



Private Wealth
Management
Association

Hong Kong Private Wealth Management Report 2018

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Executive summary

The growth outlook for the private wealth management (PWM) industry in Hong Kong remains strong, with assets under management (AUM) expected to double in five years. Regulation remains a key focus area, while investment in talent and technology is needed for the industry to adapt and grow.





The third annual Hong Kong Private Wealth Management report, jointly authored by the Private Wealth Management Association (PWMA) and KPMG China, provides a view of the current industry landscape, as well as the growth outlook for the next five years. The report is largely based on an online survey – of which 37 of the 45 member organisations of the PWMA responded – as well as 28 interviews with industry executives, family offices, other industry associations, regulators across Hong Kong and KPMG professionals from other global wealth management hubs.

The findings show that the growth prospects for the industry are strong, with a majority of respondents expecting the industry's AUM to double over the next five years. Mainland China and family offices are identified as the leading growth opportunities for the industry.

Technology is expected to be a key growth enabler. While more than half of the survey respondents note that the industry's current digital capabilities are not meeting client needs, the industry plans to invest significantly in technologies and digital solutions in the next two years to address this issue, and to prepare for competition from new entrants.

However, onboarding times are having a significant impact on client experience, which could lead some wealthy individuals to invest elsewhere. The survey highlighted that average onboarding time has increased to 40 days this year – compared to 30 days two years ago – which is likely to impact overall client experience.

With regulation a key area of focus, the survey finds that the main focus of spending is on sales practices and suitability, KYC/AML and tax transparency. However, greater clarity on how to comply with regulations is considered important, and an overwhelming majority of respondents agree that given its unique characteristics the PWM industry would benefit from a separate set of guidance notes.

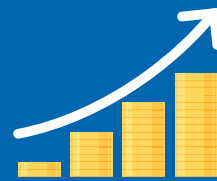
With the industry expected to grow significantly over the coming years, this is creating an increasing demand for PWM professionals, leading to a greater focus on talent recruitment and retention. In fact, two-thirds of the surveyed respondents note a "limited talent pool" as the biggest supply-side constraint. The greatest talent gap identified by respondents is around relationship managers (RMs). Furthermore, in order to respond to and meet the demands of increasingly sophisticated clients, the skillset of RMs will need to evolve.

We would like to take this opportunity to thank the survey respondents and interviewees for their kind participation in this report. We look forward to seeing another year of development and transformation in the industry.

Key findings



The industry in 2023 will be larger and more diverse.



Mainland China and family offices offer significant opportunities for growth.



Technology is expected to be a key growth enabler and necessary to prepare for competition from new entrants.



Client experience is being severely impacted by processes to comply with regulations.

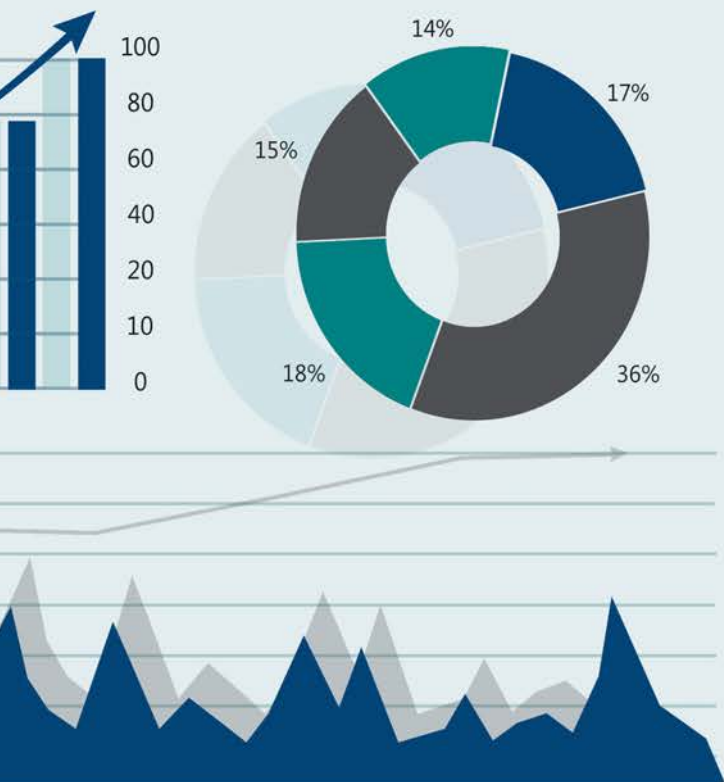


RMs need to be more skilled to meet the demands of more sophisticated clients and expectations of discretionary asset growth.



Current landscape and growth outlook





The industry has experienced strong growth in the past year

Hong Kong has grown in stature as a wealth management centre. In the past year, the number of US dollar billionaires has increased by 29 percent year on year from 72 to 93, placing it just behind New York globally.¹ The number of high net worth individuals (HNWIs) in Hong Kong also increased by 15 percent year on year from 148,000 to 170,000.²

Offshore clients make up an important part of the industry, and the number of HNWIs in nearby locations in Asia Pacific (excluding Japan) increased by 13 percent year on year from 1.8 to 2 million.³

According to the Asset and Wealth Management Activities Survey published by the Securities and Futures Commission in July 2018, the total AUM for the PWM industry stood at HKD 7.8 trillion (USD 1 trillion) in 2017. This figure, which reflects an extension to the scope of the SFC's survey compared with previous years, is 26% higher than the estimated AUM of USD 800 billion in the PWMA annual survey published last September, which is the closest relevant comparison for the previous year.

Momentum is being driven further by the presence of many of the world's leading PWM companies, prominent regional and mainland Chinese institutions, and a range of local players. More than 26 percent have over 100 RMs in Hong Kong, with the number of RMs in the industry increasing by 12 percent from 2,500 in 2016 to 2,800 in 2017.⁴ The total number of relevant PWM practitioners, which includes investment advisors, product specialists and other client-facing professionals, is around 3,800.⁵

1. Wealth-X, Billionaire Survey 2018
2. Capgemini, World Wealth Report
3. Capgemini, World Wealth Report; Knight Frank, The Wealth Report 2018; KPMG analysis. Figures include: Indonesia, mainland China, Malaysia, Singapore, South Korea, Taiwan and Thailand
4. On a like for like response basis with the same survey respondents as last year there was an increase of 4%
5. PWMA annual survey 2018

