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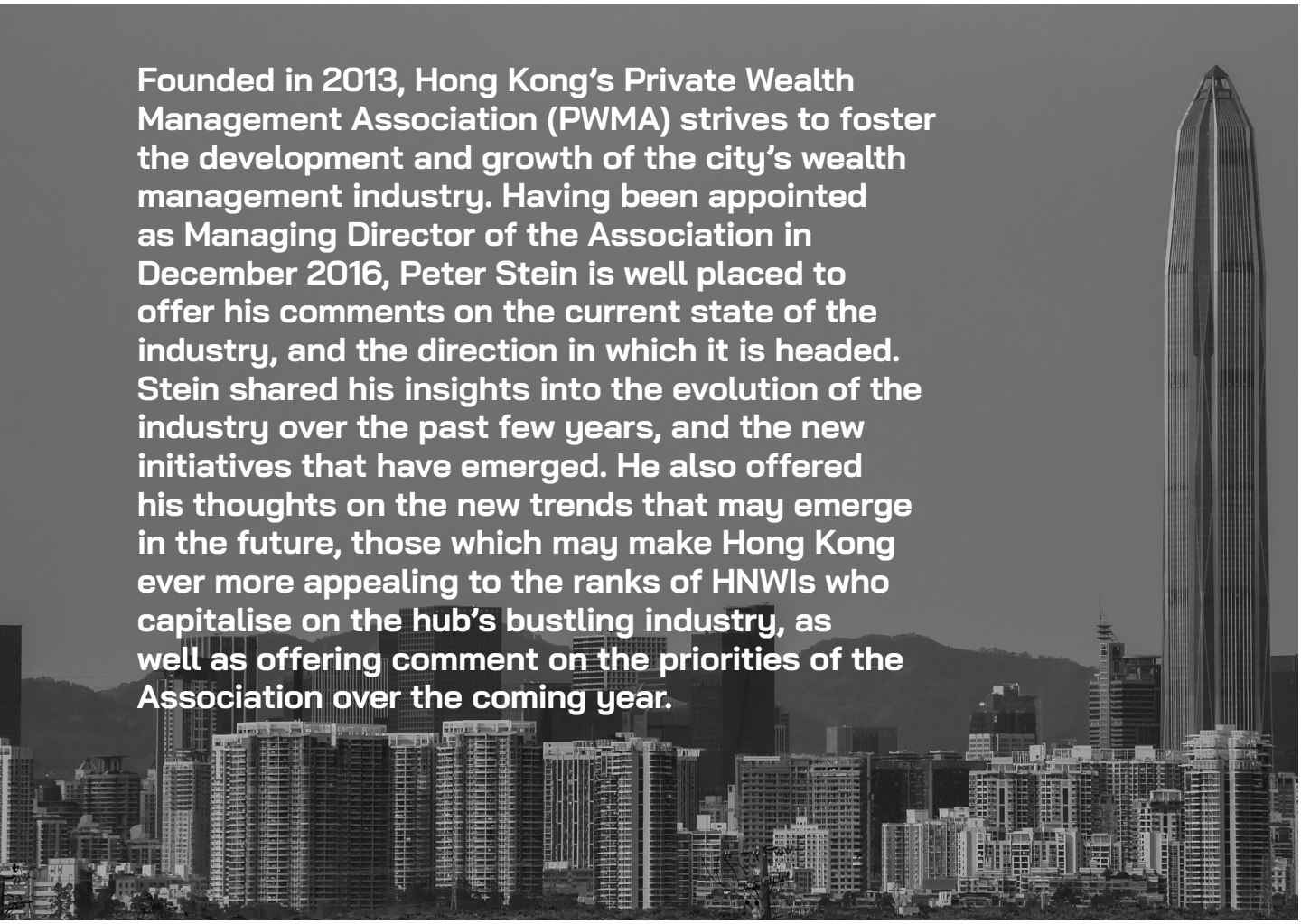
PWMA's Managing Director on the Tribulations and Transformation of the Hong Kong Private Wealth Management Scene



Founded in 2013, Hong Kong's Private Wealth Management Association (PWMA) strives to foster the development and growth of the city's wealth management industry. Having been appointed as Managing Director of the Association in December 2016, Peter Stein is well placed to offer his comments on the current state of the industry, and the direction in which it is headed. Stein shared his insights into the evolution of the industry over the past few years, and the new initiatives that have emerged. He also offered his thoughts on the new trends that may emerge in the future, those which may make Hong Kong ever more appealing to the ranks of HNWIs who capitalise on the hub's bustling industry, as well as offering comment on the priorities of the Association over the coming year.

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PETER STEIN
Private Wealth Management Association

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What are your views on how the private wealth management industry in Hong Kong has continued to evolve in the last few years?

