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Bridging the gap: connecting to China's vast wealth and diversification

An estimated $24 trillion of wealth in China and the inevitable globalisation of some of that wealth should translate to immense opportunities for independent wealth advisers and other professionals in Hong Kong. But, how do the independent wealth managers compete with the global banks?

These were the topics discussed:

- *What does the growing wealth in China mean to you?*
- *Whats are the opportunities in client advisory and family succession?*
- *The globalising of Chinese wealth and trends to watch*
- *How can you compete with the entry of Chinese wealth managers to HK?*
- *Is it realistic to grow organically and reach the desired scale?*
- *What are the opportunities to collaborate in a more meaningful, coordinated and tangible way?*
- *How do the approaches of private bankers to acquiring clients differ from those of advisers at IAMs?*
- *What do Chinese clients think about independent wealth managers?*
- *Whats important to Chinese clients when they are building their portfolios?*
- *Whats the impact and focus for the wealth management industry in Hong Kong to take advantage of the "One Belt, One Road" initiative?*

PANEL SPEAKERS

- **Stuart Leckie**, Chairman, Stirling Finance
- **Michael Olesnicky,** Partner, Senior Advisor, KPMG
- **Kevin Lee**, Partner, Zhong Lun Law Firm
- **Kate Clouston,** Deputy CEO, Guernsey Finance
- **Berry Wong**, Chief Executive Officer, Hong Kong, Charles Monat
- **Mark Smallwood**, Managing Director, Confidentem Private Office

UNDERSTANDING THE TARGET CLIENTS is essential for success, but can the smaller independent wealth managers adapt their business models and strategies to achieve the reap the rewards? A panel of experts reflected on these matters at the Hubbis Independent Wealth Management Forum in Hong Kong on November 16, 2017.

The panel agreed that two key challenges face the independent asset management community, winning over clients and making sure that they are properly structured to achieve their goals.

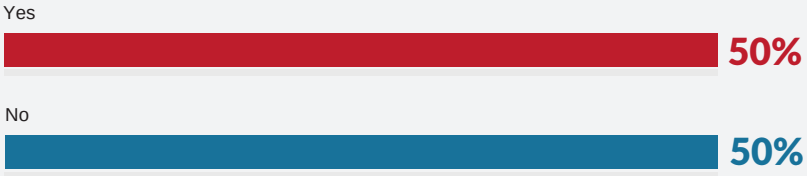
"Mainland Chinese clients have a very different cultural mindset from that prevailing elsewhere in

STUART LECKIE
Stirling Finance

hubbis

MICHAEL OLESNICKY
KPMG

DO YOU SEE HONG KONG DEVELOPING INTO THE MONTE CARLO OF ASIA?



Source: Hubbis Independent Wealth Management Forum 2017 - Hong Kong

Asia or further afield and the challenge is to provide them with the right advice," explained one of the experienced wealth advisers on the panel.

"We need to also understand their residence position, tax issues and succession aspirations. And very often with children at studying age, the families might be spread across the world. It is essential that they receive relevant and accurate advice and, clearly, CRS is coming and the old days of simply hiding things are fast disappearing."

Chinese increasingly open to ideas

The insurance brokerage industry also enjoys immense opportunities. "Twenty or thirty years ago, insurance was anathema to most Chinese, they were very sensitive, even paranoid about it," reported one panellist. "But it is dramatically different

KEVIN LEE
Zhong Lun Law Firm

today; we see that they now like the planning and are ever more receptive to diversified types of ownership structures. At this moment there is an estimated $24 trillion of private wealth there, around six times the level of about 10 years ago. And people are getting richer far younger."

Another expert noted that some 90% of this wealth is still in China, meaning that a vast amount is already offshore and far more to come. For independent advisers to compete they need local and global expertise to achieve cross-border advisory mandates. And clearly, Hong Kong is ideally suited to this role.

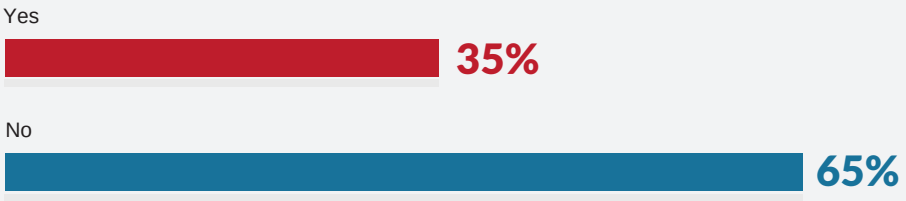
Vast funds, intensifying competition

"There is vast and growing competition," noted one adviser. "Already the big five banks in China are amongst the largest banks in the world, similarly the giant life insurers and fund management industry are growing rapidly, for mutual funds and discretionary fund management. But, what is lagging is the pension sector, both state and private. There are enormous opportunities, but the domestic banks and other wealth advisers have certainly spotted this and are already providing tremendous competition, or positioning themselves to do so.

International financial centres are also core beneficiaries of the China wealth accumulation and global diversification phenomenon, with rapid growth in opportunities for fiduciary and insurance business, as well as investment funds.

