



# Hong Kong Private Wealth Management Report 2019







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# Executive summary

**Recent headwinds highlight the need to accelerate the development of the industry to overcome challenges with regulation, technology and talent**



The fourth annual Hong Kong Private Wealth Management report, jointly authored by the Private Wealth Management Association (PWMA) and KPMG China, offers an in-depth view into the current industry landscape, growth opportunities and trends along important themes of technology, regulation and talent.

The report is largely based on an online survey of PWMA member institutions as well as interviews with industry executives in Hong Kong. For the first time this year, an additional client survey was conducted with more than 250 clients of PWMA member institutions to gather their views on the industry. These 'client insights' are included throughout the publication. Both surveys were conducted from June until mid-July.

The findings show a more pessimistic outlook than last year, with macroeconomic headwinds impacting assets under management (AUM) in Hong Kong and the overall outlook on profitability. However, the industry has maintained positive net inflows and the aggregate return on assets from the sector, while negative in 2018, outperformed major indices.

There are still opportunities for strong growth in the future. The survey highlighted two areas that were the subject of key recommendations in the 2018 PWMA-KPMG China White Paper (*'Hong Kong: A leading global wealth management hub of the future'*) and which provide the biggest opportunity for growth in the immediate future.

First, the ongoing development of the Greater Bay Area is a major opportunity for Hong Kong, as an offshore wealth centre, to better access wealth created in mainland China. Second, an increasing number of respondents cited attracting more family offices to Hong Kong as the main opportunity for growth.

With economic headwinds impacting Hong Kong, we believe that now, more than ever, is the time for all parties – the industry, policymakers and regulators – to take action and pursue the recommendations from the 2018 White Paper to help deliver greater benefits to the PWM industry in Hong Kong.

In relation to technology, this year an increasing number of industry respondents believe their technology platforms do not meet client needs. Interviewees highlighted that regulatory changes are diverting limited technology resources away from developments that enhance the client experience to developments that ensure compliance with regulation. This gap is growing at a time when clients' expectations around digital offerings are increasing. Surveyed clients highlighted that 'portfolio statement view and interaction' and 'communication through third party apps' are key technology expectations.

The findings show that the challenging regulatory environment is the most significant constraint on Hong Kong's attractiveness as a PWM hub, with source of wealth, investment suitability and disclosure requirements topping the list of regulatory pain points for clients. Interviewees have, however, praised Hong Kong's regulators for their ongoing efforts in engaging with the PWM industry to implement practical solutions to resolve key regulatory issues.

A lack of relationship managers (RMs) remains a critical and key talent gap, with a drop in reported numbers in 2018. Technology enablement is expected to help attract and retain talent by driving administrative efficiency, allowing RMs to focus more on higher value activities. However, this can only go part of the way, and the industry needs to urgently address talent supply issues.

Despite the challenging macroeconomic environment, new opportunities continue to present avenues for growth. Firms that are able to create and execute comprehensive strategies to further penetrate the mainland Chinese market and attract family offices will be well placed for long-term success. The ability to leverage emerging technologies to navigate the regulatory environment and deliver an enhanced experience not just for their clients, but also for their employees, will also be a key factor for success.

We would like to take this opportunity to thank the survey respondents and interviewees for their kind participation in this report.

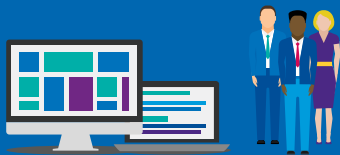
# Key findings



**Macroeconomic headwinds have impacted AUM and the outlook on profitability, but net fund inflows and new growth opportunities are cause for optimism**



**Capitalising on the growth in wealth in mainland China and attracting family offices to Hong Kong are key to growing the market**



**Respondents see an increasing divergence between digital platforms and customer needs, partly due to the need to prioritise regulatory investments**



**Improvement in regulatory engagement and onboarding time, but clients experience pain points in complying with source of wealth, suitability and disclosures which need to be addressed**



**The lack of relationship managers is a critical and growing talent gap. Investment in technology is expected to drive efficiency, allowing RMs to focus more on higher value activities**



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# Current landscape and growth outlook

**Macroeconomic headwinds have impacted AUM and the outlook on profitability, but net fund inflows and new growth opportunities are cause for optimism**



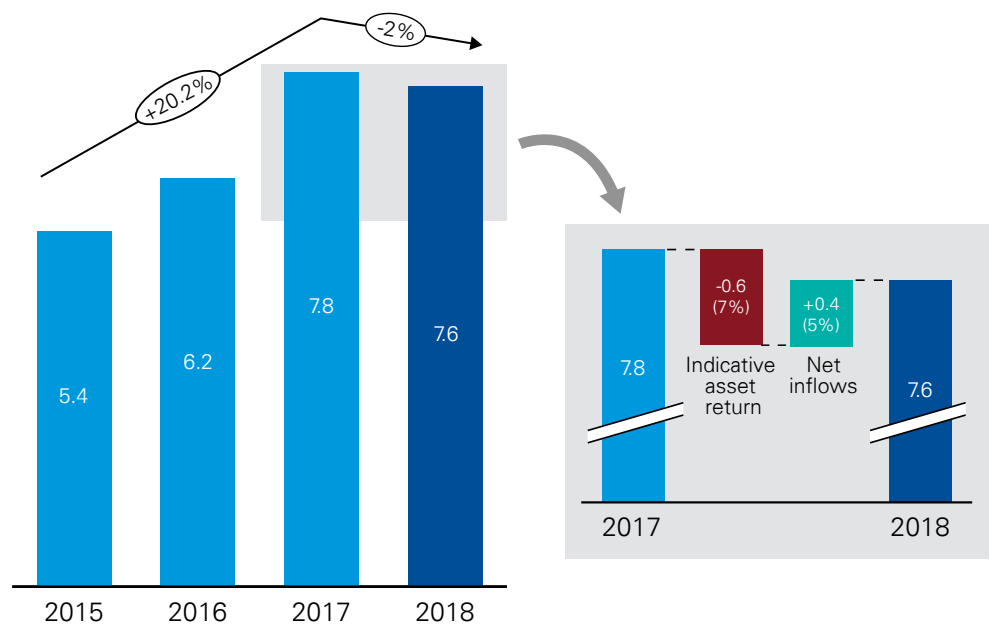


Hong Kong's private wealth management (PWM) industry was impacted by global and regional market uncertainty in 2018, with assets under management (AUM) falling by 2 percent to HKD 7.6 trillion as a result of weaker asset performance, particularly in the fourth quarter (see Figure 1). This was partially offset by net fund inflows of HKD 379 billion.<sup>1</sup> Although AUM declined, the investment return of PWM assets in aggregate compared favourably against market indices – including the MSCI World Index (-10.4%), MSCI AC Asia Index (-15.6%) and Hang Seng Index (-13.6%) – demonstrating the value the industry provides to its clients even in uncertain times. The uncertainty in 2018 that influenced this result has persisted in 2019 so far.

The number of high-net-worth individuals (HNWIs) – defined as individuals with more than USD 1 million in investable assets – in Hong Kong fell by 10 percent from the previous year, while the number of billionaires fell by 6 percent. This is broadly in line with global trends and despite this decline, Hong Kong remains the fourth wealthiest city in the world in terms of the number of billionaires per inhabitant.<sup>2</sup>

### Figure 1: Private wealth AUM in Hong Kong

Private wealth AUM in Hong Kong, 2015-2018 (HKD trillion)



Source: SFC Asset and Wealth Management Activities Survey 2018

<sup>1</sup> Asset and Wealth Management Activities Survey 2018', SFC, July 2019

<sup>2</sup> 'Billionaire Census 2019', Wealth-X, May 2019

Although the number of HNWIs in Hong Kong decreased, it is worth noting that 52 percent of PWM AUM was sourced from outside of Hong Kong in 2018 (see Figure 2).

Shifting from the current position to a view of the future, the majority of industry practitioners surveyed for this report forecast 5 to 10 percent annualised AUM growth over the next five years, down from 10 to 20 percent in last year's survey.<sup>3</sup> The shift towards lower growth expectations is primarily driven by the two most frequently cited concerns: 'macro-economic environment and market volatility' and the 'regulatory environment'.

The number of PWM relationship managers (RMs) reported by the surveyed institutions fell by

15 percent to approximately 2,200 in 2018, although on a like-for-like basis with the same survey respondents as the previous year, this was a reduction of 11 percent.<sup>4</sup>

The total number of relevant PWM practitioners – which includes investment advisors, product specialists and other client-facing professionals – also decreased by 2 percent to approximately 3,500, although on a like-for-like basis, this was a marginal increase of 1 percent.<sup>5</sup> Surveyed PWMA member institutions cited 'switching to roles at external asset managers' and 'early retirement' as the main factors contributing to the decreasing number of RMs. This is a significant challenge that requires collective action by industry, government and regulators to resolve.

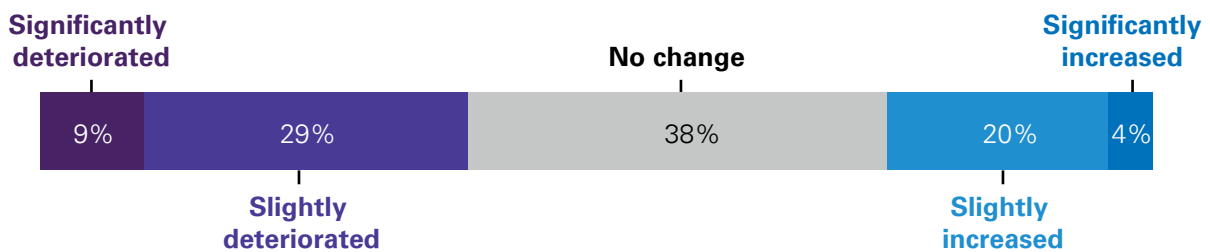
## Client Insights



Surveyed clients indicated mixed views about their willingness to take on investment risk in the next 12 months compared to the previous year. Thirty-eight percent are more cautious, 24 percent are willing to take on more risk, and the views of the remaining 38 percent remain unchanged (see Figure 3). However, the majority of respondents who are more cautious indicated that they are only marginally less willing to take on investment risk in the year ahead.

