



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Investing in China's Financial Services Industry:

Regulations, Benefits and Case Sharing

Feb. 22, 2023





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1. Intro and evolution of financial services in China





Financial System

[fə-'nan(t)-shəl 'si-stəm]

A set of institutions, such as banks, insurance companies, and stock exchanges, that permit the exchange of funds.

 Investopedia

Regional
e.g. *China, European Union, United States*



Company
e.g. any public or private company



Global
e.g. *The World*



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The financial system can be organized using markets, central planning, or some **mix of both**.

Post World War 2 China Slowly transitioned from a system of central planning to a liberalization of markets: It is now a mix of both systems.

- Recovery from war, **1949–52**
- **First Five-Year Plan, 1953–57**
- Great Leap Forward, **1958–60**
- Cultural Revolution, **1966–76**
- Gang of Four, **1974–76**
- **Reform of the economic system, beginning in 1978**
- **Period of readjustment, 1979–81**
- **Reform and opening, beginning in 1982**



- **1990–2000 and onwards**
 - GDP growth of at least **5%** since 1991
 - Creation of a “Socialist market economy”
 - In 1996, the Chinese economy continued to grow at a rapid pace, at about **9.5%**, accompanied by low inflation
 - in **1999** China became the **second largest economy in the world** (some sources claim that it was only in 2010)
 - entry into the World Trade Organization (WTO) in 2001
 - **China's was the only major world economy to experience GDP growth in 2020**

Financial System & Financial services sector : Why they matter

Financial Services- services offered by institutions like banks of various kinds for the facilitation of various financial transactions

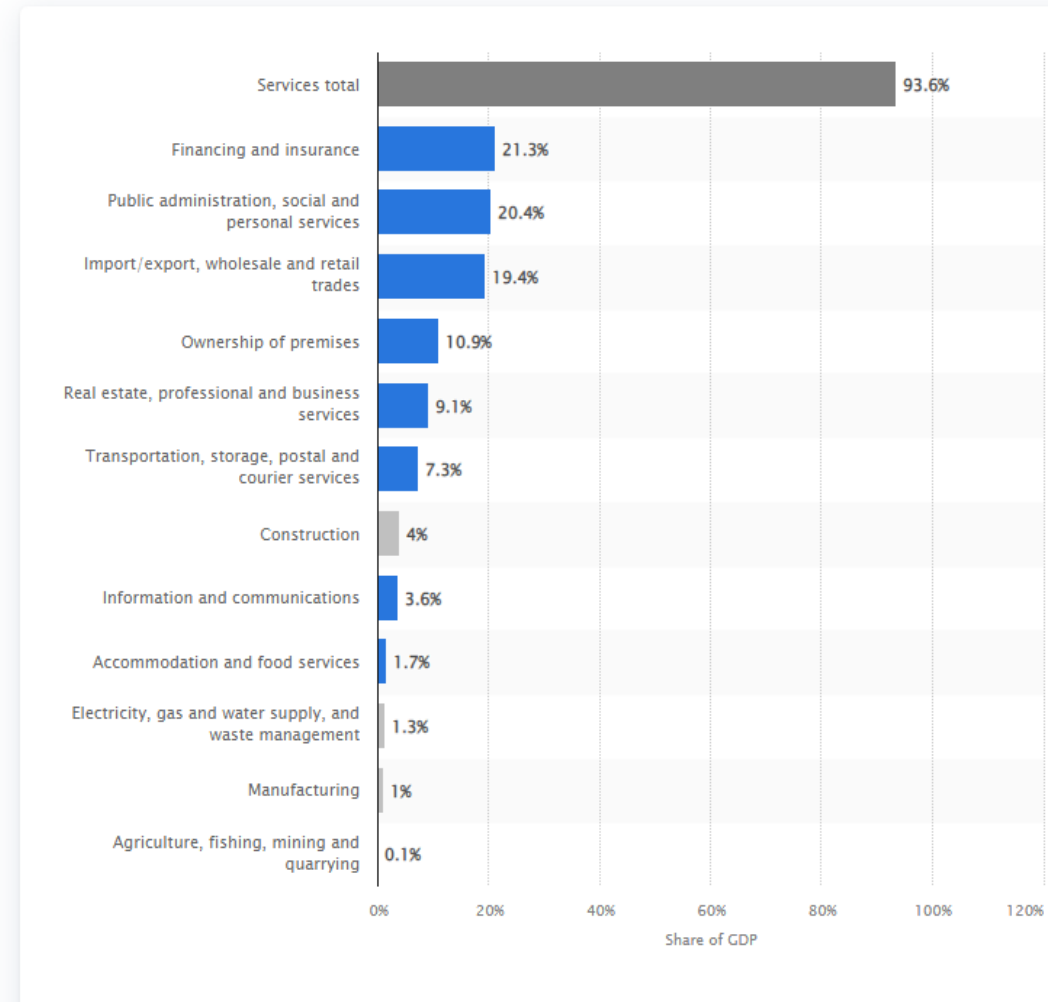
- crucial for the functioning of the economy
- incentivizes saving and investment
- Particularly **foreign investment**
- Ensures availability of money in the economy
- Promotes infrastructure development



