Financial liberalization in China:
How inbound financial institutions should strategize
Presence of foreign financial institutions (FIs) in China has remained fairly limited to-date, but evolving global relationships and intensifying domestic demands are now reinvigorating China’s globalization agenda. We believe that liberalization efforts are not rhetoric but reflect authorities’ commitment to encourage the inflow of capital and talent to genuinely broaden China’s financial system. Foreign FIs should strategically participate in China’s financial markets now, else risk being left behind.

This document addresses a few talking points around China’s financial services liberalization agenda, covering the case for foreign interest in China, key regulatory reforms and how liberalization differs this time. It also details development opportunities and considerations for inbound FIs as they strategize to raise their returns on investment (ROIs) from the Chinese market.
Contents

1. The case for inbound interest 1
   Significant potential upside for the bold 1
   Limited foreign FI presence 2

2. How financial liberalization differs this time 3
   Heading the right direction after some false starts 3
   New policies and developments to-date 4
   Impact on foreign FIs’ entry 7
   Arrival of the early movers 8

3. Next steps for inbound FIs 9

4. Concluding remarks 13

5. Contacts 15
Financial liberalization in China

The relationship between China and the rest of the world continues to evolve quickly. Opportunities are tremendous, and with one-third of global economic growth and the highest GDP (as measured in purchasing power parity terms), China isn’t a market global FIs can ignore. With its 1.43 billion residents (and with 1.1 billion adults) becoming increasingly educated, sophisticated and transitioning into middle-class, greater market access offers boundless opportunities for FIs ranging from basic financial services, to wealth management, private banking and retirement business.

For instance, China’s wealth segment is among the fastest growing with assets under management projected to almost double from US$7.4 trillion in 2018 to US$14 trillion by 2022 as disposable incomes expand. Continued exponential expansion of a financial sector already worth US$44 trillion implies that capturing mere single-digit market share is enough to generate massive absolute returns.

Macroeconomic and political tensions notwithstanding, foreign FIs understandably desire a slice of China’s burgeoning financial services market. However, while China’s socioeconomic development over the past two decades has been impressive, market reforms still have further to go. Operational complexities coupled with sometimes opaque regulatory environment remain sizable barriers to entry. Consequently, while multinationals have penetrated verticals such as consumer goods with reasonable successes, a comparable accomplishment remains elusive for foreign providers of financial services. Reasons are outlined in the pages to follow.

2 http://worldpopulationreview.com/countries/china-population

The case for inbound interest
Limited foreign FI presence

Despite China’s enticing commercial charm, foreign FIs have a lackluster presence, albeit not from the lack of trying. While their absolute banking assets are rising (up from RMB1.7 trillion in 2010 to RMB3.2 trillion or equivalent to US$457 billion in 2017), these have expanded at a more pedestrian pace compared to local peers (see Figure 1), such that they collectively account for below 2% of total banking assets versus a 10% OECD average. And not only has the relative market share of foreign banks trended down these past years, corresponding percentage of net profits is disproportionately lower at circa 0.7%.

Beyond banking, other international FIs fare no better. For instance, foreign insurers captured around 2% of premium income earned compared with 20% in the OECD countries. However, inbound insurers are cognizant that the potential upside is plentiful. Although years of spectacular growth have raised China’s total insurance premium to the second highest globally, it is still among the top three insurance growth markets with CAGRs for both property-casualty and life insurance of over 7% between 2018-2030.

Separately, foreign FIs account for a little above 2% of China’s onshore bond market, the world’s third-largest at US$13 trillion⁵ in 2018. Penetration of China’s debt market by foreign investors was historically low since this was largely off-limits to them due to capital controls.

Figure 1: Market share of assets and net profits by foreign banks in China

Source: CBIRC⁷ annual report, summarized by EY. 2018 values were not yet available at time of publication.