Ongoing US-China trade tensions, Brexit and political uncertainty in the US were the most cited geopolitical trends affecting investment outlook and risk appetite. The recent events in Hong Kong were not cited by many respondents, likely due to the timing of the survey.

**Figure 3: Willingness to take on investment risk in the next 12 months compared to the previous year**



Source: PWMA Annual Survey 2019

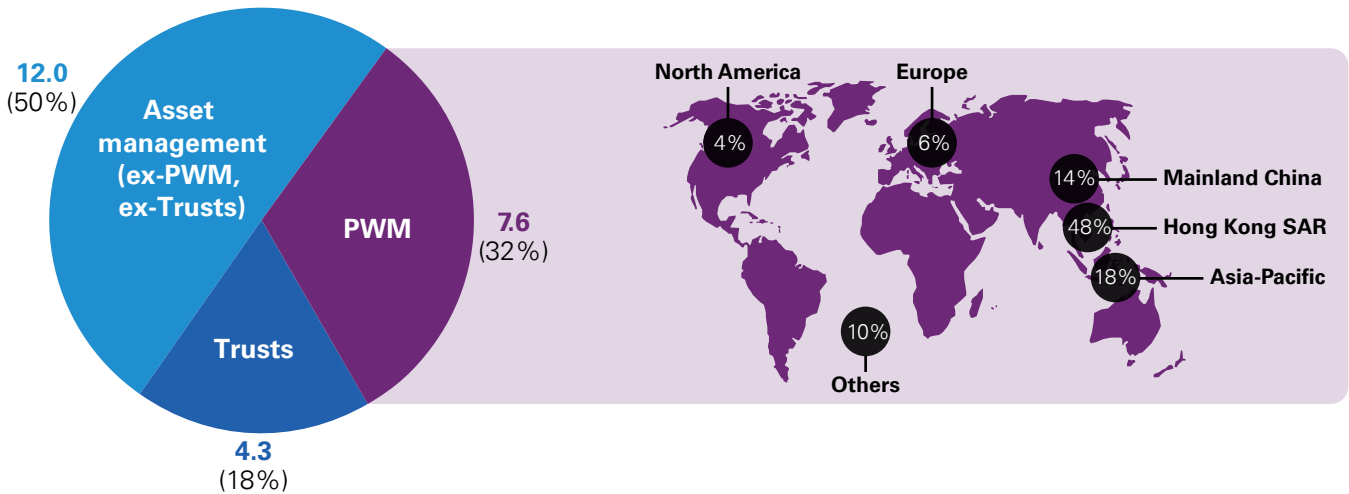
<sup>3</sup> Hong Kong Private Wealth Management Report 2018', PWMA and KPMG China, September 2018

<sup>4</sup> Calculations based on restated 2017 figures

<sup>5</sup> Calculations based on restated 2017 figures

**Figure 2: Hong Kong PWM industry AUM by source**

Asset and wealth AUM in Hong Kong, December 2018 (HKD trillion)

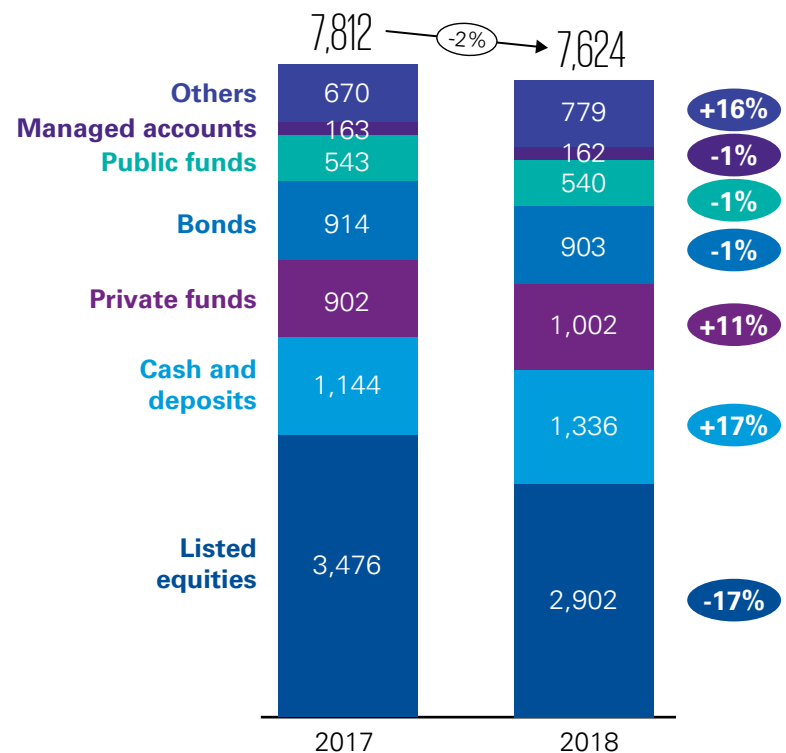


Source: SFC Asset and Wealth Management Activities Survey 2018

### Mixed risk appetite and shift to lower-risk assets could impact industry profitability in the short to medium term

Clients are holding more assets in cash and other low risk investments, typically attracting lower fees, and are placing greater scrutiny on trading costs. The amount held in cash and deposits increased by 17 percent from 2017 to 2018, according to the SFC (see Figure 4). This trend, as well as lower AUM, a greater focus on fee transparency and an expectation of rising regulatory compliance costs, are expected to contribute to decreasing operating margins in the short to medium term. Forty-eight percent of surveyed PWMA member institutions expect a 5 to 10 percent decrease in operating margins over the next five years, while only 6 percent expect any increase.

**Figure 4: PWM AUM by asset and product type 2017-2018 (HKD billion)**



Source: SFC Asset and Wealth Management Activities Survey 2018

## Client Insights



The majority of clients show moderate to strong interest in ESG investing. PWM institutions will need to invest in relevant capabilities and develop compelling solutions in order to tap into this opportunity.

**Figure 5: PWM clients' appetite for investing in ESG/sustainable assets**



Source: PWMA Annual Survey 2019

## The industry is optimistic about the rise of discretionary asset management and ESG investing over the next five years

The majority of surveyed member institutions believe that discretionary asset management – which typically attracts higher management fees than non-discretionary mandates – will make up 10 to 20 percent of PWM AUM in five years' time, from a negligible share today. Members believe that clients are increasingly recognising the value of professional portfolio management services beyond wider access to complex or exotic products and other family-related services.<sup>6</sup> This observation is consistent with client survey respondents indicating 'knowledge and expertise of financial products' and 'portfolio management expertise' as the two most important attributes relating to their RMs. This is attributed to increasing trust in the industry as well as the transfer of wealth to the 'second generation,' which is more willing to have their assets managed professionally.

ESG investing is also growing in importance – 61 percent of surveyed clients indicated strong or moderate interest (see Figure 5), and PWMA member institutions reflected this view with 72 percent of those surveyed noting the growing importance of ESG investing to their clients. Furthermore, 79 percent of members firms expect ESG-related industry AUM to exceed 5 percent in the next five years, with 36 percent expecting it to exceed 10 percent (see Figure 6). This trend is driven by HNWIs increasingly viewing ESG investing as a way to pursue philanthropy without compromising on investment returns.<sup>7</sup> This is a welcome shift in a region where ESG assets have low penetration relative to other markets and reflects changing emphasis by regulators, managers and asset owners.

<sup>6</sup> PWMA focus interviews 2019

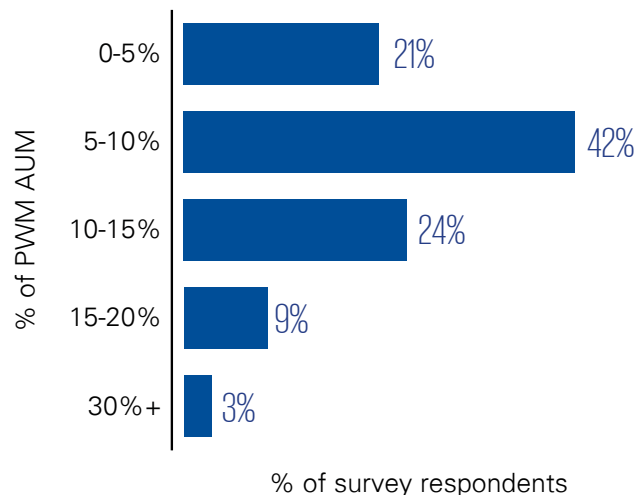
<sup>7</sup> PWMA focus interviews 2019



## Industry and government need to proactively respond to recent headwinds

PWM executives and asset owners are increasingly concerned that macroeconomic conditions and recent events are leading some industry participants to re-evaluate Hong Kong as their preferred private wealth management hub. Our interviews revealed that recent events in Hong Kong caused an increased interest in other booking centres, but no major outflows in funds had been observed at the time. This re-emphasises the need for coordinated action from the government, regulators and the PWM industry to proactively respond to these macroeconomic headwinds. Implementing the recommendations outlined in the joint 2018 White Paper by PWMA and KPMG China<sup>8</sup> would help maintain the Hong Kong PWM industry along a trajectory of sustainable growth.