*“In 1997, Hong Kong's economy was more than **18%** the size of the economy of the mainland. Today, the figure is down to **3%**”*

- **43rd GDP in the world**
- **6th GDP per capita**

GDP Per Capita (PPP, Int\$, 2017 Constant Prices): All Countries		Latest Data (2022)
United States		68,831
Denmark		68,794
Saudi Arabia		67,390
Kuwait		66,470
Netherlands		66,334
Hong Kong		65,880
Taiwan		65,480



Hong Kong's GDP in 2021, by sector

Why are they crucial for China?

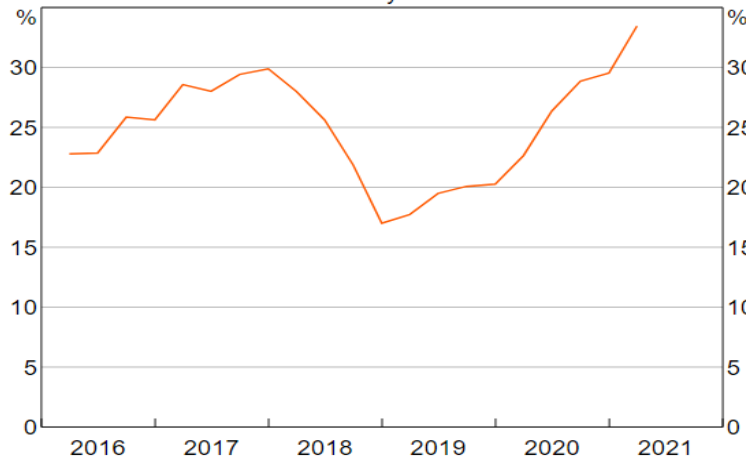


- Rising available income
- Rising information and culture
- Rise in Cost of living
- Diversification of economy.

“Is China no longer the factory of the world?”

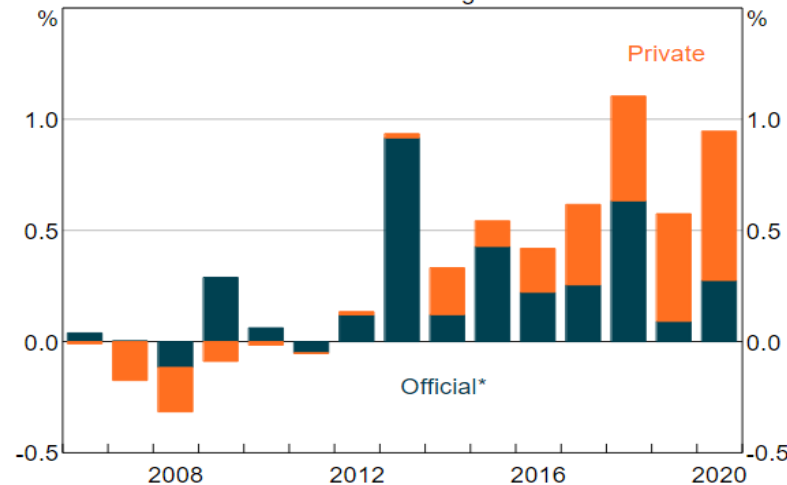
Medium and Small Enterprises’ Share of New Business Financing

