

# **Complexity of global banks and their foreign operation in Hong Kong**

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## **Summary**

This paper studies the relation between the complexity of global banking organizations and their foreign banking operations (FBOs) in Hong Kong. Our empirical evidence indicates that the complexity of the parent company has significant effects on their Hong Kong branch's business model, liquidity management, risk-taking, and profitability. The more complex the global banking organizations, the more likely their Hong Kong FBOs are to derive a larger share of revenues from fee-based activities, and incur a higher cost of production despite enjoying a funding cost advantage. Notwithstanding the FBOs in Hong Kong may serve as a funding hub for its parent company, FBOs of more complex global banks tend to hold more liquid assets. While our empirical evidence suggests that the complexity of global banks has significant effects on FBOs' risk-taking and profitability, the relation depends on how complexity is measured. For example, both the BCBS complexity score and the measure of geographic complexity are significant in explaining FBO profitability, but they have different signs. Likewise, geographic complexity and scope complexity are often found to have significantly different effects on FBOs' performance. Taken together, the concept of global bank complexity has multiple

dimensions, where different facets could have qualitatively different effects on FBOs in Hong Kong.