**Figure 6: Proportion of industry AUM expected to be invested in ESG assets in five years**



Note: Total does not add up to 100% due to rounding  
Source: PWMA Annual Survey 2019

### Key takeaways



The industry and government needs to act quickly and collectively to counteract potential outflows which may be triggered by recent events



Prepare businesses to meet short-term volatility while positioning for longer term growth



Offer a suite of products that match clients' risk appetites during this period of market uncertainty



Position existing businesses and educate clients to capitalise on discretionary asset management and ESG opportunities

<sup>8</sup> 'Hong Kong: A leading global wealth management hub of the future', PWMA and KPMG China, September 2018

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# Growing the market

**Capitalising on the growth  
in wealth in mainland  
China and attracting family  
offices to Hong Kong are  
key to growing the market**





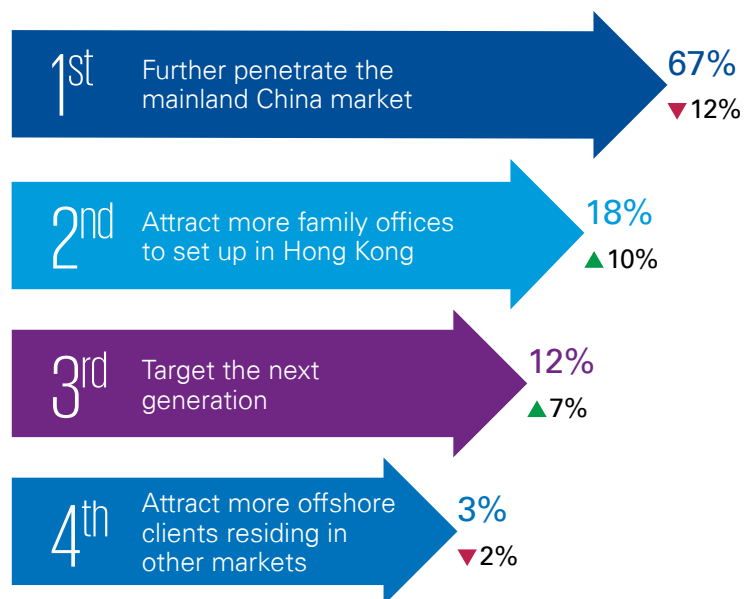
## Mainland China remains the key growth opportunity, with the Greater Bay Area playing a greater role

Further penetrating the mainland Chinese market is viewed as the primary growth driver for Hong Kong's PWM industry by two-thirds of survey participants (see Figure 7). Surveyed member institutions expect AUM sourced from mainland China to grow to make up nearly half of the PWM market in the next five years.

The ongoing development of the Greater Bay Area (GBA), a key strategic component of China's national development blueprint, presents a number of opportunities for growth, and is considered the main avenue for further penetrating the mainland Chinese market. The *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* issued by China's central government authorities in February 2019 lays a solid foundation for Hong Kong, Macau and nine cities in Guangdong province to develop as a world-class city cluster.<sup>9</sup> The Development Plan identifies Guangzhou, Shenzhen, Hong Kong and Macau as the four 'core cities' to drive the GBA's development, with Hong Kong highlighted as the international centre for finance and asset management.

### Figure 7: Most popular ways to grow the Hong Kong PWM industry

Percentage of respondents; YoY change from previous survey



Source: PWMA Annual Survey 2018, 2019

<sup>9</sup> Mainland China and HKSAR government press releases



PWM institutions are responding by developing products and services that tap into this opportunity. Sixty-four percent of surveyed member institutions already have, or plan to develop, a GBA-specific strategy and operations in the next 12 months. Examples of these developments in the wider financial services sector include allowing Hong Kong residents to open retail bank accounts in the GBA from branches in Hong Kong, and applying for refurbishment loans in Hong Kong for properties in the GBA.<sup>10</sup> More specifically for the PWM industry, the People's Bank of China and the Hong Kong Monetary Authority (HKMA) are continuing to look at ways to facilitate cross-border wealth management services in the GBA.

Further developments in this space will be key for PWM institutions aiming to serve the HNWIs in the region. The industry should continue to proactively engage with regulators in the region to help shape future developments.

There is a strong indication from industry (with 79 percent agreeing) that allowing freer movement of capital into PWM investment products in Hong Kong from the rest of the GBA would help cement Hong Kong as the leading Asian wealth management centre and a key hub globally. This position could be further bolstered by allowing onshore solicitation within the GBA, with 60 percent of surveyed member institutions in support of this view.

We expect that more integrated wealth management products for the GBA will be created over time, with more products being allowed to be sold to investors onshore in mainland China.

### **Attracting family offices is a key priority, but significant changes are required to meet their specific needs**

Focus has also shifted towards attracting family offices, cited by 18 percent of respondents as a primary growth driver compared to 8 percent in last year's survey. Surveyed member institutions indicated that, on average, 13 percent of their PWM AUM is sourced from family offices. This is broadly consistent with the figure published by the SFC.<sup>11</sup> However, this figure does not include assets managed by family offices that are embedded within other corporate entities.

Interviewees highlighted the need for PWM institutions to shift their focus from 'old money' western family offices, to 'new money' family offices primarily servicing Chinese entrepreneurial ultra-high net-worth individuals (UHNWIs), defined as individuals with investible assets of more than USD 30 million. Seventy-nine percent of surveyed member institutions indicated that their average family office client AUM is between USD 50 and 100 million (see Figure 8).

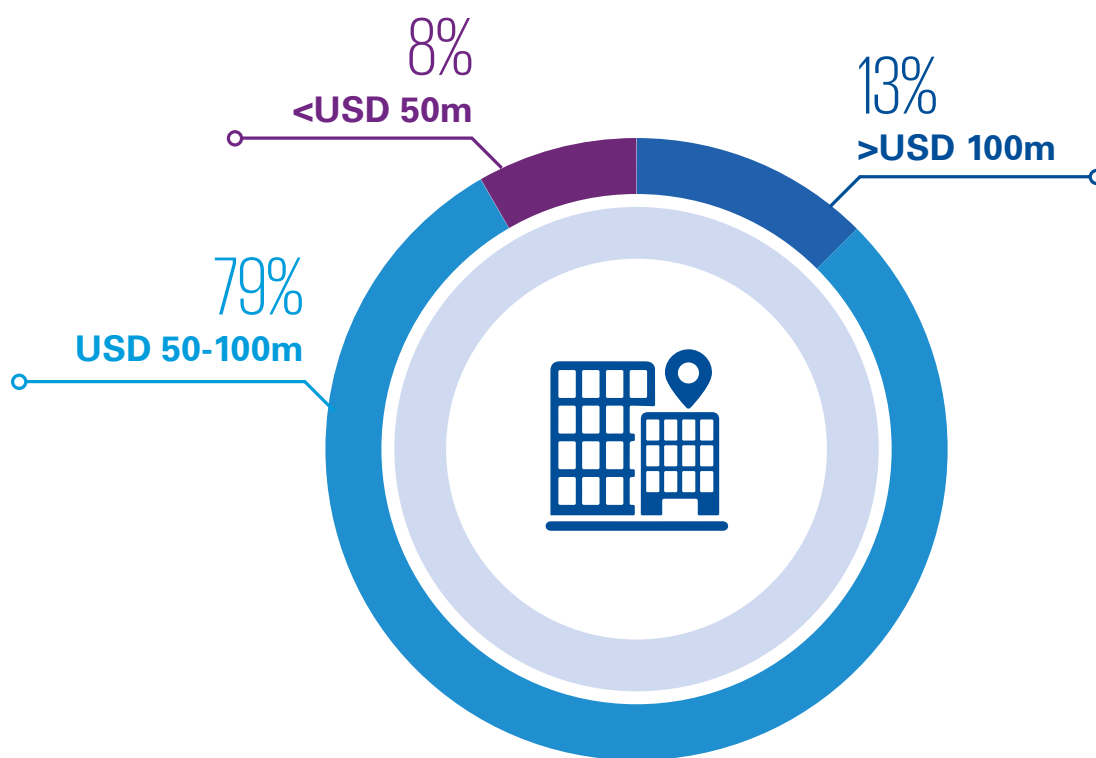
<sup>10</sup> PWMA focus interviews 2019; KPMG analysis

<sup>11</sup> SFC Asset and Wealth Management Activities Survey 2018





**Figure 8: Average AUM of family offices served by the Hong Kong PWM industry**



Source: PWMA Annual Survey 2019

Interviewees pointed out that Chinese UHNWIs also have different requirements and characteristics. Their investment style tends to be more self-directed with many demanding self-service channels. They also have a greater need for truly integrated platforms across their commercial and investment banking facilities to serve their business activities. Servicing this client segment also comes with a number of challenges, including the need to demonstrate a clear value proposition, especially when there is less loyalty to any one institution.

Private banks are responding to this opportunity by developing in-house family office service capabilities, with 28 percent of survey participants having a dedicated team and 21 percent with dedicated family office products and services. Additionally, marketing and educational activities to raise awareness of the value provided by the PWM industry will play a pivotal part in overcoming the aforementioned challenges.

## Client Insights



Hong Kong and Singapore were ranked highly by clients across most PWM dimensions, with Hong Kong lagging in terms of non-investment related wealth services, in particular trust services and tax. This re-emphasises the White Paper recommendations to provide certainty on the tax treatment of trusts and offshore HNWIs.

### Average ranking of global wealth management centres by attribute (1 = Highest; 4 = Lowest)

	Hong Kong	Singapore	Switzerland	UK
Ease of trading	1 <sup>st</sup>	2 <sup>nd</sup>	= 3 <sup>rd</sup>	= 3 <sup>rd</sup>
Range of investment options	1 <sup>st</sup>	2 <sup>nd</sup>	4 <sup>th</sup>	3 <sup>rd</sup>
Personal transaction reporting requirements	2 <sup>nd</sup>	1 <sup>st</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
Range of non-investment related wealth services (family, trust, tax)	3 <sup>rd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	4 <sup>th</sup>
Range of non-investment related business services (advisory, accounting)	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
Investor protection	= 1 <sup>st</sup>	= 1 <sup>st</sup>	3 <sup>rd</sup>	4 <sup>th</sup>

Source: PWMA Annual Survey 2019

## In addition to creating a GBA wealth zone, streamlining disclosure requirements and non-resident tax exemption are cited as recommendations from the 2018 PWMA-KPMG White Paper that would have the highest impact on growing the market

One year on from the publication of the joint PWMA-KPMG China White Paper<sup>12</sup> that identified growth opportunities and provided recommendations on enhancing Hong Kong's position as a PWM hub, survey participants have reiterated the importance of several recommendations that were consistently rated as having a 'high impact'.