Past year



Foreign Purchases of Chinese Government Debt Securities

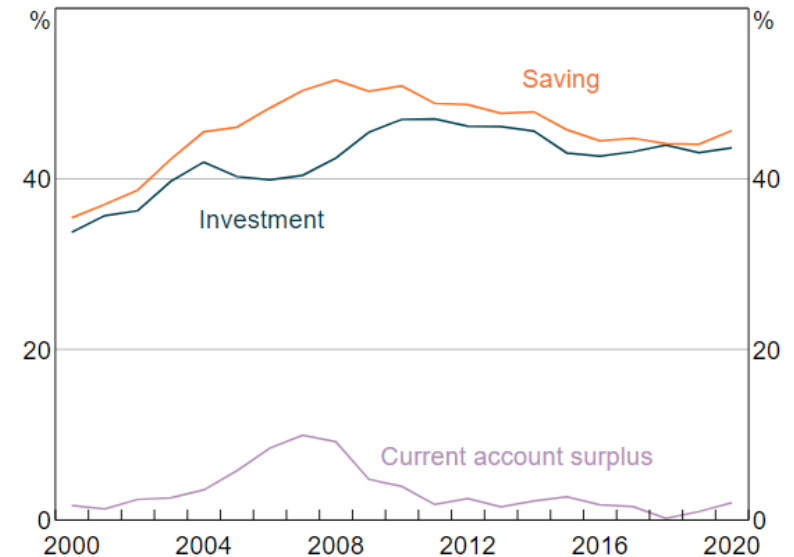
Per cent of outstanding securities



* Includes central banks and international financial institutions
Source: Sovereign investor base estimates by Arslanalp and Tsuda (2014)

China – Saving and Investment

Per cent of GDP



Source: IMF



How it all started?

Chinese Foreign Investment Catalogue and Negative List 2018

- Since **2018**, China has accelerated the **opening of its financial sector**
- *After pledging in 2017 to remove barriers to ownership, the government finally started to give the green light in 2020 for companies including Goldman Sachs to operate wholly owned companies (**WFOEs**) on the Chinese mainland for a range of financial services including mutual fund management, life insurance, and securities and futures broking.*
- Foreign institutions to invest in onshore markets through long-standing initiatives such as the **Qualified Foreign Institutional Investor (QFII)** scheme
- Expanding programs connecting mainland stock and **bond markets with those in Hong Kong**
- **China Securities and Regulatory Commission (CSRC)** approved another **101** overseas institutions to invest in the domestic capital market via the QFII program

2018

- Special Administrative Measures for Foreign Investment Access (Negative List) (**2018 Version**) and Special Administrative Measures for Foreign Investment Access in **Pilot Free Trade Zone** (Negative List) (2018 Version)
 - The shareholding ratio limit of no more than **20%** for a single foreign bank and no more than **25%** for a total foreign bank will be lifted;
 - The proportion of foreign shares in securities companies and securities investment fund management companies shall not exceed **51%**, instead of being controlled by the Chinese side;
 - Change the shareholding ratio of futures companies from Chinese to foreign shares to no more than **51%**;
 - The proportion of foreign shares in life insurance companies will be relaxed from 50% to 51%.

2019

- No change in what concerns the financial services industry

2020

- In October 2019, the **CSRC** stated that the **restrictions on the ratio of foreign shares of futures companies, fund management companies and securities companies would be lifted on January 1, April 1 and December 1, 2020 respectively**;
- In December 2019, the **CBRC** made it clear that it would cancel the restrictions on the proportion of foreign shares in the fields of **life insurance, endowment insurance and health insurance from January 1, 2020**;
- The 2020 version of the negative list cancels the restrictions on the proportion of foreign shares of securities companies, securities investment fund management companies, futures companies and life insurance companies,

The negative list has no longer set restrictions on foreign investment in the financial industry, the financial industry has achieved full institutional openness.

2021 & 2022

- The negative list of the 2021 version was implemented from January 1, 2022, regulations are the same as previous negative list.



