Analysis of the Reasons Why Hong Kong does not have Short-term Financial Products

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Abstract. Whether in mainland China or Hong Kong, due to the steady development of China's economy and the continuous growth of national income, residents' awareness of financial management has become stronger and stronger, so the development of the financial product industry is also booming. In the mainland, an increasing number of people are investing their spare money in currency funds such as Short-term wealth management products under a good momentum of development. However, the development of such currency funds in Hong Kong is slower than that in the mainland. This article will explore and analyze the reasons for the lack of Short-term money funds in Hong Kong from different angles.

Keywords: Short-term Wealth Management Products; Hong Kong Financial Market; Industry Conditions; HIBOR; Deposit Interest Rates.

1. Introduction

When people choose financial products to invest, they often consider the liquidity and profitability of financial products. Generally speaking, in the actual investment process, profitability and liquidity are prone to conflicts. For the public, wealth management products with high liquidity and a certain degree of profitability are often more popular than high-risk and high-yield investment products, especially for the small amount of spare money management, and currency funds have the above characteristics. So why are there few Short-term wealth management products in the Hong Kong market? For this question, we first define the concept of Short-term financial products, and then analyze it from the two dimensions of the supply side and the demand side.

2. Definition and Scope of Short-term Wealth Management Products

Short-term wealth management products refer to financial market instruments that are invested in high market credit ratings and good liquidity. Generally, the term is short, and there are ultra-short term wealth management products with a product maturity of 3-5 days. Taking the ultra-Short-term wealth management products in Mainland China as an example, this type of product emphasizes sound investment, can basically achieve capital protection or similar capital protection, and its yield is also significantly higher than cash management tools for demand deposits. At the same time, the ultra-Short-term wealth management products that are currently popular in mainland China generally do not have a purchase rate, and a small number of bank products will set a redemption rate for redemptions within a certain period.

3. The Supply Side

3.1 Internal Factors: Few Investment Channels and High Investment Threshold

Unlike the investment channels faced by mainland investors, Hong Kong investors have fewer Short-term wealth management products to choose from. When it comes to Short-term wealth management products on the mainland, we will think of Alipay's "Yu'e Bao" and WeChat's "Linqiantong". Take the "Linqiantong" launched by WeChat as an example. There are a wide range of Short-term wealth management products available on the platform. The redemption time ranges from flexible redemption, 0-3 months redemption and 3 months redemption, and the corresponding

interest rate is within the range of 2.1%-4.5%. For example, the SPDB AXA Rifeng Currency (Code: 003536) wealth management product launched by SPDB AXA Fund Management Company has a corresponding period of flexible redemption and an annualized rate of 2.9260% in the past seven days. Turning to the Short-term wealth management product market in Hong Kong, China, there are few products to choose from, and the interest rate is somewhat different from that of the mainland. For example, the first on-market fund issued by Southern East British known as "Hong Kong's Yu'ebao" was issued at the time of its issuance. Its expected rate of return is only 1.5%.

Hong Kong currency funds restrict investors' choices from less channels, and high entry barriers further inhibit investors' enthusiasm for investment. Hong Kong's HSBC has the business of "Excellent Wealth Management". Customers who become such private banks can more easily obtain recommendations for wealth management products than ordinary investors. However, it requires that "the average balance of your total wealth management is in the past three months." The threshold is so high that depositors who do not have this capability can only deposit funds in banks to mitigate the loss caused by inflation. The interest rates of Hong Kong banks are extremely low. For example, the interest rate of China Merchants Bank in Hong Kong is 0.82%, HSBC is 0.25%. Under this circumstance, the investor's income is extremely low, even unable to fight the inflation rate, so Short-term financial management is extremely low attractive to investors.

Table 1. HSBC Hong Kong Premier Banking Solution

condition	Maintain a total wealth management value of HK\$1 million or above. Total wealth management includes: deposits, market value of investment products, high-interest investment deposits, deposits in structured investment deposits, used credit, life insurance with savings or investment components, etc. If the total wealth management value is less than HK\$1 million, a low balance service fee of HK\$380 is required for the month. If the total wealth management value remains below HK\$1 million for 12 months, the premium wealth management service may be terminated.
Preferential policy	Diversified wealth management services Bank preferential services Global Banking Service Global transfer service Overseas education planning

Fig 1. Hong Kong Deposit Interest Rates in the Past 10 Years Data Source: IMF

3.2 External Factors

3.2.1 HIBOR is Low, and There are Fewer Short-term Wealth Management Products Listed by Financial Institutions

In recent years, in order to continuously promote Hong Kong's financial liberalization and increase market circulation, Hong Kong has implemented loose credit policies. HIBOR has continued to fall.

