco Bay Area</th>
<th>New York Metropolitan Area</th>
<th>Tokyo Bay Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land area (sq. km)</td>
<td>56,094</td>
<td>17,887</td>
<td>21,479</td>
<td>36,899</td>
</tr>
<tr>
<td>Population (mn)</td>
<td>71.2</td>
<td>7.8</td>
<td>20.0</td>
<td>44.2</td>
</tr>
<tr>
<td>GDP (US$ bn)</td>
<td>1,642.0</td>
<td>837.5</td>
<td>1,717.7</td>
<td>1,774.2</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>5.9</td>
<td>4.7</td>
<td>1.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Per-capita GDP (US$)</td>
<td>23,075</td>
<td>107,178</td>
<td>85,974</td>
<td>40,163</td>
</tr>
<tr>
<td>Air passenger throughput (mn passenger-times)</td>
<td>214.9</td>
<td>85.7</td>
<td>138.1</td>
<td>125.6</td>
</tr>
<tr>
<td>Air cargo and airmail throughput (mn tonnes)</td>
<td>8.3</td>
<td>1.2</td>
<td>2.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Port container throughput (mn TEUs)</td>
<td>74.4</td>
<td>2.4</td>
<td>7.2</td>
<td>8.2</td>
</tr>
<tr>
<td>GDP share of tertiary industry (%)</td>
<td>66.1</td>
<td>72.1</td>
<td>83.5</td>
<td>77.0</td>
</tr>
</tbody>
</table>

1 Hong Kong Trade Development Council, Statistics of Guangdong-Hong Kong-Macao GBA, https://research.hktdc.com/en/article/MzYzMDE5NzQ5
Opportunities for financial services

As shown from the above, the GBA initiative brings about structural potential for the tertiary industry, and financial services is a key component therein. Hong Kong is China’s international financial centre - in year 2018, financial services accounted for 19.8% of Hong Kong’s GDP. Under the unique “One Country, Two Systems” regime, Hong Kong benefits from its convenient geographical location, free and open market environment, and a stable and sound legal system; and its deep ties with the Mainland markets reinforces its role in enhancing financial connectivity in the GBA.

Since the formulation of the GBA initiative, the SAR Government has made continuous efforts to implement measures set out in the Outline Development Plan, including setting up the “Steering Committee for the Development of the Greater Bay Area” for the overall coordination of Hong Kong’s participation in the development of the GBA. Likewise, a series of progress has been made on the financial services front. For example, since 2018, Hong Kong e-wallets have been widely used in the Mainland including the GBA, and the number of physical merchants covered and transaction volume have continued to rise. In March 2019, a Hong Kong bank launched a pilot scheme for Hong Kong permanent residents to open Mainland personal bank accounts in the GBA remotely. Hong Kong residents may complete the Mainland account opening procedure by attestation in one of the Hong Kong branches of the bank under the same banking group. The Wealth Management Connect, which has drawn much attention since its announcement, is also under preparation according to the Financial Services and the Treasury Bureau (FSTB) and the Hong Kong Monetary Authority (HKMA).

The above efforts have been echoed by Mainland authorities. After the third meeting of the Leading Group for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area on 6 November 2019, the Central Government announced 16 policy measures to promote the development of the GBA, benefiting Hong Kong citizens and facilitating the development of different sectors in the area. In May 2020, the People’s Bank of China (PBoC), China Banking and Insurance Regulatory Commission (CBIRC), China Securities Regulatory Commission, and State Administration of Foreign Exchange jointly issued the “Opinions Concerning Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area” (the “Opinions”), which provides further expansion and refinement of measures related to financial liberalisation and innovation, demonstrating their commitment to pushing forward such measures.

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2 Census and Statistics Department, https://www.censtatd.gov.hk/hkstat/sub/sp80.jsp?tableID=188&ID=0&productType=8
3 Guangdong-Hong Kong-Macao GBA website, https://www.bayarea.gov.hk/tc/about/overview.html
7 Guangdong-Hong Kong-Macao GBA website, https://www.bayarea.gov.hk/tc/facilitation/measures.html
Growth Potential for the Financial Services Sector in the GBA

In facilitating the financial services industry to seize growth opportunities posed by the GBA initiative, the FSDC has formed a dedicated Working Group comprising practitioners and scholars familiar with the subject, to identify market potentials brought about by growing demand in areas of cross-boundary payment and transfer, bank account services, mortgage financing, insurance and wealth management in the region.

a. Room for improvement in payment systems in the GBA

The existing RMB and HKD payment and settlement systems in the GBA were established through different development stages. In Hong Kong, the Real Time Gross Settlement (RTGS) system was launched in 1996 and enhanced in 2006 to enable RMB interbank fund transfer. In September 2018, the launch of the Faster Payment System (FPS) marked a new era of payment and transfer for the banking sector.

As for cross-boundary RMB payments, the PBoC’s appointment of Bank of China (Hong Kong) as the clearing bank for Hong Kong’s RMB business in 2003 was the start of the “clearing bank model” of Hong Kong’s offshore RMB market9. In October 2015 and May 2018, the first and second phases of the RMB Cross-border Interbank Payment System (CIPS) came into operation and gradually became the main channel for cross-boundary RMB payments, further diversifying the cross-boundary RMB payment and clearing channel. As of the end of 2019, there were 33 direct CIPS participants and 903 indirect participants from 94 countries and regions worldwide10.