---

While China spoke of delivering financial reforms for over a decade, real progress has been limited, leaving foreign investors questioning its commitment to liberalization. But now, change is afoot, and the resumption of China’s financial reforms is sincere.

Buoyed by President Xi’s comments for quick implementation of its “Opening-up Initiatives”, China’s Financial Stability and Development Committee has been actively relaxing restrictions on foreign institutions. This is particularly vital as China faces its lowest economic growth since 1992 (when it started collecting economic data), and as concerns linger over how the US-China trade tensions will pan out. With further headwinds and economic deceleration anticipated into 2020, swift liberalization serves to create a more robust, transparent environment to encourage foreign participation, and broaden and deepen relationships with global partners.

Greater foreign presence also drives inbound product innovation; expands business and consumer choices; enhances capital allocation; and potentially reduces systemic financial risk. Liberalization lays further groundwork for China’s RMB internationalization, supports equity and bond market development, and loosens capital in- and outflows as it strives to enhance global connectivity.
New policies and developments to-date

One critical move illustrating China’s genuine willingness to change is the consolidation of its banking and insurance regulators to form the China Banking and Insurance Regulatory Commission (CBIRC) in 2018. This unification into one regulator simplifies regulatory structures, creates transparency, efficiencies and robustness. This also addresses the hitherto limitations in coordination among multiple regulators with the central bank, People’s Bank of China (PBOC). Transfer of power to PBOC to regulate all FIs further minimizes inconsistencies and sudden modifications to rule-making and policing, helping to inspire investors’ market confidence.

A series of substantive reforms being rolled out by CBIRC and the China Securities Regulatory Commission (CSRC) suggest that these are not lip-service but more structured this time round. Details have been fleshed out in quick succession since late 2017, covering issues ranging from greater standardization of market entry rules to the removing of ambiguity around foreign FIs’ entry policies. Specifics of these main measures and their timelines are outlined in Table 1.
Table 1: Key regulatory reforms to raise accessibility of the Chinese financial services market

<table>
<thead>
<tr>
<th>Banking</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market access</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Provide an explicit legal basis for inbound investment by adding rules applicable to foreign banks in China either investing in newly established domestic corporate entities or taking equity holdings in existing banks operating domestically</td>
<td>• Remove shareholding caps for both single Chinese-or foreign-funded banks to take stakes in Chinese-funded commercial banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Abolish requirements for foreign banks to meet minimum total asset thresholds for establishing an entity in China: previously set at US$10 billion for foreign-funded corporate banks and US$20 billion for branches</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Relax restrictions on Chinese counterparties in joint venture (JV) banks, and abolish requirement for an FI to own majority or sole capital contributor position</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Loosen eligibility requirements for Chinese and foreign FIs to invest and establish consumer finance companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• CBIRC formally issued its ‘Implementation Rules on Administrative Licensing for Foreign Banks’, effective from October 2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business access</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Apply a reporting mechanism to replace the previous approval system on foreign banks’ overseas wealth management business, custody services for overseas wealth management and securities investment funds, and repatriation of interest-earning assets by foreign FIs in the liquidation process</td>
<td>• Abolish 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>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Permit Type-A lead underwriting licenses in the inter-bank bond market</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Securities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Market access</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Allow foreign investors to gain control of JV securities companies; provide a legal basis for foreign investors to increase their proportionate holdings to take a controlling stake</td>
<td>• Bring forward cancellation of foreign ownership limit in securities firms from 2021 to 1 December 2020 for securities firms</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Improve rules of foreign shareholding in listed securities companies, remove the 25% shareholding cap for collective foreign investors</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business access</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Phase out business scope restrictions for JV securities companies, allow newly-established JV securities companies to initially apply for four types of businesses. Further expansion into up to two additional business types per application will be considered from the second year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Wealth and asset management</td>
<td>Insurance</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-----------------------------</td>
<td>-----------</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>• Standardize entry criteria for QFII and RQFII regimes. Criteria instead of quantitative indicators are specified for qualified investor application</td>
<td>• Allow overseas FIs to take equity stakes in an existing foreign-funded insurance company in China</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Abolish minimum threshold of US$1 billion in total assets for an overseas FI to invest in a trust company</td>
<td>• Abolish requirement for a 30-year track record and at least US$200 million in total assets for foreign insurance brokerage companies to operate insurance brokerage business in China</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Encourage overseas FIs to participate in establishing and investing in wealth and asset management subsidiaries of commercial banks</td>
<td>• Permit overseas FIs to establish and invest in pension management companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Permit overseas AMCs to co-establish foreign-controlled AMCs with subsidiaries of Chinese banks or insurers</td>
<td>• Remove the requirement for domestic insurers to hold at least 75% of shares in their asset management business, thus allowing foreign investors to raise their current 25% ownership limit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Support foreign capital in wholly-owned currency brokerage establishment and equity participation</td>
<td>• Relax entry conditions for foreign insurers by removing the requirement for at least a 30-year business track record</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Bring forward cancellation of foreign ownership limit in AMCs and futures companies from 2021 to 1 April 2020 and 1 January 2020 respectively</td>
<td>• Bring forward the transition period to allow for 100% instead of 51% foreign ownership cap on life insurers from 2021 to 2020</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>• Expand investment scope of qualified investors to include six type of products in addition to the original listing:</td>
<td>• CBIRC formally issued its ‘Implementation Rules on Administrative Licensing for Foreign Insurance Companies’, effective from October 2019</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. The stocks listed on the National Equities Exchange and Quotations (NEEQ)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Bond repurchase</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Private investment fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Financial futures</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Commodity futures</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6. Options and others</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CBIRC, as summarized by EY and updated until October 2019
Impact on foreign FIs’ entry