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2. Finance industry: what does it mean and what services does it cover



Financial services can be defined as the products and services offered by institutions like banks of various kinds for the facilitation of various financial transactions and other related activities in the world of finance like **loans, insurance, credit cards, investment opportunities and money management as well as providing information on the stock market and other issues like market trends**

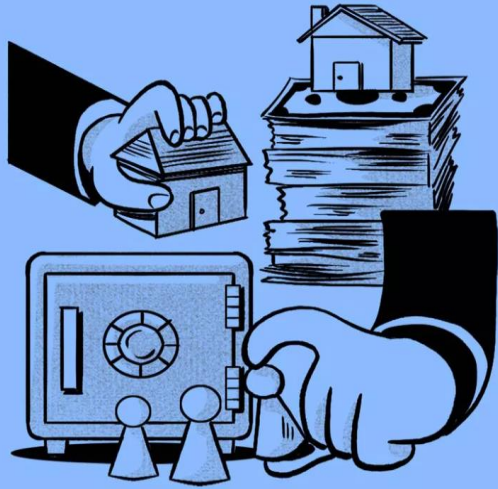


Why are financial services important?

- Essential for the Growth of Companies and the Economy
- they ease and facilitate the purchase of important assets
- they are essential for ensure good personal finance and wealth
- if well managed and regulated they are essential to the wealth
- stability of a country or region

Why are they important for foreign companies in China?

- A market of 1.3 billion people
- huge room for growth
- Growth will enable development of new products and service lines



Wealth Management

[ˈwelθ ˈma-nij-mənt]

An investment advisory service for affluent clients that combines estate planning, investment advice, and tax planning to preserve the client's wealth for them and their family.

 Investopedia



- **Advisory on investments**

- Securities,
- real estate
- Retirement plans
- others...

- **Alternatives to traditional retail banking services**

- Transferwise (Wise)
- Online banks and Neo banks
- Peer to peer lending
- Shadowbanks

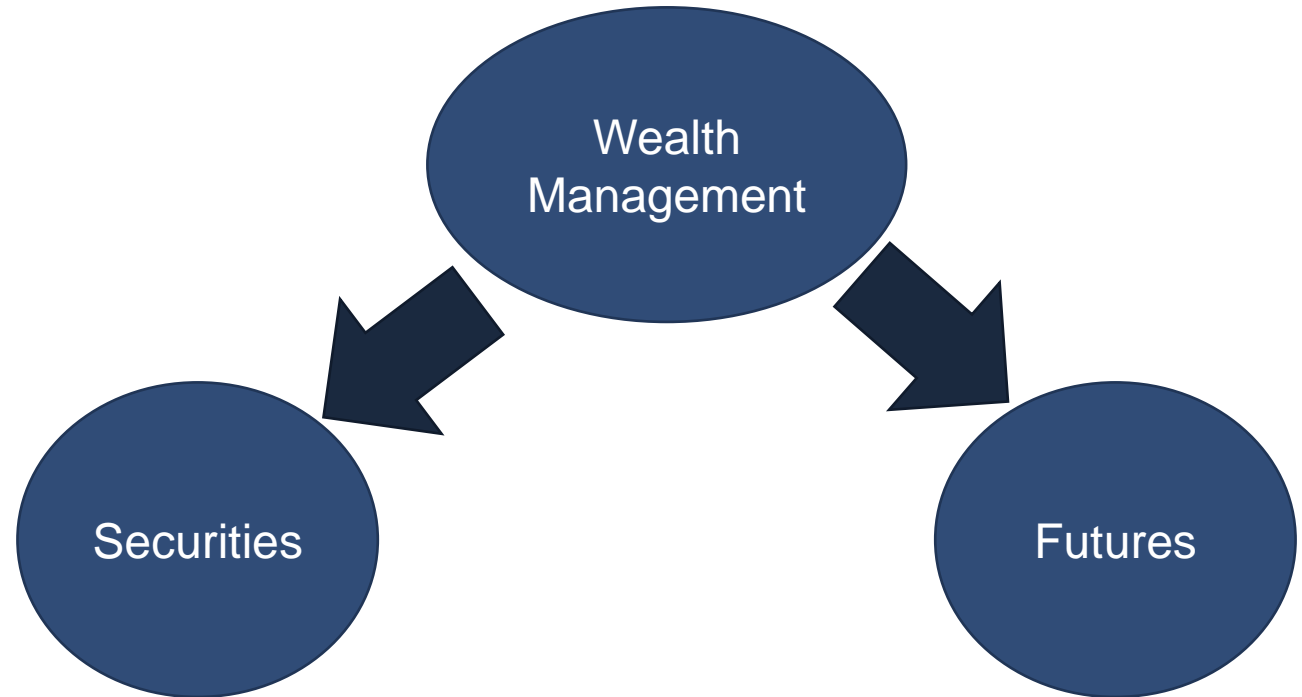
3. Present situation concerning financial services in China for foreign investors



...As a foreign investor what can you do and how to do it?



