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PWMA Private Wealth Management Association

Hong Kong Private Wealth Management Report 2022

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Contents

Executive summary

Optimism about future growth and digital transformation of the PWM industry continues despite market volatility and the challenging external environment

Background

The seventh annual Hong Kong Private Wealth Management report, jointly authored by the Private Wealth Management Association (PWMA) and KPMG China, provides an in-depth view into the current industry landscape and how it continues to respond to ongoing challenges. The report also examines growth opportunities and trends in important themes of technology, regulation and talent.

The report is largely based on an online survey of PWMA member institutions – of which 36 of the 42 members responded – and a survey of more than 200 clients of member institutions, as well as interviews with industry executives, regulators and other industry stakeholders in Hong Kong. Both surveys, as well as the interviews, were conducted from June to August this year.

The findings show that growth expectations for Hong Kong's private wealth management (PWM) industry remain positive over the coming five years, backed by solid net fund inflows. COVID-19 continues to have long-term implications on PWM firms' operating models, but the biggest impact of COVID-19 has come from Hong Kong's travel restrictions, which are affecting new client acquisition. The changed macroeconomic environment and geo-political situation have also seen clients become more risk averse as they look to protect their portfolios against inflation and seek out value opportunities in a recessionary environment.

Growth opportunities

Surveyed institutions are confident about the prospects of Hong Kong's PWM industry, with mainland China – both onshore and offshore – seen as the main driver for growth. Being the offshore wealth management centre for wealth creation in China remains important for Hong Kong, and firms consider the Greater Bay Area (GBA) as key to their offshore growth plans.

Targeting the next generation of clients also remains a significant growth opportunity. The PWM industry has acknowledged that digital transformation will play an important role in attracting such clients. Offering holistic digital and multi-channel products and services delivery, as well as self-service investment platforms, are seen as important initiatives to achieve this.

Attracting more family offices will also be pivotal to realise the industry's growth ambitions. Positive steps have been made by the Hong Kong government, including the establishment of the FamilyOfficeHK team by InvestHK in 2021 and proposals for a family office tax concession regime in the 2022/23 Budget. However, surveyed members would like to see further support and more initiatives to enable Hong Kong to compete more effectively in attracting family offices.

The client survey shows that PWM firms are largely meeting their digital expectations, which suggests that the acceleration in digital transformation during the COVID-19 pandemic has paid off. Surveyed firms are more self-critical regarding their ability to meet the digital expectations of clients and indicate that improvements are needed in the scope of online services, self-service and customisation options, and the overall customer experience. In terms of digital transformation investment, firms are shifting their focus over the coming years from client-facing solutions that provide information and execution capabilities to those that provide financial planning, tailored market insights and portfolio analysis capabilities.

Challenges

'Macroeconomic environment and market volatility' has replaced the regulatory environment as the top concern faced by the PWM industry. Recent market volatility and tightening monetary policy in jurisdictions around the world have undoubtedly had an impact. Assets under management (AUM) of the PWM industry decreased by 6% in 2021, which was attributed to negative market returns as net fund inflows remained robust.

Even amid continuing fund inflows, there are concerns among some PWM firms about the attractiveness of Hong Kong as a financial hub. Travel restrictions have affected the industry, in particular regarding new client acquisition. Hong Kong remains an attractive wealth management centre, with surveyed clients ranking Hong Kong as their preferred wealth management centre across several key dimensions, including ease of trading and onboarding, and investment options. However, the industry should not be complacent about this as there are challenges and concerns that need to be addressed and indications that clients are looking to use Singapore as a booking centre.

Attraction and retention of talent remains a significant issue for the PWM industry as well, with firms noting challenges in finding talent with the right skill sets. Emigration of staff from Hong Kong and career changes into different industries are the main reasons behind the departures of PWM professionals. This is particularly the case among 30-40-year-olds, which will be of concern for PWM firms as this demographic is generally expected to hit peak performance in the next five to 10 years. The most common approach to recruitment by PWM firms is acquisition from peer organisations, with remuneration seen as critical in attracting talent.

Outlook

Despite ongoing macroeconomic challenges and challenging conditions in the markets, the PWM industry in Hong Kong is optimistic about its growth prospects. While travel restrictions are still affecting the ability to acquire new clients, the industry may be able to look forward to a period of accelerated growth when restrictions are lifted and relationship managers (RMs) can meet prospective clients face-to-face. Engagement with regulators and the government needs to continue if the PWM industry wants to capitalise on Hong Kong's strengths.

The pandemic has changed the operating models of PWM firms and led to an acceleration in digital transformation and adoption of online channels by clients. Having already focused on internal processes and the roll-out of new digital offerings, the industry is now moving on to the next stage of digital transformation by focusing on more sophisticated digital offerings and the use of market insights, research and data to support client and RM interaction.

ESG remains a key focus for the industry. PWMA member firms have become slightly more ambitious about where they believe the market for ESG investments will be in five years' time. However, the level of AUM in ESG investments has not markedly increased from last year's survey and more significant progress is needed if the market is to reach its five-year goal. It will require an industry-wide effort to ensure Hong Kong reaches its net zero decarbonisation goal by 2050. Client education, more investment options and transparency around ESG credentials were found to be key to drive growth in ESG adoption.

With talent expected to remain a critical issue for the industry, both short-term and long-term actions are needed to ensure the industry has the right people in place to cope during the post-pandemic recovery.

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

Key findings

The health of Hong Kong's PWM industry remains robust as net fund inflows have continued despite more challenging market conditions

Mainland China – and the Greater Bay Area in particular – is seen as the biggest growth opportunity for the industry, but digital transformation also needs to continue if firms are to successfully target the next generation of investors

An increased focus on wealth management in Hong Kong's higher education, alongside upskilling of staff and attracting professionals from the GBA, is needed to ensure a sufficient level of talent during the post-pandemic recovery

The industry should engage with the government and the regulators to ensure Hong Kong improves on its positioning as a wealth management hub and is able to compete more effectively in attracting family offices

Industry overview

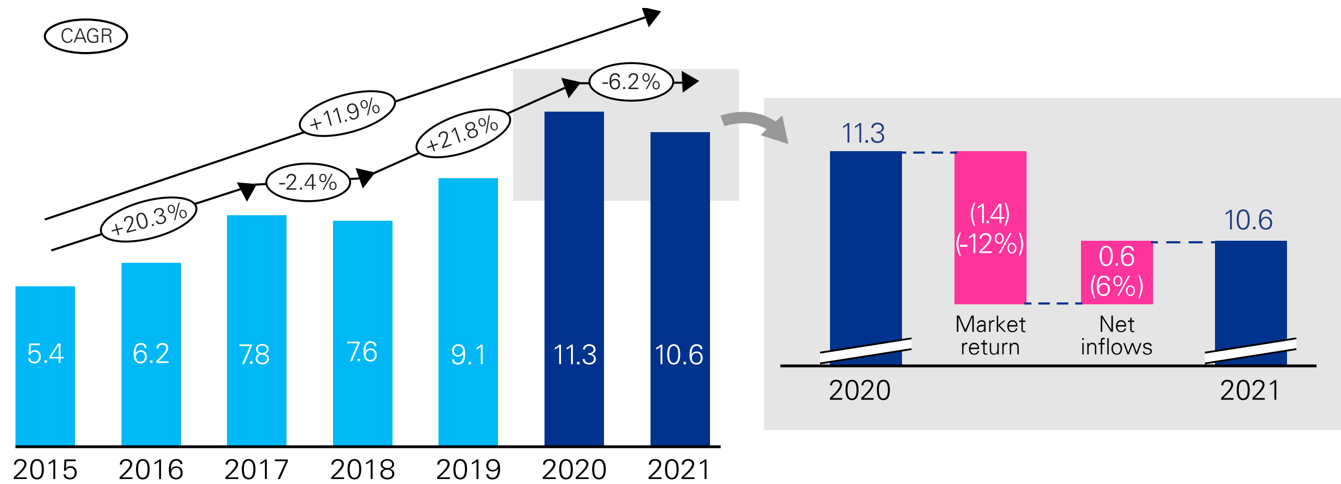
Strong net fund inflows and continued focus on transformation. However, macroeconomic and other external factors have impacted risk appetite and the adoption of ESG products by clients

Strong net inflows amidst challenging market conditions in 2021

2021 was a challenging year for the private wealth management (PWM) industry. With the value of client investments impacted by negative market returns across various asset classes, assets under management (AUM) of Hong Kong's private banking and private wealth management business decreased 6% to HKD 10.6 trillion. While this was down from HKD 11.3 trillion in the previous year, it is still comfortably above the pre-COVID-19 level of AUM seen in 2019.

Despite the difficult market conditions, Hong Kong proved its resilience as a leading wealth

Figure 1: Private Wealth Management AUM in Hong Kong (HKD trillion)



Source: SFC Asset and Wealth Management Activities Survey 2021 management hub in Asia and continued to attract funds into the industry. Net fund inflows amounted to HKD 638 billion in 2021, which was broadly in line with the previous year's figure of HKD 656 billion (Figure 1). These inflows managed to partially offset negative market returns of HKD 1.4 trillion, representing a 12% decline in the value of client investments. Underlining the tough environment, the Hang Seng Index declined by 14% in 2021, which was its most severe contraction in a decade[1].

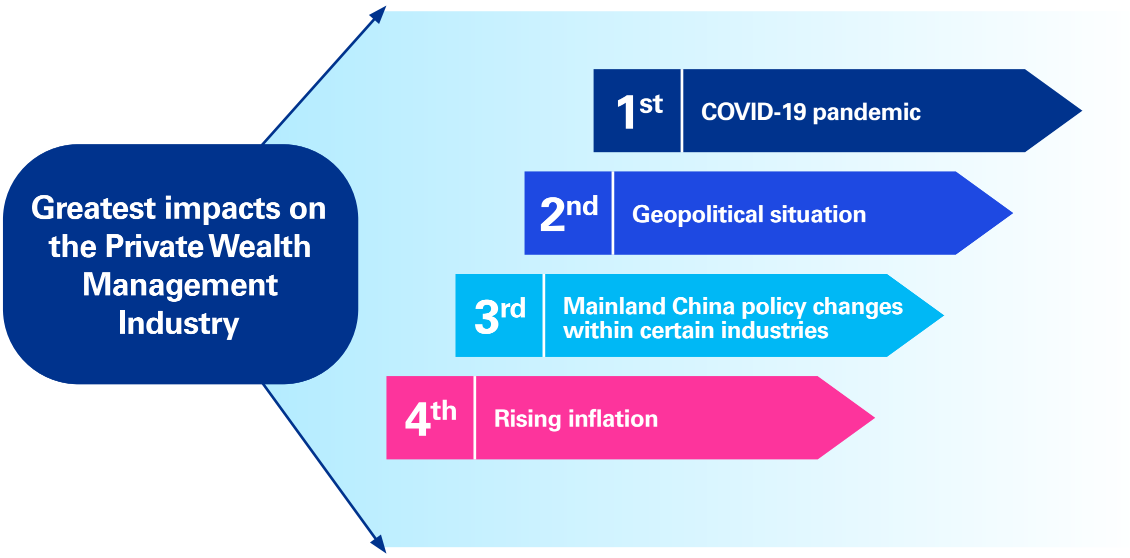
The number of high-net-worth individuals in Hong Kong – defined as individuals with more than USD 1 million in investable assets – declined by 3.1% to 182,000 in 2021[2]. The decrease was driven by recent market performance, with wealth adversely affected by the global correction in equities as well as regulatory changes in mainland China (impacting sectors such as technology, education and real estate). Emigration from Hong Kong may also have been a factor.

COVID-19 still seen as having the biggest impact on the industry

According to surveyed PWMA member institutions, the COVID-19 pandemic remained the event that has had the single biggest impact on the PWM industry over the last 12 months, followed by the geopolitical situation and China policy changes within certain industries (Figure 2). The political situation in Hong Kong was much less of a factor for member firms than it was in the 2021 survey.

The pandemic has unquestionably affected the PWM industry. It has led to changed ways of working, including the adoption of remote working, and an acceleration in digital transformation. Above all, the travel restrictions that have been in place in Hong Kong since 2020 hampered relationship managers' ability to meet clients face-to-face and build trust – a critical element in private wealth management. When travel restrictions are eventually lifted in Hong Kong, this could lead to a period of accelerated growth as the industry catches up with mainland China demand for offshore wealth management services.