A welcomed announcement in Table 1 is the lifting of foreign ownership limits of banks and financial asset management companies (AMCs) from mid-2018, and a similar planned removal of caps for securities, fund management, futures companies and life insurers a year ahead of schedule in 2020 instead of 2021. This highlights one of the several accelerated phase-out of business restrictions.

Restrictive ownership rules have been a major contention for foreign FIs in the past as minority shareholdings gave them limited influence over key decisions. Lifting of caps enables foreign FIs to craft more effective market-entry strategies, while standardization of entry requirements highlights a transition towards greater equality in treatment for foreign and domestic banks. Abolishment of these limits should facilitate M&As of local commercial banks, particularly between foreign FIs and tier 3 and 4 city and rural commercial banks as some inbounds look to acquire scale through selective acquisitions.

Another notable development is the removal of minimum total asset thresholds for foreign FIs to establish an entity in China. With asset size no longer a substantial hurdle, small but nimble foreign FIs armed with competitive skills and innovative ideas can seek new opportunities in China. Liberalization concurrently benefits the domestic economy by encouraging diversity and friendly competition, spurring state-owned banks to make more efficient lending decisions, and improving the overall depth and quality of financial services in China.

Meanwhile, a previous regulation requiring foreign banks to wait a year before applying to engage in RMB business operation (then wait thereafter to obtain their approvals) drives up capital expenses. This was abolished in 2019, permitting inbounds to apply for immediate licenses to conduct both local and foreign currency businesses though significantly simplified administrative procedures. This reform places foreign banks on closer footing with domestic counterparts and encourages foreign capital into sub-segments such as trust business, financial leasing and consumer finance.

Beyond greater clarity and simplification of entry requirements, modification to existing rules further provide foreign institutions already in China with broader flexibility to exit existing business lines. For instance, abolishing the approval on repatriation of interest-earning assets by liquidated foreign FIs is symbolic, demonstrating that regulators aren’t just extending a market-entry invitation for inbounds but providing them with viable exit options.