- Foreigners can be 100% owners
- Can also own Domestic banks (Chinese)
- Minimum registered capital is **CNY 1Billion**.
- Has to be paid in capital
- Get permisstion from **CBRC**



- Minimum capital CNY 50 million
- Paid within 6 months
- Approved by **CSRC**
- Special requirements for the shareholder

- Minimum CNY 30 million
- Pre-approval by **CSRC**





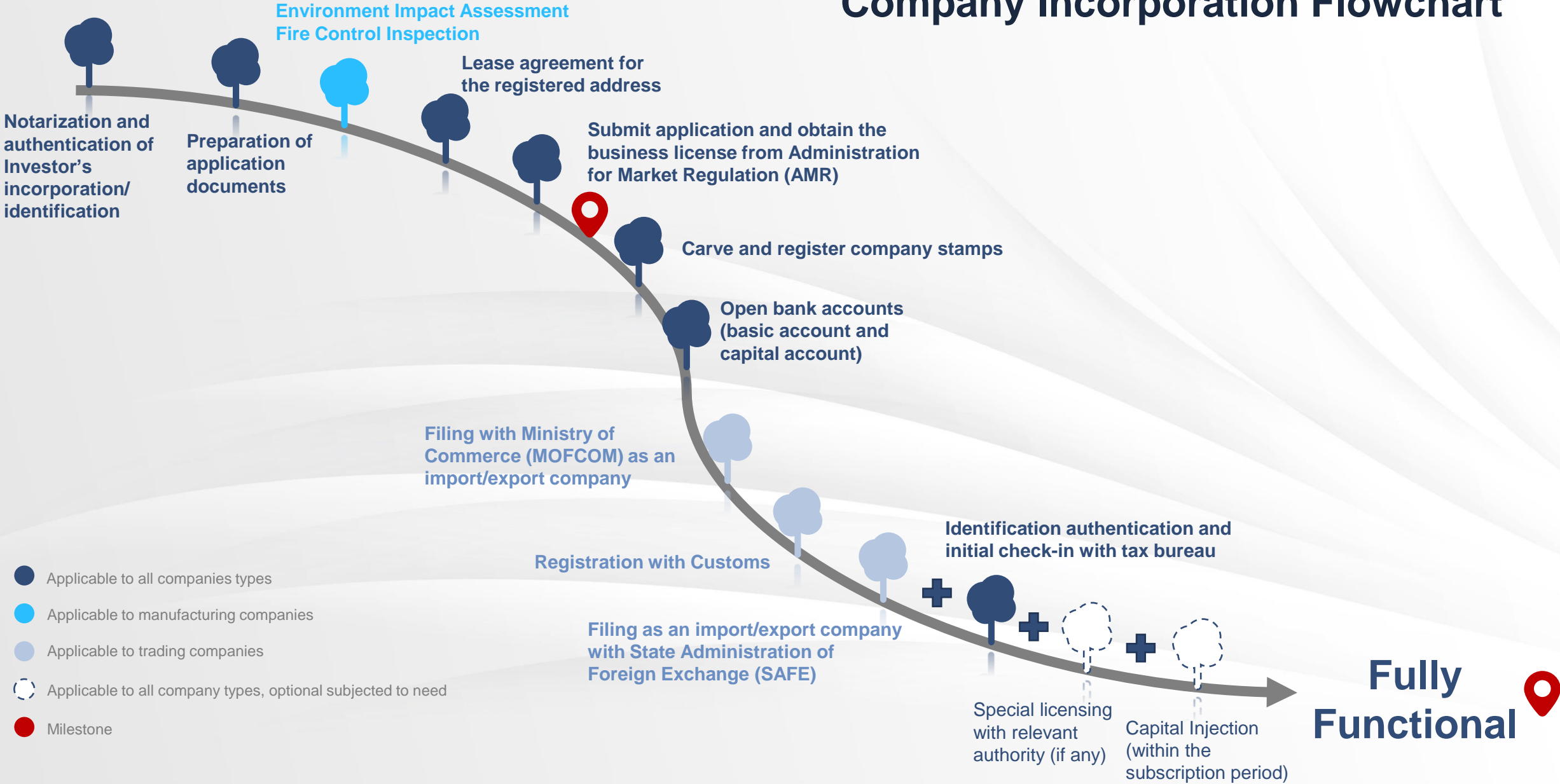
- Incorporation to be approved by China Banking and insurance Regulatory Commission (CBRC)
- Minimum registered capital is **CNY 200 Million** (all paid in)
- Cannot include both person and property insurance in its business scope
- Additional requirements for the **shareholder** (capital, country of origin, approval in that country)