Figure 2: Events with the greatest impact on the PWM industry in last 12 months



Source: PWMA Member Survey; KPMG analysis

[1] China's Tech Stocks End Tumultuous Year With Rebound, Bloomberg, 31 December 2021, https://www.bloomberg.com/news/articles/2021-12-31/china-tech-stocks-rebound-on-last-day-of-tumultuous-year

[2] World Wealth Report 2022, Capgemini, June 2022

The macroeconomic environment has replaced the regulatory environment as the top concern for the industry

Looking forward, the macroeconomic environment and market volatility are the top two concerns for Hong Kong's PWM industry today. These factors replaced the regulatory environment as the top concern in last year's survey, with recent movements in the financial markets, combined with rising interest rates and tightening monetary policy, weighing heavily on PWMA member firms.

The attractiveness of Hong Kong as a financial hub (an option included in this year's survey for the first time) is also a concern, with travel restrictions related to COVID-19 in particular affecting the ability of relationship managers to meet new clients in a face-to-face setting.

Clients rank Hong Kong as their preferred wealth management centre across several key dimensions, including ease of trading and onboarding, and investment options. However, in the current market environment they are also increasingly looking at using Singapore as an account booking centre. Hong Kong remains an attractive wealth management centre, but the industry should not be complacent about this as there are challenges and concerns that need to be addressed.

Client concerns have shifted to the macroeconomic environment and they are taking on less risk in their investment strategies

For surveyed clients, concerns over COVID-19 have faded compared to the previous year and were only ranked by 10% of respondents as being the most impactful trend when asked about factors affecting their clients' investment outlook and risk tolerance. This year, rising inflation and interest rates and the geopolitical situation are seen as the two key issues affecting their appetite for risk. In line with the survey among PWM firms, there were also worries about increased regulatory scrutiny of certain sectors in mainland China (Figure 3).

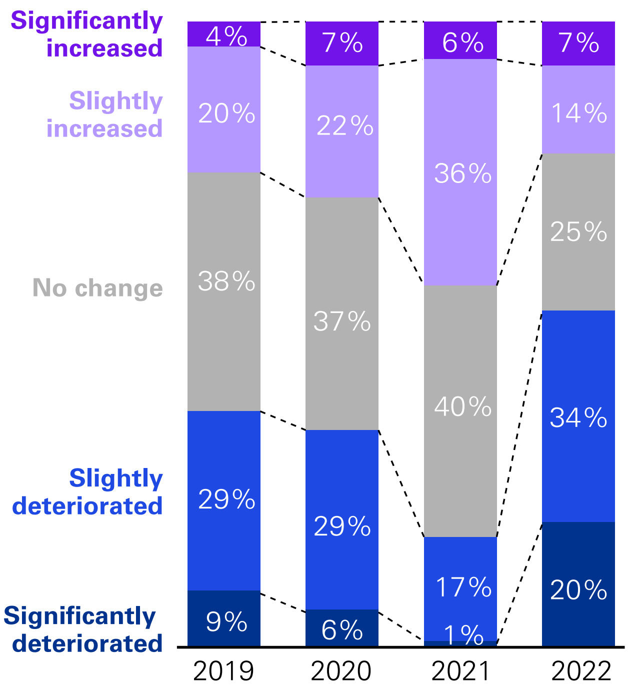
Figure 3: Macro trends impacting investment outlook and risk tolerance of clients

- **1st** Rising inflation and interest rates
- **2nd** Geopolitical situation
- **3rd** Regulatory uncertainty within certain industries in mainland China
- **4th** Russia / Ukraine conflict

Note: Weighted average ranking per survey results
Source: PWMA Client Survey; KPMG analysis

As a result of these factors, clients are more cautious and risk averse in terms of their investment portfolios. Just over half (54%) stated that their willingness to take on investment risk over the next 12 months has deteriorated, while only 21% were expecting their risk appetite to increase (Figure 4). This is reversal of the trend towards more risk, as seen between 2019 and 2021, and can also be evidenced in the investment strategies of clients.

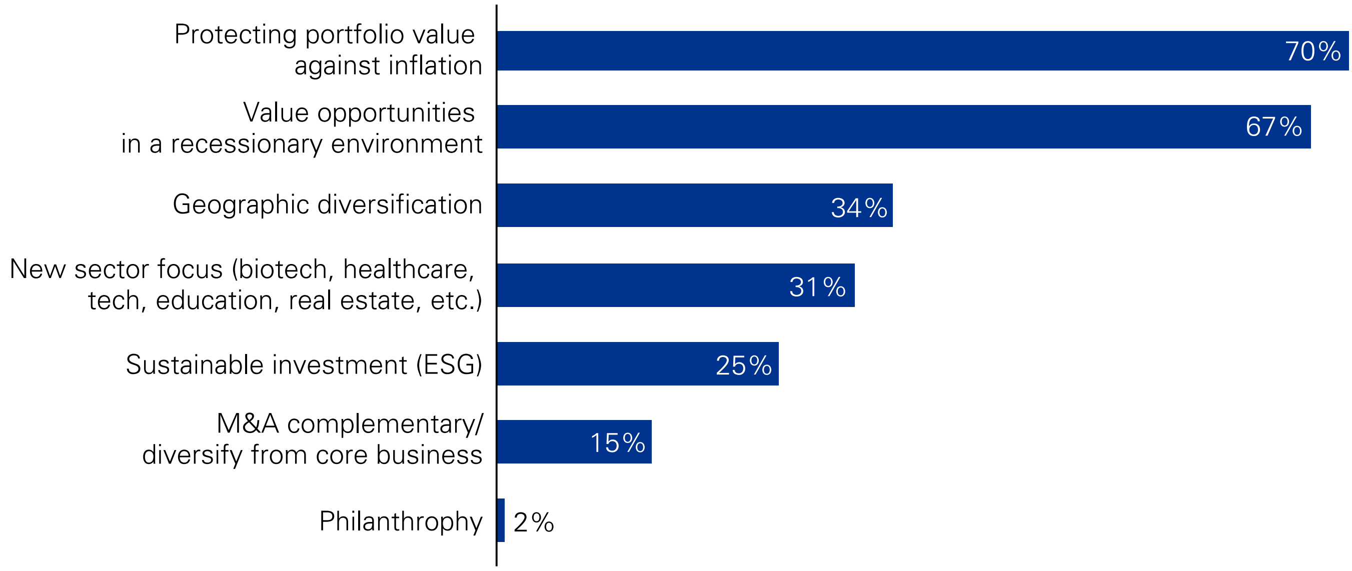
Figure 4: Clients' willingness to take on investment risk across all asset classes for the next 12 months versus the last 12 months



Note: Numbers may not add up to 100% due to rounding
Source: PWMA Client Survey; KPMG analysis

The top investment priorities for clients were protecting their portfolios against inflation and finding value opportunities in a recessionary environment (Figure 5). These priorities reflected the market conditions at the time of the survey in June and July 2022, with global stock markets down from the levels seen in 2021 and central banks around the world in the process of tightening monetary policy to counter rising inflation. Interviewees from PWMA member firms added that the use of alternative investments is becoming more popular, with private equities and hedge funds frequently cited as asset classes that are helping to protect clients from the correction in global equities.

Figure 5: Investment priorities of clients amid recent macroeconomic uncertainty



Note: Respondents were allowed to select more than one option
Source: PWMA Client Survey; KPMG analysis

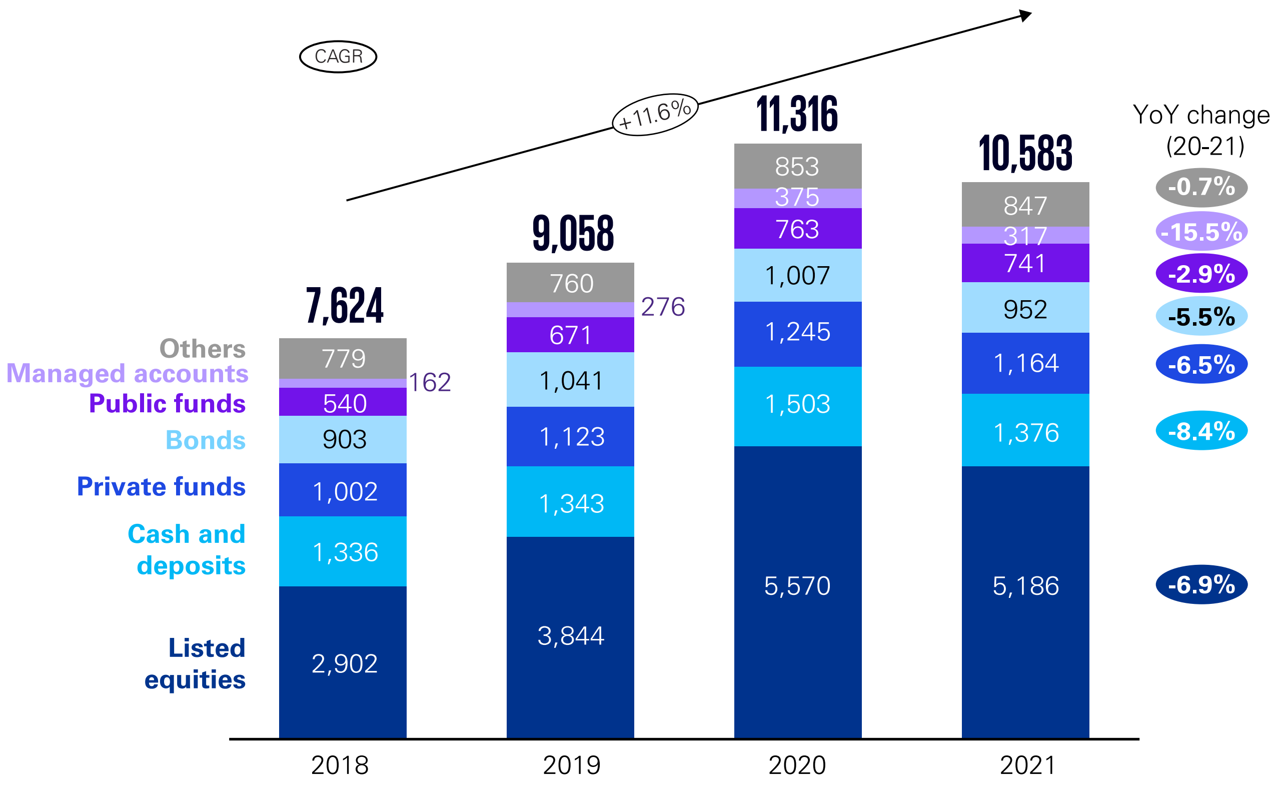
Despite the performance of the financial markets, listed equities continued to account for the largest portion of invested assets in Hong Kong's private banking and private wealth management business, representing nearly half of total AUM at the end of 2021. AUM for all asset classes were reduced during 2021, with the greatest decline seen among managed accounts (Figure 6).

ESG is an important long-term trend, but progress is not fast enough to meet net zero goals

Environmental, social and governance (ESG) and sustainable investing is a key theme for both the PWM industry and its clients. However, when it comes to ESG investments, there has been limited progress compared with last year. For surveyed PWM firms, 86% stated that less than 10% of their organisation's AUM is currently invested in ESG (2021: 94%) (Figure 7). In addition, an increasing number of clients indicate that they want a lower proportion of ESG investments in their portfolio: 41% of clients in last year's survey stated that they wanted to have more than 10% of AUM invested in ESG, but that figure has reduced to 30% this year (Figure 8).

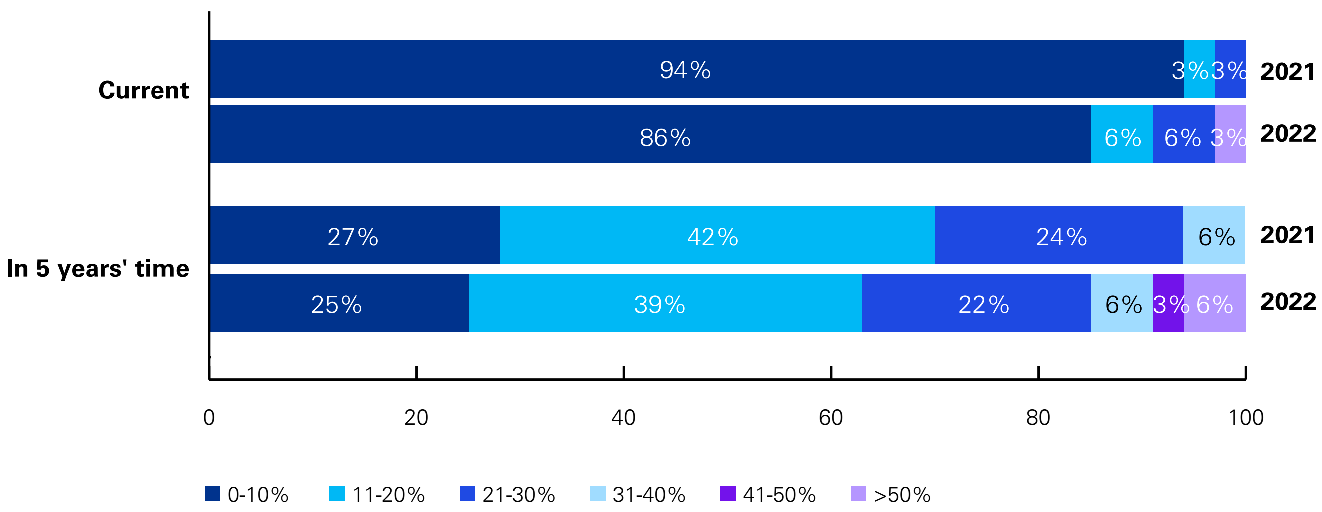
An interviewee from a PWM institution suggested that clients' focus on ESG may have become less of a priority this year as they are instead focused on the fallout from the energy crisis in Europe and food shortages arising from the conflict in Ukraine. Other interviewees noted that while they are seeing interest in ESG from clients, this has yet to translate into a significant portfolio re-allocation to sustainable products.

