Summary

Since the Chinese government made a commitment to further open up China's financial sector at the Boao Forum for Asia (BFA) in April 2018, Chinese financial regulators have launched a series of policies to lower access barriers to China's financial industry (please refer to the previous Point of View reports in this series: China Further Opens Up Financial Sector (I) - (VI) for details).

On 1 May 2019, the Chinese Banking and Insurance Regulatory Commission (the “CBIRC”) issued a press release for an interview of its Chairman, Guo Shuqing. Chairman Guo announced plans for CBIRC to further introduce 12 new opening-up measures following in-depth research and evaluation of the effects of policies launched previously. The new proposed measures introduce substantive reforms directly touching core areas of the banking and insurance industries.

EY teams have long followed China’s financial market open-up process, and in this Point of View report, we will analyze the impact of the 12 new measures proposed by the CBIRC. We also review and summarize the main achievements of the opening-up measures announced at the Boao Forum for Asia in April 2018 that have already been implemented to historically inform our predictions for further developments going forward.
## The 12 New Proposed Open-up Measures

### Summary of the proposed new policy

The proposed new measures involve core areas of the banking and insurance industries, including:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Removing shareholding caps for both single Chinese- or foreign-funded banks to take stakes in Chinese-funded commercial banks, true to the principle of equal treatment for domestic and overseas capital</td>
</tr>
<tr>
<td>2</td>
<td>Abolishing the requirements for foreign banks to meet minimum total asset thresholds to establish an entity in China: USD10 billion for foreign-funded corporate banks or USD20 billion for branches</td>
</tr>
<tr>
<td>3</td>
<td>Abolishing the minimum threshold of USD1 billion in total assets for an overseas financial institution to invest in a trust company</td>
</tr>
<tr>
<td>4</td>
<td>Allowing overseas financial institutions to take equity stakes in an existing foreign-funded insurance company in China</td>
</tr>
<tr>
<td>5</td>
<td>Abolishing the requirement for a 30-year track record and at least USD 200 million total assets for foreign insurance brokerage companies to operate insurance brokerage business in China</td>
</tr>
<tr>
<td>6</td>
<td>Relaxing the restrictions on Chinese counterparties in joint-venture banks, and abolishing the requirement for a financial institution to occupy the majority or sole capital contributor position</td>
</tr>
<tr>
<td>7</td>
<td>Encouraging and supporting overseas financial institutions to find collaboration opportunities with private-sector banking and insurance institutions in various fields such as equity, business and technology</td>
</tr>
<tr>
<td>8</td>
<td>Allowing foreign insurance group companies to invest and establish insurance institutions</td>
</tr>
<tr>
<td>9</td>
<td>Allowing domestic foreign-funded insurance group companies to initiate the establishment of insurance institutions in line with the qualification requirements applied to Chinese-funded insurance group companies</td>
</tr>
<tr>
<td>10</td>
<td>Relaxing eligibility requirements for Chinese and foreign financial institutions to invest and establish consumer finance companies</td>
</tr>
<tr>
<td>11</td>
<td>Abolishing the requirement for foreign banks to pass through examination and approval procedures before starting RMB business; RMB business operation will be allowed from business inception</td>
</tr>
<tr>
<td>12</td>
<td>Allowing foreign banks to process collections and payments in an agent capacity</td>
</tr>
</tbody>
</table>

Data source: CBIRC website
The global significance of China's financial markets is undeniable as its banking industry holds the largest pool of assets and insurance premium income earned domestically ranked second. However, the level of participation by foreign players remains low. As indicated in the figures below, in China the foreign banks hold less than 2% of the total assets and earn less than 1% of net profits in the industry, and both proportions have traced an overall downward trend from 2010 to 2017. Likewise, in the insurance industry foreign players only capture approximately 2% of premium income earned.

**Features and impact of the proposed policy**

We believe that if these measures are fully implemented, access to China’s financial market will be further relaxed and equal treatment between domestic and foreign investments will be achieved, thereby enriching market players, promoting healthy competition in the industry and driving reforms of China’s financial sector.

