



Accelerated opening up of China's financial sector

July 2019



Introduction

China speeds up reforms

In November 2017, the Chinese Government announced policy measures, whereby foreign ownership limits in the financial sector would be phased out. Since then, the timeline for the opening up to foreign ownership of currently protected sectors, has been brought forward twice – once in April 2018 and more recently accelerated on 20 July 2019 through a State Council announcement.

KPMG observations on 20 July 2019 State Council announcement (see page 4 for full text)



Accelerating open-up confirmed

The announcement confirmed the commitment to open-up. And in certain sectors, the opening up schedule has been accelerated and/or furthered, including to allow full foreign ownership in the life insurance, securities, fund management and futures sectors in 2020 instead of 2021, and the lifting of the 25% foreign ownership cap on insurance AMCs, as well as lifting the 30-year track record requirement on foreign sponsors of insurance companies in China.

While this provides clarity on the timescale and is expected to stimulate more and quicker foreign entries, it does put time pressure on all foreign firms mulling over this regulatory dividend. It effectively gives less than 18 months for anyone interested in entering China to be prepared, while in reality it typically takes at least 24 months to be ready.



Opportunity to connect to the ecosystem

For us, the most interesting development is the breadth of the opening up. While the earlier open-up measures focused on the banking, insurance and asset management industry, this time we see development in some peripheral sectors, including credit rating, money brokerage, and underwriting of bonds.

One of the long-term determinants of success in China, and one that is usually overlooked, is to what extent new players can connect with the broader ecosystem locally. Allowing foreign firms to take controlling shares in the credit rating, bond underwriting and money brokerage sectors will allow foreign banks, insurers, securities firms and asset managers to get access to critical local resources and infrastructure to build a thriving business.



Indication of high-growth areas

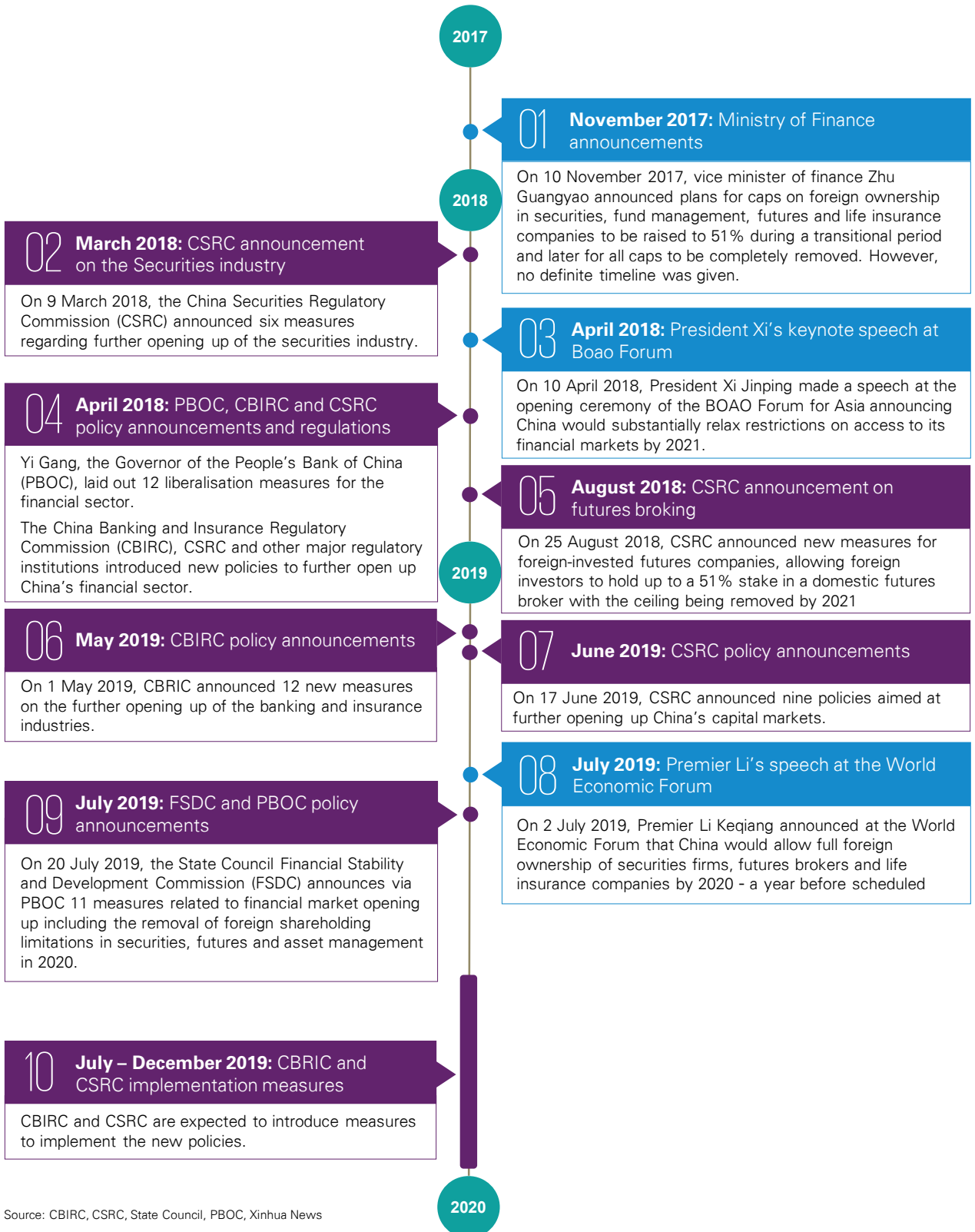
While most of the words chosen can be translated as “allowing”, the announcement used very specific words of “encouraging” when it describes the wealth management subsidiaries of banks and “supporting” on money brokerage firms. This subtle difference indicates these two areas will see faster regulatory approval and higher receptiveness towards foreign input.