Figure 1: Private wealth AUM in Hong Kong⁶

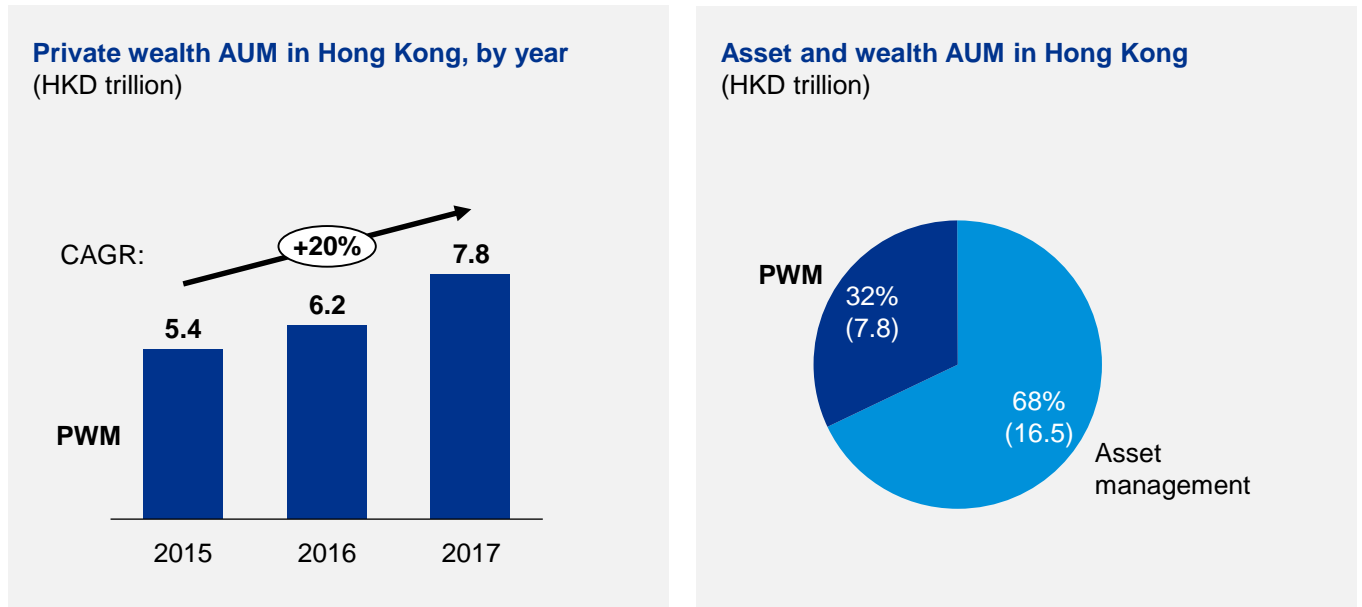
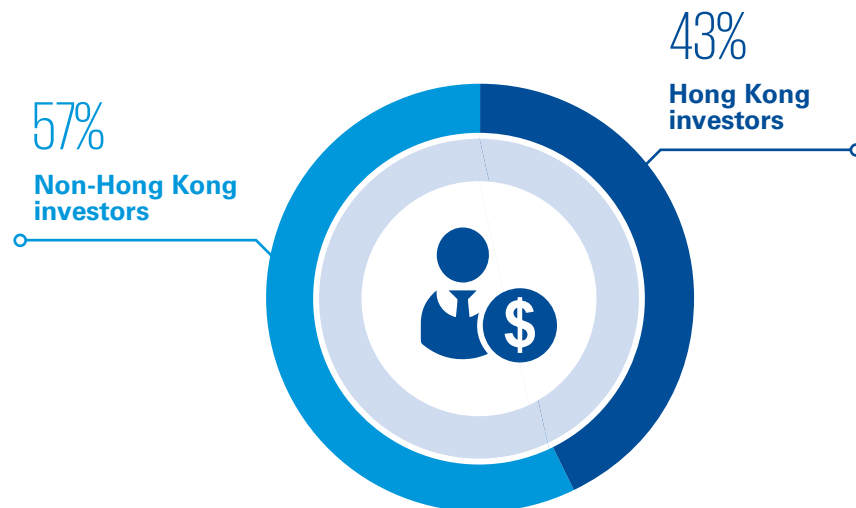


Figure 2: Hong Kong PWM industry AUM by source⁷



6. SFC, Asset and Wealth Management Activity Survey 2017; PWMA, annual survey 2015 & 2016; KPMG analysis

7. SFC, Asset and Wealth Management Activity Survey 2017



The industry in 2023 will be larger and more diverse

Survey respondents are fairly confident about the industry's growth outlook, with 58 percent predicting an annual AUM growth of 10-20 percent over the next five years. Twenty-four percent predict annual growth of between 5-10 percent, while 11 percent expect 20-30 percent growth. Taking a growth rate of 10-20 percent per annum equates to a rough doubling of industry AUM over the next five years. While this is positive for the industry, it also means that an already stretched PWM talent pool is likely to be put under even greater pressure (see Section on Talent). This places an emphasis on PWM organisations to decide where to prioritise or invest to enhance productivity.

The share of AUM captured by external asset managers is expected to rise from 1-5 percent today to 10-20 percent by 2023.⁸ External asset managers, typically defined as non-bank wealth managers, refers to a broad range of independent financial advisors (IFAs), small asset managers and multi-family offices. These institutions, which often do not maintain custody over the funds they manage or advise on, generally pitch themselves as being nimble and responsive to their clients' needs and help to bring diversity to the industry as well as new channels to distribute products.

New technology entrants are expected to have a market share of 5-10 percent, compared to a minor share today. Hong Kong is becoming a hub for a

number of Wealthtech companies that are either serving or partnering with existing players or going to market directly. A number make use of robo-advisory and AI technology to offer services to HNWIs and mass affluent clients at competitive rates. This brings welcome innovation to the industry, provides opportunities for incumbents to partner and learn from new innovation, and offers clients a broader range of options to manage their wealth.

In aggregate, these two types of market players are expected to take 15-30 percent of AUM share by 2023. Incumbents will need to decide whether to change their business models to defend vulnerable segments or to cede ground.

What needs to be done



Develop long-term approaches to scale existing businesses to respond to market growth.



Refine strategy to decide 'where to play' and 'how to win' in response to new competition.

8. Wealth Briefing Asia, External Asset Managers in Asia 2017; PWMA, annual survey 2018

Growing the market

**Mainland China and family
offices offer significant
opportunities for growth**



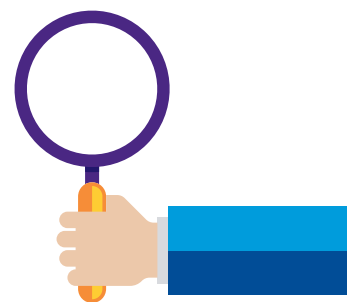


To maintain its position as a global wealth management hub, it is important that Hong Kong continues to leverage growth opportunities.