Figure 6: PWM AUM by asset and product type 2018-2021 (HKD billion)



Source: SFC Asset and Wealth Management Activities Survey 2019, 2020, 2021

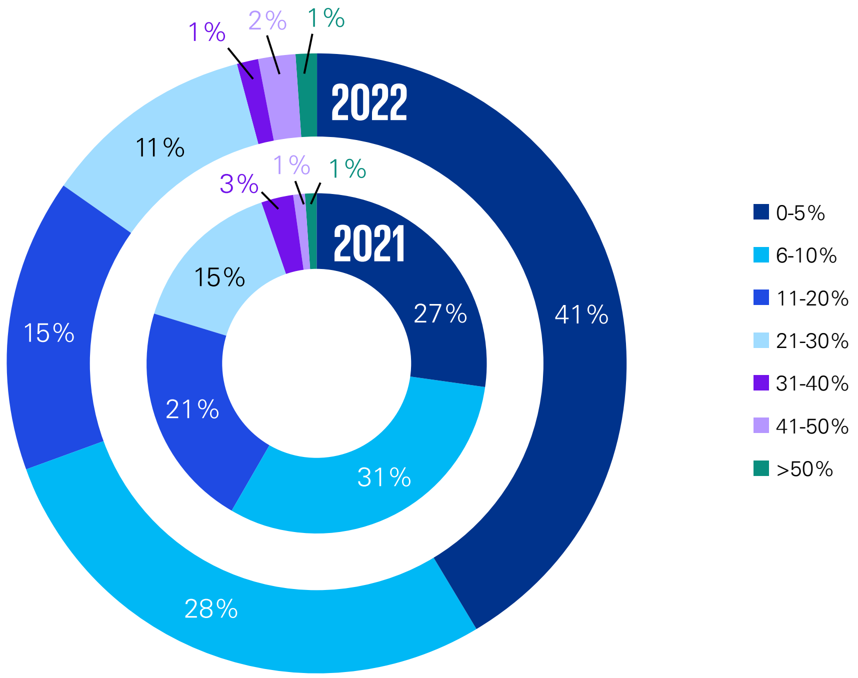
Figure 7: Proportion of organisations' AUM invested in ESG (currently and in five years)



Note: Numbers may not add up to 100% due to rounding

Source: PWMA Member Survey; KPMG analysis

Figure 8: Proportion of portfolio that clients currently want to be invested in ESG



Note: Numbers may not add up to 100% due to rounding. 2021 figures restated to align calculation methodology
Source: PWMA Client Survey; KPMG analysis

Surveyed member institutions have slightly upgraded their expectations of how this situation will evolve in five years' time, with 76% of surveyed member firms expecting the proportion of AUM invested in ESG products to be over 10%, compared with 72% of surveyed member firms in last year's survey. Meanwhile, 9% of organisations expect AUM to be over 40% in five years, compared with none in last year's survey. This latter data point is encouraging as sustainable investing should be a higher priority for the industry in light of Hong Kong's ambitions to become net zero by 2050.

There is agreement between surveyed clients and PWMA member firms about what needs to be done to achieve ESG growth in the market. More education, increased investment options, a higher degree of transparency into ESG credentials, as well as regulatory alignment on ESG standards were all offered as initiatives to raise the level of sustainable investments. As a premier wealth management hub, Hong Kong should take a leading role in driving client interest in sustainable products and developing the required capabilities in the industry to support Hong Kong's ESG goals.

Limited interest by the Private Wealth Management industry in virtual assets

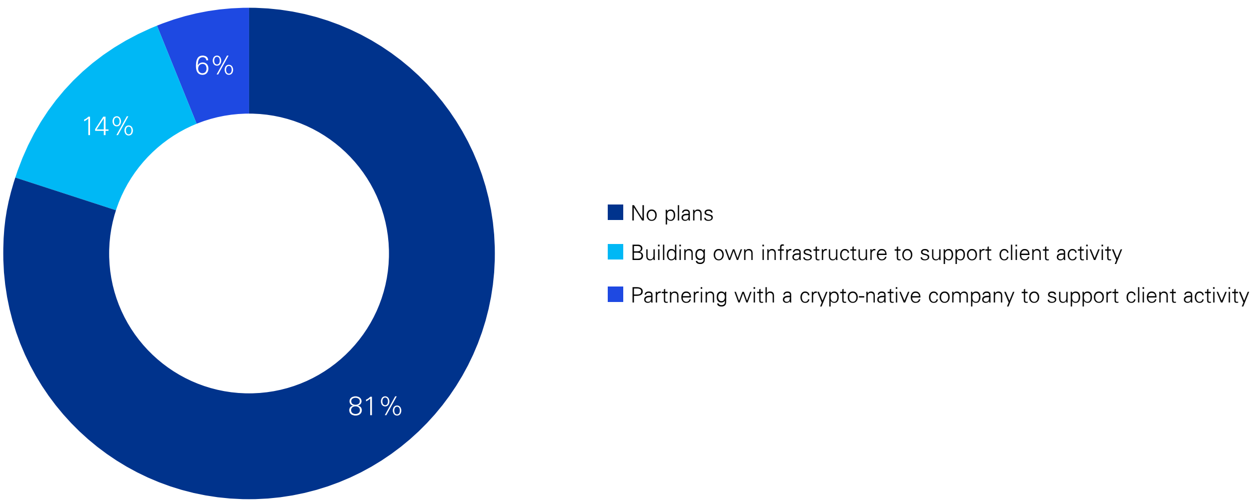
In line with global trends, virtual assets have entered into the mainstream in Hong Kong, even amid weaker market sentiment toward cryptocurrencies. Four in ten surveyed clients stated that they are interested in virtual assets as an asset class, but felt that Hong Kong did not have a strong market in these assets. Despite these sentiments, clients still appear to be cautious – 47% of all surveyed clients wanted less than 1% of their portfolio invested in virtual assets, while the vast majority of respondents (96%) wanted this proportion to stay below 10% (up from 91% in the 2021 survey).

From the perspective of the PWM industry, there is currently limited interest in serving clients in this asset class. Only 17% of surveyed PWMA member institutions plan to offer custody and trading of virtual assets, while only 14% have plans to build their own infrastructure to support client activity in virtual assets (Figure 9). Therefore, in the foreseeable future, client demand for virtual assets is likely to be met through other channels outside of the PWM industry.

According to surveyed firms, the main barrier to greater investment in virtual assets are concerns about the regulatory environment, while volatility and liquidity concerns are also major issues – this is understandable given the significant movements in the value of cryptocurrencies seen since 2021, and recent liquidity problems at selected crypto exchanges[3].

There have been some recent developments on the regulatory front regarding virtual assets. The Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) released a joint circular on virtual asset-related activities by intermediaries in early 2022[4]. The Hong Kong government has also tabled draft legislation that will provide a framework for the licensing of virtual asset exchanges in Hong Kong (as part of its anti-money laundering regime)[5].

Figure 9: PWM firms' plans for custody and trading of cryptocurrencies and other virtual assets



Note: Numbers may not add up to 100% due to rounding. 'Using third-party crypto-native service provider on an occasional basis' was 0%.
Source: PWMA Member Survey; KPMG analysis

[3] Crypto's Liquidity Troubles Are Spreading to Other Platforms, Bloomberg, 26 June 2022, https://www.bloomberg.com/news/articles/2022-06-23/crypto-s-liquidity-troubles-are-spreading-to-other-platforms

[4] Joint circular on intermediaries' virtual asset-related activities, Securities and Futures Commission, 28 January 2022, https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/suitability/doc?refNo=22EC10

[5] Gazettal of Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022, The Government of the Hong Kong SAR, 24 June 2022, https://www.info.gov.hk/gia/general/202206/24/P2022062300509.htm

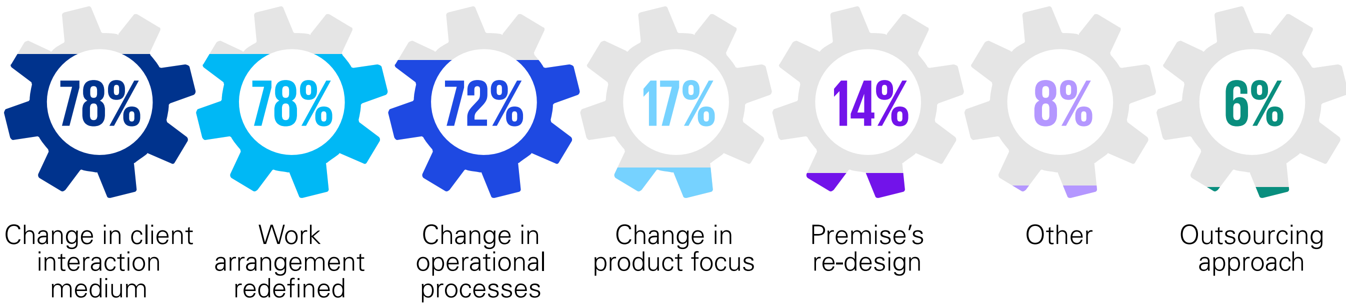
COVID-19 has had a long-term impact on the operating models of PWM firms

Similar to previous year's survey, the majority of PWMA member firms have identified 'change in client interaction', 'work arrangement redefined' and 'change in operational processes' (such as the use of digital documents and acceptance of e-signatures) as the main implications of the pandemic on their operating models (Figure 10). The redesign of premises has dropped from the top four compared with last year as flexible working has become a permanent feature in the industry.

From interviews, it has become apparent that PWM firms have experienced fewer problems in servicing existing clients during the COVID-19 pandemic, helped by the push into digital and e-banking. However, travel restrictions and lack of face-to-face interactions have hampered new client acquisition.

When asked in which areas PWM firms expect to increase spending to improve operational efficiency, digital transformation initiatives came out on top with 89% of surveyed members increasing their investment in technology and transformation. Spending on premises and travel have been earmarked for budget cuts as these areas have been reassessed as a result of the pandemic.

Figure 10: Long-term implications of COVID-19 on operating models



Note: Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

Key takeaways

In the current macroeconomic climate, product offerings and services need to be adjusted to the more increased risk-averse sentiment of clients

A combination of new product offerings, increased education of clients and regulatory alignment on green standards are needed to create stronger growth in the ESG market

The industry needs to continue to build on acknowledged strengths to address challenges to its position as Asia's pre-eminent private wealth management centre

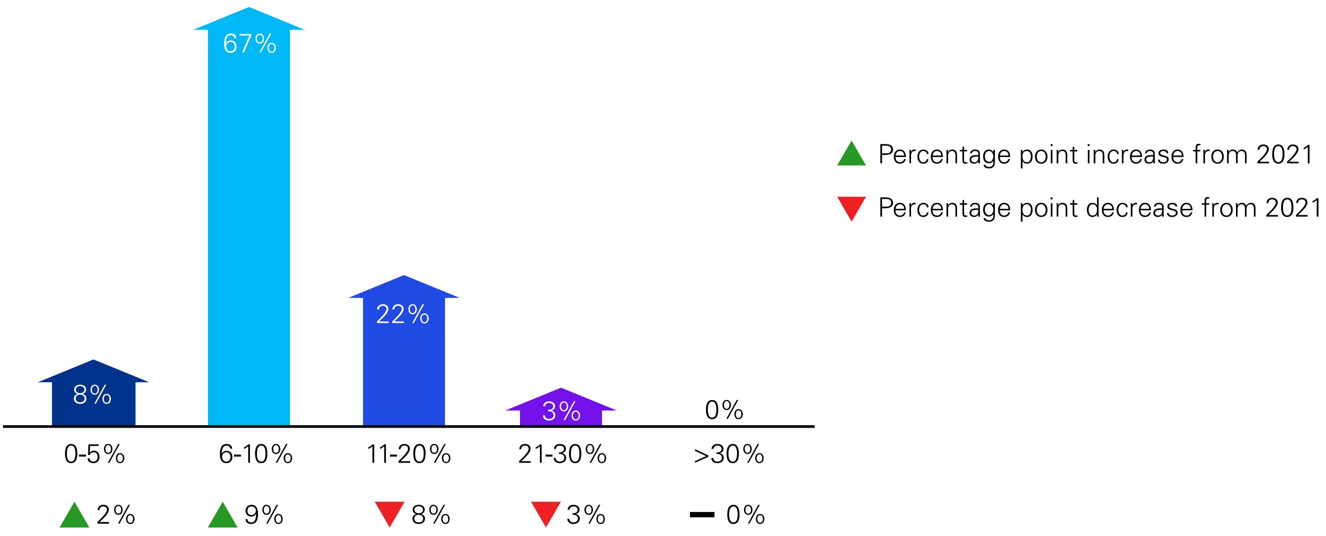
Growing the market

The key themes for growth remain unchanged: China, attracting the next generation and family offices. Travel restrictions have impacted growth – their relaxation could power a rebound in demand for offshore PWM services from mainland China

Continued optimism on growth potential of mainland China

There is continued optimism around Hong Kong's PWM industry. Despite the challenging market conditions experienced in 2021, with AUM in the industry declining by 6%, the industry's long-term prospects are still robust, supported by net fund inflows. Reflecting this upbeat view, 67% of PWMA member institutions expect annual growth in the industry's AUM to be in the 6-10% range over the next five years, while a further 22% predict CAGR of 11-20%. However, growth sentiment has slightly deteriorated compared with the 2021 survey (Figure 11).