Comparing this round of 12 reform measures against previous opening-up measures shows the logical progression of China's financial reforms: first, further broadening market access to the financial sector and increasing the diversity of foreign-funded financial institutions; second, expanding the business scope of foreign financial institutions to operate in China; third, expanding the internationalization of the capital market through interoperability and interconnection mechanisms to realize opening-up along multiple axes; and finally, optimizing the regulatory rules on foreign institutions and establishing a modern regulatory system taking into account the risks accompanying the reforms.

The newly proposed policies build upon the fundamentals of China’s previous financial reforms and will further improve the business environment of the financial sector and boost the presence of foreign financial institutions in China.

1. **More flexible eligibility criteria and relaxed shareholding restrictions**

The proposed measures will eliminate minimum total asset size eligibility criteria for foreign financial institutions to establish banks, insurance brokerage companies and trust companies in China, thereby removing asset size as an unsurmountable hurdle. This move will support the introduction of foreign financial institutions boasting competitive skills but small balance sheets into China. Ultimately, the development needs of the real economy will benefit from the better supply of financial services provided by diverse foreign financial entities.

The new measures will also remove restrictions on ownership stakes. As any single Chinese-funded or foreign-funded bank will be permitted to acquire shares in domestic banks without proportional limits, which will facilitate the merger and acquisition of Chinese commercial banks, especially small and medium-sized ones.

2. **Expansion of permitted business scope and further improvement to pre-establishment national treatment for foreign players**

Another highlight of the new measures is the relaxation of eligibility criteria to engage in RMB business. For many years, foreign banks endured long wait times to obtain approval for RMB business, which drove up their capital costs and dulled their competitive edge. The reforms will put foreign banks on equal footing with Chinese-funded counterparts to conduct both local and foreign currency business immediately from start of business.

Eligibility criteria will also be harmonized between domestic and foreign insurance companies by removing entry barriers for the insurance industry and affording national treatment to foreign insurance and insurance brokerage companies entering the market.
Financial opening-up measures

Yi Gang, Governor of the People’s Bank of China (the "PBOC"), announced a set of opening-up measures for the financial sector tied to a clear timetable at the Monetary Policy Normalization Sub-forum of the Boao Forum for Asia on 11 April 2018.

<table>
<thead>
<tr>
<th>1</th>
<th>Initially relaxing caps on the foreign shareholding proportion in securities firms, fund management companies, futures brokerage firms and life insurance companies to 51%, then subsequently phasing out completely within three years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Abolishing the requirement for at least one securities company to be included among the domestic shareholders of a joint venture securities firm</td>
</tr>
<tr>
<td>3</td>
<td>Allowing qualified foreign investors to engage in insurance agency and insurance assessment businesses in China</td>
</tr>
<tr>
<td>4</td>
<td>Expanding the scope of permitted business for foreign-funded insurance brokerage companies to remain consistent with the rules applied to Chinese-funded institutions</td>
</tr>
<tr>
<td>5</td>
<td>Fourfold expansion starting 1 May of the daily limits of interoperability to further improve the interconnection and interoperability mechanism between the mainland and Hong Kong stock markets (Specifically, the daily limit of Shanghai Stock Exchange and Shenzhen Stock Exchange will be adjusted from RMB 13 billion to RMB 52 billion, and from RMB 10.5 billion to RMB 42 billion for Hong Kong Stock Exchange)</td>
</tr>
<tr>
<td>6</td>
<td>Removing caps on the foreign shareholding proportion in the financial asset investment companies and wealth management companies newly established by commercial banks</td>
</tr>
<tr>
<td>7</td>
<td>Removing restrictions on the business scope of joint venture securities companies to keep them in line with those applicable to domestic institutions</td>
</tr>
<tr>
<td>8</td>
<td>Encouraging the inbound investment into the banking industry including trust business, financial leasing, auto finance, currency brokerage and consumer finance</td>
</tr>
<tr>
<td>9</td>
<td>Substantially expanding the scope of permitted business for foreign-funded banks</td>
</tr>
<tr>
<td>10</td>
<td>Allowing caps on the foreign shareholding ratio in banks and financial asset management companies, treating domestic and overseas investments equally; and allowing foreign-funded banks to simultaneously establish both branches and subsidiaries</td>
</tr>
<tr>
<td>11</td>
<td>Initially relaxing caps on the foreign shareholding proportion in securities firms, fund management companies, futures brokerage firms and life insurance companies to 51%, then subsequently phasing out completely within three years</td>
</tr>
</tbody>
</table>