Streamlining existing disclosure and suitability requirements to ensure they are appropriate for a PWM client's level of sophistication and experience was rated as 'high impact' by 88 percent of survey respondents (see Figure 9).

In addition, more than three-quarters of respondents rated the recommendation to 'implement a new wealth-orientated cross-border scheme for the GBA' as 'high impact', while 73 percent cited the recommendation to 'ensure non-resident HNWIs remain exempt from Hong Kong tax'.

### Key takeaways



Refine business and operating models to address the opportunities presented from mainland China

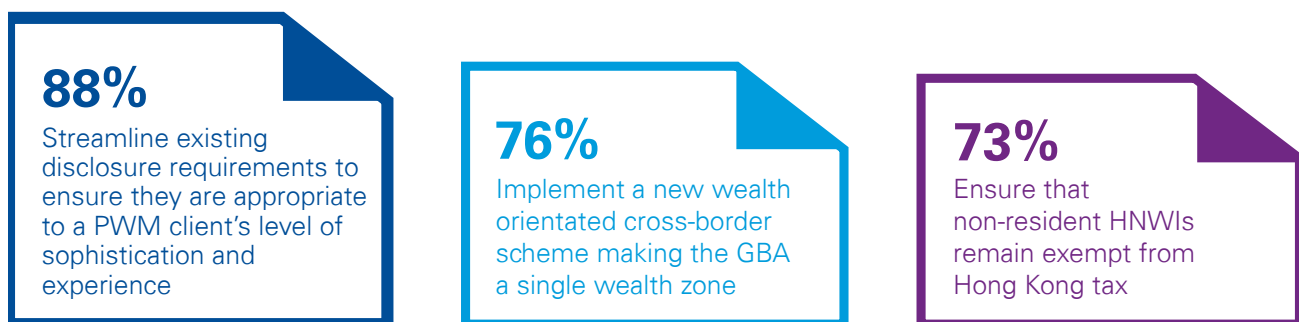


Equip teams with appropriate skills and capabilities to service the needs of family offices



Government, regulators and industry need to continue working together to address the recommendations outlined in last year's PWMA-KPMG China White Paper, with a focus on creating a GBA wealth zone, streamlining disclosure requirements and non-resident tax exemption

**Figure 9: Top three 2018 PWMA-KPMG China White Paper recommendations that are expected to have a 'high impact' on the industry**



Source: PWMA Annual Survey 2019

<sup>12</sup> 'Hong Kong: A leading global wealth management hub of the future', PWMA and KPMG China, September 2018

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# Technology

**Respondents see an increasing divergence between digital platforms and customer needs, partly due to the need to prioritise regulatory investments**



## Nearly two-thirds of PWM institutions believe their digital offering is not meeting client expectations, with increasing regulatory requirements slowing progress

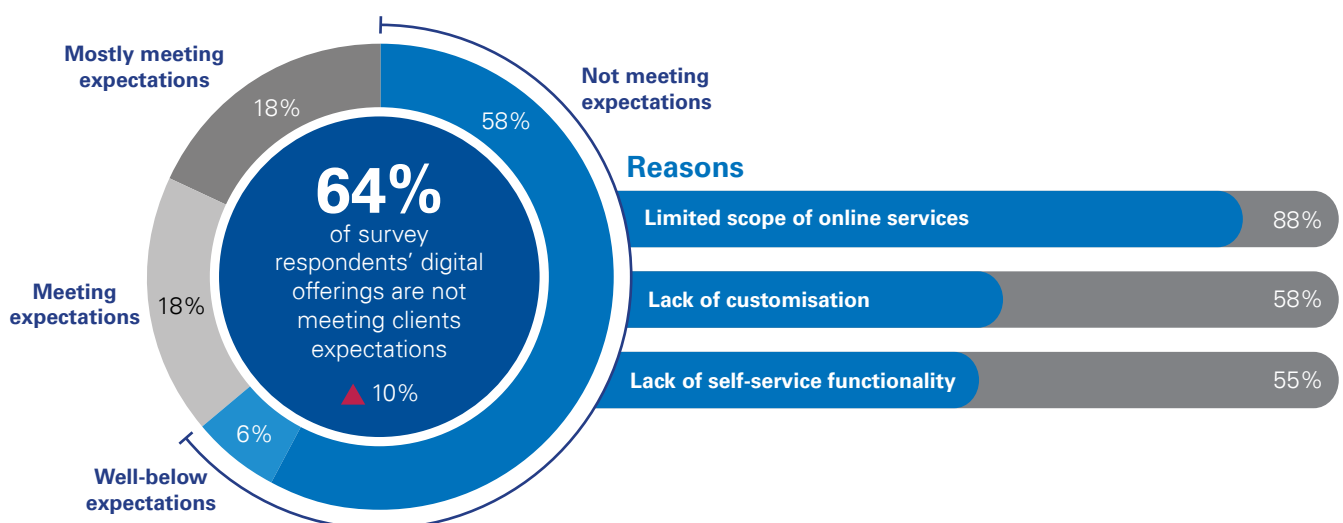
The proportion of survey respondents who believe their digital offering is well below or not meeting client expectations has increased from 54 percent to 64 percent in the past year (see Figure 10). Survey participants selected ‘scope of online services’, ‘degree of customisation’ and ‘degree of self-service’ as the top three reasons why their digital offering is lagging behind client expectations.

Interviewees revealed that regulatory changes – such as the recently enacted product suitability regulations around complex products – are diverting technology resources away from developments that enhance the client experience to developments that ensure compliance. Increasing regulatory requirements are adding further complexity to client processes, making it more difficult to develop regulatory compliant digital services that also provide a good client experience.

*“There is tension between improving customer experience/ access to digital features and new regulations such as complex/non-complex product suitability. Regulations will always take precedence and so customer experience may not improve as quickly over time.”*

**- Interviewee**

**Figure 10: Perception of respondents’ digital offerings and underlying reasons**



Source: PWMA Annual Survey 2019



AUJ	HJI	WWE	PLD	EER	QRT	OPY
1,822	20,369	890	6,350	10,985	665	6,800
(-95)	(+580)	(-20)	(-200)	(+580)	(-15)	(-115)
MBC	LJH	MJB	PON	NFR	LGH	OMJ
3,605	9,542	2,609	7,654	6,522	1,632	3,652
(+210)	(-128)	(+35)	(+169)	(+122)	(-54)	(+182)
YBV	QMN	MMJ	IIT	KLM	CCX	EMH
3,204	5,211	7,100	7,150	782	1,901	3,280
(-33)	(+156)	(-60)	(-180)	(+74)	(+101)	(-120)
MBB	WFF	HJM	QLC	LSD	SDH	GHS
3,320	712	134	2,022	431	6,287	12,630
(-120)	(+12)	(+5)	(-18)	(+40)	(-57)	(+330)

## The industry is turning to emerging technologies and solutions for regulatory compliance and efficiency gains

Regtech is an area that has been gaining momentum in recent years within the financial advisory industry in other markets such as the US and UK. As regulatory requirements become increasingly complex, the Hong Kong PWM industry now recognises the necessity and usefulness of regtech solutions. Eighty-five percent of surveyed institutions believe that an industry-wide product due diligence utility that can provide standardised due diligence information on bonds and funds would be useful in meeting local suitability requirements and reducing internal resource requirements.

Emerging technologies such as speech recognition and natural language processing, together with machine learning, are driving improvements in compliance monitoring solutions. Examples include voice recognition for advisor-client calls and text recognition for disclosures over emails<sup>13</sup> and other text-based communication channels.

## Digital communication platforms are a core focus for the industry over the next few years, with increasing functionality expected

Almost half of the surveyed PWMA member institutions expect that more than 30 percent of current client-advisor interactions will be conducted over digital channels in the next five years, while '10 to 20 percent' was the expectation in last year's survey.

Clients indicate that 'portfolio statement view and interaction' and 'communication through third party channels (e.g. WeChat, Whatsapp)' are the two most important digital functionalities (see Figure 11).<sup>14</sup> To support this, PWM institutions are pushing the integration of communication channels outside of their native mobile apps, especially in virtual messaging.

<sup>13</sup> "Text recognition for email disclosures" refers to emerging technology used to monitor client-advisor emails to ensure that disclosure requirements are met.