Figure 3: Most popular ways to grow the Hong Kong PWM industry



Survey respondents agree that mainland China will be the main source of growth in the Hong Kong market, with more than 60 percent **“strongly agreeing”**

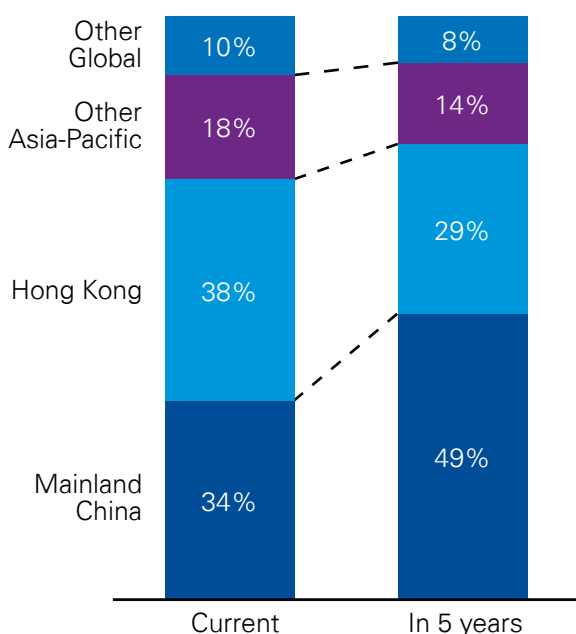


Mainland China is the main growth opportunity

The majority of respondents highlighted mainland China as the main growth opportunity for Hong Kong. The consensus estimate is that up to 49 percent of Hong Kong's AUM could come from the mainland by 2023, compared to the current level of 34 percent.

Hong Kong's status as the gateway between mainland China and the rest of the world will be key as the city continues to benefit from being the first port of call for wealthy mainland Chinese individuals looking to diversify and manage their wealth globally. This unique market position that Hong Kong possesses has been strengthened by a series of initiatives, such as the Stock Connect programmes with both the Shanghai and Shenzhen stock exchanges. About 81 percent of respondents highlight the Stock Connect as a key differentiator for Hong Kong.

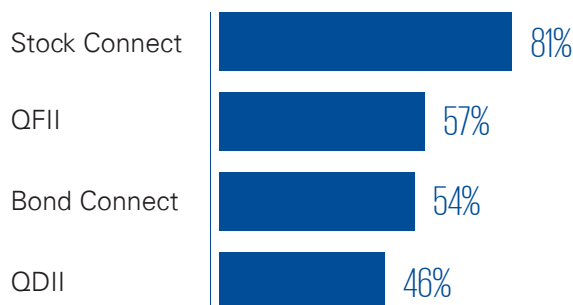
Figure 4: Hong Kong PWM industry AUM by origin



With 68 million people across 11 cities and an estimated 480,000 HNWI's, the Greater Bay Area (GBA) offers a significant opportunity for Hong Kong's PWM industry.⁹ Enhanced connectivity in terms of infrastructure, talent, capital, intellectual property and trade will help to generate substantial wealth. Hong Kong is well-placed to manage this wealth as a renowned international wealth management hub in the region.

Many respondents are actively addressing the opportunity from the mainland either by hiring people from mainland China or by developing partnerships and collaboration between onshore and offshore platforms.

Figure 5: Cross-border initiatives that deliver the most value to the PWM industry



What needs to be done



Expand the talent base to recruit more RMs that can meet the needs of mainland Chinese, especially those from regions with emerging wealth growth.



Consider the expansion of existing or new cross-border schemes, potentially leveraging the GBA.

9. KPMG China, 'A lens on the Greater Bay Area' 2018, <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2018/04/a-lens-on-the-greater-bay-area.pdf>

Family offices are ranked as the second major growth opportunity

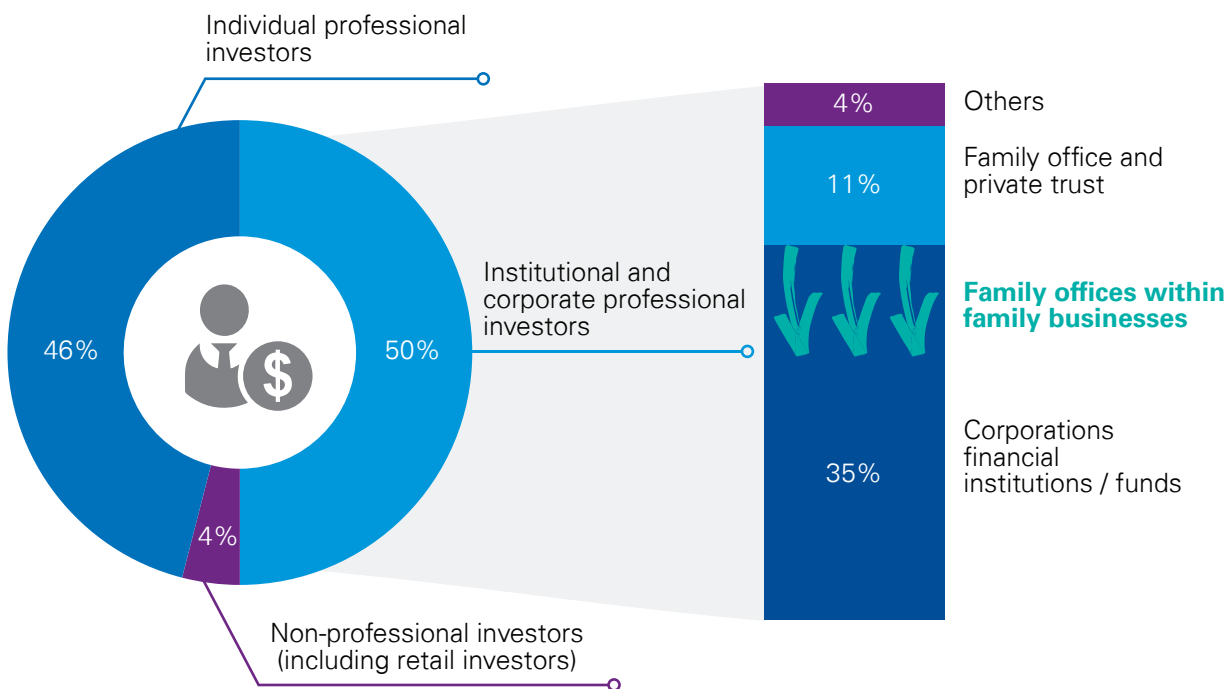
Family offices were selected by respondents as the second most important growth driver for Hong Kong's PWM industry. About 41 percent say that family offices are an increasingly important source of business, and the importance of this segment is further demonstrated by the fact that half of the total PWM AUM is from institutional and corporate professional investors. Interviewees point to the fact that much of this figure is made up of family offices of various forms, from single family offices to family offices embedded within family businesses.