KATE CLOUSTON
Guernsey Finance

DOES MORE THAN 20% OF YOUR EXISTING BUSINESS COME FROM CLIENTS BASED IN CHINA?



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BERRY WONG
Charles Monat

"The key," said one expert, "is finding those clients in China that are looking for everything to be done correctly and in a compliant fashion with the view to long-term asset diversification and protection."

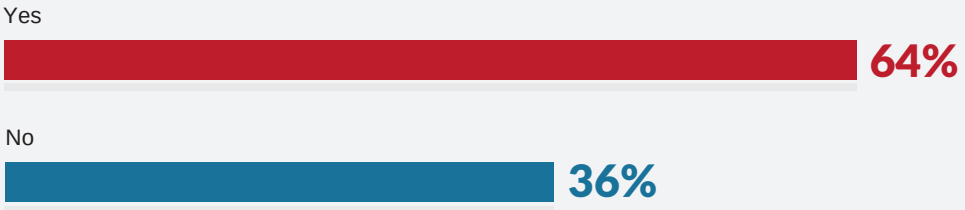
Compliance and 'correctness' to the fore

As Chinese wealth moves offshore, often transitioning through Hong Kong, compliance and tax become ever more central to discussions.

Many believe that CRS [Common Reporting Standard] presents a huge opportunity for the independent asset management community, arguing that the big banks generally struggle to manage in this area. "The operational risk management and compliance sides of these large banks will not allow wealth planners to engage in this arena, which means that the relationship managers cannot have those discussions," explained one wealth manager. Smaller, more fleet of foot, independent advisers can benefit from this vacuum.

"To me, CRS and the changes in the tax laws present a massive opportunity to the independent asset managers to provide a more holistic solution to the clients," notes another expert. "CRS will definitely mean that Chinese authorities have far greater knowledge of what assets Chinese residents have outside China. Besides the obvious tax issues, there will be questions as to how that money moved outside China, implying also

IS HONG KONG BECOMING SIGNIFICANTLY LESS IMPORTANT AS A CONDUIT TO CHINA?



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MARK SMALLWOOD
Confidentem Private Office

investigations of foreign exchange control violations. These are all worrisome matters to consider."

Moreover, China will inevitably introduce new tax rules for individuals, something many have been expecting for some time. Sooner or later this might include the introduction of an estate duty law in China.

Holistic solutions for family wealth

Advising families on the structures for their offshore family offices and for investment beyond Asia are also areas that the independent wealth community is increasingly focused on.

"When Chinese citizens invest far and wide they need more structure and a more holistic, measured approach," said one expert.

Another specialist on the panel noted that because of the long-term nature of the relationships with Chinese clients, it is not a place to simply parachute into and have success immediately.

"Over the past decade we have taken a measured, strategic approach to our regulatory and government relationships in China," she explained, "working from

WHEN CHINESE CITIZENS INVEST FAR AND WIDE THEY NEED MORE STRUCTURE AND A MORE HOLISTIC, MEASURED APPROACH.

the ground up to build close relationships and to build trust. Signing MOUs with many bodies has strengthened our position and we often find that one service is taken up with us and that then leads to another as that trust and confidence builds."

Hong Kong's wealth of expertise

Is Hong Kong's role as a financial markets entrepot for China and North Asia strengthening? Independent wealth advisers competing in Hong Kong believe this to be the case.

"I see Hong Kong as a conduit, it is a source of advice and direction," explained one panellist. "It has a very important intellectual positioning for the north Asia clients, especially Chinese clients, but the real value added of Hong Kong is as a conduit, that is where Hong Kong's DNA has always been. Accordingly, that presents a massive opportunity for Hong Kong as the nearest source of professional wealth management advice."

Asset class diversification and asset protection diversification are both essential and that requires leveraging the many professional services available in Hong Kong. "The differentiation we can offer is a wide range of skills sets able to address a broader range of client needs."

"Singapore and Hong Kong are competing for this business," said another panellist, "and I think there are in fact plenty of synergies between them if they could work together promoting Asia and Asian business. The wealthy, younger generations in the region are all so well educated these days and want to take a more proactive role in managing the family wealth and their own funds.

"They want to partner with other family offices and there is also a greater interest in environmentally sustainable investment."

Focus, focus, focus

He elucidated: "As wealth managers, we can offer these families many services and develop a relationship that goes on to include areas such as succession planning, wealth transition, governance mechanisms and so forth. This requires a sharp focus on the client needs and the development of a network of advisors to help us look at the families' needs holistically."

The trends are clear for all to see. It will not be easy for smaller advisory firms to compete, due to the costs involved and the time required. But those with the necessary experience and sharp strategic focus will survive to reap some of the vast rewards. ■

THIS REQUIRES A SHARP FOCUS ON THE CLIENT NEEDS AND THE DEVELOPMENT OF A NETWORK OF ADVISORS TO HELP US LOOK AT THE FAMILIES' NEEDS HOLISTICALLY.