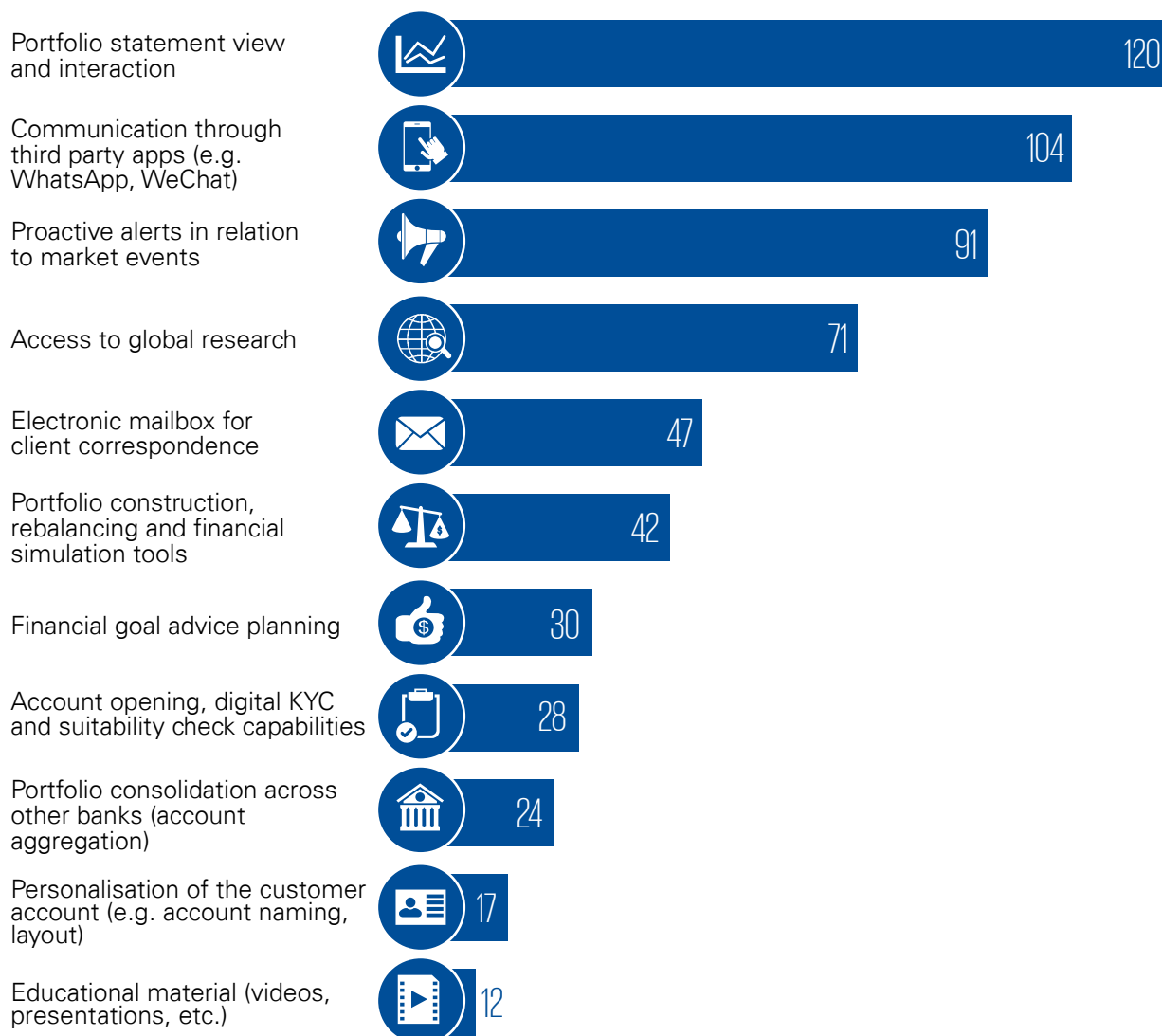
<sup>14</sup> PWMA Annual Survey 2019

## Client Insights



Communication through third party apps is increasingly expected by clients. PWM institutions will need to overcome compliance issues relating to data security and privacy in order to deliver.

**Figure 11: Most important technology features for clients (Number of respondents)**



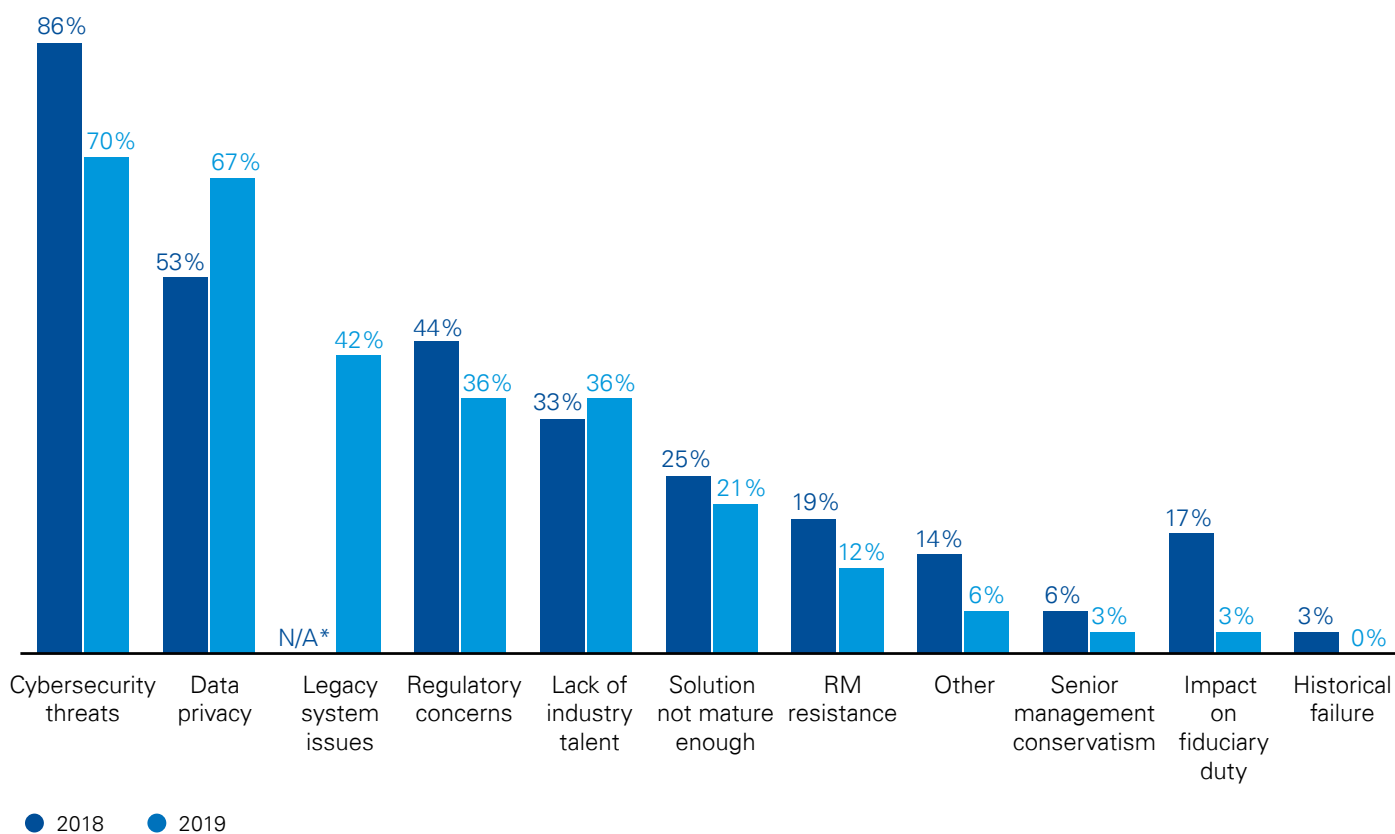
Source: PWMA Annual Survey 2019

For example, the use of Apple Business Chat, WeChat and WhatsApp are all being explored by member institutions that participated in our focus interviews. Some intend to use these as a simple platform for client-RM communication, while others envisage more advanced functionalities in the long term, such as trade execution.

invest in these digital capabilities. This is supported by the responses of member institutions who participated in the survey, with cybersecurity threats and data privacy remaining the top two challenges related to the adoption of technology (see Figure 12).

However, 30 percent of surveyed PWM institutions do not currently allow use of mobile apps due to data security and privacy challenges, which means they face being left behind if they do not begin to