It's overall quite remarkable that Hong Kong's private wealth management industry has shown not just resilience but impressive growth in AUM over the past few years, despite some daunting challenges in the macro environment, including social unrest, US-Sino political tensions and Covid-19.

In 2019, Hong Kong's PWM industry saw net inflows of HKD681 billion and total industry AUM growth of 19%. We're still awaiting the 2020 figures but expect that AUM continued to grow despite the pandemic thanks to Hong Kong's unique strengths as an international financial centre and strong market returns. According to BCG, Hong Kong was home to USD1.9 trillion in cross-border wealth in 2019, second only to Switzerland's USD2.4 trillion.

Clearly, Mainland China has been a growth driver of the industry, as is demonstrated by the fact that we estimate around 40% of the industry AUM is currently sourced from the Mainland, and we expect the number will continue growing over time.

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Another aspect of the industry's evolution is its approach to talent acquisition. We're seeing enthusiastic participation in The Pilot Apprenticeship Programme for Private Wealth Management, which PWMA runs jointly with the HKMA and which targets hiring of university students directly into the industry. The programme is now in its sixth cycle, with 18 participating firms offering opportunities to more than 50 apprentices to begin a two-summer training and work opportunity beginning this June. I think the strong interest in this programme reflects an acknowledgment that we need new talent and new blood, not just endless rounds of poaching, to ensure the growth we experience is sustainable.

What new initiatives have we seen – and are likely to see – to make Hong Kong even more appealing to HNW and UHNW clients?

A few things have happened with respect to family offices that are quite positive for Hong Kong. The SFC has issued several regulatory clarifications that provide family offices with some more certainty as to when their investment activities do or do not trigger a licensing obligation, for example. Another clarification the SFC issued makes it easier for family offices to be classified as Corporate Professional Investors, which then allows private wealth managers to offer them a more streamlined and efficient trading experience. And InvestHK, an organization whose mission is to support businesses looking to invest in Hong Kong, is in the process of building up a specialized team to help family offices interested in establishing a presence here.

Another important development is the introduction of tax concessions for carried interest. Together with a new regime for limited partnership funds, these tax concessions will likely make Hong Kong a much more attractive domicile for private equity funds and their managers, who are themselves often HNW or UHNW clients. That also helps attract other businesses to support the PE firms, all of which is great for Hong Kong.

The Greater Bay Area (GBA) initiative, which covers Hong Kong, Macau and nine cities in the Guangdong province, will also benefit Hong Kong since the city is uniquely positioned to manage the significant amount of wealth being created in the region. According to the Hurun Research Institute, the GBA is already home to the largest number of entrepreneurs with assets worth at least USD1 billion each compared with other top bay areas globally such as Tokyo Bay, New York or San Francisco Bay.

The impending launch of a Wealth Management Connect (WMC) scheme in the GBA is a milestone for the wealth and asset management industry in Hong Kong. Over time, as its scope expands to cover HNWs, WMC can become an important growth driver of private wealth management business in Hong Kong and across the Greater Bay Area.

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What are your priorities at the Private Wealth Management Association (PWMA) for the next 12 months?

We will soon be launching the new Certified Private Wealth Professional (CPWP) Associate certification category, which will confer recognition on individuals working for PWMA member institutions who meet the Enhanced Competency Framework standards but do not yet have the professional experience to qualify as full CPWP. We are finalising the details and plan to share more information on this with our members soon.

We are also working with Accenture on a survey related to portfolio-based suitability (PBS) that aims to examine how some firms make use of it to streamline their suitability processes as well as why some firms have not adopted it. That analysis can then be used to identify potential best practices or improvements in how PBS is applied that could help promote its wider use.

On the regulatory front, a priority for us is trying to help the industry tackle a long-standing challenge around the sales process for private wealth managers when serving their more sophisticated high net-worth clients. Our members tend to find the regulatory requirements around suitability and disclosure difficult to right-size for this client base and so we're seeing what we can do as an industry body to come up with solutions. Naturally, this is something we're doing in discussion with the regulators as well. ■

Getting Personal with Peter Stein

Peter Stein is Managing Director of the Private Wealth Management Association, an industry association whose mission is to foster the growth and development of the private wealth management industry in Hong Kong. In this role, he is responsible for all aspects of the Association's activities and strategy.

Prior to joining PWMA in December 2016, Peter worked for UBS AG, where he served as Head of Regulatory Advisory & Relations, Asia Pacific and before that as Head of Group Governmental Affairs for Asia Pacific. Until 2011, Peter was a senior editor and reporter in Hong Kong with The Wall Street Journal, where he worked for more than 20 years, including as the Journal's Hong Kong Bureau Chief and as Managing Editor of the Journal's Asian edition. Born in New York City, he graduated with a BA in Comparative Literature from Yale University.