Financial institutions can meet each other's capital needs. As a result, their demand for Short-term wealth management products has declined, resulting in fewer Short-term financial products has issued by financial institutions.

Table 2. HIBOR continues to fall

Date	HIBOR: three months	HIBOR: 6 months	HIBOR: 12 months
2006.4.28	4.62	4.66	4.74
2011.4.28	0.26	0.34	0.62
2016.4.28	0.55	0.90	1.29
2021.4.28	0.17	0.31	0.44

Data source: Wind

3.2.2 Strict Financial Supervision System

Hong Kong complies with international regulatory standards. Authorized institutions must maintain sufficient capital and liquidity, and submit regular returns to the Monetary Authority. The risk-based supervision model adopted by the HKMA is based on continuous supervision policies to detect problems as early as possible and prevent problems before they occur. Hong Kong, China, due to strict regulatory measures and fewer loopholes, has affected the launch of high-yield products to a certain extent. In addition, Hong Kong has imposed greater pressure on anti-money laundering. Banks and other financial institutions are under pressure from tax investigations and require relatively detailed capital details. High, clear requirements for funding sources, which impose certain restrictions on the flexible operation of monetary funds.

3.2.3 Precautions for the Potential Crisis of the Fed's Monetary Policy Change

The new crown pneumonia epidemic has caused losses to the global economy. In addition to the market volatility in March last year, the Fed has announced that it will not raise interest rates before 2023 and has introduced relatively loose monetary and fiscal policies to support the market. However, the current asset prices seem to be out of touch with the real economy, and there have been some bubbles. Ultra-low interest rates are superimposed on very loose fiscal policies, thereby pushing up asset prices, and there is a hidden concern for financial stability. Once the Fed's monetary policy turns, it may trigger a reversal of global capital flows, which will become a "black swan" or "gray rhino" that impacts the market, and market adjustments may be faster and deeper. As one of the international financial centers, Hong Kong has been greatly influenced by international monetary policy and has undergone several financial crises. Although it is still a calm time, the major banks in Hong Kong need to take precautions to ensure the capital and liquidity buffers of the banking system. Because the liquidity buffer level = cash reserves-debts due within one year plus interest payments, Hong Kong financial institutions are more inclined to Long-term financial products in order to increase their liquidity buffer levels in response to sudden reversals of global capital flows Listing and publicity.

4. The Demand Side

4.1 Internal Factors

4.1.1 Compared with Individual Investment, Hong Kong Investors Prefer Financial Institution Custody

In Mainland China, in addition to financial institutions, individual residents are also major participants in the investment market, including the Short-term wealth management market. Individuals can easily purchase wealth management products on their own through mobile phones and other terminals. In Hong Kong, China, due to factors such as the difficulty of opening an account, strict financial supervision system, high investment threshold, and high handling fees, individual investors tend to hand over their funds to financial institutions for custody and further investment by financial institutions. Therefore, the investment market in Hong Kong Among them, financial

institutions holding large amounts of funds in “retail accounts” are the main participants in the market. This is the biggest difference from mainland investment. The difference in the composition of the investment market has led to different investment behaviors and investment strategies and has contributed to the difference in the demand for Short-term financial products between the Chinese mainland and Hong Kong.

4.1.2 High-income Investor Groups Focus on Traditional Long-term Wealth Management Products

For a group of investors in a particular region, the difference is that the investor profile determines the region's preference for wealth management products will be very different.

In contrast to the overall investor group in the mainland, the investor group in Hong Kong has a higher average monthly income.