Although existing payment systems have their respective advantages, a stable, cost-effective and instantaneous cross-boundary payment system remains to be seen. Such a system connecting the two markets would be crucial for facilitating instant payments among residents and the formation of an integrated living circle in the GBA. As the GBA initiative progresses, cross-city and especially cross-boundary transactions is expected to increase significantly. Hence, a payment and clearing system covering the GBA would be one of the key financial infrastructures and should be established to pave the way for more frequent and diversified capital flow in the future.

b. Room for improvement in remote account opening procedures

To foster seamless flow of people and capital, it is crucial to establish a convenient channel for remote cross-boundary bank account opening. Notwithstanding the progress made, there is room for improvement in the current practice for Hong Kong residents’ remote account opening with Mainland banks. Under the existing account classification system in the Mainland, bank accounts are categorised into three types, namely type I, II and III. Although some Hong Kong banks have piloted remote account opening for type II and III accounts for Hong Kong residents by attestation, the role of Hong Kong banks is limited to data collection. Most of the account opening procedures, such as client identity authentication and “Know Your Customer” are completed by Mainland banks, which may result in prolonged procedures; and transactions are limited by deposit and withdrawal quotas. If a customer wishes to open a full function type I account to access investment and wealth management functions, he or she would still need to visit a bank’s branch in the Mainland in person for identity verification.

c. Growing demand for cross-boundary property-backed mortgage financing

As the development of the GBA progresses, there has been increasing demand among Hong Kong residents for property purchases. The trend is going to continue especially when Hong Kong residents are now exempted from providing proof of their duration of residence, study or employment, or meeting conditions on the payment of individual income tax and social security.

Currently, however, due in part to the lack of unified regulatory and operational standards, it is difficult for financial institutions in Hong Kong to directly provide mortgage-backed loans to Mainland residents or companies with Mainland properties as collateral. One of the main procedural difficulties is the unclear mortgage registration requirement for offshore financial institutions in the majority of the Mainland. Some banks in Hong Kong have been providing corporate loans secured by Mainland properties since the 1980s, where a Hong Kong bank is the mortgagee, and its Mainland subsidiary would be entrusted as the collateral holder. The mortgage agreement would be in accordance with Hong Kong standards although the loan is released to the Mainland. Recently, some Hong Kong banks have begun providing loans secured by Mainland properties, both first-hand and second-hand, to Hong Kong residents with their properties held in certain GBA cities as collateral. However, it is still not common, as it is difficult for offshore financial institutions to register the security agreement in the Mainland. In most areas, if an applicant for real estate registration is a legal person from Hong Kong, Macao, Taiwan or overseas, it is required to submit an approval document and registration certificate of a branch or representative office in the Mainland. The requirement constrains offshore financial institutions without Mainland branches from registering mortgage rights over onshore properties and providing such loans, and has hampered Hong Kong banks’ participation in cross-boundary financing.

Nowadays, since Hong Kong property buyers would usually view the property and file purchase registration with the Real Estate Management Bureau in person, some would apply for onshore loans at Mainland banks in conjunction. These loan agreements apply Mainland standards and prices, which means Hong Kong property buyers may face exchange rate risk when their liability and income are in difference currencies, and may incur higher legal costs working with legal documents in a less familiar jurisdiction.
d. Strong demand for cross-boundary insurance

The increase in demand for insurance in the GBA has been strong and ongoing. According to the CBIRC, the insurance premium income of Guangdong totalled RMB 639.0 billion in 2019, accounting for 12.4% of the Mainland’s insurance premium income, of which Shenzhen alone amounted to RMB 165.1 billion\textsuperscript{11}. Insurance business in Macao has been on the rise as well, recording MOP 28.46 billion worth of gross premiums for life and non-life insurance in 2019, according to preliminary figures released by the Monetary Authority of Macao\textsuperscript{12}.

As an international financial centre, Hong Kong offers competitive insurance products which are particularly attractive to Mainland residents. According to the provisional statistics for 2019 released by the Hong Kong Insurance Authority (HKIA), gross premiums reached HKD 580.2 billion during the period, an increase of 9.1% from 2018. The premium for new policies bought by Mainland visitors was HKD 43.4 billion, accounting for 25.2% of the total personal business. Among them, critical illness, life insurance and medical products were the most popular for Mainland visitors, accounting for 57%, 34% and 3% of new policies for Mainland visitors respectively\textsuperscript{13}. As a major source of clients, Guangdong Province has been a popular location for Hong Kong-funded insurers to set up their Mainland branches. Statistics from the Guangdong Office of CBIRC show as of 2019, the number of Hong Kong-funded insurers in Guangdong province (excluding Shenzhen) accounted for more than 40% of the total in the Mainland\textsuperscript{14}.