**Figure 12: Top concerns and challenges around using technology**



Source: PWMA Annual Survey 2018, 2019 \*Not included in 2018 survey

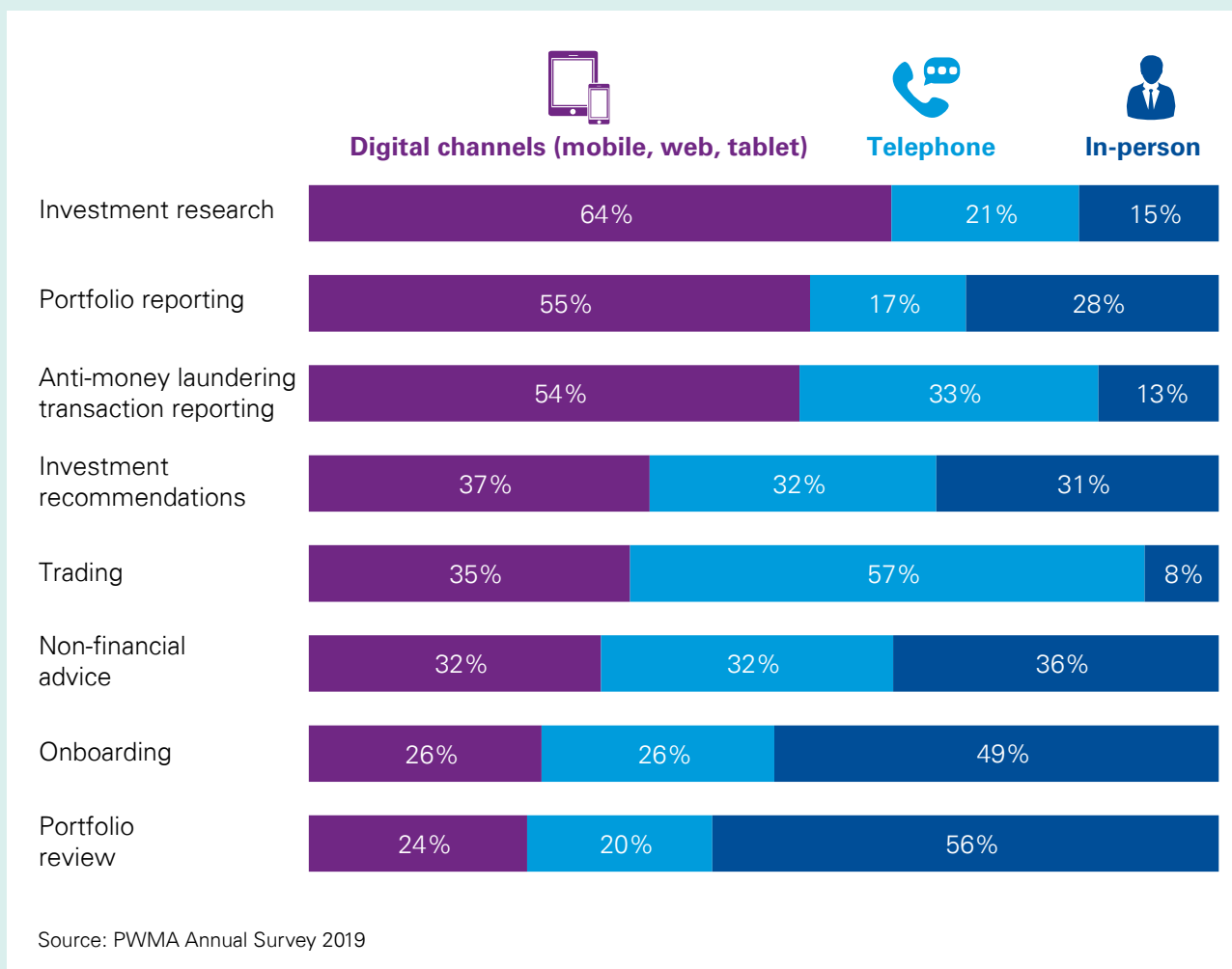


## Client Insights

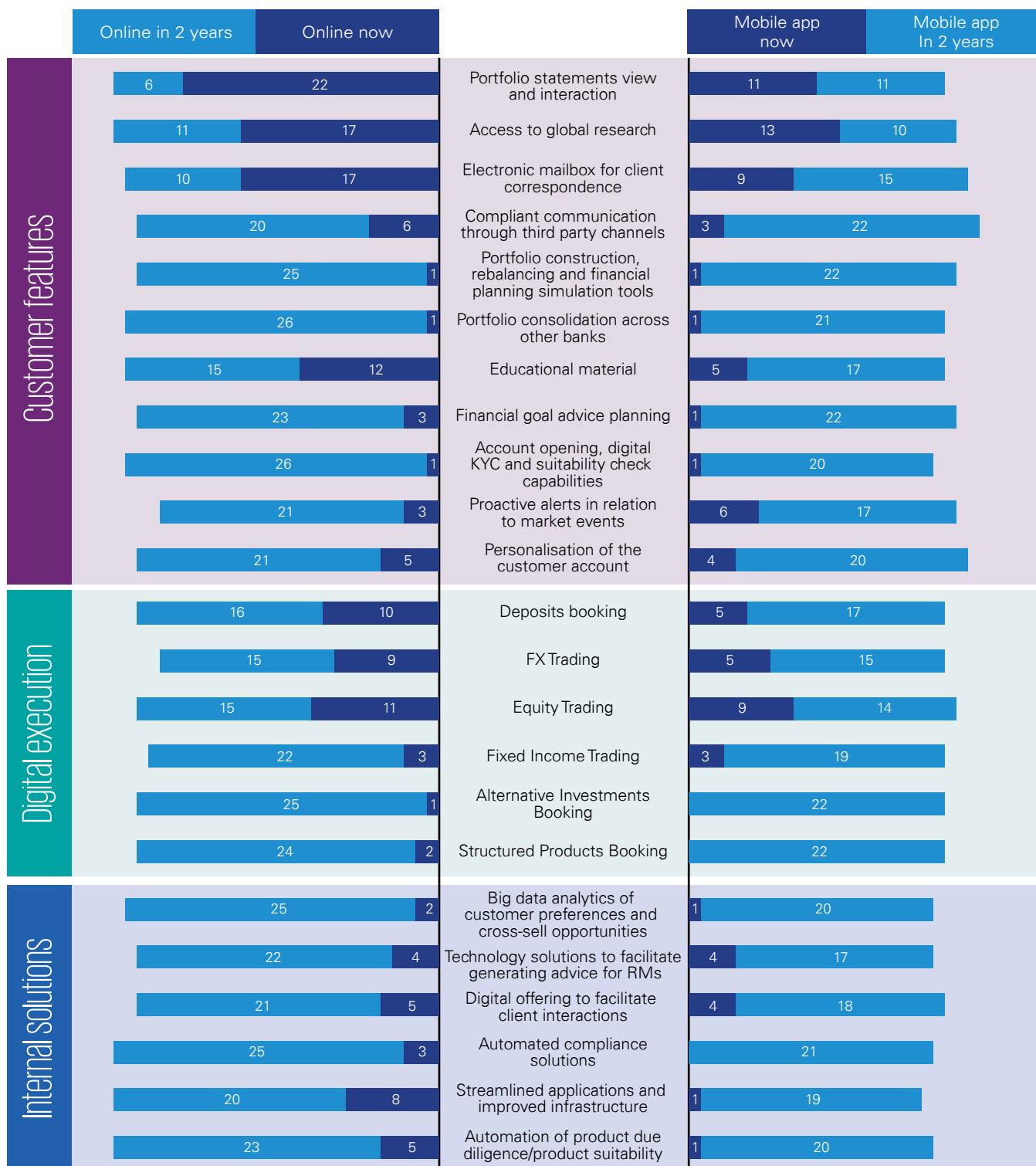


PWM clients' expectations around digital experience varies significantly across the advisory process. When asked about their preferred mode of delivery for each part of the advisory process, clients highlighted three areas where digital is preferred over telephone or face-to-face: 'investment research' (64 percent), 'portfolio reporting' (55 percent) and 'anti-money laundering transaction reporting' (54 percent) (see Figure 13). Meanwhile, clients prefer to engage in face-to-face conversations with their RM for 'onboarding' and 'portfolio review', where human interaction is crucial for strengthening relationships and building trust.

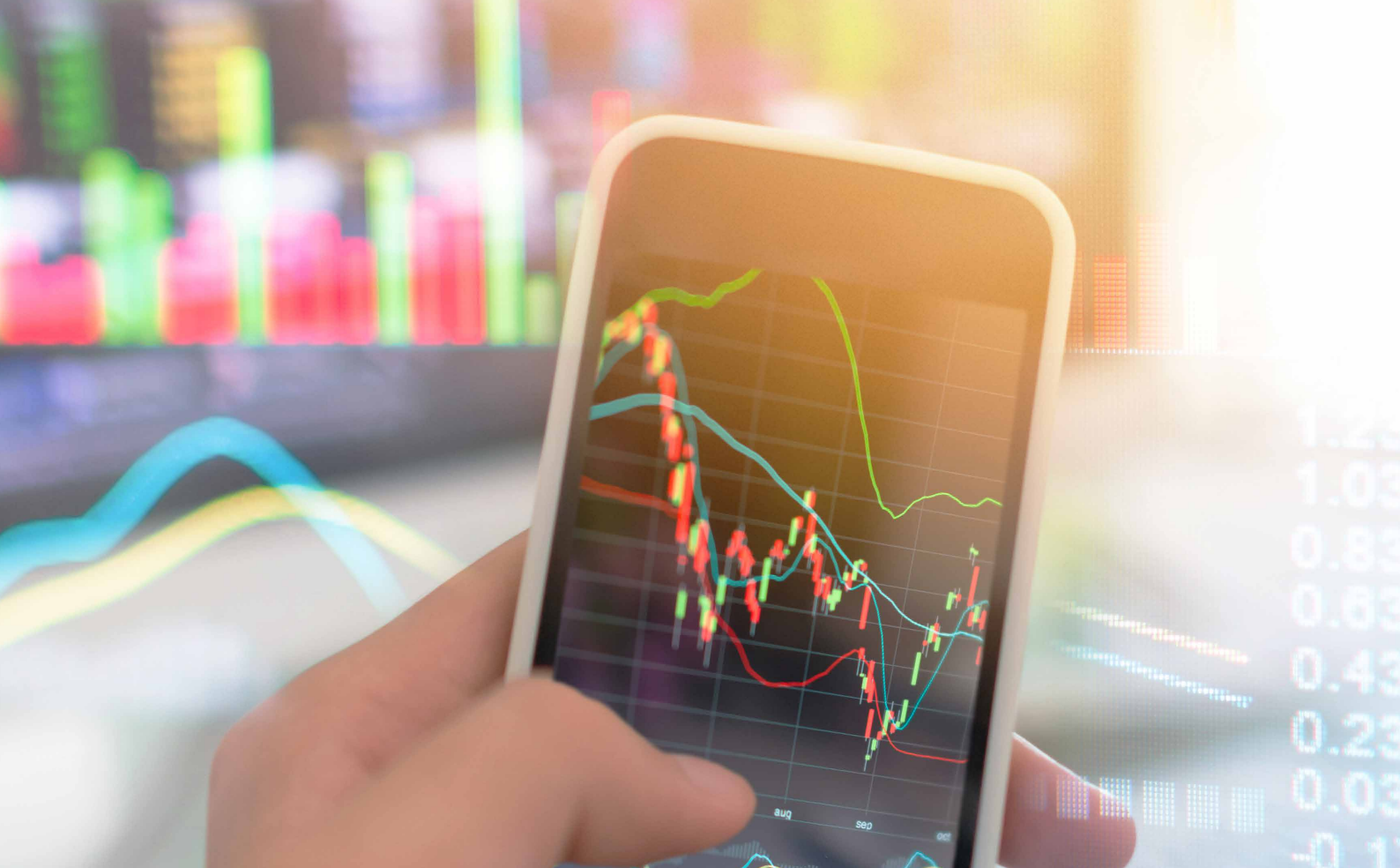
**Figure 13: Preferred mode of delivery across the advisory process**



**Figure 14: Digital solution availability by number of respondents**



Source: PWMA Annual Survey 2019



## Key takeaways



Urgent need to invest in technologies that improve client experience and align digital spend with client preferences (see Figure 13)



Consider new solutions and regtech to enhance operations and better manage risk



Review and update cybersecurity and data privacy frameworks in line with latest developments

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# Regulation

**Improvement in regulatory engagement and onboarding time, but clients experience pain points in complying with source of wealth, suitability and disclosures which need to be addressed**



## The regulatory environment is cited as a key constraint on Hong Kong's attractiveness as a PWM hub, but there is recognition that regulators are actively working to find practical solutions

Surveyed member institutions view the challenging regulatory environment as the most significant constraint on Hong Kong's attractiveness as a PWM hub, ahead of both 'limited access to mainland Chinese assets' and 'limited private banking talent pool'. A key challenge faced by PWM institutions is the large number of circulars issued – some of which cover common areas between the HKMA and SFC – which have created complexity in the interpretation of regulations and difficulties in effectively updating processes and controls to remain compliant.<sup>15</sup> On top of this issue, interviewed PWM executives have observed conflicting approaches between the 'principles-based' regulatory guidelines which infer greater flexibility in interpretation and implementation, and the findings from on-the-ground regulatory examinations which take a more prescriptive approach.