Of course, managing structural reforms isn’t straightforward given the complexity and size of China’s financial markets. Learning from previous economic events, there is now deeper focus on corporate governance and regulatory system enhancements. These are required to mitigate potentially amplified risks and contagion, and ensure that liberalization is conducted in an orderly manner.
Arrival of the early movers

With reduced regulatory and procedural uncertainties, foreign FIs previously reined back by a lack of market visibility, limited institutional size and market influence now have access to broader channels and opportunities for market entry and scale up. Initiatives are also particularly timely as Chinese consumers become increasingly exposed to higher global standards and demand broader, better options beyond those offered by domestic FIs.

These developments have provided impetus for global banks such as HSBC, JP Morgan, Morgan Stanley, Nomura and UBS to take controlling stakes in their onshore businesses in China. For instance, UBS received CSRC's authorization for a 51% controlling stake8 in its local securities business in December 2018, making this Swiss giant the first foreign bank allowed to do so under new rules. This overturns laws limiting foreign ownership of local financial firms that previously hindered inbounds from operating independently in China.

China is also enticing foreign insurers. Two European insurers, Germany’s Allianz and France’s Axa9 received approvals in November 2018 to expand their footprint in China – Allianz was permitted to launch a 100% foreign-owned subsidiary while Axa for full control of a JV. American Express10 also obtained approval in November for its bank card clearing and settlement institution and payments network JV in China. Subsequently in March 2019, JP Morgan and Nomura11 both received permissions for their respective securities JVs in alignment with the Chinese securities sector deregulation.

China is showcasing determination to embrace greater financial openness and laying the groundwork for foreign FIs to broaden and deepen their presence within its financial markets. However, most inbounds remain on the sidelines, observing the first movers. While some details need to be ironed out, there is eagerness to see confirmation of all proposed policies being put into practice. We believe that there’s greater clarity now on China’s regulatory standing than ever before.

Time is of essence. Heads of strategy at foreign FIs should seek to raise their ROIs from the Chinese market by addressing some development opportunities and considerations. We advise that inbound institutions:

1. **Find a strong value proposition for the Chinese market:**

   Begin by determining their organizations’ fit-for-market in China and crafting a strategic entry strategy. Being smaller raises the risk of being marginalized, so foreign FIs need to counter their lack of size by highlighting their expertise. They should move beyond a homogenous financial services model to identify a niche within a geographic region, among specific groups of clients, or to offer specialty services to differentiate from competition.

   Foreign FIs have an edge over traditional incumbents and particularly the state-owned banks in terms of international experience, and from (real or perceived) advantages from international branding, wider product knowledge and customer-centricity. For instance, progressive foreign retail banks offer best-in-class products, mature practices and advance risk management and service capabilities. International institutions that lead in areas such as trade finance, cash management, cross-border businesses, foreign exchange and derivatives trading should also leverage upon these expertise.

   Emphasizing such nuanced differences, however subtle, strengthens inbounds’ brand presence, creates new financial services experiences for clients, and ultimately enhances their revenue streams from the Chinese market.
2. Identify the appropriate entry and investment approach:

Part limited by previous regulatory restrictions, inbounds have relied on pedestrian organic growth or minority stakes to grow their presence these past decades in China, achieving limited successes with less than a 2% share of its financial services industry.

Even with the new regulatory relaxations to shareholding and permitted operations, a challenge is being able to compete against behemoth Chinese institutions given their scale of operations, industry influence and years of domestic experience. For instance, 71% state-owned ICBC is the largest bank globally in 2018, with total assets of US$4 trillion, staff strength of over 453,000, and net income of US$43.4 billion (to put into context, this is equivalent to the annual GDP of half of the countries globally12). New entrants establishing a greenfield setup can’t conceivably compete against the sheer size, government and financial backing of the likes of ICBC and CCB.