Figure 11: Expected annual growth in industry AUM in the next five years



Source: PWMA Member Survey; KPMG analysis

Further penetration of the mainland China market was identified as the biggest opportunity to grow the Hong Kong PWM industry, according to 86% of surveyed member institutions. Targeting the next generation – the top ranked growth opportunity in last year's survey – came in second place, followed by attracting more family offices to establish a presence in Hong Kong (Figure 12).

The Greater Bay Area is central to growth ambitions

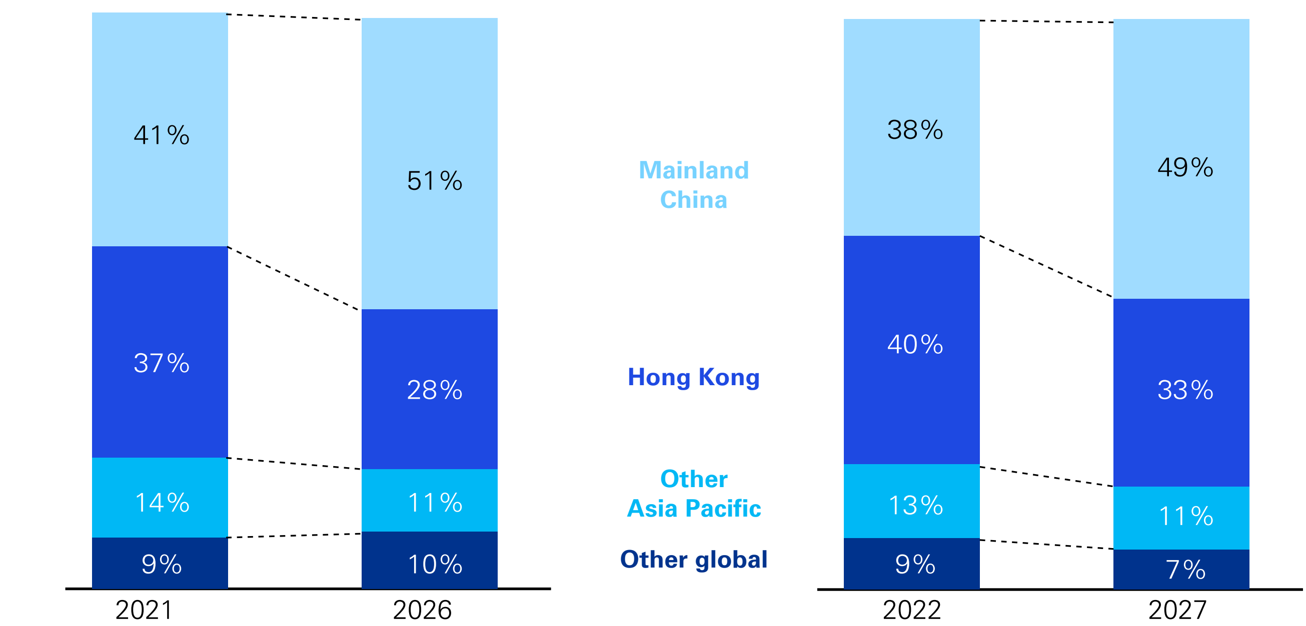
The PWM industry in Hong Kong is focusing on mainland China through both onshore and offshore entities. Around 60% of member institutions indicated that they already had an onshore presence in mainland China, while a further 8% have plans to do so in the future. However, interviewees did note that competing against local PWM firms in mainland China was challenging given the regulatory limitations on the types of products that can be offered by non-local firms.

Figure 12: Key growth drivers for the Hong Kong PWM industry

	2022 ranking	2021 ranking
Further penetrating the mainland Chinese market	1	2
Targeting the 2nd (or 3rd) generation	2	1
Attracting more family offices to set up in Hong Kong	3	3
Targeting young entrepreneurs	4	4
Attracting more offshore clients residing in other markets	5	5

Note: Weighted average ranking per survey results. Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

Figure 13: Hong Kong-based AUM for the PWM industry by origin



Note: Numbers may not add up to 100% due to rounding
Source: PWMA Member Survey; KPMG analysis

Hong Kong should continue to benefit from its role as an offshore wealth management centre for wealth creation in mainland China. Surveyed member institutions expect that the proportion of AUM sourced from mainland China to rise from the current 38% to close to 50% in five years' time (Figure 13). Central to this ambition will be the development of the Greater Bay Area (GBA), with 86% of firms seeing the GBA as being either 'very important' or 'important' to their offshore Hong Kong business over the coming year.

The cross-border Wealth Management Connect scheme was launched in September 2021, giving mainland investors domiciled in the GBA the ability to invest in approved wealth management products in Hong Kong. While the scheme is viewed as a positive first step by the industry, interviewees consider it as a long-term play that has yet to fully deliver for the PWM industry given its current focus on retail investors. An 'increased quota size/freer conversion of funds' is top of the list of changes that are needed to make the scheme more relevant to the PWM industry, according to member institutions. An increase in the sophistication of products and harmonisation of selling rules and regulations would also help Wealth Management Connect gain traction (Figure 14).

Figure 14: Changes needed to make Wealth Management Connect more relevant for the PWM industry

1	**Greater quota size / freer conversion of funds**
2	**Wider range of products**
3	**Harmonisation of investment selling rules and regulation across the GBA**
4	**Easier flow of information for account opening**

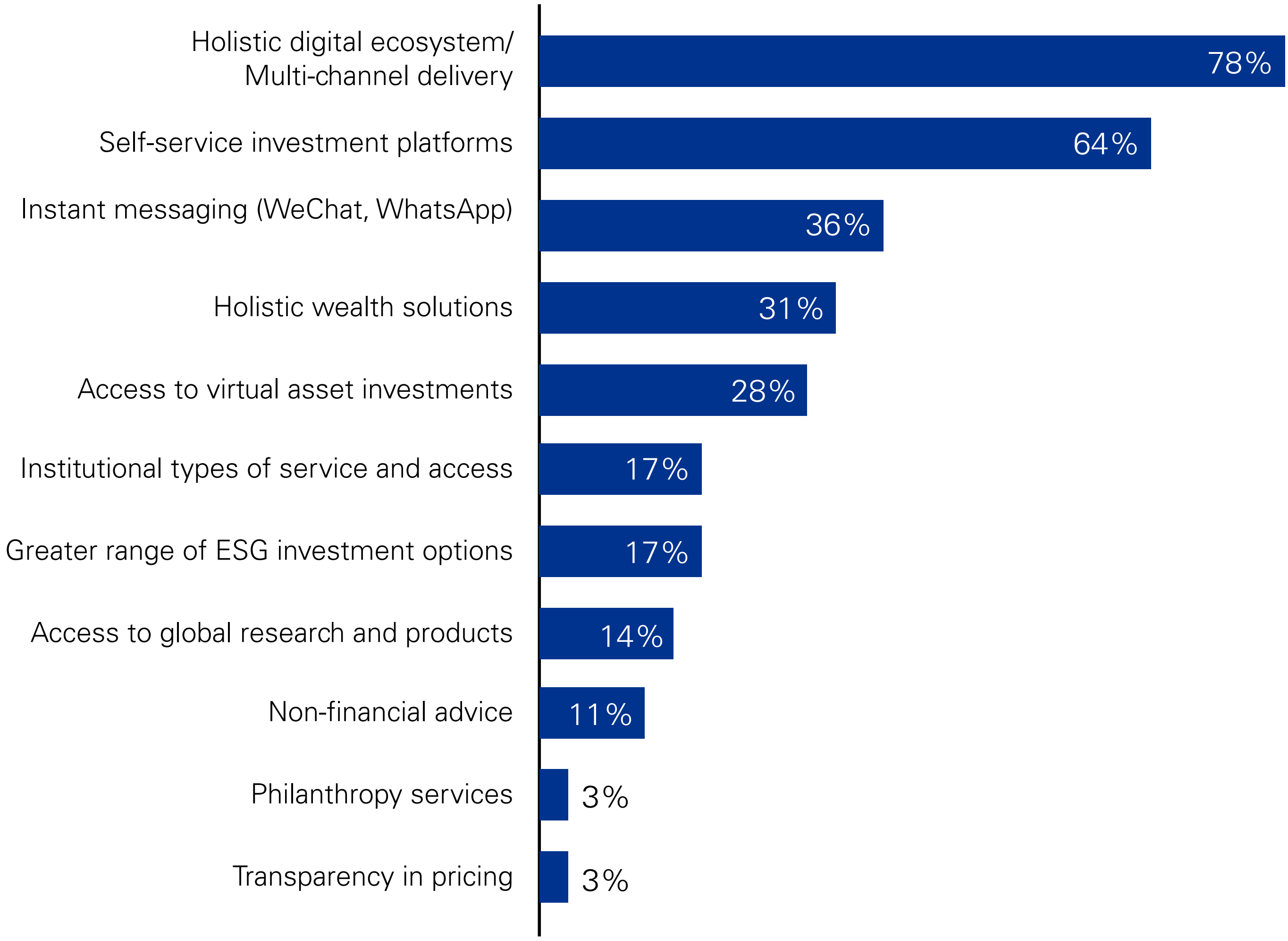
Note: Weighted average ranking per survey results
Source: PWMA Member Survey; KPMG analysis

Digital transformation is needed to attract the next generation

While targeting the next generation of investors has slipped behind the mainland China market as a growth opportunity, it remains a key growth driver for the PWM industry. When asked how firms should attract the second or third generation of investors, surveyed member institutions identified two key attributes: offering a holistic digital and multi-channel delivery (78%) and self-service investment platforms (64%). Slightly less of a priority were the use of instant messaging platforms such as WeChat and WhatsApp (36%) and being able to offer holistic wealth solutions (31%) (Figure 15).

Both of the top two areas are linked to the need for digital transformation and the changing ways in which clients want to interact with their banks. For instance, the survey among clients showed a preference for digital engagement in areas such as trading, anti-money laundering reporting and portfolio reporting. It stands to reason that such attributes will be more important for younger generations of clients – many of whom will be digital natives.

Figure 15: Required attributes to attract the next generation of investors



Note: Respondents selected their top three attributes
Source: PWMA Member Survey; KPMG analysis

Attracting family offices remains a key focus, but more support from the government and regulators is needed

Family offices are an important segment of the PWM industry in Hong Kong and remain a key focus going forward for PWMA members. There have been a number of government-led initiatives and proposals to help strengthen Hong Kong's position as a family office hub. In 2021, InvestHK launched a dedicated FamilyOfficeHK team to promote Hong Kong as the ideal location to establish a family office. The team directly engages with ultra-high net worth individuals and family offices and also facilitates communication between the local industry and government departments. More recently, the government announced proposals for a family office tax concession regime in its 2022/23 budget, announced in February 2022.

PWMA member firms are taking a number of actions to strengthen their position in the family office business. Talent is seen as a critical component of these efforts as experienced personnel can help expand the offerings of firms and build connections with potential clients. Related to this, firms are also focusing on the development of products and services that are tailored to the needs of family offices.