It is important for Hong Kong to attract not just the newly established family offices in mainland China and Asia – where the concept is gaining popularity – but also the global family offices that are increasingly looking to diversify assets into Asia.

To promote family office set-up and servicing in Hong Kong, respondents believe the most important initiatives are:



Figure 6: Hong Kong PWM industry AUM breakdown by type⁷





What needs to be done



Promote Hong Kong as a location for family offices to establish operations.



Create an appropriate tax, legal and regulatory framework to attract and serve family offices.



Develop specialist teams with the skills and capabilities to meet the needs of family offices.

Attracting the next generation of clients requires new approaches

Targeting the next generation is identified as the joint third most important opportunity to grow the Hong Kong wealth management market. The needs of younger people can be different from those of previous generations, particularly when it comes to digital expectations. Fifty-eight percent of respondents disagree or strongly disagree that current industry practices are well suited to the next generation of clients.

Respondents note that having 'a holistic digital ecosystem' (82 percent), 'self-service investment platforms' (68 percent) and 'access to global research' (47 percent) are the top three ways to attract younger clients.

Figure 7: Current industry practices in private wealth management are well suited to the next generation of clients

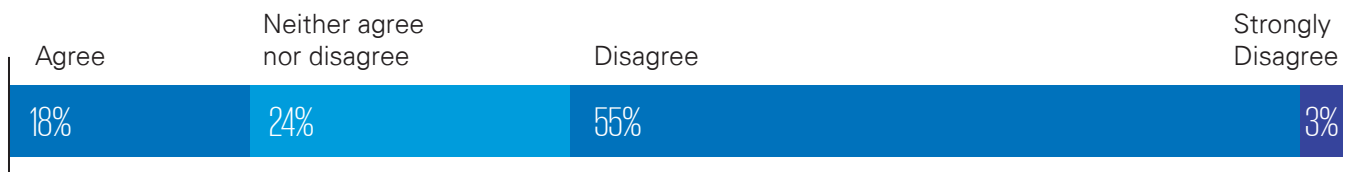
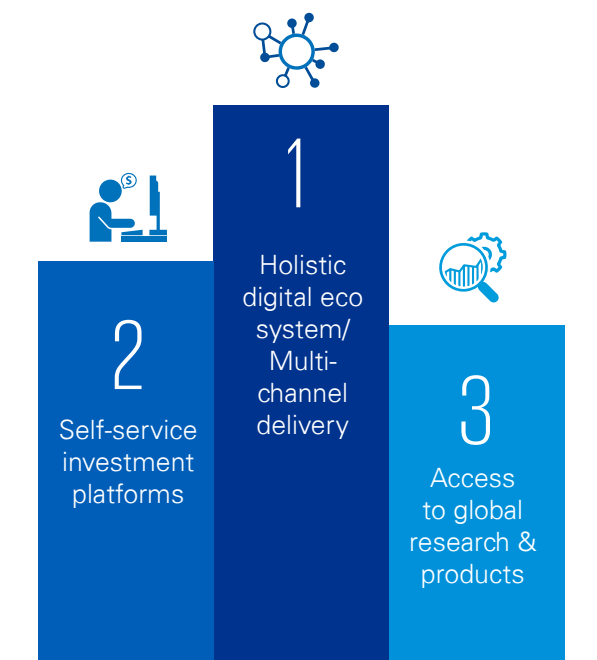


Figure 8: Top three ways to attract the next generation of clients



What needs to be done



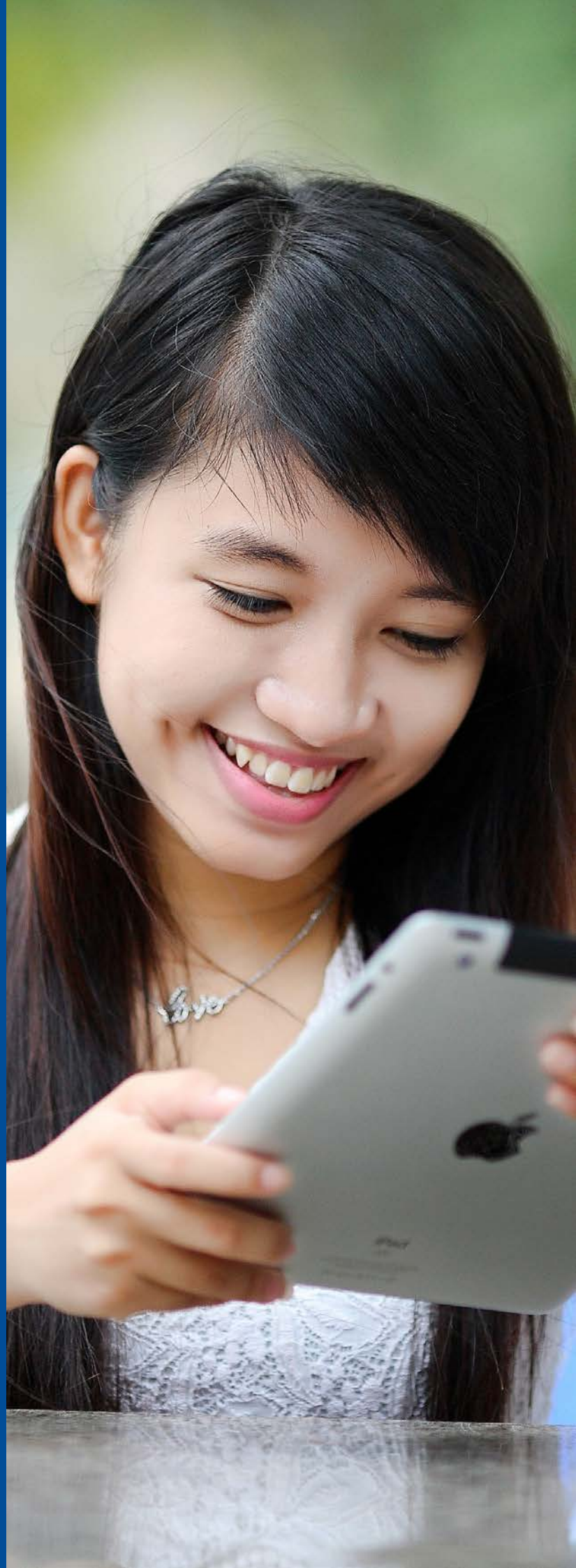
Invest in technology to provide digital experiences that will exceed the expectations of the next generation of clients.



Cultivate a younger generation of wealth advisor that is able to more closely relate to the next generation of clients.