Further acceleration expected

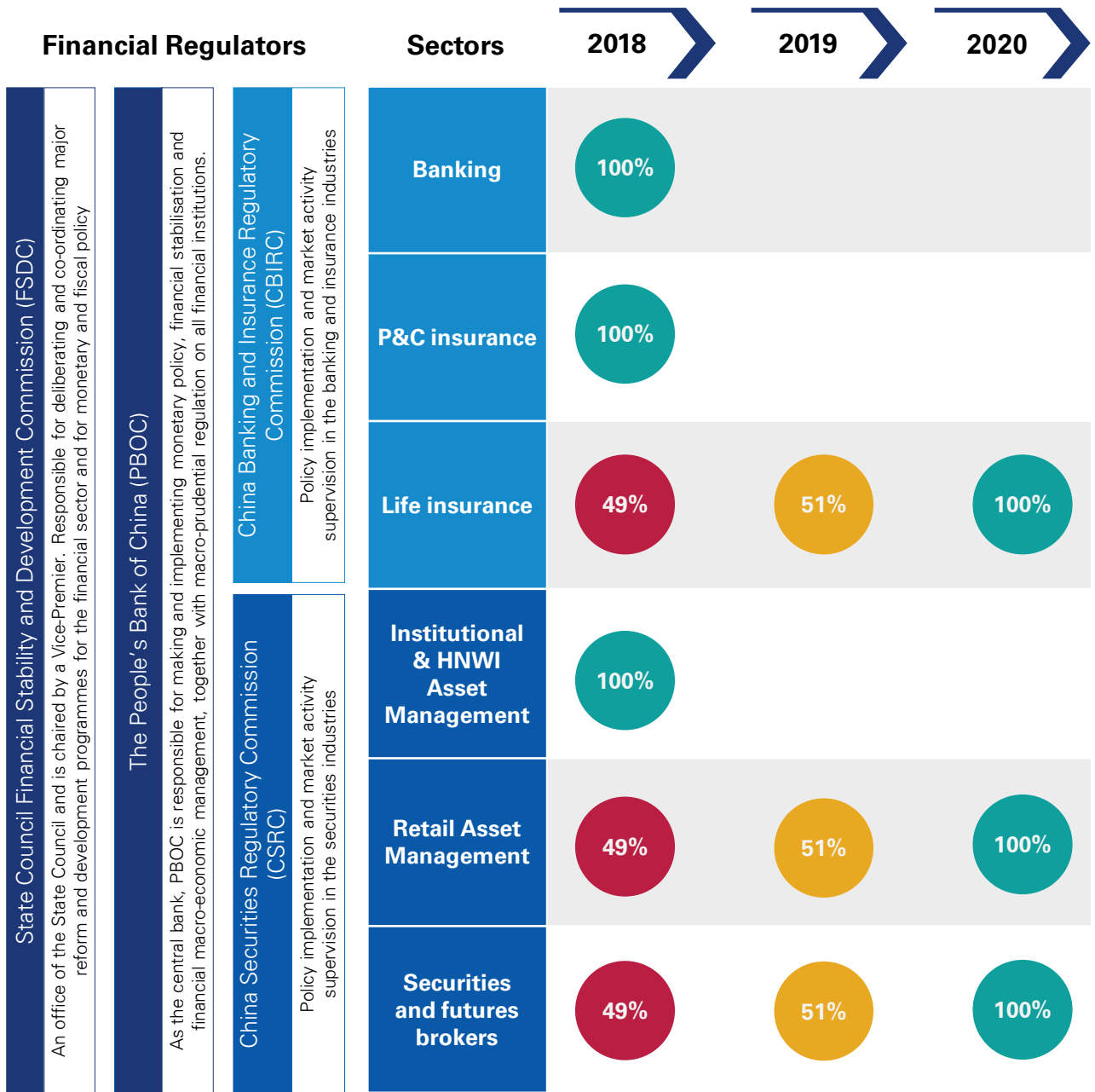
Despite the removal of various restrictions, foreign entrants can expect to deal with various obstacles, sometime invisible ones, during their China build out. While removal of the ownership cap is expected to allow foreign players to be more active in the China market, they still face various obstacles including inter-provincial expansion, product approval, and distribution through banking channels. While the recent development is a strong indication that Chinese policy makers are committed to build a level playing field, it will take time to materialise and in the meanwhile, all foreign players, whether eyeing a China entry or already operating in China, should be prepared for the challenges presented by the long term nature of this opportunity.