Surveyed institutions also mentioned the need to educate clients about the tax benefits available in Hong Kong. Around half of surveyed clients (53%) said that the proposed tax exemptions for family investing holding vehicles managed by single family offices would make it more likely that they would set up a family office in Hong Kong.

Interviewees welcomed the recent government support, but highlighted that more initiatives and developments were needed to attract family offices. An interviewee from a large PWM institution suggested that Hong Kong needed to improve its sales message, particularly around the incentives it can offer to family offices and its timeline for the easing of travel restrictions.

Hong Kong continues to be an attractive wealth management hub in Asia

Hong Kong and Singapore are the premier financial centres in Asia and the wealth management industry has thrived in both for over a decade. Many interviewees noted that Singapore is seen to have benefitted from regulatory support to attract fund inflows as well as the easing of travel restrictions. While the client survey found there to be a slight preference to have assets booked in Singapore, respondents also ranked Hong Kong as their preferred wealth management centre across many capabilities and attributes. The private wealth management industry in Hong Kong may therefore expect to see a strong rebound in its mainland China business once travel restrictions ease.

Dimensions in which Hong Kong is ranked higher than other Asian wealth management centres (top five)

1. Ease of trading
2. Quality of service
3. Access to leading research and content
4. Ease of onboarding
5. Range of investment options

Why prospects for PWM industry in Hong Kong remain solid

- Proximity to mainland China and integration with GBA
- Strong IPO pipeline of mainland China companies
- Highest density of ultra-HNWIs in Asia
- Diverse range of investment options

Areas in which Hong Kong can improve according to surveyed PWM clients

39% find suitability requirements to be more difficult/time-consuming in Hong Kong than in other jurisdictions

52% state that providing source of wealth is the biggest regulatory pain point in Hong Kong

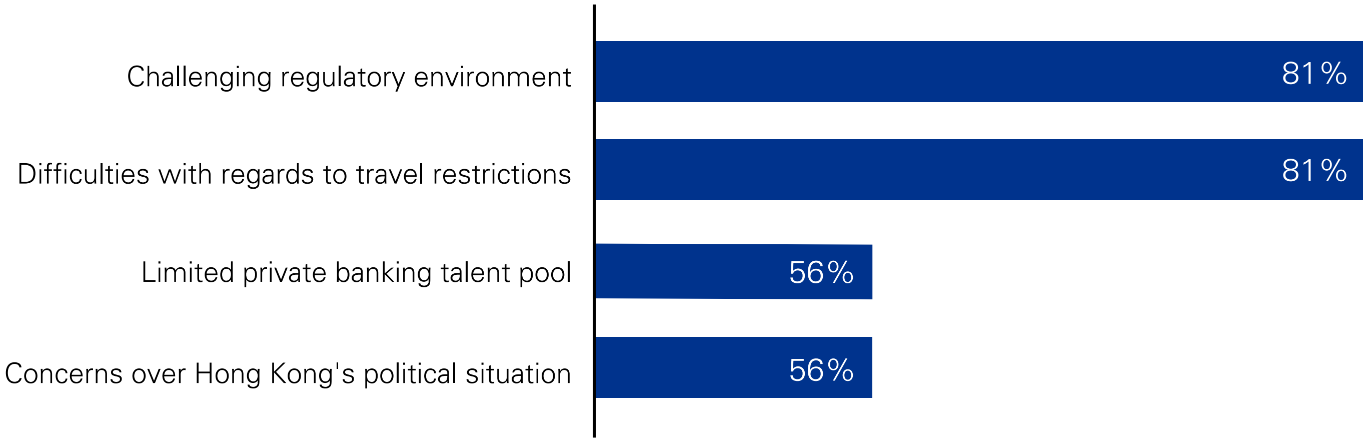
32% say that onboarding requirements take up too much time and administrative effort

Travel restrictions are among main constraints to growth

With COVID-19 seen as currently having the greatest impact on the PWM industry, it is unsurprising that travel restrictions were highlighted as one of the main constraints to growth by surveyed PWMA member institutions (Figure 16). While Hong Kong's compulsory quarantine requirements for inbound travellers were lifted in September 2022, restrictions remain in place to enter mainland China.

Several interviewees mentioned that the impact of travel restrictions on existing client relationships had been mitigated by the adoption of digital engagement, but it was more challenging to cultivate new client relationships as wealth management is a business that is built on relationships and trust, and often requires the discussion of sophisticated products and services. The restrictions are particularly challenging for relationship managers who are relatively new to the industry and still building up their network. However, when all travel restrictions are eventually lifted, the PWM industry may be in line for a period of accelerated growth as it catches up with demand for offshore wealth management services from mainland China clients.

Figure 16: Top constraints to growth in the PWM industry



Note: Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

Key takeaways

The GBA is key to further penetrating the mainland China market and PWM firms need to be ready to react to further policy developments as they arise

To attract the next generation of investors, PWM firms will need to focus on enhancing the range of services that can be provided digitally

Family offices represent a significant opportunity, but more government initiatives and developments are needed to improve Hong Kong's competitive position

Firms should have capacity to handle any potential surge in new accounts when travel restrictions are eased and cross border face-to-face client engagement recommences

Technology

PWM firms are doing better than they think in meeting clients' digital expectations. Transformation efforts are moving from providing information to providing advice and interacting with clients

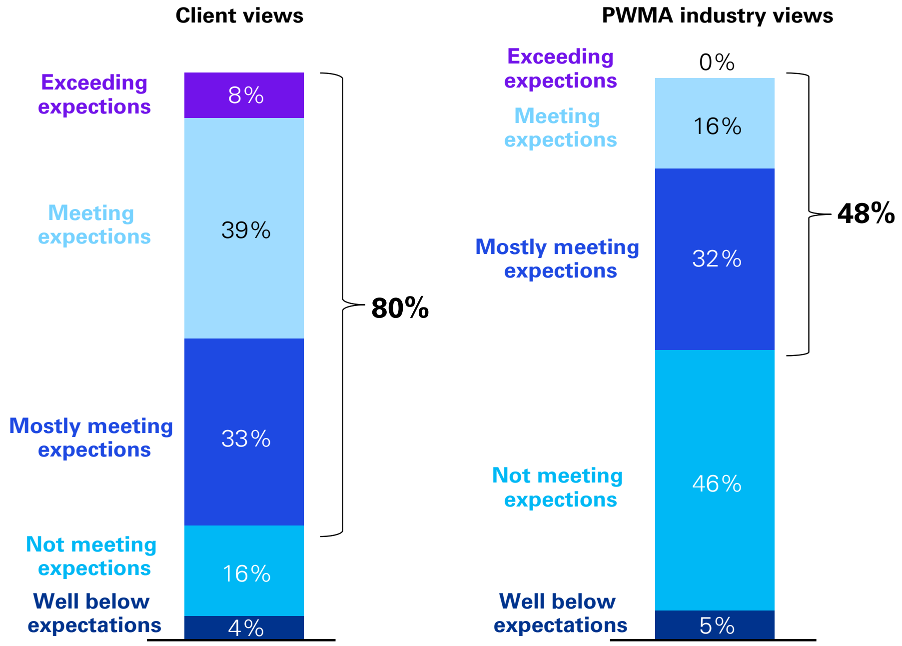
PWM industry's digital offerings are broadly meeting client expectations

Nearly half of surveyed clients (47%) stated that the digital offerings of their private wealth managers are meeting expectations or exceeding them, which is up slightly from the results in last year's survey (44%). With a further third finding the digital offerings 'mostly' meeting expectations, it can be concluded that a large majority of clients (80%) are broadly satisfied with the digital improvements that have taken place over recent years (Figure 17).

By contrast, the PWM industry is more self-critical of its digital offerings and only 48% of surveyed member institutions believe they are broadly meeting expectations, while none said that they are exceeding them. In terms of the areas that have been identified for improvements, the top three are: the scope of online services (highlighted by virtually all surveyed PWM firms), followed by the degree of self-service (53%) and the degree of customisation (50%). The scope of online services was also noted as a core area for improvement by the minority of surveyed clients whose digital expectations were not being met.

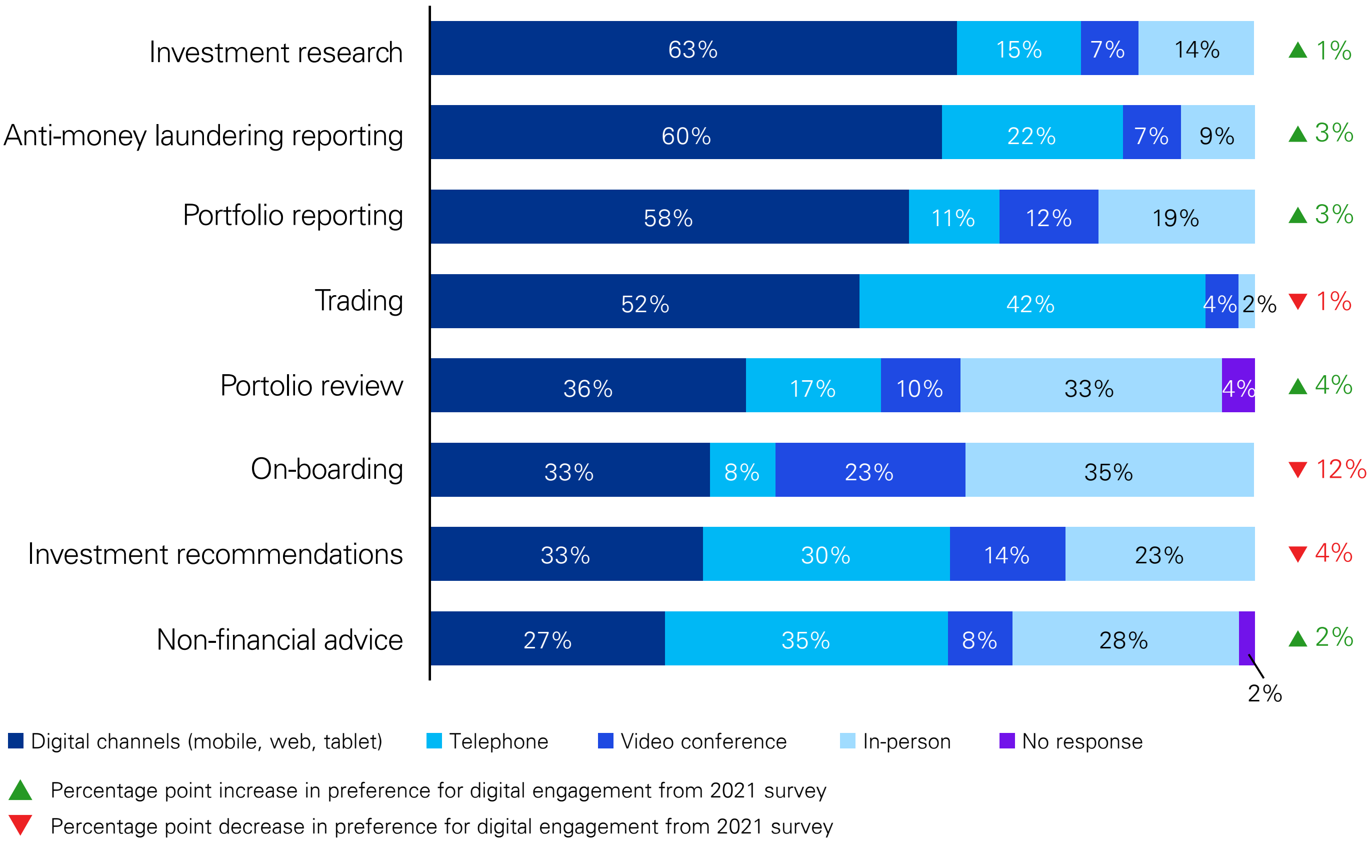
According to the client survey, preferences for digital engagement are the highest for investment research, anti-money laundering (AML) reporting, portfolio reporting and trading. These are the same four areas highlighted in the 2021 survey, with approximately similar preferences for digital engagement as well. There is still a preference for in-person interaction in the areas of on-boarding, portfolio review, non-financial advice and investment recommendations. It is notable that the proportion of surveyed clients that preferred to use digital channels for onboarding declined by 12 percentage points compared with last year – whereas preferences across many of the other interactions have shifted towards digital channels (Figure 18).