Technology

Technology is expected to be a key growth enabler and necessary to prepare for competition from new entrants



Technology is a major force driving change in the industry. Clients are increasingly demanding a seamless omni-channel experience, where they decide how and when they want to engage with their wealth managers. Fifty-eight percent of respondents expect that 10-30 percent of today's face-to-face interactions will occur via digital channels by 2023, fundamentally changing the role and required skills of RMs.

In addition, 54 percent of respondents believe they are falling behind with their digital offering and are not meeting clients' expectations. This is primarily attributed to a limited scope of online services, with 10 percent of respondents still yet to provide mobile wealth management services.

The industry is responding with a raft of new technologies expected to be launched within the next two years (see Figure 10). This investment is broadly focused on three areas: (1) increasing use of value-added features within online and mobile platforms such as portfolio simulation tools and education materials; (2) enabling more sophisticated products to be sold online such as structured products; and (3) investing in non-client facing tools that help RMs and other teams to complete their roles more effectively and efficiently.

Respondents also identified their top three challenges around using technology-based solutions as cybersecurity threats (86 percent), data privacy (53 percent) and regulatory concerns (44 percent).

Figure 9: Perception of respondents' digital offerings and underlying reasons

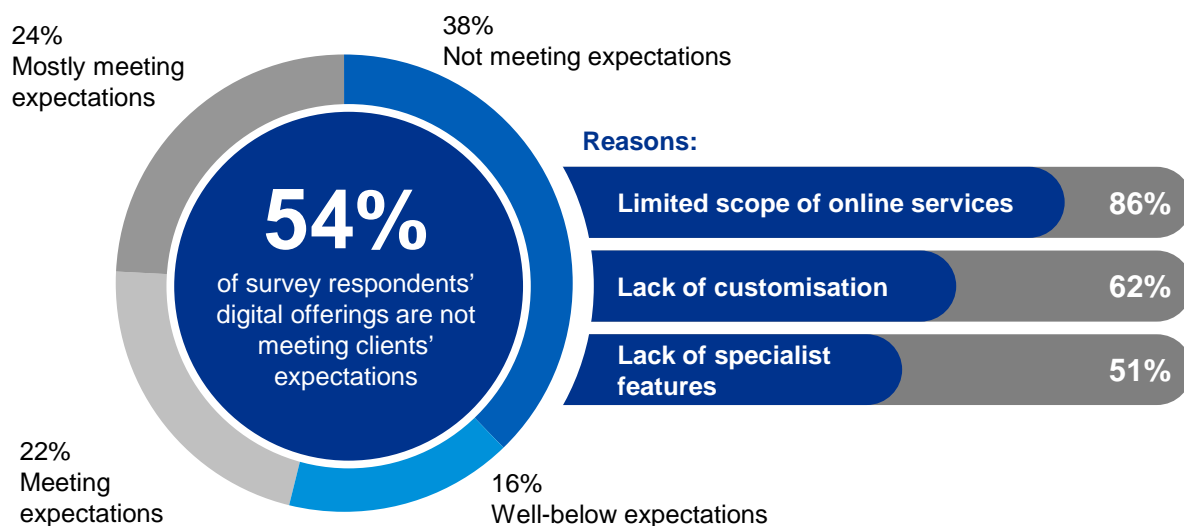


Figure 10: Digital solution availability by number of respondents

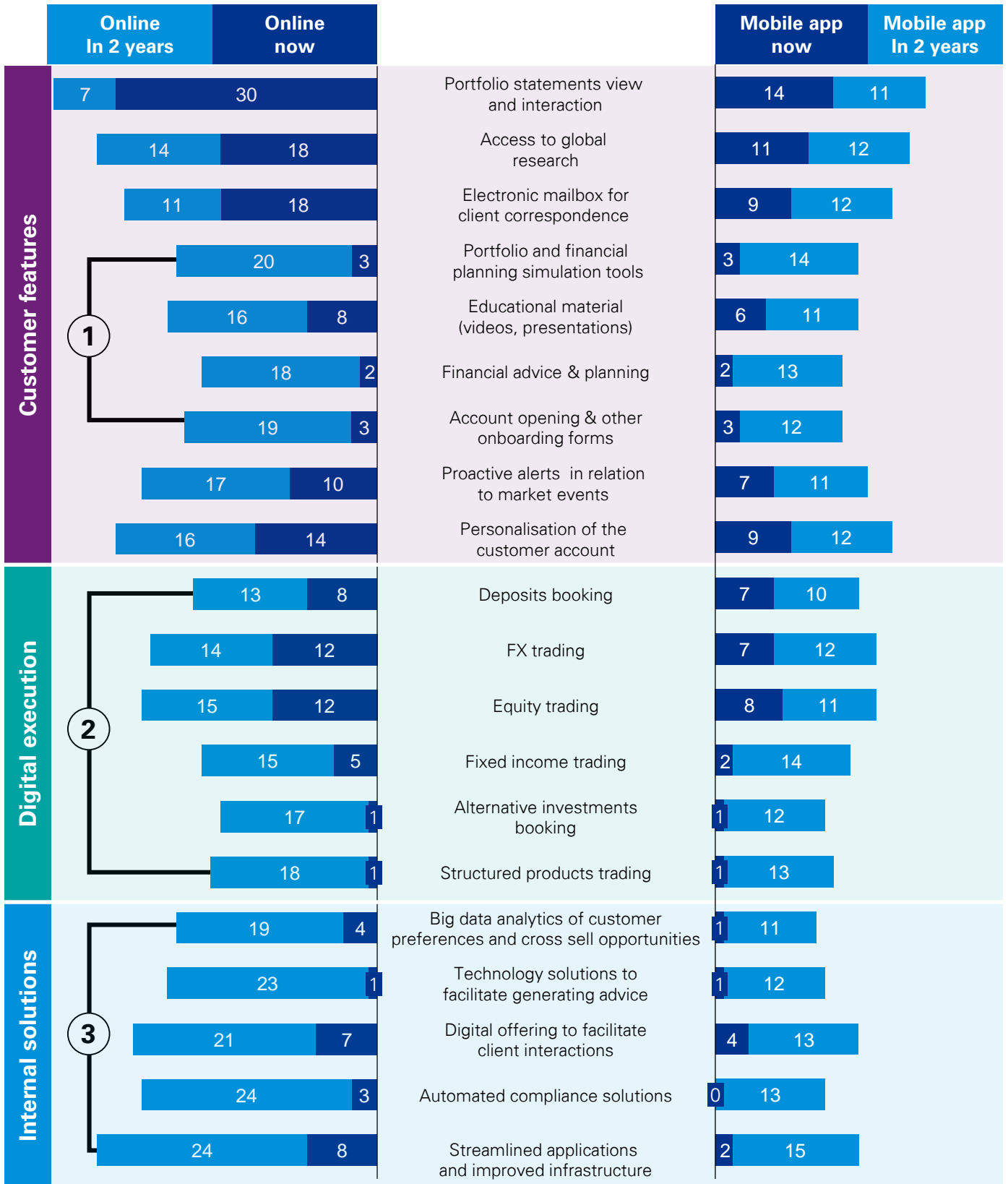
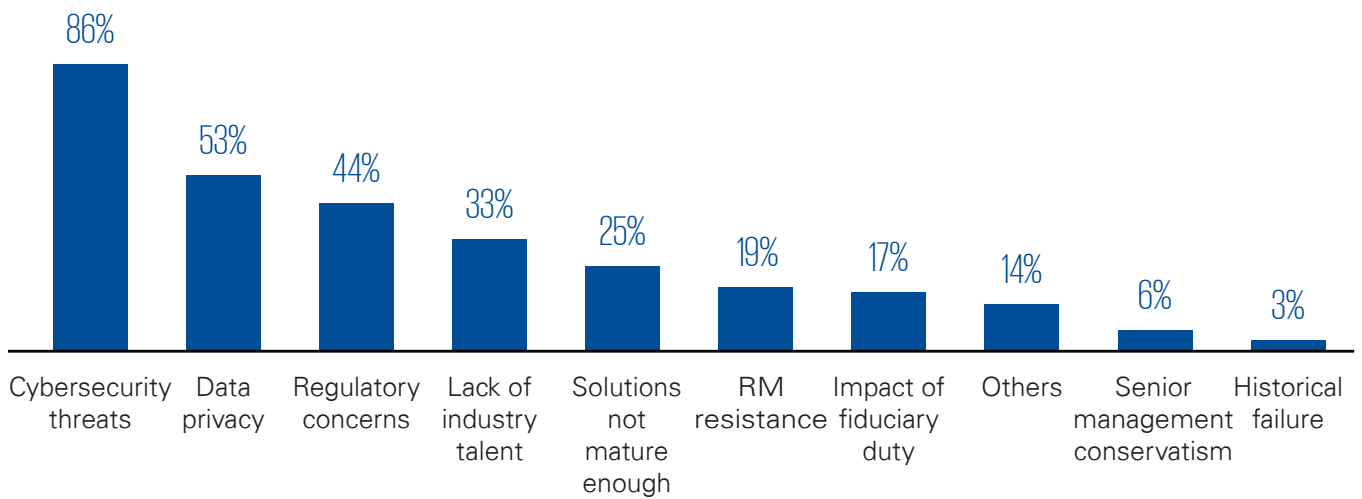