Interviewees have praised both the HKMA and the SFC for their recent efforts in engaging and collaborating with the PWM industry to implement practical solutions to resolve key regulatory issues. Maintaining regular meetings and dialogue between regulators and the industry will help to continue to drive positive change and aid the growth of Hong Kong's PWM industry.

## Source of wealth, investment suitability and disclosure requirements top the list of biggest regulatory pain points

Providing source of wealth evidence was rated by surveyed clients as the biggest pain point, followed closely by 'trade by trade disclosure requirements' and 'trade by trade investment suitability requirements'.

### Selected qualitative comments from interviews



"There is a **difference between the 'principles-based' regulatory approach**, allowing flexibility in the interpretation of regulation, and the **on-the-ground regulatory exam** team checks which may follow more prescriptive requirements."

"The **large number of circulars**, some of which cover common areas between the HKMA and SFC, **can make effective interpretation of the regulation and implementation of corresponding controls difficult.**"



"Regulators have been **more open to discussing the challenges of implementing new circulars** over the past year. This is currently on an ad-hoc basis, and we would welcome more regular formal meetings."

<sup>15</sup> PWMA focus interviews 2019

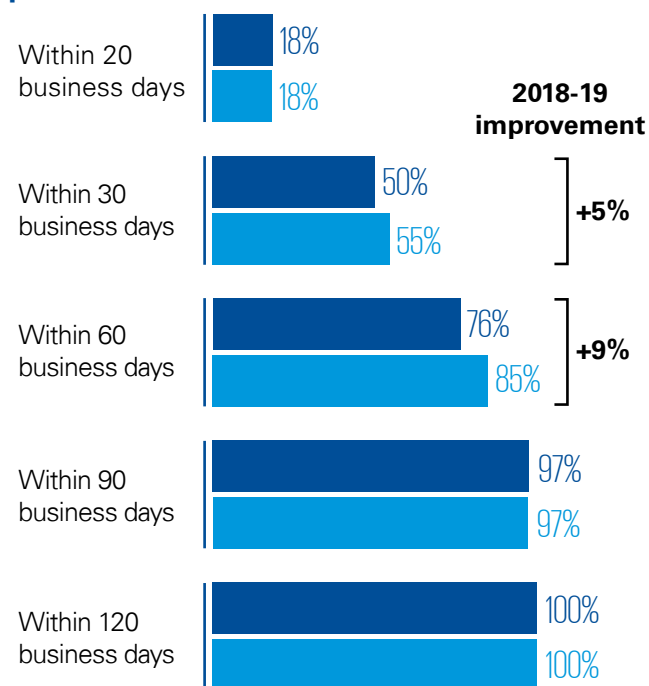
The latter two relate, in part, to the administrative burden created by regulations surrounding transactions relating to complex products, which currently does not allow concessions to be made for certain sophisticated clients. This places Hong Kong at a disadvantage compared to other key PWM hubs. In support of this view, surveyed member institutions highlighted ensuring suitability and disclosure requirements based on knowledge and experience were appropriate and proportionate as key to attracting more family offices to Hong Kong.

The client impact of these suitability and disclosure requirements is reflected in the average times reported by institutions to complete trades for different product types over the phone – ranging from six minutes for a vanilla equity trade and up to 30 minutes for transactions involving alternative funds. Anecdotal evidence from other Asian wealth hubs suggest that the completion times observed in Hong Kong are among the longest. With 88 percent

of survey respondents in agreement with the 2018 White Paper recommendation to streamline suitability and disclosure requirements as a key improvement required, resolving these pain points would inevitably help improve Hong Kong’s position as a leading wealth hub and attract more inflows from both regional and global investors.

Other onboarding requirements are still viewed by some as major pain points, but to a lesser degree compared with source of wealth. Client onboarding times have improved slightly since last year’s survey due to no new regulations and investment by PWM institutions starting to take effect. The percentage of institutions able to complete the onboarding process within 60 days increased from 76 percent to 85 percent (see Figure 15), while the overall average onboarding time decreased from 40 days last year to 37 days this year. Further investment in regtech solutions could help further improve efficiency and alleviate these pain points.

**Figure 15: Percentage of PWM institutions able to onboard a client within stated time periods**



● 2018 ● 2019

Source: PWMA Annual Survey 2019

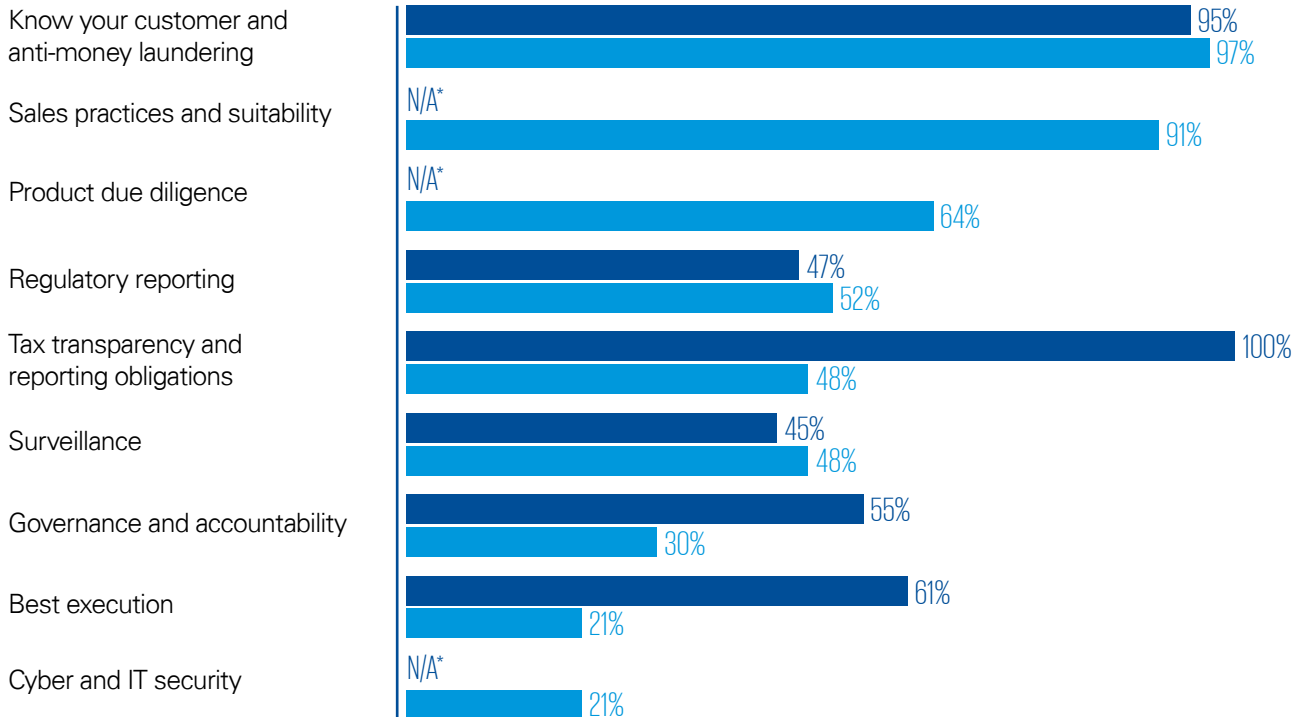
## Client Insights



Clients most commonly cited ‘providing evidence for source of wealth’, ‘trade by trade disclosure requirements’ and ‘trade by trade investment suitability requirements’ as the biggest pain points in their Hong Kong PWM experience in terms of time and administrative effort.

- 1<sup>st</sup> Source of wealth evidence
- 2<sup>nd</sup> Trade disclosure requirements
- 3<sup>rd</sup> Investment suitability requirements

**Figure 16: Percentage of respondents who cited the following regulatory areas as a top 5 expense**



● 2018 ● 2019 \*Not included in 2018 survey

Source: PWMA Annual Survey 2019

### Key takeaways



Maintain continued dialogue and collaboration between regulators and industry to drive positive change within the PWM industry



Streamline onboarding, disclosure and suitability regulations to alleviate key client pain points and improve Hong Kong's competitiveness as a PWM hub



Continue to invest in digital solutions to meet compliance requirements while maintaining a positive and consistent client experience

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# Talent

**The lack of relationship managers is a critical and growing talent gap. Investment in technology is expected to drive efficiency, allowing RMs to focus more on higher value activities**