The cross-boundary exchanges and activities among residents are becoming increasingly vibrant. In November 2019, the Central Government announced 16 policy measures to improve the convenience of Hong Kong residents travelling and living in cities in the GBA. The measures cover areas including facilitating Hong Kong residents’ purchase of properties in the GBA, ensuring the children of Hong Kong and Macao residents working in Guangdong enjoy the same education as those of Mainland residents; and allowing designated Hong Kong-owned medical institutions to use drugs and common medical equipment registered in Hong Kong, etc. The increasingly integrated living circle in the GBA requires more comprehensive insurance coverage. Currently, a client needs to purchase three insurance policies to cover for cross-boundary activities in Guangdong, Hong Kong and Macao. The growing demand for comprehensive financial protection plans alongside increasing cross-boundary activities calls for more convenient services and more innovative design of insurance products in the GBA.

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{11} Provided by the HKIA
\item \textsuperscript{12} Monetary Authority of Macao, Profit and loss account of the insurance sector for the year 2019 (preliminary figures), https://www.amcm.gov.mo/files/insurance_sector/reports_and_stats/insurance_activity_annual_reports/2019profit_loss_preliminary_revised_2.pdf
\item \textsuperscript{13} HKIA, Provisional statistics of the Hong Kong insurance industry for 2019. https://www.ia.org.hk/sc/Infocenter/press_releases/20200313.html
\item \textsuperscript{14} Guangdong Office of China Banking and Insurance Regulatory Commission, http://www.cbirc.gov.cn/branch/guangdong/view/pages/common/ItemDetail.html?id=1543
\end{itemize}
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e. Accelerating demand for diversified asset allocation and wealth management

Household wealth accumulation in Guangdong ranks among the top in the Mainland. According to the Hurun Wealth Report 2019, the number of “HNW families” (asset worth over RMB 10 million) in Guangdong province was 285,000; and the number of “wealthy families” (asset worth over RMB 6 million) reached 679,000, ranking second and accounting for 17.3% of these families in the Mainland. The number of HNW individuals in the Mainland (investable assets exceeding RMB 10 million) who have overseas asset allocation has increased substantially in recent years. In terms of asset class, these individuals tend to hold mainstream products in their global portfolio, such as cash and savings, stocks and fixed income products. A majority of HNW individuals are more inclined to invest in “understandable” products and remain relatively cautious about products with complex structure.

According to the “Hong Kong as the Regional Wealth Management Hub - Sector Survey Paper” released by the FSDC in February 2020, a large number of respondents agreed that the growing clientele of HNW individuals in the Mainland adds to the momentum of the private wealth management sector in Hong Kong. In addition, proximity to the Mainland market makes Hong Kong more attractive to private wealth investors. The respondents also expressed their anticipations for the growth potential brought about by the announced Wealth Management Connect scheme.

The previous connectivity schemes in the capital markets, such as the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Bond Connect and Mutual Recognition of Funds, have proven the necessity and feasibility of more closely connected financial markets between the Mainland and Hong Kong, and have cultivated a broader understanding and consensus among stakeholders on the regulatory framework, market culture and common practice. Building on this, the implementation of the “Wealth Management Connect” will be a valuable addition to the financial connectivity of the GBA, by providing another investment channel for a wider client group. It would also be meaningful to Hong Kong’s efforts in strengthening its wealth management sector and consolidating its status as an international financial centre.

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Policy Recommendations

Guangdong, Hong Kong and Macao governments and regulators have been working closely and proactively to implement relevant measures in response to the various cross-boundary financial needs. Meanwhile, the financial services community in Hong Kong are also actively preparing themselves through continuously raising professional standards and enhancing innovation capabilities to seize potential opportunities. To this end, the FSDC GBA Working Group, by consolidating views from practitioners and scholars, proposes policy recommendations with the aim of enhancing financial connectivity in the GBA. The recommendations, in line with the Outline Development Plan and existing rules and regulations, are based on the principle of “resolving the simple issues before the difficult ones”.

1. To connect payment and transfer infrastructure in the GBA
2. To enhance the convenience of remote account opening
3. To foster cross-boundary property-backed mortgage loans
4. To develop cross-boundary insurance business
5. To expand two-way wealth management and investment channels
To connect payment and transfer infrastructure in the GBA

To connect payment and transfer infrastructure, and enhance the efficiency of cross-boundary payment and settlement through establishing an interconnected system such as “Greater Bay Area FPS”; to gradually increase the daily cross-boundary remittance limit, laying a strong foundation for connecting financial services and integrating the living circle in the region.

At present, an interconnected cross-boundary payment system in the GBA remains to be seen. Although the CIPS and FPS systems have their own advantages, there is no interface between the two. Therefore, the FSDC recommends establishing a piece of fundamental infrastructure to support cross-boundary payment and transfer. The FPS, the world’s first payment platform integrating multiple features - such as cross-platform, real-time, convenience, safety, and affordability, and supporting payment in both HKD and RMB, is highly suitable for handling small-value interbank transfers arising from increased cross-boundary activities. This could be achieved through connecting the FPS system with the payment systems in the Mainland; alternatively, it can be achieved by developing a payment system tailor-made for the GBA drawing reference from the FPS. The future “Greater Bay Area FPS” would enable Hong Kong residents to transfer funds to Mainland accounts more efficiently and at a lower cost, and vice versa for Mainland citizens, thereby enhancing the efficiency of cross-boundary payments. It would be a fundamental piece of infrastructure for cross-boundary capital flows in the GBA.