According to data disclosed by the Hong Kong Census and Statistics Department in 2019, Hong Kong had a population of 7.45 million at mid-year in 2018, and the total disposable income of Hong Kong residents was 2,963,078 million Hong Kong dollars. Divided by the population, the per capita disposable income was 397,700 Hong Kong dollars. 0.8775, which is approximately RMB 349,000. According to data released by the Beijing Bureau of Statistics in 2019, the per capita disposable income of Beijing residents is 62,000 yuan. It can be seen that the per capita income level of residents in Hong Kong is much higher than that in mainland China. In the previous analysis of the correlation between the average income of residents and whether to choose personal financial products, it is concluded that the average income of residents has a significant negative relationship with the choice of personal financial products. This is because investors with high net worth are more willing to directly engage in formal asset management business, and Short-term wealth management products cannot meet the investment needs of Hong Kong investors.

4.1.3 Short-term Financial Products in a Low Interest Environment are Difficult to Attract Investors

Hong Kong has been in a low interest rate environment for a long time, and the benchmark interest rate is very low. Therefore, the currency fund market linked to ultra-Short-term wealth management products in the mainland is not developed in Hong Kong. This is because the expected return that money funds can provide to investors in Hong Kong is low, and it is difficult to attract investors to hold. At the same time, due to the different development status of the financial regulatory systems in Hong Kong and the mainland, it is difficult for Hong Kong to produce ultra-Short-term wealth management products that have the same high-yield, high-liquidity and low-risk as the "Yu'eobao" in the mainland.

Fig 2. Hong Kong benchmark interest rate

For Hong Kong, an independent economy with a well-developed financial system, wealth management products such as "Yu'e bao" that violate the ternary paradox of investment and wealth management are difficult to emerge. That is, compared with bank demand deposits, there is no need to sacrifice liquidity and high commitment. Risks, financial products that can still get higher returns. For any financial product, it should conform to the ternary paradox of investment, that is, the increase in returns must come from the sacrifice of liquidity or the assumption of higher risks. In mainland China, due to the lack of institutional gaps in the financial regulatory system for non-bank financial institutions, products such as "Yu'e bao" have a lot of institutional arbitrage space and have also led to more serious shadow banking problems. With the development of ultra-Short-term wealth management products in the mainland, the rate of return of such products has continued to pull back to the normal range until their returns are consistent with risk and liquidity.

For a normal Short-term wealth management product that complies with the regulatory system, Short-term and even ultra-Short-term wealth management products in Hong Kong are difficult to bring higher returns to investors, and their final returns will be infinitely close to bank demand deposit. And even if there is a very small excess return, it will be difficult to attract investors to hold it. Therefore, it is naturally difficult for Hong Kong to form a systematic Short-term wealth management product market.

4.2 External Factors

China's policies have an impact on Hong Kong's wealth management products.

In recent years, with the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, the financial cooperation between mainland China and Hong Kong has become closer, and the relevant financial policies issued by the mainland have also had an important impact on Hong Kong's financial industry. For example, the development of the "Cross-border Wealth Management Link" in the Guangdong-Hong Kong-Macao Greater Bay Area provides Hong Kong residents with the opportunity to purchase qualified wealth management products sold by mainland banks. Since the Short-term wealth management products launched by mainland banks have higher interest rates and more profitability, Hong Kong Residents are more inclined to mainland banks in choosing Short-term wealth management products, which has further reduced the demand for Short-term wealth management products in Hong Kong. In another example, the "Guangdong-Hong Kong-Macao Greater Bay Area Planning Outline" clearly proposes to vigorously develop green finance in the Greater Bay Area and support Hong Kong in building a green financial center in the Greater Bay Area. Investors are full of confidence in Hong Kong's Long-term credit conditions and economic fundamentals, and Long-term green bond yields are much higher than Short-term financial products. The 30-year green bond issued a few months ago is the longest green bond issued by the government in Asia and has been oversubscribed by more than 7 times. The "Global Medium-term Notes Issuance Program" established at the same time is the world's first A government-type bond issuance plan for the issuance of green bonds. The development of the green financial market has provided greater development opportunities for Hong Kong's Long-term wealth management products, and correspondingly reduced the demand for Short-term wealth management products by some investors.

Policies introduced on the mainland have an impact on Hong Kong's wealth management products.

5. Conclusion

The reasons for the absence of Short-term financial products in Hong Kong can be derived from an analysis of two dimensions, the supply side and the demand side. which are both internal factors such as investment channels and thresholds, investor preferences, and external factors such as low HIBOR, external policies, and financial regulatory regimes, In the future, Hong Kong can promote the development of Short-term financial products by strengthening product development and implementing measures such as mixed business operations.

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