Different main entity types: JV vs WFOE vs RO



Sino-Foreign Joint Venture (JV)	Wholly Foreign Owned Enterprise (WFOE)	Representative Office (RO)
<ul style="list-style-type: none"> ✓ Help the foreign investor to invest in those restricted industries on the Negative List ✓ The Chinese partner may provide efficient and competitive resources as they are familiar to the market 	<ul style="list-style-type: none"> ✓ Foreign investor has full control ✓ More straightforward on document drafting and preparation 	<ul style="list-style-type: none"> ❖ An office in China established by a foreign enterprise ❖ It is merely a representative of the foreign enterprise, is not regarded as a "legal person" - means its liabilities are tied to the HQ ✓ A tentative try in the Chinese market ✓ Does not require Registered Capital ✓ Relatively short timeline to set up: takes roughly 1~3 months to complete all establishment procedures ✓ Relatively easy to establish and maintain ✓ Can do liaison activities on behalf of the HQ in carrying out trade business
<ul style="list-style-type: none"> ○ Risk of cooperation dispute ○ Less voting ○ More documents to prepare 	<ul style="list-style-type: none"> ○ Cannot engage in some restricted industries ○ Information and resource limited, due to not familiar with the market 	<ul style="list-style-type: none"> ○ The foreign enterprise must have been in existence for 2 years ○ Only allowed to engage in non-profit-making activities: market research, exhibition/ promotional activities Profit-making activities are forbidden. ○ Cannot hire staff directly

Company Incorporation Flowchart





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4. Success cases: which foreign companies are already in the market and how they are being successful.



Top financial Services companies in China

“The significant economic rebound may occur in the second half of 2023 as China's economy is expected to gradually overcome COVID-related disruptions”



J.P.Morgan



“Goldman Sachs predicts China's GDP growth may rebound from 3.0 percent in 2022 to 4.5 percent in 2023 (other analysts are more conservative)”



- Founded in **1966** in Hong Kong, incorporated in **Shanghai in 2014**
- in 2014 Chinese clients accounted for 1% of the clients. Now they represent **10%**
- Sell structured Savings plans and lump sum investments
- Also provide direct access into professional investments for those who have a greater risk appetite.
- This allows Chinese access to USA, European stocks/funds, health and Life Insurance and international property opportunities
- Recently expanded to **Thailand**

“Chinese Nationals don't want to be restricted by only having investment into China. The internet has given out a lot of investment ideas so more and more Chinese are seeking diversification.”

- Winson Capital Senior Director



PACIFIC PRIME

Simplifying Insurance

- Founded in **Shanghai in 2013**.
- iCurrently 5 office locations in SH, bj, GZ,SZ and Jiangsu province.
- Started with one person ,currently have 120 staff in China
- Focus on health insurance gradually developed new sectors, such as Employee Benefits, Property & Casualty.
- In the beginning mostly had expat clients, now in some products segments its **50/50** with Chinese clients.
- Established partnerships with Chinese financial institutions (中国平安 **PING AN**, 中国太平**CHINA TAIPING**, 中国人民保险**PICC**, 华泰人寿 Huatai Life...)
- Present in **10 countries** all over the globe



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