“GBA FPS” should cover cross-boundary payments in RMB and HKD, with HKD payments arranged through HKD agent banks, and RMB payments arranged through offshore RMB clearing banks designated by the PBoC. The proposed “GBA FPS” may start with northbound (from Hong Kong to the Mainland) transaction first, and extend to two-way usage when appropriate. Implementation details should be discussed among HKMA and relevant Mainland authorities, and operational matters could be jointly arranged by relevant settlement institutions.

Starting from October 2019, Mainland Travel Permits of Hong Kong and Macao residents had been incorporated into the Mainland certification service platform. Hong Kong and Macao residents holding travel permits can enjoy the same convenience as Mainland residents for handling livelihood affairs covering more than 30 livelihood services in 9 fields, including online train ticket purchase; bank, securities and mobile account opening; self-service social security, medical care registration and insurance purchase; instant registration for online payment, etc. If these services could be connected to the “GBA FPS”, it would significantly enhance the convenience of living and personal finances in the region.

As the GBA becomes an increasingly integrated living circle, the daily limit on cross-boundary remittance of RMB80,000 per person may be insufficient to meet the payment needs of residents. It is therefore recommended to coordinate with relevant Mainland authorities to gradually increase or cancel the daily cross-boundary remittance limit. Along with the proposed “GBA FPS”, this will lay a strong foundation for subsequent connectivity initiatives and products. When conditions become favourable, the system could be linked to other financial products or real estates to achieve delivery versus payment (DVP). The “GBA FPS” system will pave the way and open up possibilities for financial connectivity in the GBA.
To enhance the convenience of remote account opening

To further enhance the convenience of type II and III accounts, expand the scope of participating Hong Kong banks therein, and streamline account opening procedures for type I accounts; to further integrate the account services in the GBA through continuously strengthening regulatory cooperation and exchange.

Currently, the type II and III accounts opened by attestation have different functionalities than those opened in person, it is therefore recommended to expand the scope of available functions of Type II and III accounts opened via attestation to align the functionalities. We also recommend to steadily expand the scope of pilot banks for remote account opening for type II and III accounts, which will encourage more Hong Kong banks to participate in this new line of business.

In order to support the development of the GBA, the FSDC hopes that agreement between Mainland and Hong Kong authorities can be sought to streamline remote account opening of type I accounts, in addition to the piloted account types II and III, to reduce the inconvenience of having to go to the Mainland as with current practice. If remote account opening is allowed for the type I accounts in the future, it will further incentivise Hong Kong residents to open the full function accounts across the boundary.

Likewise, the process for Mainland residents to remotely open Hong Kong investment accounts should also be improved. Although currently Hong Kong intermediaries are allowed to delegate identity authentication to their Mainland branches, considering not all Hong Kong intermediaries have such branches, the authentication results should be made available either by a Mainland branch, subsidiary or by relevant government agencies. The information will facilitate Hong Kong banks to carry out the due diligence and “Know Your Customer” procedures, for the purpose of opening investment accounts for Mainland residents remotely, and even for investment and financial risk assessment. If implemented, such measures will enable residents in the GBA to easily participate in the opening-up of financial markets, and facilitate the future development of cross-boundary businesses in the GBA.

On the other hand, the Hong Kong SAR Government may explore the possibility of further enhancing cross-boundary digital account opening with Mainland authorities. With many traditional banks in Hong Kong having launched remote onboarding services and the first two virtual banks in operation, as of the completion of the report, Hong Kong banks have attained reliable experience in handling account opening documents and identity authentication through electronic means. At present, financial institutions can remotely onboard clients if they have a designated Hong Kong bank account. It is worthwhile discussing with relevant Mainland authorities the possibility of further enhancing remote investment account opening through, for instance, allowing remote client onboarding using their designated GBA bank account. This will offer an easy solution for GBA residents to enjoy online banking services, while avoid bringing pressure to physical bank branches. With a goal of providing a one-stop digital platform for handling all cross-boundary banking services, in addition to account opening, other functions such as investment and financial risk assessment, product subscription, transfer and redemption, account inquiry, customer service and complaint handling could also be made available through digital channels.
Professional Qualifications

At present, a bank representative must pass designated examinations of the Securities and Futures Commission (SFC) and obtain a registration number issued by the HKMA before he or she can handle face-to-face investment account opening. And the validity of such professional qualification is limited within Hong Kong. Although some Mainland practitioners have obtained the licence from the SFC, ambiguity remains as to their eligibility when engaging in regulated activities outside Hong Kong, especially concerning client interaction and introduction of products and services. As pointed out in the Opinions, "financial regulators in Guangdong, Hong Kong and Macao should strengthen communication and collaboration in solving potential issues from cross-boundary financial development and regulation", we believe, financial regulators should make concerted efforts in reaching a high-level consensus on their respective roles and responsibilities. The GBA initiative could be an opportunity for exploring mutual recognition of professional qualifications through pilot programmes, by relying on long-arm regulation for product-oriented supervision, and providing equal protection to investors through close regulatory cooperation.