Timeline of key recent announcements regarding opening up of financial services to foreign ownership



Source: CBIRC, CSRC, State Council, PBOC, Xinhua News

Timeline for lifting of foreign ownership restrictions



Source: CBIRC, CSRC, State Council, PBOC, Xinhua News

Measures for Further Opening Up the Financial Sector, announced on 20 July 2019 by the State Council

Measures	Impacted sub-sectors							
	Banking	P&C insurance	Life insurance	Securities, futures and fund management	Asset & wealth management	Pension management companies	Credit ratings	Currency brokerage
1. Foreign-funded institutions will be permitted to conduct credit rating business on all types of bonds in China's inter-bank and exchange bond markets.							✓	
2. Overseas financial institutions will be encouraged to participate in the establishment of and equity investment in asset and wealth management subsidiaries of commercial banks.	✓				✓			
3. Overseas asset management institutions will be permitted to co-establish foreign-controlled asset management companies together with subsidiaries of Chinese banks or insurers.	✓	✓	✓		✓			
4. Overseas financial institutions will be permitted to invest in the establishment of or make equity investment in pension management companies.						✓		
5. Foreign capital will be supported in wholly-owned currency brokerage establishment and equity participation.								✓
6. The transitional period for raising the foreign ownership cap on life insurers from 51% to 100% will be brought forward to 2020 from 2021.			✓					
7. The requirement that the total share of an insurance asset management company held by domestic insurers shall be no less than 75% will be removed, and the shareholding of foreign investors will be permitted to exceed 25%.		✓	✓					
8. Entry conditions of foreign insurers will be eased by removing the requirement of over-30-year operation.		✓	✓					
9. The removal of foreign ownership limits on securities, fund management and futures companies will be advanced by one year to 2020.				✓				
10. Foreign institutions will be permitted to obtain Type-A lead underwriting licenses in the inter-bank bond market.	✓			✓				
11. China will further facilitate the investments in the inter-bank bond market of overseas institutions.	✓	✓	✓	✓	✓	✓	✓	✓

Note: (a) English translation as provided on the PBOC website

Source: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3863019/index.html>

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