HSBC Holdings PLC

Why Chinese insurer Ping An is calling for a break-up of HSBC

Bank is caught between Washington and Beijing

Since Mark Tucker joined HSBC in September 2017, the stock has fallen 33 per cent, hitting a 25 year low in September 2020. © FT montage/AFP/Getty

Tabby Kinder in Hong Kong and **Stephen Morris** in London 11 HOURS AGO

Two decades ago, HSBC made a bold gamble to recapitalise an ailing Chinese insurance firm, paying $600mn for 10 per cent of Ping An.

The risk paid off handsomely netting the bank $2.6bn in profit when the stake was sold in 2012.

But a decade on, Ping An has become HSBC's largest shareholder and is calling for what would be the biggest shake-up in the bank's 157-year history — a split of its Asian and western operations.

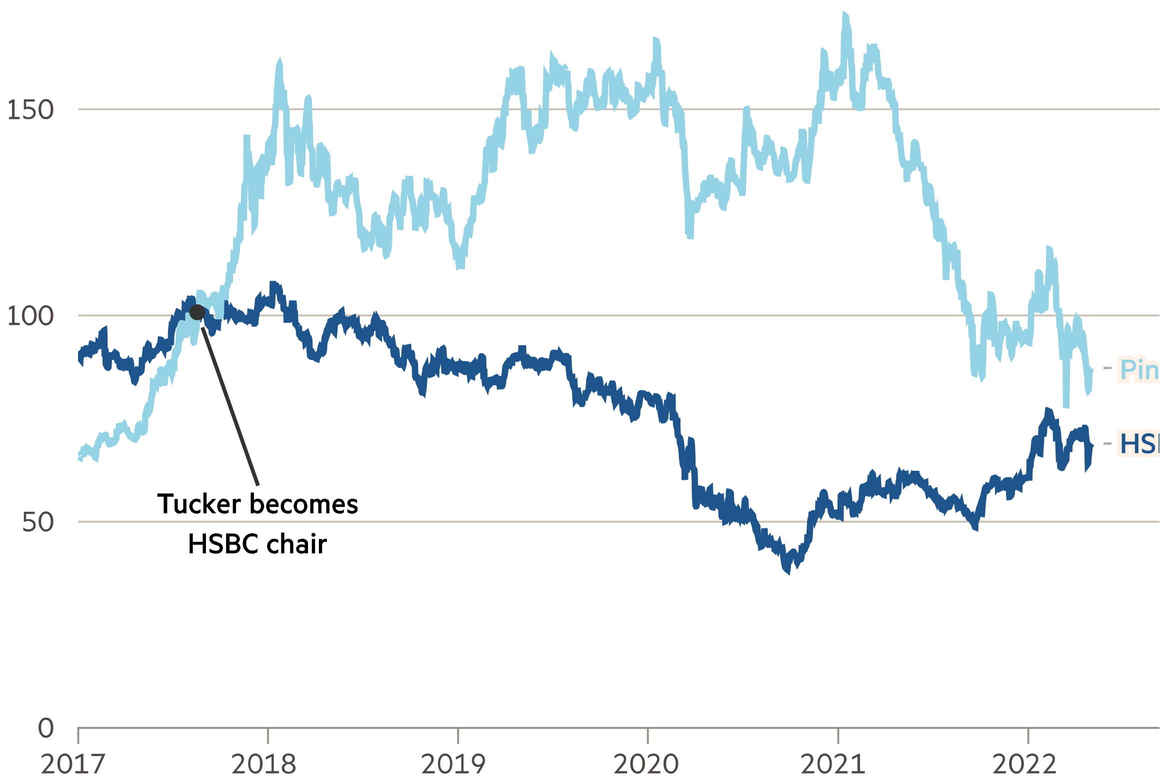
"There's a certain irony in the fact that HSBC was once the biggest external shareholder in Ping An," said an adviser to the bank in Hong Kong. "Now the tables have turned."

Since HSBC invested in Ping An their fortunes have gone into reverse. Ping An has grown into China's most valuable publicly listed insurer with a market capitalisation equivalent to $122bn, almost equalling HSBC's valuation of $131bn.

It had also been building a stake in the UK lender since 2017 as HSBC's share price tanked, before shocking the bank's chief executive Noel Quinn and chair Mark Tucker with its move into shareholder activism during a series of meetings in Hong Kong in recent months.

HSBC and Ping An's stock performance

Share prices rebased



FINANCIAL TIMES

Source: Refinitiv

Caught between Beijing and Washington

The rupture between HSBC and its Chinese shareholder is the latest in a string of geopolitical woes for the bank, which is headquartered in the UK but makes around two-thirds of its profits in Asia. As HSBC has invested heavily in a "pivot" to Asia, refocusing its once global ambitions on Hong Kong and mainland China, it has become increasingly difficult to navigate tensions between Beijing and Washington.

Ping An has argued that this balancing act has dragged down its share price, claiming that an independent Asia business listed in Hong Kong would have higher profitability, lower capital requirements and greater autonomy to make decisions.