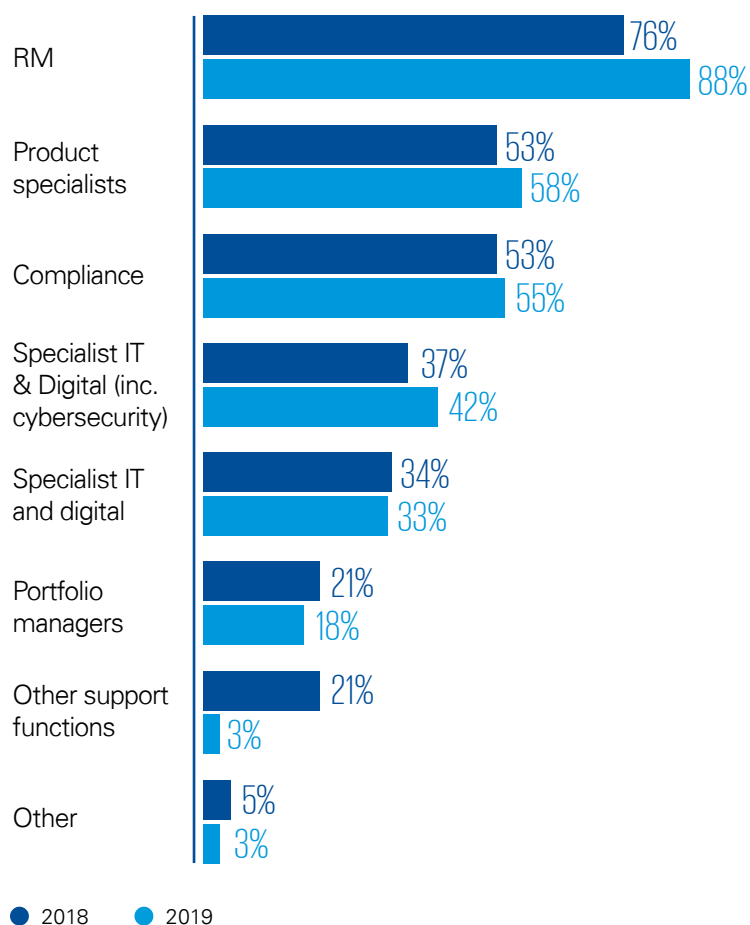




**Amid declining RM numbers, the industry is increasingly acknowledging the importance of attracting and retaining RM talent. PWM executives believe the solution lies in adopting industry-wide approaches to recruitment and retention**

Since the last PWMA survey in 2018, the RM position is increasingly seen as being a critical talent gap, ahead of product specialists and compliance staff (see Figure 17).<sup>16</sup> This is further emphasised by the number of PWM RMs reported by the surveyed institutions falling by 15 percent to approximately 2,200 in 2018.<sup>17</sup> Success as a PWM RM requires a specific skillset and network which makes lateral hires challenging.<sup>18</sup>

**Figure 17: Critical talent gaps in the PWM industry**



Source: PWMA Annual Survey 2019

<sup>16</sup> PWMA Annual Survey 2018, 2019

<sup>17</sup> On a like-for-like basis with the same survey respondents as the previous year, this was a reduction of 11 percent. Calculations based on restated 2017 figures.

<sup>18</sup> PWMA focus interviews 2019

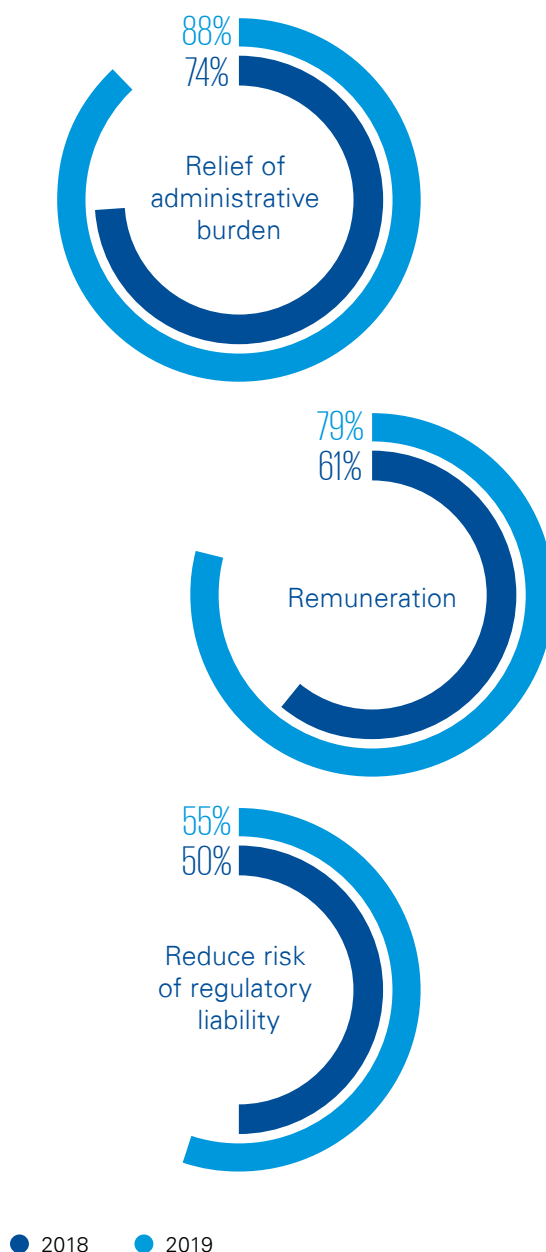
To address the talent gap and improve lateral hire success rates, surveyed PWM institutions believe the three most important initiatives are 'industry-wide approaches to promote RM careers and increase pipeline of potential recruits', 'industry-wide coordination on approaches to candidate screening to establish shared best practices' and 'government funding for re-training individuals from other industries'.

This re-emphasises the need for well-designed talent programmes. Implementing recommendations outlined in the 2018 PWMA-KPMG White Paper such as a PWM postgraduate degree would help Hong Kong to continue to develop as a centre of PWM learning. The HKMA and PWMA are leading the way with their co-organised Pilot Apprenticeship Programme for Private Wealth Management, which was launched in 2017 to target university students in Hong Kong. This initiative offers an example of an effective way to nurture young talent from tertiary education through to the early years of their private wealth management careers, helping to manage attrition rates and support the talent pipeline.

**Technology enablement will reduce the administrative burden, allowing 'RMs of the future' to focus on delivering quality holistic advice as the 'conductor', 'connector' and 'coordinator'**

There is a growing consensus that relieving the administrative burden (increasing from 74 percent in 2018 to 88 percent of survey respondents in 2019) and attractive remuneration (increasing from 61 percent to 79 percent of survey respondents) are the two most important factors for attracting and retaining RM talent (see Figure 18). Interviewees believe that technology enablement in the form of efficiency gains from automating process workflows, such as digital capture and storage of onboarding information, is likely to have the biggest immediate impact in the short term.

**Figure 18: Most important factors to make the RM role more attractive**



Source: PWMA Annual Survey 2019

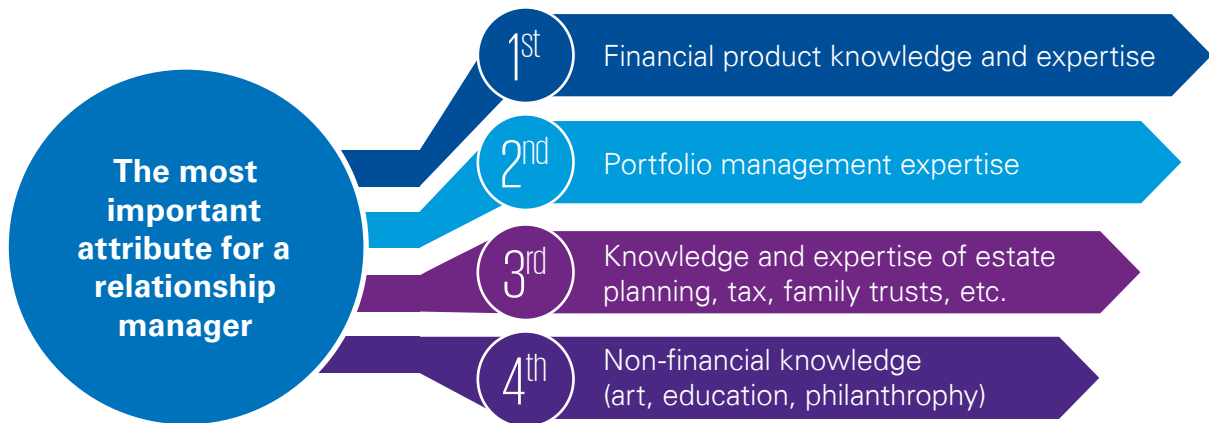
Investment into replacing legacy CRM systems with a modern enterprise-wide CRM platform that better captures the full breadth and depth of client information would enable RMs to better and more easily serve their clients. The advantages are two-fold – clients are more likely to stay with their RM, and RMs are more likely to stay with the company.

The tech-enabled ‘RM of the future’ will not be burdened by low-value administrative tasks, and can instead focus their efforts on higher-value activities, enabling the shift towards becoming the ‘conductor’, ‘connector’ and ‘coordinator across banking, wealth and insurance services.

## Client Insights



The majority of PWM clients ranked ‘financial product knowledge and expertise’ as the most important attribute for a relationship manager.



## Key takeaways



Enhance talent programmes to recruit and retain talent



Invest in technology that drives administrative efficiency, allowing RMs to focus more on higher value activities



Invest in CRM platforms that better equip RMs with the information they need to better serve their clients as a way to retain both clients and RMs

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# About the PWMA

PWMA is an industry association whose mission is to foster the growth and development of the private wealth management industry in Hong Kong. PWMA members are authorized institutions and licensed corporations in Hong Kong with dedicated private wealth management businesses providing personalized banking and portfolio management services. Established in 2013, PWMA is incorporated as a company limited by guarantee.

The main objectives of PWMA are:



to better position Hong Kong as the private wealth management hub in the region by promoting and encouraging the growth and development of the PWM industry in Hong Kong and to help maintain Hong Kong's status and competitiveness as a major financial centre;



to promote proper conduct, integrity and high standards of professional competence on the part of PWM practitioners;



to provide a forum for members to discuss and exchange views on trends and challenges faced by the PWM industry and how to strategically position for these trends and challenges;



to provide industry representation and consultation in Hong Kong on PWM related matters; and



to provide a channel for the private wealth management industry to maintain ongoing dialogue with government officials, regulators, trade bodies and non-governmental organizations.

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# About KPMG

KPMG China is based in 23 offices across 21 cities with around 12,000 partners and staff in Beijing, Changsha, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Haikou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Xi'an, Zhengzhou, Hong Kong SAR and Macau SAR. Working collaboratively across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 153 countries and territories and have 207,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong firm can trace its origins to 1945. This early commitment to this market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in KPMG's appointment for multi-disciplinary services (including audit, tax and advisory) by some of China's most prestigious companies.



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