Taking Hong Kong investment account opening for Mainland GBA residents as an example, Mainland representatives could be granted qualification for providing client services in the GBA by passing professional qualification examinations or through registering with relevant Hong Kong regulators, vice versa. The applicability of such qualification should be limited to within the GBA. When a representative carries out regulated activities across boundaries, they would be regulated by regulators in both jurisdictions, but with a different focus. For product promotion and customer services, they should comply with regulations and requirements of the place of business; with regards to investor rights and interests, investors can file complaints with regulators of their own jurisdiction, who shall carry out the responsibility of investor protection with necessary help from regulators in the corresponding jurisdiction. In short, a more integrated market requires closer communication and collaboration among regulators, capitalising on the design of the GBA to explore strengthened information exchange and regulatory collaboration.
To foster cross-boundary property-backed mortgage loans

In response to growing property purchase demand in the GBA, to coordinate with relevant Mainland authorities to gradually standardise mortgage registration by Hong Kong financial institutions across the GBA, through expanding the existing pilot programmes and further clarifying the implementation procedures.

There are multi-fold benefits of promoting the use of cross-boundary mortgage loans to support Hong Kong residents’ property purchase in the GBA. Firstly, increased flow of people in the GBA would enhance the efficiency of human resources allocation and help nurture an international and diverse talent pool in the GBA. Secondly, it would provide more options for young people, retirees and others in Hong Kong by offering the option of settling down in the Mainland, so as to improve their livelihoods. Thirdly, as far as the financial services sector is concerned, the promotion of cross-boundary/cross-city mortgage loan services in the GBA will enable Hong Kong financial institutions to access high-quality property assets, further incentivising them to participate in the development of the initiative while enjoying growth opportunities.

Cross-boundary mortgage registration is an important step in cross-boundary financing to safeguard the security of claims. Unclear procedures and requirements for mortgage registration make it difficult for offshore banking institutions to participate in this business. To this end, we recommend further coordinating with relevant Mainland authorities to expand the scope of existing pilot programmes, and gradually standardise requirements and procedures for mortgage registration by Hong Kong financial institutions across different cities in the GBA. Such actions will facilitate Hong Kong banks to hold mortgage in the GBA and thereby provide cross-boundary loans. In fact, notable progress has been achieved in this respect. For instance, the promulgation of “Code of Practice for Registration of Cross-boundary Mortgage on Real Estate in Nansha, Guangzhou” in March 2020 provides for cross-boundary mortgage loans supported by qualified real estates in Nansha Guangzhou. It explicitly states “for the purpose of registering a mortgage on real estate, the mortgage owner is not required to establish a branch or a representative office in the Mainland”. Drawing reference from similar pilot programmes, relevant agencies should seek the agreement from Mainland authorities to expand such pilot schemes to more Mainland cities in the GBA, allowing Hong Kong financial institutions without Mainland branches to carry out such business, further clarify the procedures for registration of real estate mortgages by Hong Kong financial institutions and enhance the convenience of procedures related to foreign exchange management.

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Furthermore, if the above recommendations could be extended to cross-boundary mortgage-backed corporate loans, it will further activate the assets and consolidate the financial resources in the GBA by offering an investment class with onshore property collaterals for overseas investors. In July 2019, the first real estate mortgage registration under a cross-boundary financing project of an overseas branch of a Chinese bank was completed in Nansha, Guangzhou, providing low-cost RMB 40 million loans to a private enterprise\textsuperscript{17}. The provision of cross-boundary RMB financing for Mainland enterprises will enable Hong Kong financial institutions to support the Mainland’s real economy, especially the private sector; and on the other hand, will be beneficial to further connecting the onshore and offshore RMB markets, thus facilitating RMB internationalisation.

At present, cross-boundary loans supported by onshore guarantee/security provided directly by Hong Kong financial institutions are not common. Instead such transactions usually involve cooperation with a domestic bank, through standby letters of credit, keepwell deeds, or through equity interest purchase of the holding company. Other than the aforementioned restrictions on mortgage registration, the main reasons include: the foreign debt quota regime applicable to foreign enterprises; registration required with the SAFE for outbound remittances according to foreign exchange management rules; ambiguity in the procedures and effectiveness of Hong Kong banks/investors to perform asset liquidation in case of default; and, if a foreign borrower is beneficially owned by a Mainland Chinese enterprise, it is required to register its medium-to-long-term debts with the NDRC. Due to the above considerations, some companies and intermediaries tend to structure such loans through a series of multi-layered transactions, which may result in overly complex financing structures, lengthy processes, and unclarity in the effectiveness of foreclosure by creditors. In the Circular on Foreign Exchange Management to Support the Development of the Guangdong-Hong Kong-Macao Greater Bay Area and the Shenzhen Pilot Demonstration Zone issued by the Guangdong and Shenzhen Branch of the State Administration of Foreign Exchange in April 2020\textsuperscript{18}, further measures are laid out in the areas of foreign debt registration, foreign debt management and capital project income and expenditure, providing strong support for facilitating cross-boundary financing.