A break up could also create a "China-friendly bank in Asia, and a US-friendly bank everywhere else," which may reduce its risk of being vulnerable to sanctions from either side in the future, said a person close to HSBC.

The reaction from HSBC's other large shareholders has been mixed. One top-10 shareholder said Ping An's proposal was "interesting" because HSBC's structure had become untenable.

Hugh Young, Asia chair of Abrdn, which holds a 1.3 per cent stake in HSBC, said: "It doesn't make business sense, but if it becomes far too hard politically to exist then I can understand why [a break-up] might be considered."

HSBC and Ping An have close ties through their most senior leaders. HSBC has been growing its own insurance business in Asia, meaning Ping An is a competitor. But Tucker has encouraged collaboration between the two companies through his personal relationship with Ping An's founder and chair Peter Ma, who he has known well for 20 years.

Tucker organised multiple discussions for Ma and the insurer's strategy team with top HSBC figures, including chief executives, and even invited Ma to speak at one of HSBC's board dinners, a person familiar with the matter told the FT. "It is slightly ironic that the person Tucker brought in as the key shareholder has turned on him," the person said.

HSBC had already been walking a tightrope to maintain the support of Beijing as it has deployed more than $100bn of new capital to Asia. © Paul Yeung/Bloomberg

Ping An is not the first HSBC shareholder to call for a break up of the bank but is by far the most powerful by virtue of its 9.2 per cent stake and its position as a systemically important financial institution in China, one of the bank's main markets.

Ping An's size and importance in China means it is likely to be operating with a green light from Beijing, according to people close to the bank.

A former senior executive of the bank said Ping An "would have had air cover from Beijing" to make such a bold move.

HSBC had already been walking a tightrope to maintain the support of Beijing as it has deployed more than $100bn of new capital to Asia.

"It's simple politics. Ping An is the shareholder but everything is centralised in China, nothing happens without the party saying 'boo'," said a veteran banking executive in Hong Kong who works closely with Beijing.

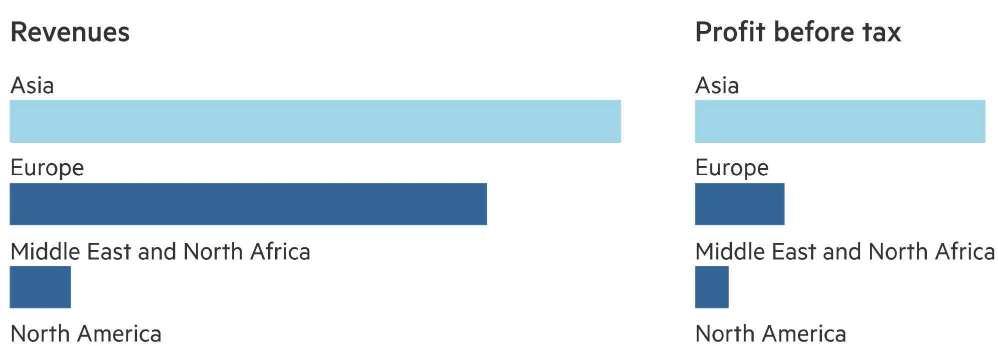
As China has increased its grip on Hong Kong in recent years, localising control of the city's biggest bank would make sense.

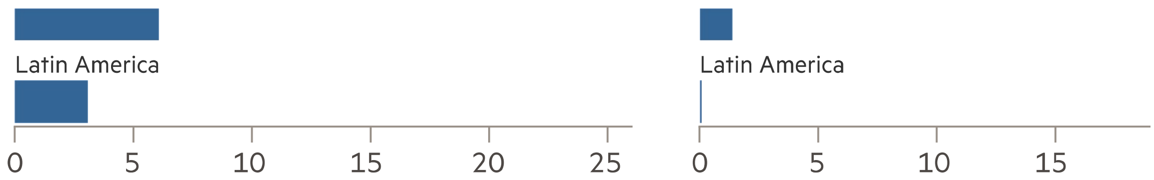
"For a long time, the Chinese have claimed that HSBC has shifted resources overseas and had an unfair advantage as they control all of the money supply in Hong Kong," the executive said. "This [break up] puts China in the driving seat."

But some rejected the possibility that Ping An, which is not state-owned, had become a mouthpiece for Beijing's objectives for HSBC. "Ping An is not of that importance, it probably wishes it was," said a former Ping An executive. The insurer certainly has its own motivations to propose the separation of its businesses.

Last year two-thirds of HSBC's profits came from Asia

$bn





FINANCIAL TIMES

Source: company • 2021 figures

Since Mark Tucker joined HSBC in September 2017, the stock has fallen 33 per cent, hitting a 25 year low in September 2020.

However, people familiar with the timeline say the final straw came when the Bank of England banned UK lenders from paying dividends at the start of the Covid-19 pandemic in early 2020. Ping An — and thousands of individual retail HSBC shareholders — were denied a dividend they counted on for income and reacted with fury, threatening lawsuits.

The issue was crucial for Ping An because it owns HSBC through its life insurance arm, using the normally reliable HSBC dividend to offset its long-term insurance liabilities.

