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Shopping gets in the zone

By Chai Hua

With the Qianhai economic cooperation zone in Shenzhen fast taking shape, Hong Kong has been urged to upgrade itself into a financial shopping hub using its rich economic, accounting and legal expertise. Chai Hua reports in Shenzhen.



Shenzhen's Qianhai special economic zone, scheduled to be completed by 2020, has so far attracted more than 14,500 registered companies, including more than 730 from Hong Kong alone. (Provided to China Daily)

Growth rate of new mainland tourists' insurance premiums

Year	New insurance premiums by mainland tourists (billion yuan)	YOY Growth	Total new personal insurance premiums	Proportion
2006	2.8	54.01	53.26	5.3
2007	5.25	82.73	80.62	6.5
2008	3.26	-37.82	60.42	5.4
2009	3	-8.06	46.3	6.4
2010	4.4	16.67	58.8	7.5
2011	6.3	43.18	70.3	9
2012	9.9	57.14	77.6	12.8
2013	14.9	50.5	92.3	16.1

Source: Office of the Commissioner of Insurance

Jointly building a financial shopping center with the Qianhai economic cooperation zone may be a new driver for the Hong Kong economy, according to Zhou Yinggang, professor at the Chinese University of Hong Kong's Business School. However, the mainland still needs further financial reform.

Zhou suggests upgrading Hong Kong's current status as a shopping destination to a financial shopping destination. The Qianhai special zone in Shenzhen, as the "front desk", will provide direct service for mainland customers, and Hong Kong as the "operating base" will design diversified finance products for them.

Qianhai authorities support the initiative because "Qianhai's industry positioning is in accordance with that of Hong Kong." Qianhai's position is to develop modern service industries, including finance, logistics, information, and technology sectors, while Hong Kong is known for its well-developed service industry, which is more than 90 percent of its gross domestic product.

Talent resources

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They believe that such a center will benefit both sides: "The SAR can have closer access to the growing mainland domestic market, while its rich experiences and talent resources in the field of international legal and accounting expertise are of great importance for mainland companies to march into the international market," the Qianhai authority said.

"The advantage of Qianhai is internal communication and that of Hong Kong is external communication," a Qianhai official said.

Zhou agreed that the financial shopping center should be connected with Hong Kong's leading position of a world financial center, while still possessing its own features.

"The shopping center should focus more on individual clients, with better quality and protection for consumer rights."

Hong Kong is well-known as a leading shopping destination for luxury goods and tax-free products. However, in recent months, the retail industry has seen a decline due to various factors.

Zhou said that to better cheer up the retail sector, Hong Kong should change its focus from tangible goods to other financial services, such as insurance and funds.

"The rise of investment demand in the mainland has brought in a huge market for Hong Kong. What we should do is grasp the opportunity and create a new growth engine."

Research from Boston Consulting Group and China Construction Bank show that as at the end of 2012, disposable investment income had reached 7.3 trillion yuan (\$1.2 trillion) on the mainland.

Boston Consulting Group data show that in 2013, the number of high-net-worth mainland families exceeded those in Japan to take the second position worldwide.

Zhou said that as the insurance market in Hong Kong has reached international standards, with more investment channels and better investment returns, consumers can get better services and returns at a cheaper price.

Demand from both mainland individuals and corporations for cross-border Hong Kong banking services is seeing strong and steady growth. The Q4 Cross-border Banking Demand Index by China CITIC Bank International Limited appears high above the 50-point line that demarcates strengthening and weakening demand.

But Hong Kong insurance companies are finding it difficult to set up branches in the Qianhai zone, not to mention other areas on the mainland.

So far, Qianhai has 6,854 finance companies, accounting for more than half of the total companies that have registered in the zone. There are a total of 14 insurance financial institutions, and they are all mainland companies.

Three Hong Kong insurance companies — Asia Insurance, Dah Sing Insurance Company and Blue Cross (Asia-Pacific) Insurance Limited — had intended to set up branches in Qianhai, but they have failed to meet the requirements so far, according to the Qianhai administrative office.

According to China insurance regulations, foreign companies are required to have more than \$5 billion of total assets by the end of the year of application. In addition, their headquarters need have operated insurance business for at least 30 years and their representative offices on the mainland should have been running for more than two years.



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Easing requirements

"The China Insurance Regulatory Commission, however, agrees to consider further loosening some of these requirements for Hong Kong insurance companies to start business in Qianhai," the office said.

As for insurance, the Qianhai cooperation zone has also carried out some innovative experiments with the Internet. The Qianhai Insurance Exchange Center, registered in August 2013, is the first innovative insurance transaction service platform in the mainland.

The center, based on internet financing, is a third-party platform for business-to-business, business-to-customer and online-to-offline insurance trading. Policyholders can publish their demand, select companies and buy insurance products with a single click.

Zhou admits that there are certain threats to banks and financial institutions in the mainland, as competition from Hong Kong arrives in Qianhai.

However, he prefers to call it a process that will "force them to reform, otherwise these major players will not think about changing, since they are too comfortable with the current dominant position".

The central government is gradually pushing financial reforms in the special zone to open the door for Hong Kong and overseas institutes.

The State Administration of Foreign Exchange has approved Shenzhen as a pilot for overseas investment under the Qualified Domestic Limited Partner (QDLP) program. The QDLP program has been in effect in Qianhai since early August.

It allows qualified domestic investors to raise capital of up to \$1 billion, which they can use in overseas innovative investment, including in traditional stock markets, as well as in the equity market and real estate.

When it comes to individual investors, however, the mainland still stays cautious. "As for QDII2 (Qualified Domestic Individual Investors), the central bank is leading to draft the plan and arrange pilots, where Shenzhen is included in the first batch," Qianhai administrative officials said.

Cooperating with mainland companies through creative financing tools and platforms may accelerate the realization of the Hong Kong-Qianhai financial shopping center.

The China Banking Regulatory Commission has agreed to allow Wing Lung Bank and China Unicom to jointly establish a consumer finance company, with a registered capital of 2 billion yuan. It is the first company of its kind to be set up on the mainland under the Closer Economic Partnership Arrangement framework.

Contact the writer at grace@chinadailyhk.com

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