

**HSBC HOLDINGS PLC :
THE CASE OF A LOSS OF IDENTITY**

What is the identity of HSBC Holdings plc?

This bank, originally known as The Hongkong and Shanghai Banking Corporation, having its own charter in the former British Colony of Hongkong -- now known as the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) -- has grown into one of the 2 largest banks in the world, in terms of market capitalisation.

With a market capitalisation of somewhere in the region of \$US100 billion (about \$HK778 billion), it ranks behind Citigroup, which international banking group has a market capitalisation of about \$US170 billion (about \$HK1,323 million).

But, whereas Citigroup is an US-based bank, or at least is perceived to be such, HSBC Holdings is not recognised as a British bank, in spite of the fact that it is domiciled in England and is listed on The London Stock Exchange.

Certainly, HSBC Holdings plc is not, and could never be considered, a bank in the stable of the Government of the PRC, as is Bank of China Group, even though HSBC Holdings is quoted on The Stock Exchange of Hongkong Ltd, in addition to its listing in London.

While, at one time in the not too distant past, The Bank, as it used to be called in Hongkong, was top dog in those 416 square miles, from where it earned most of its revenue, today, it is nowhere near the force in the HKSAR as it was in days of yore.

If anything, PRC banks, operating in the HKSAR, have replaced The Bank as the most important financial institutions in the territory, which is home to some 7 million people, mostly of Chinese origin.

Today, HSBC Holdings earns most of its revenue outside Asia, a complete switch from the days when Guy Sayer followed by Michael Sandberg sat as Chairmen of the most important bank in old Hongkong.

According to the 1999 Annual Report of HSBC Holdings plc, 41.60 percent of its earnings are derived from Europe, 12 percent of its earnings come from North America, 4.10 percent of its earnings come from the Asia Pacific Region, 4 percent of its earnings come from Latin America, and 38.30 percent of all earnings are derived from the HKSAR.

That 38.30 percent of its earnings, squeezed out of the HKSAR, are likely to be reduced in the fullness of time since it is more than likely that Bank of China Group will want to capture as much as possible of that market -- in its home base, as the HKSAR now must be considered since it is, after all, a part of the People's Republic of China.

The importance of a national identity for a large and powerful bank is the political weight that it can bring to bear if things go terribly wrong in a territory where the bank operates.

International commerce, today, relies so much on the solvency of its financial institutions that it cannot allow banks to get into trouble, as in days gone by when Canton Trust Bank Ltd folded, followed by that other shocking banking collapse: Overseas Trust Bank Ltd (OTB).

So important did the former colonial Government of Hongkong consider the insolvency of OTB, under the then control of the son of the Co-Founder, Mr Patrick Chiang, that it caused The Bank to send in a team to rescue

OTB lest there be repercussions, down the line.

As history has proved, The Bank's team did a cracking job, resulting in the Hongkong Government, being able to sell OTB to publicly listed Guocco Group Ltd.

The bank had '*muscle*' in old Hongkong, but, today, it appears that it has lost a great deal of its muscle tone, replaced by Bank of China Group and the financial arms of the PRC Government, operating out of the HKSAR.

An example of this is the fact that, at one time, there were just 3 note-issuing banks in old Hongkong: The Hongkong and Shanghai Banking Corporation; Mercantile Bank (which was, subsequently, acquired by The Bank); and, Standard Chartered Bank.

Today, the note-issuing banks are Bank of China and The Hongkong and Shanghai Banking Corporation Ltd (note the addition of the limited liability form).

Being a note-issuing bank in Hongkong was important because of the status it afforded the bank which was required by Government to lodge an equal amount of foreign currency with the Colonial Secretariat for the right to issue legal tender -- Hongkong dollar notes and coins.

The loss of national identity for HSBC Holdings may not mean much in the long run, as the world turns more and more to the concept of virtual banking, whereby banking, for the most part, does not require customers to visit the offices of their banks, traditionally, large buildings, depicting the financial strength of the institution.

But, perhaps, the lack of a national identity puts this major international banking institution at a disadvantage should it attempt to enter a territory where a national identity could be an asset.

It is said that when The Hongkong and Shanghai Banking Corporation -- the old name of the parent bank -- wanted... [CLICK TO ORDER FULL ARTICLE](#)

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