Even when the dividend was restored last year, it was set at 25 cents a share, half the level the bank paid until 2018. The resulting pressure on Ping An's earnings in part explains the insurer's decision to start openly lobbying for a split, rather than pushing behind the scenes, the people said.

Breaking up is hard to do

HSBC's position in an increasingly polarised world has loomed over the bank for decades.

The last time it formally addressed the issue was in 2015, when a possible referendum on leaving the European Union was mooted in Britain. It conducted a review into relocating its headquarters from London to Hong Kong. At the end of the process, it stayed put "because shareholders were concerned that the bank's market cap is far larger than Hong Kong's economy", according to a person involved in the review.

This meant that China's central bank, the People's Bank of China, would likely have to become HSBC's "lender of last resort" — the institution it would turn to if it were in financial difficulty, the person said.

"HSBC is the world's leading trade bank and some companies may prefer a UK regulated bank to one potentially subject to Chinese influence," wrote analysts at Bank of America following the Ping An announcement last week.

The board — which sought the advice of experts including Henry Kissinger — also deemed that relocating the headquarters would be too complicated and expensive. HSBC would have had to redomicile and reissue hundreds of billions of loss-absorbing debt that it had issued since the financial crisis.

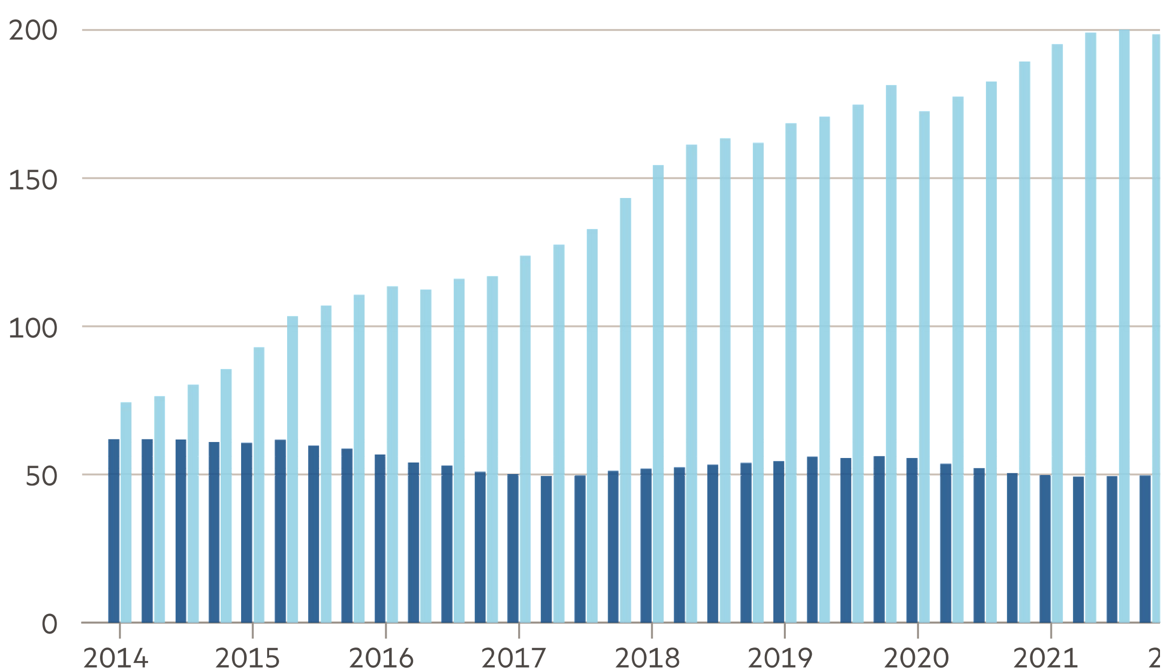
Analysts at Autonomous have said those concerns are still relevant seven years on.

"We see significant legal and political obstacles . . . the capital structure of HSBC makes a redomicile or a break up very tricky," said analyst Manus Costello.

HSBC's revenue growth has stalled

Revenues, rolling four quarters ($bn)

HSBC Ping An



FINANCIAL TIMES

Source: Bloomberg

The warning was in line with mostly negative analyst sentiment on Tuesday, citing the possibility of large restructuring costs and the low income of HSBC's businesses outside of Asia. HSBC's share price climbed in London by 1.6 per cent, partly on the basis that Ping An's move would force the bank into other action, such as a faster exit from its lossmaking US retail bank and pruning off other underperforming businesses.

However, the biggest roadblock to breaking up HSBC could be its vast dollar clearing business. HSBC has been the sole settlement institution for dollar clearing in Hong Kong since 2000 and is one of the top five clearers of cross-border transactions globally.

"We think the Fed might take issue with approving a deal which saw a major portion of global US dollar clearing moving to a Hong Kong domiciled entity," Costello said. The size of HSBC's business would be slashed in such a scenario, according to a person close to the bank.

"If you want to operate as a regional bank but you deal in even one US dollar — especially when most of your business is trade related — then you are at the mercy of the US, not the Chinese, authorities," said the former Ping An executive.