Retrospective Analysis of the Implementation of Financial Opening-up Measures

China further opens up financial sector (VII) - 4
Status of Implementation

A year has passed since the opening-up initiative was announced at the Boao Forum for Asia. During the period, we have seen many policies put in place and witnessed substantial progress in allowing foreign financial institutions to engage in expanded areas of business and to enjoy greater access to capital markets. As an indication of future trends, we summarize the implemented policies and their related achievements and example cases below.

- On 24 February 2018, the China Banking Regulatory Commission (the “CBRC”, subsequently restructured as “CBIRC”) issued the Decision of the CBRC on Revising the “Implementation Rules of the CBRC for Administrative Licensing for Foreign Banks”. The Decision eliminated the regulatory approval requirements on many types of business conducted by foreign banks, and applied consistent market access requirements for Chinese and foreign-funded banks.

- On 27 April 2018, the CBIRC published on its official website the Initiative of the CBIRC to Expedite the Market Opening-up for the Banking and Insurance Industries together with two related documents, the Notice of the CBIRC on Expanding the Business Scope of Foreign-funded Insurance Brokerage Companies and the Notice of the Office of the CBIRC on Further Relaxing Market Access for Foreign-funded Banks. These Measures abolished the administrative licensing requirements for foreign banks to carry out some types of business, and further relaxed the restrictions on business scope of foreign insurance brokerage companies.

- On 28 April 2018, the China Securities Regulatory Commission (the “CSRC”) published the Measures for the Administration of Foreign-funded Securities Firms, which allowed foreign investors to gain control of joint venture securities firms, phased out business scope restrictions on joint venture securities firms, and improved the rules for foreign shareholding in listed securities firms. On 30 November 2018, the CSRC issued a notice approving UBS AG to increase its shareholding in UBS Securities China to 51%, marking the first case of a foreign-controlled securities company in China. On 29 March 2019, the CSRC approved the establishment of Nomura Oriental International Securities Co., Ltd. and J.P. Morgan Securities (China) Limited, the first two foreign-funded securities firms newly established by leading foreign financial groups since the promulgation of the Measures.

- On 9 November 2018, the PBOC issued an announcement that it and the CBIRC had jointly approved the application of Connected (Hangzhou) Technical Services Company to establish a bank card clearing entity, signifying an official go-ahead on American Express’ proposed establishment of a joint venture company in China.

- On 25 November 2018, the application for the establishment of Allianz (China) Insurance Holding Company was officially approved, marking the establishment of the first foreign-controlled insurance company in China.

- On 28 January 2019, the PBOC announced that it had approved the filing to establish S&P Credit Rating (China) Co., Ltd., in Beijing, a wholly-owned subsidiary of S&P Global, signaling the official entry of S&P Global into China’s credit rating market.

Many major breakthroughs can be observed in the internationalization of China’s capital market. In June 2018, China’s A-shares were officially included in the MSCI index. In September 2018, FTSE Russell announced that it would include A-shares in its index system. From April 2019, China’s bonds would be gradually included in the Bloomberg Barclays Bond Index. In addition, on 22 April 2019, the Shanghai Stock Exchange and the Japan Stock Exchange Group signed an ETF interconnection agreement.
Observations on the implementation of opening-up policies show that the central government and major financial regulators have taken a positive attitude towards the opening-up of China’s financial sector and fulfilled the commitment to opening up the market systematically. We believe that more favorable policies are expected to be introduced to support China’s financial sector opening-up initiative.

1. Previously restrictive market entry thresholds create room for more favorable policies going forward

Since China’s accession to WTO, the financial sector has been subject to continuous liberalization efforts. However, since heavy restrictions have been in place for many years, the market share of foreign financial institutions in China is still lower than that of major developed economies and a majority of developing countries. As mentioned above, foreign banks control less than 2% of the total assets in the domestic industry, far below the 10% OECD average. Likewise, foreign-funded insurance companies in China hold a far smaller share of China-based assets than the 20% average seen in OECD countries.