Figure 17: Client versus industry views on whether digital offerings meet customer expectations



Note: Numbers may not add up to 100% due to rounding
Source: PWMA Member and Client Survey; KPMG analysis

Figure 18: Preferred mode of delivery across the advisory process



Note: Numbers may not add up to 100% due to rounding
Source: PWMA Client Survey, KPMG analysis

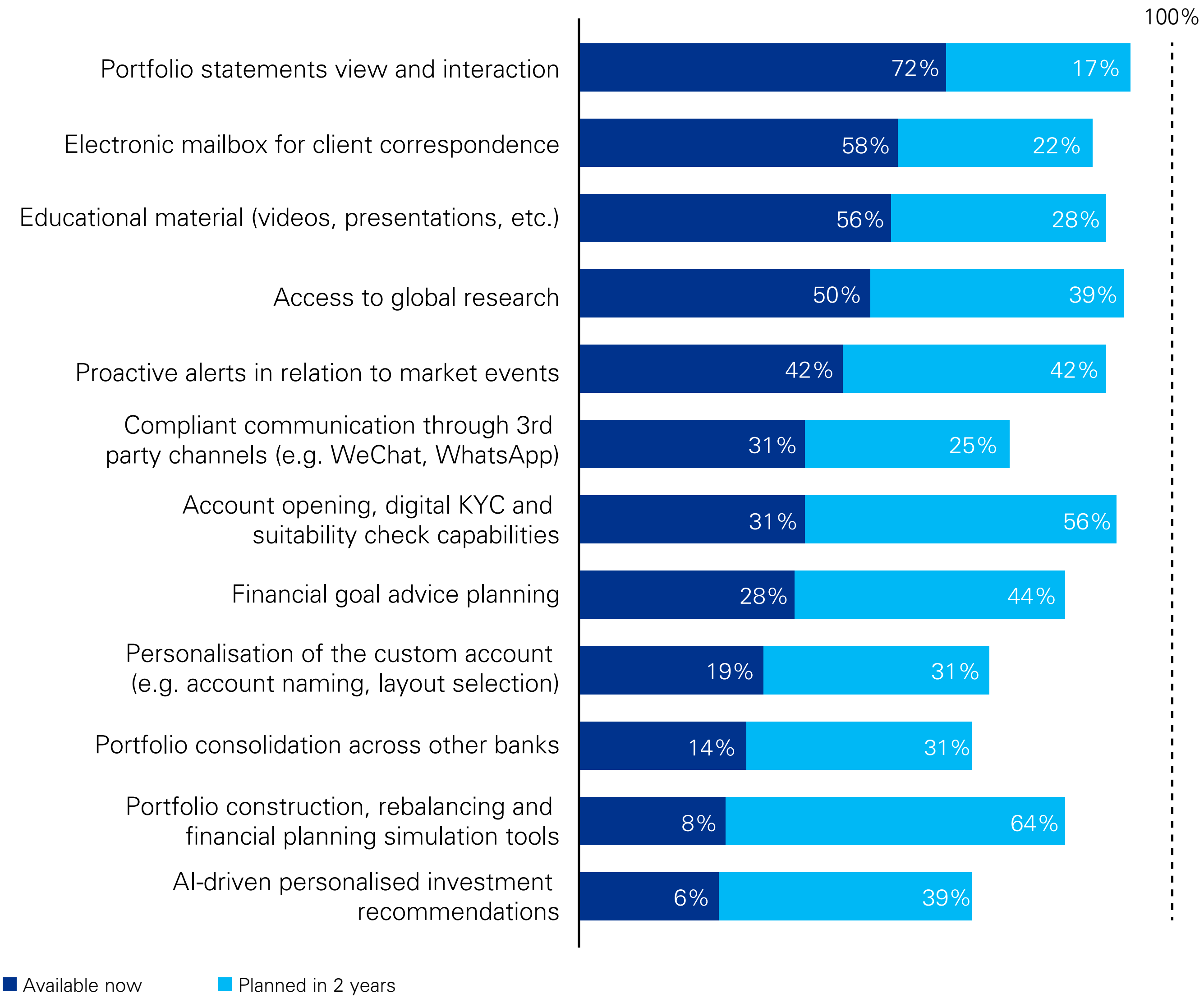
PWM firms are shifting their focus to client-facing digital solutions that provide ability to interact in a digital format

In line with client preferences, surveyed member firms have already invested in technology that can be used to provide information such as portfolio statements view and interaction, electronic mailbox for client correspondence, education material and access to global research.

Over the next two years, firms are moving to digitise more of the advisory and planning aspects of the client relationship. The top digital solutions that PWM firms plan to have in place include: 'portfolio construction, rebalancing and financial planning simulation tools' and 'account opening, digital KYC and suitability check capabilities' (Figure 19).

The focus of member institutions on digitalising advisory elements is striking as clients still indicate a preference for in-person interaction in a number of these areas. It could be the case that respondents view this as the direction the PWM industry is heading, particularly as targeting the next generation of investors was identified as such a major priority. Digitisation is focusing on two slightly different applications: a hybrid advisory application where a human advisor is supported by 'robo' capabilities and a 'robo advisor' that is used to cater to segments with less sophisticated needs.

Figure 19: Client solutions that are currently available or planned for the next two years



Source: PWMA Member Survey; KPMG analysis

Priorities for digital capabilities are moving on to the next stage of digital transformation

The shift towards the digitisation of planning and advisory aspects of the client relationship is also evident in the internal solutions that PWM firms are investing in. Surveyed PWM firms already have capabilities in areas such as automation of product due diligence and suitability (25%), streamlined applications and improved infrastructure (22%) and digital solutions to facilitate client interaction such as data visualisation (19%). Most of the remaining firms plan to have such technology in place in two years' time.

With investment in internal processes and technology to meet regulatory requirements due to be largely completed over the coming years, firms are starting to turn their attention to the front end and looking at ways in which the sales process and client interactions can be improved. This was confirmed by an interviewee from a major financial institution, who noted that their organisation was taking a two-pronged approach to digitalisation by focusing on the client experience and empowering staff with tools to provide a better service to clients. This also matches the responses of PWMA member firms in the survey, who marked digital experience design for both clients and relationship managers (RMs) as the key priority as they build digital capabilities (Figure 20).

Figure 20: Top priorities for building digital capabilities

1. Increased focus on digital experience design for clients and RMs
2. Enhanced connectivity of front office and back office with digital connectors
3. Ability to allow interactions/transactions across digital and RM channels in a seamless manner
4. Better customer knowledge, research and segmentation
5. Investment in advanced data and analytics

Note: Weighted average ranking per survey results
Source: PWMA Member Survey; KPMG analysis

Hurdles to successful digital transformation

Digital transformation is not simply a process of investing in new technology, it entails a fundamental rethink of how an organisation operates. It is therefore not surprising that surveyed PWM firms raised a number of internal issues that prevent their digital offerings from meeting client expectations. Top of the list was the insufficient or unrealistic budget allocation for projects, which was followed by the inability to meet end-user requirements and a lack of talent and expertise.

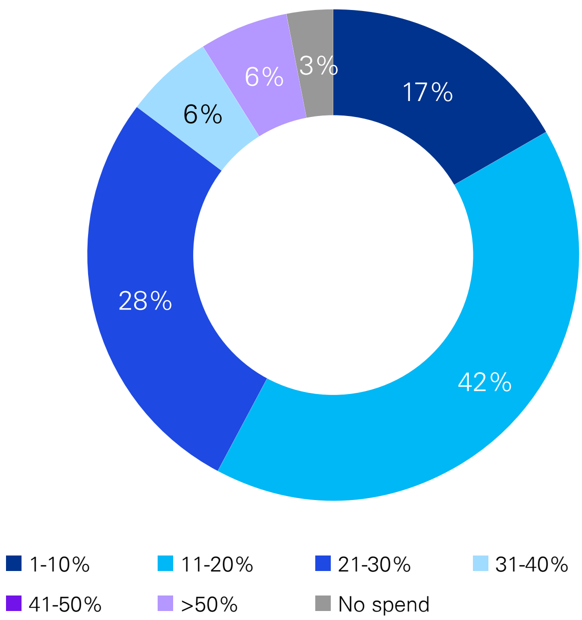
Aside from internal issues, a number of interviewees at global institutions also noted that digital initiatives might be driven by their global headquarters and as a result may lack the option to be tailored to local markets. The inability to customise a solution was indeed ranked as the top hurdle in managing digital strategies by surveyed PWM firms. Higher costs on implementation versus original budgets came in second, followed by projects taking longer than the original timeline. These challenges need to be overcome if PWM firms are to successfully navigate their digital transformation programmes and improve their perceptions about how well their digital offerings are able to meet customer expectations.

Technology investment is being directed to new ways of working

Surveyed PWM firms have a positive view of how well their technology was able to deal with working from home during the COVID-19 pandemic. The vast majority (89%) state that their technology was able to cope with remote working, while 31% considered that their technology worked seamlessly during this period.

Despite these views, the PWM industry is continuing to focus on leveraging technology to support new ways of working as members look to improve efficiencies and ensure operating models are fit for purpose. Over two-thirds of surveyed member firms indicate that they will allocate 11-30% of their future technology investment to support new ways of working, which is up by around 10 percentage points from the previous year's survey (Figure 21).

Figure 21: Proportion of future technology investment expected to be committed to supporting new ways of working (% of total spend)



Note: Numbers may not add up to 100% due to rounding
Source: PWMA Member Survey; KPMG analysis

Key takeaways

PWM firms need to focus on implementing digital capabilities which improve the quality of client interactions, and allow more sophisticated services to be delivered digitally

Global PWM institutions in Hong Kong need to consider how to adapt their global digital solutions to the local market and regulations

More flexible working arrangements are likely to remain and PWM firms will need to continue investment in digital solutions that support these new ways of working

Regulation

Meeting regulatory requirements remains a challenge facing the industry. There are opportunities for Regtech to help and further engagement with regulators on the approach to serving sophisticated investors is needed

KYC and AML remain key regulatory pain points for both PWM firms and clients

The regulatory environment ranked as the second biggest concern facing the PWM industry today, according to surveyed member firms. In particular, respondents highlighted 'know your customers (KYC) and anti-money laundering (AML)' and 'sales practices and suitability' as the main regulatory pain points for the industry. These are the same two issues that were raised in last year's survey and are also among the main regulatory areas where firms are spending the most resources on as they look to address these pain points (Figure 22).

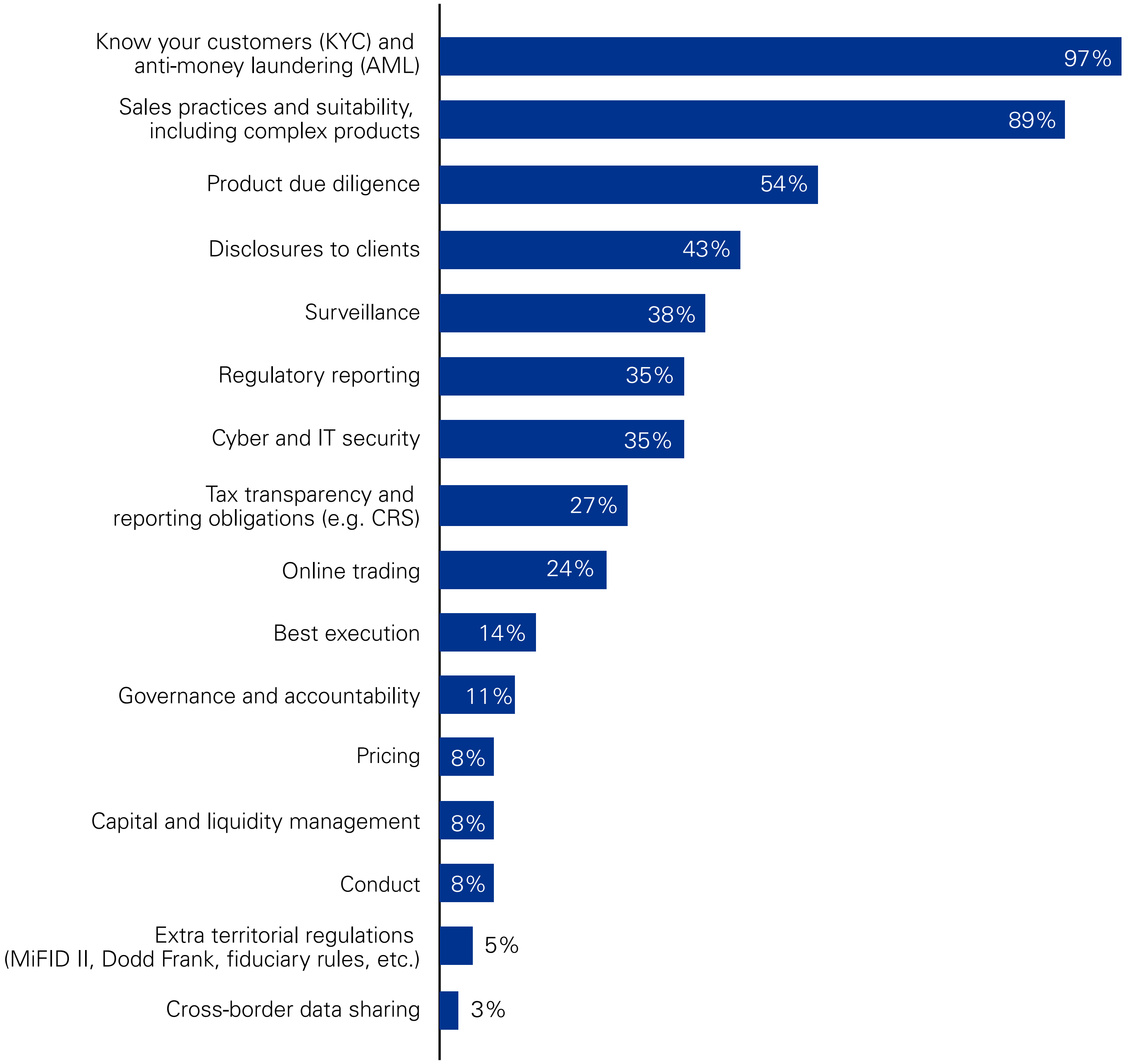
From the perspective of surveyed clients, providing source of wealth and the need for advisors to make lengthy verbal disclosures when transacting products were considered to be their biggest regulatory-related difficulties. Source of wealth needs to be updated each year for high-risk clients, so it is understandable that this regulatory area would rank highly. Separately, the average time to onboard new clients increased by five days from 36 days in 2021 to 41 days in 2022.