More effective entry approaches are to:

• Collaborate within the financial ecosystem: Competition originates not only from traditional peers but from forays by enormous tech firms like Alibaba and Tencent into financial services. Such digital natives are unsaddled by legacies and quick to adopt advanced technologies to provide innovative financial services. Leveraging emerging tech like artificial intelligence and robotics process automation, their successes have been impressive. For instance, Alibaba Group’s Ant Financial’s four-year old MYbank loaned RMB2 trillion13 (US$282 billion) to nearly 16 million small companies by mid-2019 via a completely digital lending process that analyses real-time payments and risk-management data.

Instead of competing against these disruptors in their own game, foreign FIs and should collaborate with non-banks and incumbents in China’s highly entwined financial ecosystem. For instance, partnering with non-banks by joining their platforms would avail immediate access to a pool of up to hundreds of millions of potential clients across the entire span of the financial services sector.

Collaborations are never easy, particularly with multiple parties across different countries and corporate cultures, so partnership details and longer-term implications must be clearly agreed upon. As ecosystems evolve, inbounds should reposition themselves as market dynamics change and value pools shift. They must continually scan the horizon for new potential partners, re-evaluate existing alliances to ensure interests remain aligned, and monitor how collaborations are impacting reputational, financial and regulatory risks.

• Invest in incumbents but manage associated acquisition risks: After decades of struggling to scale up organically, the new option of purchasing a controlling stake in domestic FIs offers inbounds a quicker expansion route compared to building a domestic presence up from scratch. However, given the size of the Chinese banks, most majority stakes come with huge price tags. This is more so if these are listed in the Hong Kong Special Administrative Region of China as acquisitions or increase of equity holdings over 30% would trigger a mandatory general offer to all existing shareholders. As such, we expect foreign FIs to invest in smaller tier 3 and 4 city commercial or rural commercial banks for their inaugural market entries or to enlarge footprints within strategic regions.

However, China is not a single homogeneous market, and these smaller institutions could operate in local conditions extremely unique to their specific provinces, regions or even cities, with distinctions in market maturity, financial and consumer culture and risk characteristics. Thus, inbounds must look beyond their standard financial, legal, operational and commercial due diligence and emphasize enhanced due diligence to identify potentially hidden risks from these target acquisitions.

Particularly concerning is the genuine financial health of these smaller banks, some which rely on opaque asset management products and interbank borrowing instead of more stable consumer deposits for financing. As regulators clamp down on risky funding methods and corporate defaults rise with the slower economic growth into 2020, some could deteriorate into much riskier investments. Perform feasibility studies and investigate the targets’ performance, conduct thorough audit to authenticate their financial statements, and run health diagnosis of internal controls and compliance functions.

3. Focus on localizing technology, tackling capacity and data security limitations:

There are multiple technological considerations for market entry. A primary challenge is ensuring that current operating systems and underlying processes are sufficiently robust to manage the transaction volumes and processing speeds demanded by their China-based business.

Another involves domestic compliance requirements on data security and confidentiality that might require foreign FIs to transfer and host some of their IT systems within China’s borders. System infrastructure also needs configuration and inter-connectivity that are consistent with local requirements (as is the case within the Chinese asset management industry), but which may be incompatible with systems used overseas.

All these - the capacity shortfall, potential need for new in-country data center, and challenges in localizing and configuring existing overseas system infrastructure - could pose challenges. Fortunately, there are a plethora of options on how the IT backbone for the Chinese operations of inbounds could evolve.

Among others, they might engage third-party vendors and purchase infrastructure and software-as-a-Service (IaaS and SaaS); consider API-driven banking platforms (Banking-as-a-Service) to reduce cost for application development and maintenance; or explore shared utility models with other FIs. For instance, if data must remain in-country, foreign FIs not already invested in large-scale data centers could consider moving their data functionalities to hosted environments in China.

4. Keep pace with China’s advancing technological revolution:

China is fast becoming a global hub for accelerated innovation, not just for Chinese companies but for foreign multinationals wanting to leverage its pool of research talent, cost-effective and flexible R&D capacity, and manufacturing ecosystem to efficiently commercialize concepts and designs into products.