Figure 11: Top concerns/challenges around using technology



What needs to be done



Continue to invest in technology that aligns with the demands of current and future client segments.



Invest in upgrading cybersecurity and data privacy capabilities

Onboarding and regulation

Client experience is being severely impacted by procedures to comply with regulation





The demands of regulatory compliance and onboarding are consistently cited by member firms as key factors in both rising costs and deteriorating client experience. 100% of respondents identified that sales practices and suitability are a leading area for resource and budget spend followed by 95% for KYC & AML.

Average onboarding time has steadily increased since the 2016 survey, from 30 days to 40 days in this year's survey. The most significant change from last year is that the proportion of private wealth managers completing onboarding within 60 days has decreased from 93 percent to 76 percent.

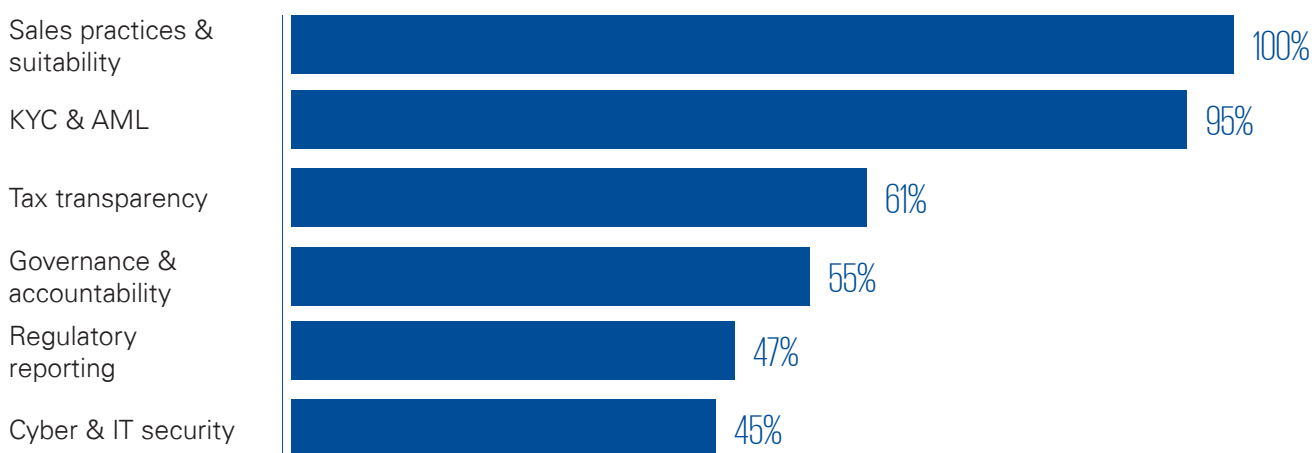
The interviews conducted for this report suggest that the needs of family offices are not all being met by the current regulatory environment, where sophisticated investors are often treated as retail clients. Larger family offices tend to be run by professional managers and have extensive multi-asset portfolios worth hundreds of millions of US dollars. Having to listen to the same disclosures as retail clients – for example on exceeding deposit protection limits – can have a negative impact on client experience.

It has been encouraging to see the Hong Kong regulators taking steps to engage with the industry in the past through open forums on topics such as key areas of regulatory concern, and through changes such as the definition of a private banking client and portfolio level suitability. However, respondents highlight difficulties in the practical implementation of the new rules.

Aside from these measures, respondents believe that circulars do not adequately take into account the unique characteristics of the PWM industry. Nearly all respondents (97 percent) note that replacing existing requirements with a separate set of PWM-oriented guidance notes would be beneficial.