Regtech adoption in PWM industry is still slow

There are opportunities for firms to use Regtech to address regulatory and compliance challenges, with solutions expected to become increasingly powerful as the underlying technologies mature. However, adoption rates in the industry are still slow: only 31% of surveyed firms state that they have successfully implemented Regtech solutions, which is similar to the results from last year's survey. The HKMA's tech baseline assessment from June 2022[6] found that Regtech was the most commonly-adopted fintech area, with over 80% of authorized institutions already having adopted solutions in this area. With surveyed PWM firms lagging behind other segments of the banking sector, there remains scope for Regtech adoption in the PWM industry.

[6] Tech Baseline Assessment – Key Observations and Way Forward, Hong Kong Monetary Authority, June 2022, https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2022/20220623e1a1.pdf

Figure 22: Regulatory areas that PWM institutions are spending the most resources on



Note: Calculated based on the sum of respondents who ranked options within their top 5
Source: PWMA Member Survey, KPMG analysis

Firms face similar barriers as seen in digital transformation

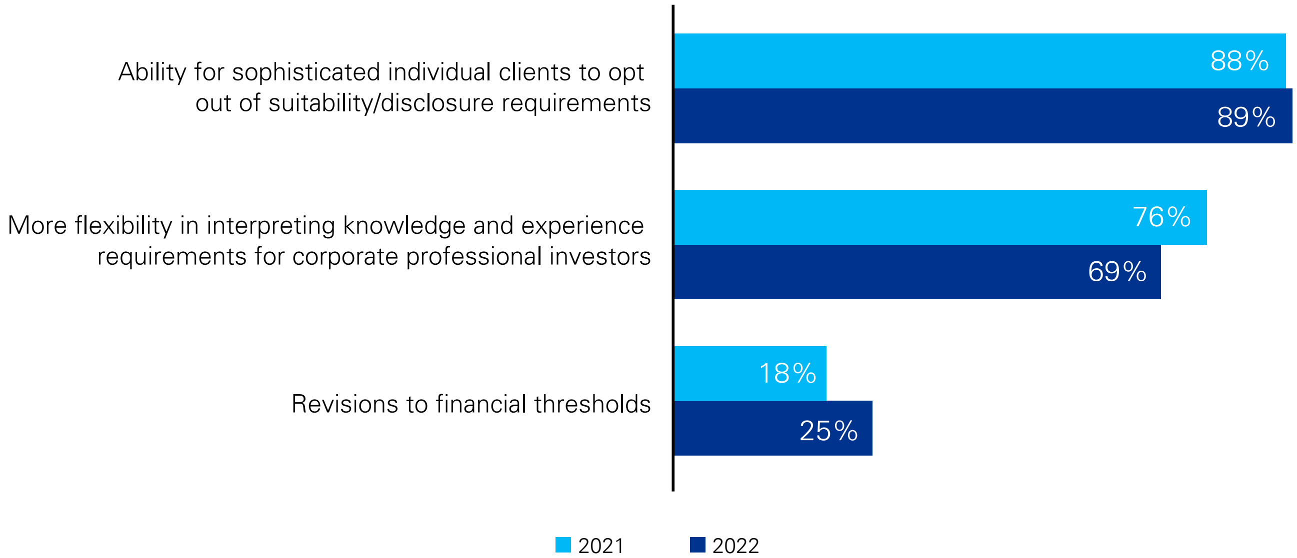
There are a number of challenges that need to be overcome for Regtech adoption in the PWM industry to accelerate. Budget and resource constraints (69%), complex legacy architecture (67%) and a lack of available mature solutions (56%) were perceived to be the key adoption challenges according to surveyed PWMA member institutions. From the perspective of Regtech solution providers, an interviewee highlighted that in Hong Kong's PWM industry there was a reluctance to be an early adopter. In addition, international firms often have investment decisions made by their global headquarters and as a result may not opt for solutions that are entirely relevant to the local market.

Greater government support and incentives could be a way to push further Regtech adoption. The Fintech Supervisory Sandbox (FSS) is a welcome initiative. From the side of regulators, the HKMA is helping to drive Regtech adoption through knowledge-sharing. Since 2021, it has regularly published Regtech Adoption Practice Guides, in which it shares common industry challenges and learnings from the successful implementation of Regtech solutions. In April 2022, the HKMA also launched a Regtech Knowledge Hub, which acts as a central repository for Regtech-related content and knowledge-sharing.

Processes required for sophisticated investors remain a concern for firms

Among surveyed firms, perceptions about the regulatory environment are mixed. Around half of the surveyed member firms (56%) find regulations for professional investors to be balanced, while 36% find them to be either 'somewhat complex' or 'too complex'. Areas where surveyed PWM institutions would like the rules for professional investors to be revised are two-fold: the ability for sophisticated investors to opt out of suitability requirements and more flexibility in interpreting the knowledge and experience of investors (Figure 23).

Figure 23: Aspects of the Professional Investor rules that PWM firms would like to see changed



Source: PWMA Member Survey, KPMG analysis

Surveyed clients value the protection offered by the current regulation on product suitability and the disclosure of product risks, with only 10% finding the level of protection to be insufficient. Despite this view, there is still room for improvement as 66% would like the suitability and disclosure processes to be more streamlined and less time-consuming.

In late 2020, the SFC and the HKMA provided clarification on how the suitability rules should apply to sophisticated investors. However, perceptions around the efficiency of suitability assessment and disclosure process have not improved: 49% of surveyed clients find it to have become more time-consuming since then, while 48% state that there has been no change. Regulators interviewed for this report point to various guidance that has been released to clarify the sales suitability process for the industry. They also indicated a willingness to engage with the industry and further explain the regulator's approach to this area.

Key takeaways

The PWM industry should continue to engage with regulators to get a clearer view on how to deal with sophisticated investors

PWM firms need to start taking a more active role in Hong Kong's Regtech ecosystem if adoption rates are to rise and be more in line with other financial institutions

Average client onboarding times have increased compared to the previous year and so use of digital solutions should be considered to reduce this

Talent and ways of working

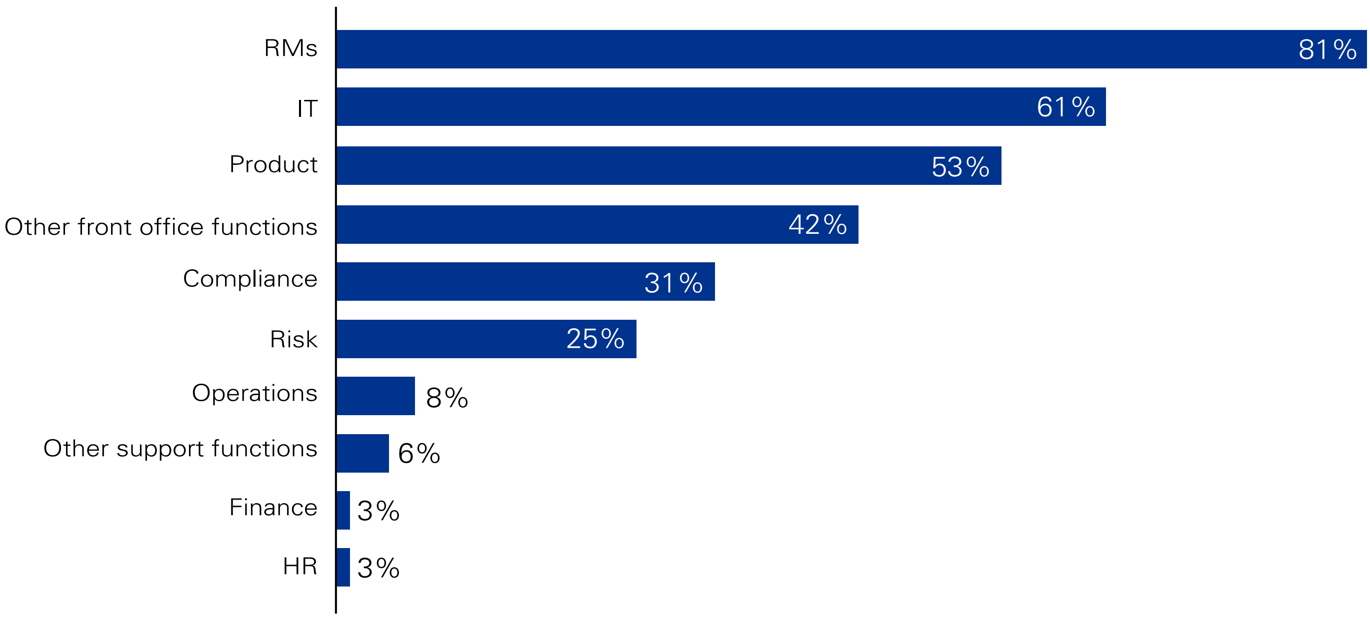
Talent remains a key concern, particularly among 30–40 year-olds, with emigration and the attractiveness of other industries being the key drivers

Decreased number of PWM practitioners

Alongside challenging market conditions, the PWM industry has also had to contend with a contraction in talent supply over the last year. The number of relevant PWM practitioners at surveyed PWMA member institutions declined by 4.7% year-on-year to 3,908 practitioners. The number of RMs decreased by 4.5% to 2,333 (compared with 2,442 RMs in 2021). With more PWMA member firms having taken the survey this year compared with last year, the decline may have been even more pronounced. This drop in numbers seems to be a combination of people leaving the industry and difficulties in recruiting new joiners.

Looking ahead, surveyed member firms indicate that they intend to increase spending on the front office (relationship managers, product specialists and other front office roles) as well as in IT (Figure 24). Compliance also remains an important focus area, which is unsurprising given that the regulatory environment is perceived as a key challenge by the industry.

Figure 24: Functions where PWM institutions are looking to increase investment



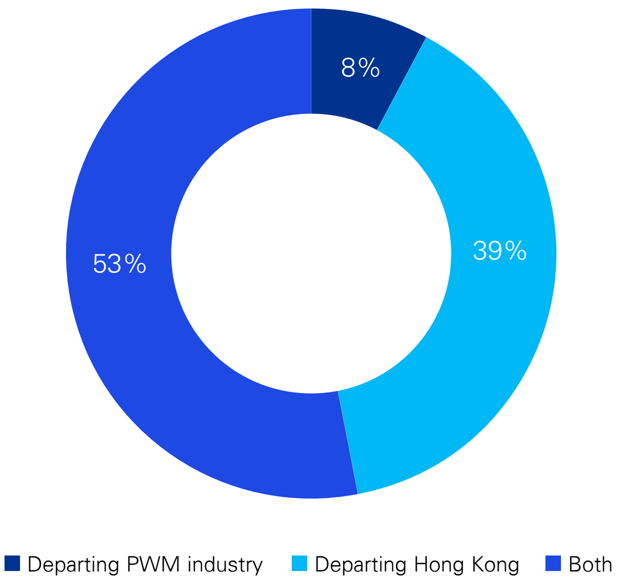
Source: PWMA Member Survey, KPMG analysis

Emigration and career changes are important factors in talent leaving the industry

Interviewees had mixed views on whether there was an increase in talent leaving the industry. The PWMA member survey reflected this, with 53% stating that more talent had left compared with previous years, while the remainder disagreed. PWM member firms are most concerned about talent in the 30-40 age range exiting the industry. This is a demographic that is on the cusp of hitting peak performance in their 40s and 50s and filling that gap will become a major challenge for PWM firms in the next 5 to ten years.