With reference to the recent development in Nansha, it is recommended to provide clearer guideline for cross-boundary mortgage registration, and the existing pilot programmes should be gradually expanded to more pilot cities to promote companies’ usage of cross-boundary loans supported by properties in the GBA. This could start with offshore RMB loans, and by setting relatively strict standards on, for example, requirements on the use of proceeds, anti-money laundering assessment procedures and qualification requirements of loan applicants. Such pilot programmes could be launched among financial institutions with strong business presence in each of Guangdong, Hong Kong, and Macao, and gradually expand to include more financial institutions. When appropriate, the initially strict requirements should be reassessed and standardised to unify the registration procedure for cross-boundary mortgage loans in the GBA. The recommendation aims to answer to financing needs of the residents and enhance the interconnectedness of the cities, while taking into consideration the prevention of regulatory arbitrage and money laundering activities across boundaries.

\textsuperscript{17} First cross-boundary real estate mortgage registration completed in Nansha, Guangzhou (in Chinese only) http://www.mnr.gov.cn/dt/ywbb/201907/ 120190716_2447736.html
\textsuperscript{18} Guangdong and Shenzhen Branch of the State Administration of Foreign Exchange, https://www.safe.gov.cn/guangdong/2020/0417/1706.html
To develop cross-boundary insurance business

To implement the establishment of insurance service centres in a timely manner, explore joint development and mutual recognition of cross-boundary insurance products, and enhance the convenience of currency exchange procedures to answer to the livelihood needs of GBA residents, while accumulating experience for the coordinated development of cross-boundary insurance business in the long term.

In the report “Enhancing Hong Kong’s Role as a Leading Life Insurance Centre” issued in December 2018, the FSDC recommended the set-up of the “Life Insurance Connect” for Hong Kong’s financial services to grow their insurance business in the Mainland through a cooperative model. Therefore, the FSDC is pleased to see that strengthening collaboration in insurance is taken into consideration in the planning of the GBA.

The HKIA has publicly stated on several occasions that it has been in discussions with the CBIRC to allow Hong Kong insurance companies to set up service centres in the GBA. We have noticed that the Shenzhen Office of the CBIRC recently solicited opinions from the Insurance Association of Shenzhen and the Shenzhen Insurance Intermediary Association on the “Establishment Plan of Qianhai Cross Border Insurance Innovation Service Center (Draft for Opinions)”. It is proposed to set up a one-stop cross-boundary insurance innovation service centre with insurance intermediaries in Shenzhen Qianhai to provide cross-boundary insurance consulting, sales and claims settlement services.

According to the opinion of the HKIA, following the examples of closed-loop connectivity schemes such as the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Bond Connect, a similar “Insurance Connect” for insurance products can be established, through which Hong Kong insurance companies can pilot selling products with relatively simple structures and high protection components in Mainland cities in the GBA. The policy’s dividends and claims must return to the Mainland in full.

Therefore, the FSDC recommends implementation of “Insurance Connect” in response to rising demand for cross-boundary insurance in the GBA. However, because multiple jurisdictions and customs territories are involved, it would require breakthroughs in certain policy design to facilitate enhanced recognition and exchange of cross-boundary insurance institutions, products, professional qualification and supervision. This could be achieved through carrying out a pilot programme in accordance with relevant policies and regulations, starting with designated product types, piloting institutions and insurance quotas, which should expand gradually when appropriate.

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20. Authority of Qianhai Shenzhen-Hongkong Modern Service Industry Cooperation Zone, Mainland residents are expected to purchase Hong Kong and Macao insurance in Qianhai, http://qh.sz.gov.cn/fzgj/wzall/wza_gzdt/201910/20191021_18446622.htm
Phased approach

To achieve connectivity of insurance products and services in a timely and risk-controllable manner, the principle of “resolving the simple issues before the difficult ones” should be applied in phased steps. The first step is the provision of services. Initially, insurance services should be made available to Hong Kong, Macao and Mainland residents in the GBA, covering insurance advisory, claiming and renewal premiums payment, (such as presale product consultation and health check, policy custody, renewal and pledge), and aftersales claims and data collection, inspection and verification of loss, as well as dispute handling, etc. As the Opinions provides that “to support product innovation of Guangdong, Hong Kong and Macao insurance companies, and to enhance the convenience of underwriting, inspection and claim services”, it is anticipated that such measures will be implemented in due course. The second step is to foster product innovation, especially through exploring the feasibility of mutual recognition of insurance products by way of registration in the GBA. As set out in the Opinions, Hong Kong or Macao motor vehicles entering Guangdong through Hong Kong-Zhuhai-Macao Bridge with insurance purchased in Hong Kong or Macao will be deemed as equivalent to having statutory motor insurance as required in the Mainland. A similar recognition mechanism can be applied to other insurance products covering the GBA, so as to encourage insurance companies to jointly develop insurance products targeting specific clientele in the area to accumulate experience in product development and sales collaboration. The third step is to establish a longer term vision for the regulators and market participants in the GBA, involving formulation of a mutually acceptable regulatory framework based on previous practice that is conducive to the integrated development of insurance business in the GBA.

Product types

Different products should be available to cater to the diverse demographic groups in the GBA cities, providing retirement planning, illness protection and healthcare schemes for the residents. The insurance products should cater to the needs of cross-boundary education, medical care, retirement, disability income and long-term care service of the GBA residents.