Similarly, foreign FIs expanding into the Chinese financial markets must keep pace with the lighting-speed financial technology (FinTech) is evolving in China, oftentimes quicker than counterparts in developed markets. Reflecting this exponential pace of growth is China’s digital economy that was already worth RMB26 trillion¹⁴ (US$3.7 trillion) in 2017, equal to a-third of the country’s GDP. As 5G mobile technology, e-payments, advanced data analytics, and challenger FIs accelerate innovation and reshape China’s financial landscape, success would be easier for FIs with digital innovation embedded into their corporate DNA.

Fortunately, options for their digital strategy for China are diverse and plentiful. For instance, internal teams could set up cross-functional digital groups to entrench a new digital culture and develop product or process using emerging technologies like blockchain and robo-advisory. They could concurrently also establish networks with innovation communities, invest in accelerator hubs, and collaborate with external developers on APIs and cloud-based architecture to build out existing applications and financial solutions. Active participation in China’s technological evolution is vital for foreign FIs to ensure relevance and longevity within its highly digitalized financial market.

5. Acquire and retain domestic talent:

As their presence and business scope in China expands, inbounds must attract additional personnel not only proficient in their areas of focus, but adept to operating within the local environment and culture. Ideally, staff should also be aligned with their organization’s brand language and corporate ethos.

Herein, securing good caliber human resource remains a perennial issue as they compete for scarce talent with local incumbents and increasingly with the non-banks. As it is, mainstream banks are losing talent to challenger FIs like digital-only banks that offer seemingly more exciting career paths, and that pride themselves on having a fresh, dynamic and distinct culture and well-defined core values.

Hiring priorities include branch staff and retail bankers for foreign FIs growing a retail presence, but should expand to fields such as risk management, cyber security and product innovation, and to secure tech talent and digital professionals for roles such as data scientists, user-experience designers and social media strategists. Beyond adapting to domestic employment norms when managing local staff, talent management program must also focus on grooming a local management pool to support succession planning and future leadership requirements.

6. Engage with market experts to formulate effective strategies:

While new reforms have simplified and raised accessibility of the Chinese financial markets to the outside world, China still presents a unique, multifaceted and perhaps challenging operating and business environment. Entry into a new environment is itself an overwhelming, risky undertaking and issues could be magnified multifold in a massive emerging market like China.

Key among these include constantly shifting macrogeopolitical issues; unfamiliarity with the local legal environment, regulatory requirements on compliance and risk management; and differences in conduct, culture and general ways of doing business in China. And although authorities are implementing enhanced supervision and applying greater consistency for both local and foreign FIs, these take time. Overseas experience might also be less relevant for tackling operational nuances around local data privacy, IT security, credit risk and fraud management.

It is thus valuable to utilize external experts such as strategy consultants that are well-equipped with deep industry knowledge and experience to provide entry guidance and local connections. These are positioned to offer input on critical areas around strategic investment advisory, target acquisition selection and feasibility, regulatory advisory, risk management and compliance, cybersecurity, digital strategy and talent management. Advise on how inbounds can leverage their existing strengths and specialization, localize these for the domestic market, and work on realistic goals for their China growth strategy could make that difference between market successes and setbacks.
The breadth and depth of China’s recent financial liberalization is exceeding public and our expectations, sending clear signals to the international community that China is determined and committed in efforts to liberalize its financial markets to the outside world. Despite some geopolitical tensions on the global arena, there’s significant potential upside in China, and progressive foreign FIs should act now.

“As reforms gather pace, we see these spurring genuine energy and opportunities for international financial institutions. While inbounds should be cautiously optimistic, the current deregulation provides a window of opportunity for them to actively participate in this exciting next stage of market expansion in China.