To improve the client experience, industry-wide technology solutions are increasingly being explored. The concept of a KYC Utility, where client information is pooled and shared across institutions, potentially making use of blockchain technology, is growing in popularity. This information sharing means that client onboarding can be accelerated, improving the client experience. About 85 percent of respondents agree or strongly agree that a KYC Utility would be a positive development for the industry. At the same time, a recent FSDC paper noted that strong government involvement in operationalising a KYC Utility is important for success.¹⁰

Figure 12: Top three areas of resource and budget spend by percentage of respondents



What needs to be done



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



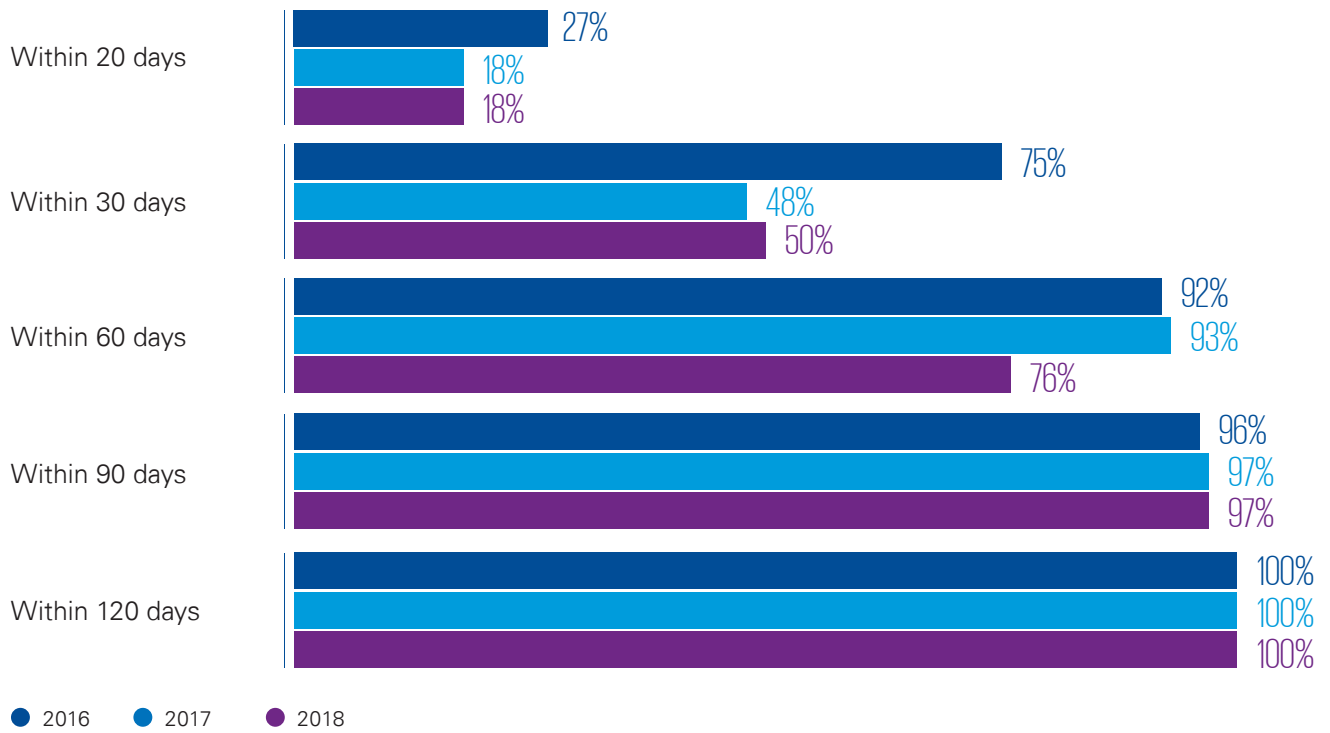
Develop a coordinated government and industry approach to develop a KYC Utility in Hong Kong.



Investigate the potential for a PWM industry Code of Conduct.

10. FSDC, Building the Technological and Regulatory Infrastructure of a 21st Century International Financial Centre: Digital ID and KYC Utilities for Financial Inclusion, Integrity and Competitiveness 2018

Figure 13: Percentage of PWM institutions able to onboard a client within stated time periods



Talent

Preparing for the future, RMs need to be more skilled to meet the demands of sophisticated clients and expectations of discretionary asset growth





With the industry expected to grow significantly in the coming years, demand for PWM professionals is also expected to increase, leading to a greater focus on talent recruitment and retention. In fact, the biggest supply side constraint identified by respondents is a limited talent pool (66 percent). While RMs are considered to be the most critical gap (76 percent), the industry is also looking for compliance (53 percent) and product specialists (53 percent). These roles do not only support RMs in driving growth, but also help to mitigate business risks.

Technology will lead to a fundamental shift in the role and associated skills of RMs. Respondents estimate that RMs spend around 42 percent of their time on administration and execution activities today (see Figure 17). However, a number of PWM senior executives expect that with technology enablement, at least three-quarters of an RM's time should be spent servicing clients in five years' time. This will help RMs to spend more time understanding client needs, and also help with employee retention because 'relief from administrative burden' is considered the number one way to make the role more attractive.

The skills of RMs will also need to be further tailored towards future client and product trends. With family offices expected to be an increasing focus, RMs will need to be better equipped to

deal with these more demanding investors. Another future trend is the expected rise in discretionary asset management to around 10-20 percent of industry AUM, an increase on the 5-10 percent today.¹¹ This translates to a more holistic advisory-type role, which requires a broader skillset and mentality.

The role of the RM is expected to change to one of 'conductor', 'connector' and 'coordinator', orchestrating various client-related activities.

These interrelated trends mean that it is critical for the PWM industry to scale up and enhance the expertise of the talent pool. This is hindered by current hiring practices in which recruiting from peers is the most common way of recruiting RMs among survey respondents (see Figure 15). This does not necessarily improve the supply of talent, and can result in reduced profitability and a focus on competing for existing AUM rather than identifying new sources of wealth.

To improve skills, there is potential for cross-industry approaches, with 78 percent of respondents agreeing that the Enhanced Competency Framework (ECF) is important for the industry. However, training and developing RMs will remain the primary responsibility of individual PWM companies themselves.