When talent is departing, surveyed firms indicate that this is because of a combination of people leaving the industry, leaving Hong Kong, or both (Figure 25). Emigration was the number one motivation for those leaving Hong Kong according to surveyed firms, with interviewees noting a relatively high proportion of staff with young families making a move abroad. Where talent is leaving the PWM industry to move to another, three key industries they departed to were: external asset managers, private equity and investment banking (Figure 26).

Figure 25: Is talent departing the PWM industry, leaving Hong Kong or both?



Source: PWMA Member Survey, KPMG analysis

Figure 26: Ranking of industries where PWM talent is leaving to

1. External asset managers
2. Private equity
3. Investment banking
4. Other financial industries
5. Insurance
5. Virtual assets firms
6. Other non-financial industries

Note: Weighted average ranking per survey results
Source: PWMA Member Survey, KPMG analysis

Remuneration is key battleground in recruitment and higher education is critical to ensure supply of young talent

According to surveyed member institutions, roles where the talent gap is the most critical are RMs, product specialists for areas such as alternative investments, compliance and specialist IT/digital staff – some of which tie into the major themes of this report. Although interestingly despite the increased focus of PWM firms on transformation, IT/digital staff are seen as a less critical talent gap compared to last year.

Surveyed PWM firms indicated that acquiring from peer organisations alongside in-house development were the main approaches to recruitment. Remuneration has become a key battleground to attract talent, with 94% of surveyed firms indicating that increasing remuneration was important to make the relationship manager role more attractive, which was up from 82% in the previous year's survey (Figure 27). Increased focus on remuneration does not appear to be sustainable in the long run – and it is to be hoped that the current shortage of talent proves to be a short-term issue linked to COVID-19-related travel restrictions.

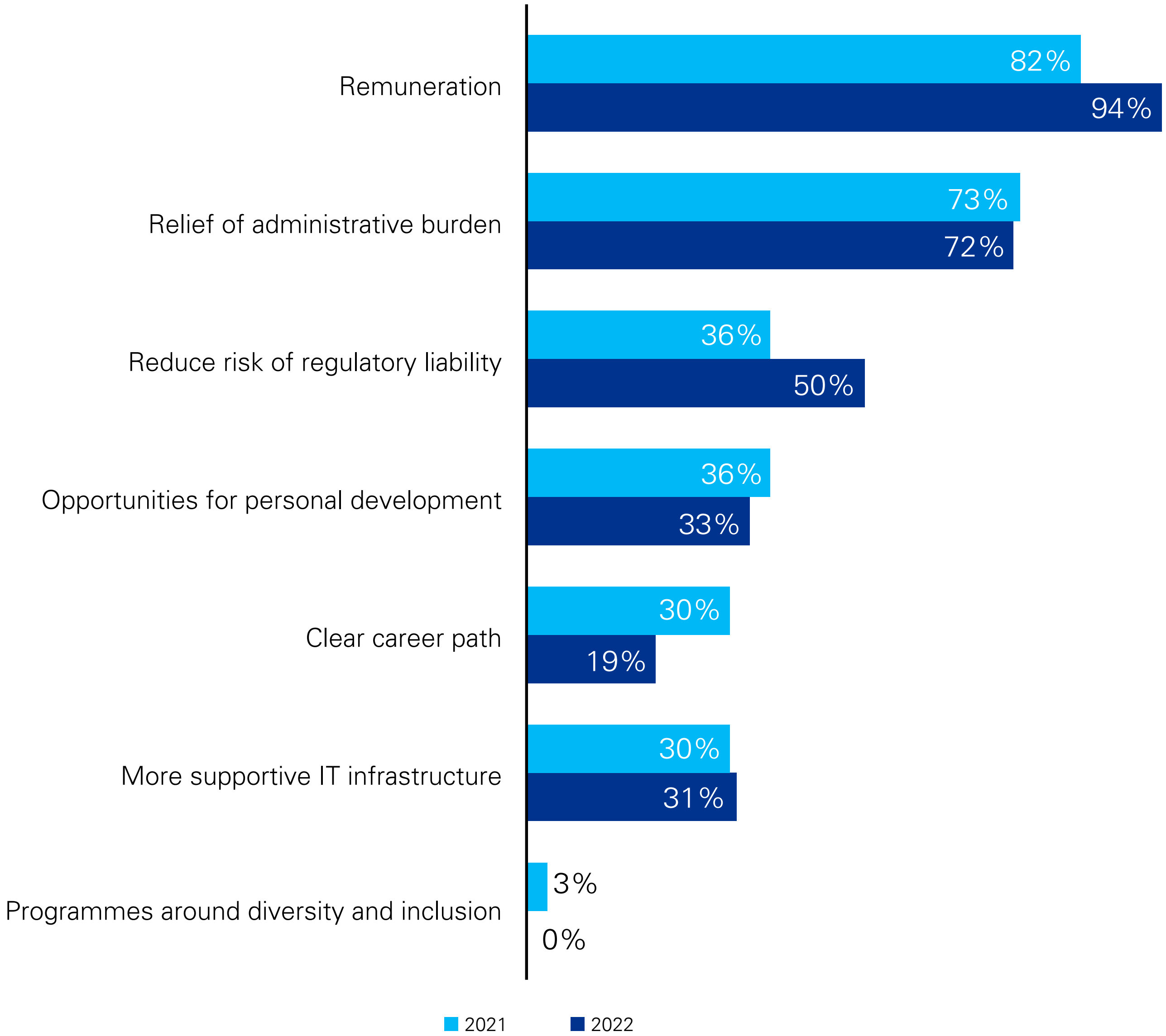
In terms of attracting young talent into the industry, several interviewees suggested there should be an increased focus on university education in preparing undergraduates for a career in wealth management. The HKMA and PWMA are co-organisers of a summer apprenticeship programme, which offers university students the opportunity to gain experience across a wide range of functions in the private wealth management industry.

Other measures to increase the talent pool could be to highlight the long-term potential of a career in wealth management to undergraduates pursuing business degrees. Hong Kong University is currently the only higher education institution to offer an undergraduate degree in private banking and wealth management. Longer term, Hong Kong needs to consider if it requires more specialist degrees in wealth management and/or greater engagement with universities to increase the supply of talent to the industry.

Achieving closer cooperation with higher education institutions in southern China was one of the suggestions made by an interviewee, while 86% of surveyed PWMA member firms would support ways to access or attract talent from the Greater Bay Area to work in the Hong Kong PWM industry.

The PWM industry may also want to think about reskilling those that are already working in financial services. In this respect, the industry could consider closer cooperation across the GBA when training people, to ensure greater transferability of skills and experience.

Figure 27: Most important factors to make the RM role more attractive



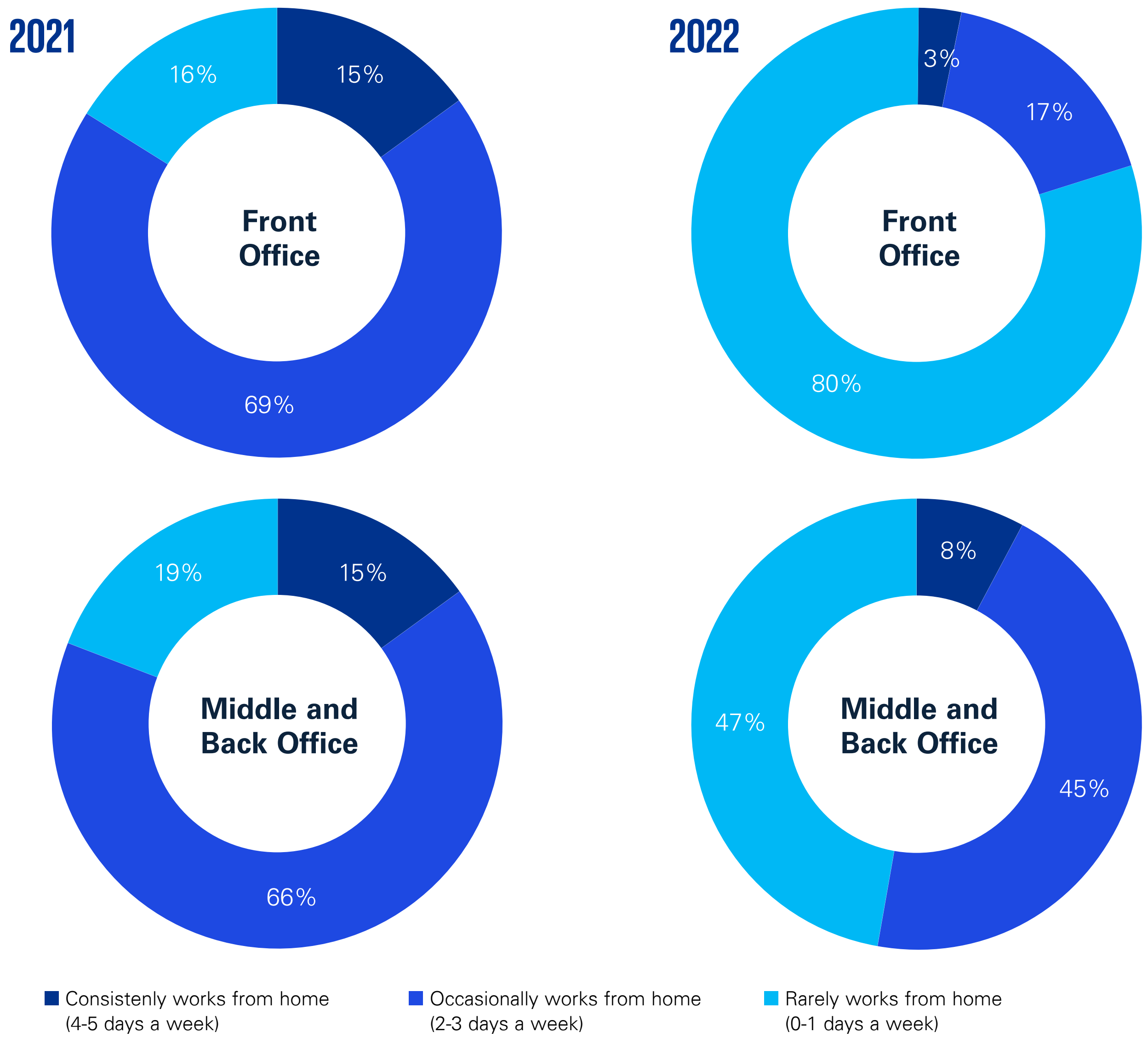
Note: Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

New ways of working

In 2021, 61% of surveyed PWMA member institutions stated that they were planning to make flexible working arrangements part of their 'business as usual'. While working from home has become a permanent feature, this year's survey suggests that staff are gradually returning to the office – notwithstanding government-imposed restrictions as a result of the pandemic. The trend is especially noticeable among front office staff, with 80% of surveyed firms stating that staff in client-facing roles rarely worked from home (Figure 28). An interviewee at a major global PWM institution noted that while working from home had been offered to all staff, the take-up only stood at around 50%.

Overall, surveyed clients did not identify a noticeable trend in reduction in time that they spent with their PWM advisors. However, interactions have shifted towards digital channels, with half of surveyed clients (50%) noting an increase in digital interaction with their bank or advisor. It is therefore not surprising that surveyed firms plan to spend an average 21% of their future technology investment to support new ways of working. Further changes in the nature of interactions with clients can therefore be expected over the coming years.

Figure 28: Proportion of staff that works from home



Source: PWMA Member Survey; KPMG analysis

Key takeaways

With more talent departing the PWM industry or emigrating from Hong Kong, short-term and long-term actions are needed to deal with the shortage of talent

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The industry should do more to promote the benefits of a career in wealth management with Hong Kong universities

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PWM firms should look at ways to attract talent from the Greater Bay Area

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Flexible working arrangements could also be used to attract talent. Firms should continue to look at ways to support this, particularly for front office roles

About the PWMA

Established in 2013, PWMA is an industry association, whose mission is to foster the growth and development of the private wealth management industry in Hong Kong.

The main objectives of PWMA are:

- Position Hong Kong as the leading private wealth management hub in the region
- Advocate the growth and development of the industry in Hong Kong
- Promote proper conduct, integrity and professional competence on the part of PWM practitioners
- Provide a forum for members to discuss and exchange views on trends and challenges faced in the industry
- Act as a unified industry voice through dialogue with government officials, regulators, trade bodies and non-governmental organizations.

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KPMG's Wealth and Asset Management Advisory Practice

KPMG's Wealth and Asset Management Advisory Practice is a market leading team that provides advisory, tax and audit services to wealth and asset managers. The team covers disciplines such as Strategy, Transformation, Digital, Data, Risk and Regulation.

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