Jack Chan
Managing Partner, Financial Services, Greater China
Regional Managing Partner, Greater China – elect
We applaud China’s commitment to relax restrictions on inbounds by deregulating structures, locations and scope of services for FIs. These would undoubtedly facilitate more diversified exchanges of ideas and communication between the Chinese institutions and their international peers, boost innovation and foster more robust competition, all collectively benefiting the global financial community and their customers.

Alex Jiang
Japan Business Services Leader
Greater China Financial Services

China’s financial markets present immense prospects for foreign FIs’ international businesses. However, challenges are unique, and a calculated, clear entry strategy and long-term commitment are requisite for success. Considerations include having a distinctly different value proposition vis-à-vis the local players, keeping pace with China’s technological evolution, and as always – focusing on risk, compliance and talent management.

Andrew Gilder
Asia-Pacific Banking and Capital Markets Leader

How EY teams can help

<table>
<thead>
<tr>
<th>Transaction Advisory Services</th>
<th>Implementation strategy (Transaction and integration)</th>
<th>Strategic expansion stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Market entry strategy</td>
<td>• Financial advisory and transaction support during M&amp;A activities</td>
<td>• Business planning</td>
</tr>
<tr>
<td>• Market research and valuation</td>
<td>• Post-deal integration</td>
<td>• Products and services differentiation</td>
</tr>
<tr>
<td>• Advisory</td>
<td></td>
<td>• Business operation optimization</td>
</tr>
<tr>
<td>• License application</td>
<td>• Risk management and transformation</td>
<td></td>
</tr>
<tr>
<td>• Compliance to local regulations</td>
<td>• Cybersecurity</td>
<td></td>
</tr>
<tr>
<td>• IT strategy</td>
<td>• Operation processes improvement</td>
<td></td>
</tr>
<tr>
<td>• Tax</td>
<td>• Tax due diligence</td>
<td>• Customer management and experience</td>
</tr>
<tr>
<td>• Tax planning</td>
<td>• Tax structuring</td>
<td>• Digitalization and emerging tech</td>
</tr>
<tr>
<td>• Transfer pricing</td>
<td>• People and professionals</td>
<td>• Incentive mechanism design</td>
</tr>
<tr>
<td>• Assurance</td>
<td>• Forensic and integrity services</td>
<td>• Tax compliance</td>
</tr>
<tr>
<td></td>
<td>• Accounting and reporting services</td>
<td>• Tax accounting and risk advisory</td>
</tr>
<tr>
<td></td>
<td>• GAAP conversion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Audit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• IPO and capital markets services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Capital verification</td>
<td></td>
</tr>
</tbody>
</table>
Gary Hwa  
Asia-Pacific Financial Services Leader

Jan Bellens  
Global Banking and Capital Market Leader Financial Services

Andrew Gilder  
Asia-Pacific Banking and Capital Markets Leader Financial Services

Jack Chan  
Managing Partner, Financial Services, Greater China  
Regional Managing Partner, Greater China - elect

Effie Xin  
Asia-Pacific Fintech and Innovation Leader  
Greater China Financial Services Leader  
Greater China Advisory Services

Alex Jiang  
Japan Business Services Leader  
Greater China Financial Services

Jonathan Zhao  
Asia-Pacific Financial Services Transaction Advisory Services Leader

Dennis Leung  
Greater China Transaction Advisory Services Leader  
Greater China Financial Services

Catherine Li  
Greater China Business Tax Advisory Services Leader  
Greater China Financial Services

Research and analysis:  
Li-May Chew  
Associate Director  
Global Banking and Capital Markets
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.

EY is a leader in shaping the financial services industry
Over 30,000 of our people are dedicated to financial services, serving the banking and capital markets, insurance, and wealth and asset management sectors. At EY Financial Services, we share a single focus - to build a better financial services industry, not just for now, but for the future.

© 2019 EYGM Limited.
All Rights Reserved.

EYG no. 004766-19Gbl
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com