11. PWMA annual survey 2017; industry interviews

Figure 14: Critical talent gaps in the PWM industry

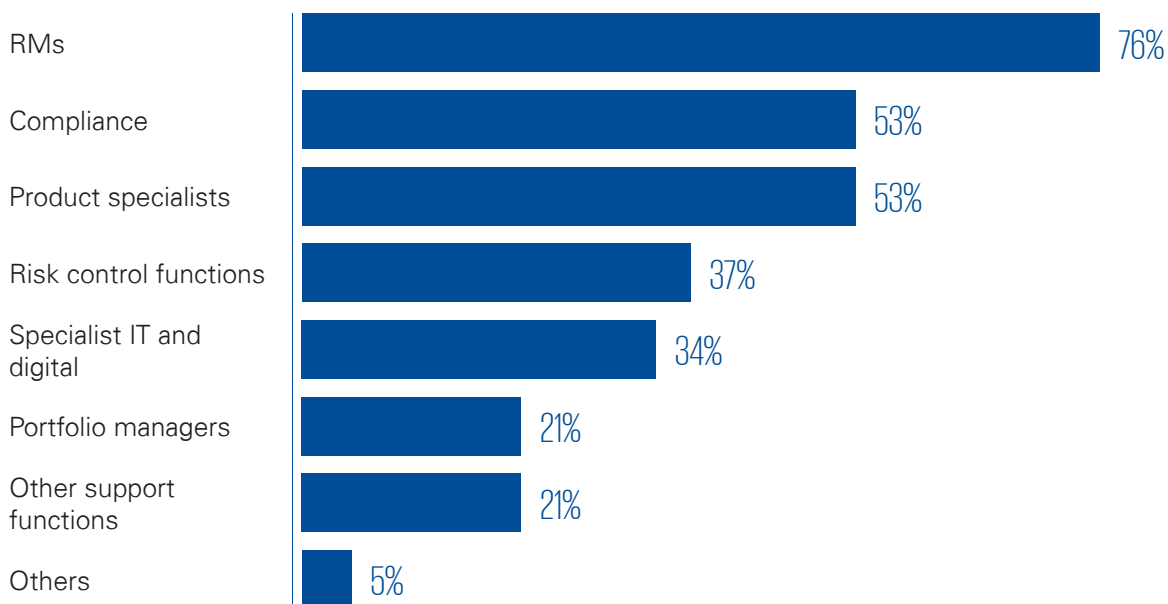


Figure 15: Most popular recruitment sources (1-5, 5 most important)

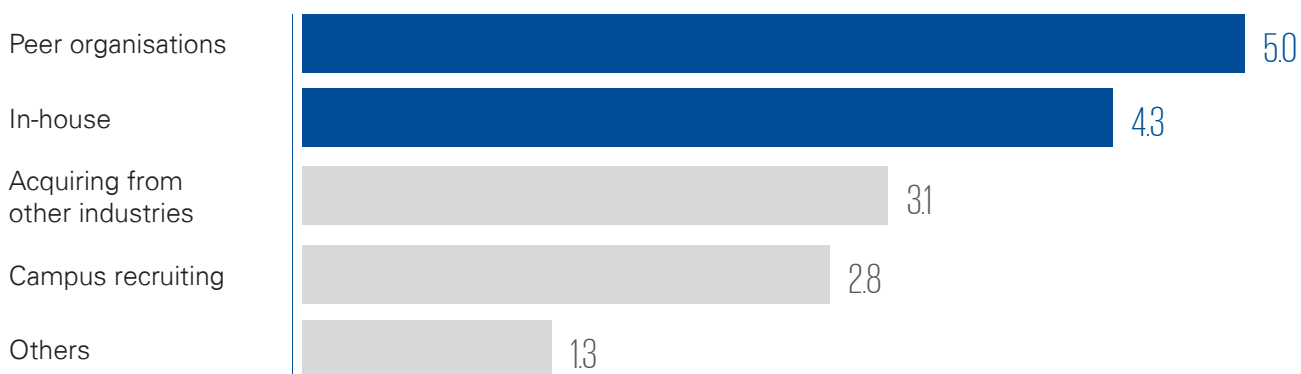


Figure 16: Top factors to make the RM role more attractive

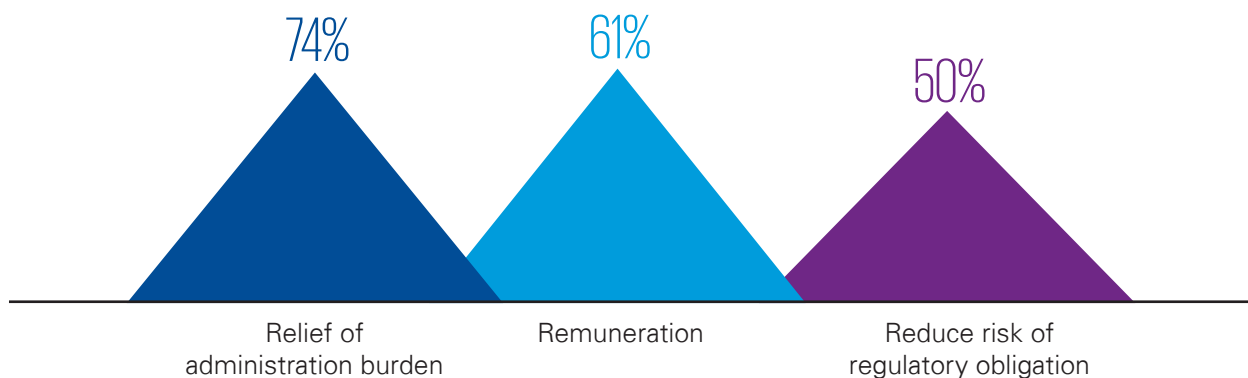
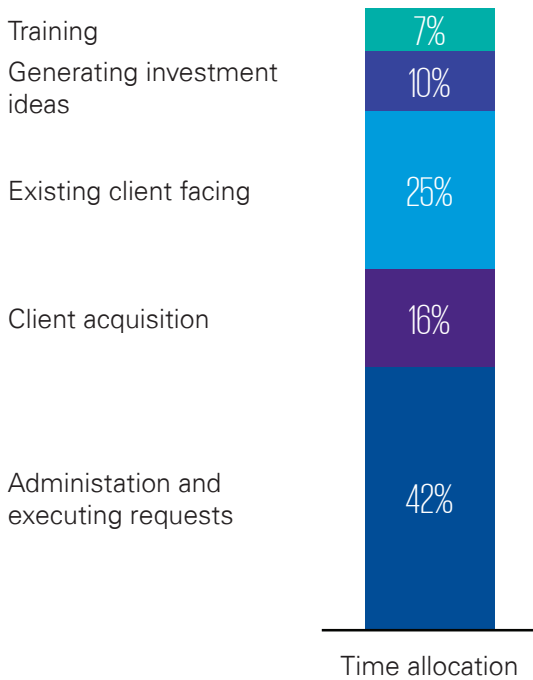


Figure 17: Estimates of current RM time allocation



What needs to be done



Invest in technology that helps employees to complete their roles more effectively and efficiently.



Cultivate skillsets aligned to the longer-term needs of the industry.



Develop a sustainable pipeline of talent in to the industry to 'grow the pie' of talent.

Figure 18: Key success factors for a RM



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.

About KPMG

KPMG China operates in 19 cities across China, with around 12,000 partners and staff in Beijing, Beijing Zhongguancun, Changsha, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Xi'an, Hong Kong SAR and Macau SAR. With a single management structure 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 154 countries and territories and have 200,000 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 China 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 office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.



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