For insurance products with protection features, the FSDC recommends enabling cross-boundary sales through mutual recognition of products. Major types of insurance products include (1) short-term health insurance for compensation/subsidy on medical expenses; (2) term life insurance to guard against the mortality risk of the breadwinners; (3) term critical illness insurance on medical expenses for when the breadwinner suffers from critical illness; (4) disability income insurance for protection against long-term loss of income due to accidents or illness; (5) other needs for risk protection.
Cross-boundary sales

The HKIA and the insurance regulators of the Mainland and Macao have been moving forward an arrangement whereby Hong Kong car owners and/or drivers entering the Hong Kong-Zhuhai-Macao Bridge can procure Mainland and/or Macao statutory motor insurance which can cover the three cities through a one-stop service provided by Hong Kong insurance companies. The Opinions set out a motor insurance recognition mechanism providing for easier procurement. Based on this progress, the insurance regulators can push forward the discussion on facilitating cross-boundary market development activities so as to take the development of the insurance market to the next level.

Different sets of regulations should be applied to cross-boundary sales depending on the type of product involved. For insurance products with protection features, representatives should be allowed to engage in cross-boundary sales and contract signing, and the contract should be confirmed back in the place of issuance.

With regard to cross-boundary products, the closed-loop design of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and the arrangement of Mutual Recognition of Funds should be referenced. Products with simple structure and higher protection should be allowed for cross-boundary selling as a breakthrough point, but dividends and claims payment should be routed back to the Mainland.

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Product structure and design

The products should be designed with features including discretionary account management, segregated account operation and clear flow of income, and should adhere to the closed-loop design.

Eligible insurance companies should be required to bookkeep for segregated accounts, appoint a custodian agency and ensure the closed-loop operation. Firstly, segregated accounts should be set up according to the product type, protection period and operation model by the insurance companies for easier classification. Secondly, the insurance funds should be entrusted with qualified banks or qualified fund management companies to monitor and manage the cash flow. Thirdly, the outflow and inflow of fund should be operated in a closed-loop manner. Fourthly, the insurance companies are required to fulfil the eligibility criteria agreed by the regulators of Hong Kong and the Mainland.

Integrated development of cross-boundary insurance

In order to better support the integrated development of the insurance business in the GBA, relevant agencies should coordinate with Mainland authorities to allow Hong Kong insurance companies to establish service centres in the GBA as soon as practicable. Secondly, convenience of foreign exchange for renewal premium payment and insurance claims should be further stressed; this is to ensure each party could perform their duty as contracted and prevent unnecessary losses caused. Thirdly, cross-boundary sales in the GBA should be explored when appropriate through strengthened regulatory cooperation and exchange and starting with insurance products with protection features. Moreover, along with the implementation of the Wealth Management Connect, investment-linked insurance products could be included in the framework, to enrich the residents’ choice of financial products.

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23 CBIRC, Four major approaches adopted by the banking and insurance industries to support the development of the Guangdong-Hong Kong-Macao GBA, http://news.cnstock.com/news,bwkx-202001-4472437.htm
To expand two-way wealth management and investment channels

To push forward the timely launch of the Wealth Management Connect starting from investment products with simple and transparent structure, adopting closed-loop capital flow and investor suitability requirements; to explore multiple cross-boundary risk management products and channels.

Connectivity of financial markets has long been an important theme in the course of financial liberalisation of the Mainland markets. Since its announcement, the Wealth Management Connect has been one of the most highly anticipated projects in the GBA. Its successful and timely implementation would be significant to enhancing connectivity among the financial markets through integrating cross-boundary personal financial services. The FSDC notes that regulators are actively communicating with regulatory bodies in the Mainland regarding the implementation details. As according to the Opinions, the mechanism will "support Mainland residents in the GBA to purchase wealth management products sold by Hong Kong and Macao banks through Hong Kong and Macao banks, and residents of Hong Kong and Macao to purchase wealth management products sold by Mainland banks through Mainland banks in the GBA". By consolidating market views based on available information as of date, we present the following recommendations as to the operational mechanism, range of products and investor suitability of the Wealth Management Connect.

Operational mechanism

Drawing on the experiences of the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Bond Connect, the Wealth Management Connect can be categorised as southbound and northbound, to enable cross-boundary investment while ensuring closed-loop capital flow.

Southbound investment: 1) Mainland investors can open a designated Wealth Management Connect account with a Hong Kong bank; 2) transfer renminbi or foreign currencies through their GBA Mainland bank account to the designated investment account; 3) and purchase a range of financial products provided by qualified financial institutions in Hong Kong (e.g. banks, insurance companies, fund managers, securities companies).

Northbound investment: similarly, 1) Hong Kong investors can open a designated investment account with a Mainland bank in the GBA; 2) remit renminbi or foreign currencies through a Hong Kong account under the same name to the Mainland investment account; 3) and purchase financial products in the Mainland.