We can refer to the services trade restrictiveness indices (STRIs) regularly issued by OECD to measure the extent of market opening. The STRIs take values between zero and one to score 45 countries using 5 identifiers, including restrictions on foreign entry, restrictions on the movement of people, other discriminatory measures, barriers to competition and regulatory transparency. Zero represents a perfectly open market, and one represents a market completely closed to foreign investors. In 2019, the STRI of China’s commercial banks is 0.409, improving slightly from 0.410 for 2014, ranking 42nd among 45 countries, edging out only Brazil, Indonesia and India. Comparison with other countries indicates that the decisive factor leading to high STRI on China’s banking industry is the restrictions on foreign entry (Figure 3). Similarly, China’s insurance industry STRI of 0.444 ranked 43rd due to the same factor (Figure 4). Nonetheless, by introducing a series of initiatives for further opening up of China’s financial sector, the STRIs of China’s banking and insurance industries are expected to improve significantly in the future.
2. Expectations on increased efficiency in issuing regional licenses to foreign banks and insurance companies

Many foreign-funded banks and insurance companies complain that obtaining a financial license is slow and often subject to various restrictions. Furthermore, the process must be repeated in every region that issues licenses valid only in its geographic jurisdiction. In our opinion, although setting strict requirements and capping the number of licenses to be issued can help control industry risk to a certain extent, these hurdles also suppress market vitality and hinder nationwide expansion by foreign financial institutions.

We observed that China's ongoing financial reform and opening-up has attracted attention from the international community, which we see as a tailwind for earlier implementation of the newly announced opening-up policies to accelerate the process of China's financial market liberalization. It appears that the initiatives launched so far are just part of China’s efforts to drive successful financial sector reforms and opening-up, and the whole process is guided by ongoing improvement in response to market needs. We will follow up on subsequent implementation of these opening-up policies and analyze the impact on international and domestic markets.
Contact us
For more information, please reach out to your EY contact person or one of the following EY professionals:

**Financial Services**

- **Jack Chan**
  - EY Greater China Managing Partner
  - Financial Services
  - +852 2629 3508 / +86 10 5815 4057
  - jack.chan@hk.ey.com

- **AJ Lim**
  - Assurance Services Leader
  - Wealth and Asset Management Services Leader
  - Financial Services, Ernst & Young Hua Ming LLP
  - +86 21 2228 2929
  - aj.lim@cn.ey.com

- **Dennis Leung**
  - Transaction Advisory Services Leader
  - Financial Services, Ernst & Young Transactions Limited
  - +852 2846 9060
  - dennis.leung@hk.ey.com

- **Andy Ng**
  - Insurance Industry Leader
  - Financial Services, Ernst & Young Hua Ming LLP
  - +86 10 5815 2870
  - andy.ng@cn.ey.com

- **Alex Jiang**
  - EY Japan Business Services Leader
  - Financial Services, Ernst & Young Hua Ming LLP
  - +86 21 2228 2963
  - alex.jiang@cn.ey.com

- **Effie Xin**
  - EY APAC Fintech and Innovation Managing Partner
  - Advisory Services Leader, Financial Services
  - Ernst & Young (China) Advisory Limited
  - +86 21 2228 3286
  - effie.xin@cn.ey.com

- **Catherine Li**
  - Business Tax Advisory Services Leader
  - Financial Services
  - Ernst & Young (China) Advisory Limited
  - +86 10 5815 3890
  - catherine.li@cn.ey.com

- **Kelvin Leung**
  - Banking and Capital Markets Leader
  - Financial Services, Ernst & Young Hua Ming LLP
  - +86 10 5815 3305
  - kelvin.leung@cn.ey.com

- **Joyce Xu**
  - Wealth and Asset Management Services Partner
  - Financial Services, Ernst & Young Hua Ming LLP
  - +86 21 2228 2392
  - joyce.xu@cn.ey.com

- **Shelley Chia**
  - Financial Accounting Advisory Services Leader
  - Financial Services, Ernst & Young Hua Ming LLP
  - +86 10 5815 2880
  - shelley.chia@cn.ey.com

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via ey.com/privacy. For more information about our organization, please visit ey.com.