The Wealth Management Connect scheme should allow investors to change investment products, use investment return to reinvest, or hold it in the account as cash or cash management products. Remittance should be constrained to local banks only; that is, deposits and withdrawals can only be conducted through the remittance account to form a closed-loop of capital flow. As the closed-loop design will effectively facilitate risk monitoring and management, the pilot scheme should allow participation from more banks, especially those with branches or subsidiaries in all of the eleven GBA cities, to provide investors with a wide range of options, thereby fostering healthy market development.
Range of products

The first batch of eligible financial products under the Wealth Management Connect should have the following features: (1) in accordance with investor risk profiling and suitability requirements; (2) representing diversified asset classes and different risk features, these may range from equity, fixed income or hybrid products; capital-protected, partially capital-protected to non-capital protected products; and from short-term, mid-term to long-term products, and so on; (3) clear and adequate information disclosure on product details, including management fees, distribution fees and other related fees.

Southbound products should be simply and transparently structured products, including low or medium risk mutual funds as categorised by distributing banks, and SFC-authorised bond mutual funds, exchange traded funds or products and money market funds. The range of investment products can be gradually expanded to hybrid mutual funds, private funds, commodities and/or commodities related funds or products, initial public offerings, structured products and others when the conditions are mature. As for northbound products, the first included products could range from A-share mutual funds to low-to-medium risk wealth management products denominated in RMB provided by banks.

Furthermore, a wider range of eligible products should apply to experienced investors. For example, basing on years of experience with the Wealth Management Connect, products with different risk features could be made accessible to different investors. Or the range of eligible products can be expanded based on travel records on the Residence Permits for Hong Kong and Macao Residents: Hong Kong residents who have resided in the Mainland cities in the GBA for a certain number of years may have a higher need for and a better understanding of Mainland investment products; hence, more complex financial products (including insurance) can be made available to these residents. For the use of insurance funds, innovative products could be developed to invest in infrastructure and long-term strategic projects in the GBA, so that the insurance purchasers can share the benefits of economic development in the region.
Investor eligibility

In respect of investor suitability, reference can be made to the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Initially, a minimum account balance, for example RMB500,000 (for southbound), could be set to allow relatively sophisticated investors to participate first in the pilot scheme. The RMB500,000 account balance should only be used to identify qualified investors, while actual investment amount should be at the investors’ discretion to allow flexibility. The standard should be lowered or lifted as appropriate when the mechanism is mature. Implementation details should ensure that investors interests are taken into account and the implementation is risk-controllable and executable.

Other cross-boundary wealth and risk management channels

In addition to the Wealth Management Connect for individual investors, the GBA can also serve as a piloting ground for enhancing connectivity by exploring other cross-boundary channels. For example, the Hong Kong Stock Exchange recently announced a partnership with MSCI to launch a range of futures and options products for the MSCI Asia and Emerging Markets Index in Hong Kong. If these could be made accessible to qualified GBA investors, these additional risk management options would encourage their participation in Asia’s financial markets. In the meantime, if the implementation of the southbound Bond Connect in due course and the potential exploration of the IPO Connect in the medium-to-long term could be looked into, Hong Kong’s position as an asset management centre and risk management centre would be further strengthened.

Conclusion

The GBA initiative presents unprecedented development opportunities. Although the “one country, two systems and three customs territories” situation poses complexity to implementation, it also underpins the institutional advantages of complementary development in the GBA. As one of the major international financial centres, Hong Kong's financial services sector is diverse, international and competitive. Serving as the platform and access point to cross-boundary financial products and services for GBA residents is an inherent need for the development of financial services industry in Hong Kong, and would in turn enhance the standard of financial services and global competitiveness of the GBA. With the continuous joint efforts by the Government and the private sector, we have a lot to look forward to.

With a view to promoting financial connectivity in GBA, market participants welcome the timely implementation of relatively achievable measures through pilot programmes in the near term. Over the longer term, market participants are eager to see relevant regulatory bodies, under existing rules and regulations, to reach a deeper and wider consensus on having a mutually applicable regulatory framework which would provide for aspects including but not limited to recognition of products and professional qualifications, investor protection, risk assessment and mitigation and regulation. The ultimate vision for the GBA is to achieve a high degree of financial connectivity, where residents would have the access to cross-boundary financial products and enjoy services in line with global standards; and financial institutions would be allowed to grow their businesses across the boundary, thus creating a conducive environment for the healthy development of the industry.

During the course, Hong Kong can play its unique role in promoting the integration of the financial markets in the GBA on multiple dimensions. Firstly, Hong Kong should leverage its unparalleled industry strengths to facilitate the coordinated development of the financial services in the GBA, through integrating the services and products. Secondly, such efforts will create room for exploration in many more strategic directions. For instance, Hong Kong should also be a main contributor to the collaboration in green finance, development of Fintech and digital assets in the GBA in the future. Last but not least, the various financial liberalisation measures carried out in the region will foster closer exchange among different stakeholders, including regulators and market participants, provide an appropriate market dynamic, and are in line with the longer-term national objectives of financial liberalisation and internationalisation. Hong Kong, in this context, will continue to play its unique role as China’s only international financial centre.
About the FSDC

The FSDC was established in 2013 by the Hong Kong Special Administrative Region Government as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of the financial services industry of Hong Kong and to map out the strategic direction for the development.

The FSDC has been incorporated as a company limited by guarantee with effect from September 2018 to allow it to better discharge its functions through research, market promotion and human capital development with more flexibility.

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