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# Seizing the Opportunities in Wealth Management in Hong Kong and China

**Hong Kong is the well-known traditional epicentre of the offshore wealth management industry in North Asia, serving not only clients in that region but also having over many decades carved out a formidable reputation in the global wealth management universe, with clients from the world over, and with a totally international approach, an advanced regulatory environment and a highly developed wealth management infrastructure and ecosystem. And nowadays, Hong Kong is increasingly interconnected with both Mainland China and with the Greater Bay Area. Indeed, as Wealth Management Connect moves into the spotlight, many believe there is an even greater opportunity opening up for the local and global wealth and asset management community, with much of that potential due to later be realised through the Hong Kong market's expertise and reach.**

## SPEAKERS

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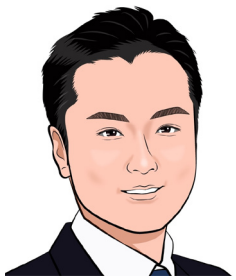

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## Setting the Scene for Growth & Opportunity

The wealth and advisory industry in Hong Kong is of course making every effort to work with the rapidly expanding ranks of Mainland Chinese HNW and UHNW private clients, not only on investments but on the wider remit of wealth planning and structures and also on legacy & succession planning, reaching out also to the next generations of clients wherever possible as well.

Mainland Chinese families have diversified well beyond their home bases in China, and need the right structures products, advice and structures in place, and Hong Kong's deep talent pool of private bankers and advisors and the ecosystem of lawyers, accountants, trustees and others are immensely well-placed to help such clients, now and in the future. Moreover, Hong Kong is the natural conduit for the world's investors to buy into the vast and expanding Mainland Chinese equity and fixed income markets.

Meanwhile there is a major effort taking place to adjust the Hong Kong model to develop products, services and reach into the GBA market of 72 million people that also houses some 20% of Mainland China's HNWI population, with Wealth Management Connect opening up great opportunities for the Hong Kong-based fund management industry and the broader wealth management community.

Our panel of experts looked in detail at the competitive environment for wealth management in Hong Kong and how the market is adapting to the challenges of the rapidly evolving North Asian markets, and steering a course to remain globally competitive, as well as adapting its products, services, strategies and talent to seize the great opportunities that both China and the Great Bay Area offer.

## All hail the GBA and WMC

A banker opened with the observation that few would disagree that the GBA Wealth Management Connect is one of the most important initiatives in the region's wealth industry, especially for a retail bank with a very extensive network in China and in Hong Kong. He pointed to the GBA's roughly 72 million people, the 450000 people estimated to have more than roughly USD1 million assets, and the almost 200 billionaires residing in the region. "There is a huge opportunity for both wealth managers within the premium retail space as well as within the private banking space," he stated. "We are seeing this as a high priority project, putting a lot of emphasis to make sure that our system architecture is ready for the WMC, everything is ready, and now waiting only for the regulators to officially start the programme, which we expect quite soon."

He reminded delegates how WMC will firstly focus on low to medium risk mutual funds, Hong Kong domiciled non-complex products, but that gradually, the incumbents involved expect the WMC eligible products to grow gradually in size and complexity. "The regulators will play it safe early on, but this will evolve over time," he reported.

## Holistic engagement

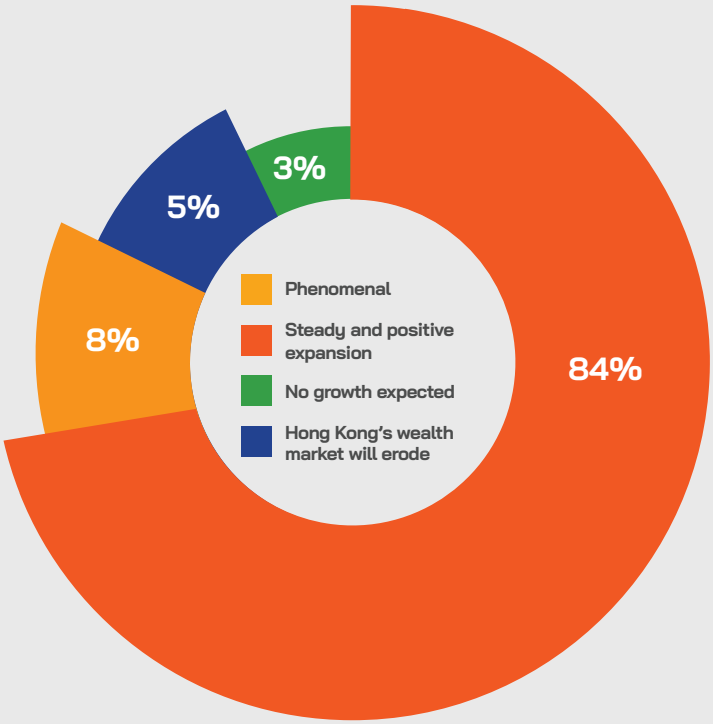
He added that in terms of general wealth management in Hong Kong and the wider GBA region, he sees several trends. "They do not only want a private bank, they do not only want a retail bank, they do not only want a broker or an insurance agent," he explained. "What they want is a wealth manager that holistically is able to package all of these offerings and offer packaged solutions to them after understanding the needs of the clients."

He explained that of the clients that they had spoken with, one-fifth of them have cross-border type products, meaning 80% have no experience with cross border type of wealth management products, but at the same time over 70% of these customers reported they are interested to try cross border wealth management products. "So," he observed, "you can imagine there is a lot of education involved in trying to convince them about the merits of these cross-border solutions. And they are seeking a variety of solutions, including insurance, perhaps loans to help offshore property purchases, and so forth. In short, we are over time focusing through WMC as a great platform to gradually get them immersed in cross border wealth management services."

*The Hubbis Post-Event Survey*

**92% of market participants we polled expect robust growth for the Hong Kong wealth market in the foreseeable years ahead, with 84% expecting solid growth and 8% really dynamic growth.**

**WHAT EXPECTATION DO YOU HAVE FOR THE GROWTH OF THE HONG KONG WEALTH MANAGEMENT MARKET IN THE NEXT 10 YEARS?**




## WMC not fully on the radar for all segments and clients

Another banker agreed with these comments but highlighted their

focus on the HNW and UHNW community, and therefore commented that WMC is not an area of focus for them today. He explained that through their numerous locations around the world and major regional offices in Hong Kong, Singapore and Australia, they can very professionally serve Mainland Chinese clients and offer them plenty of global diversification.

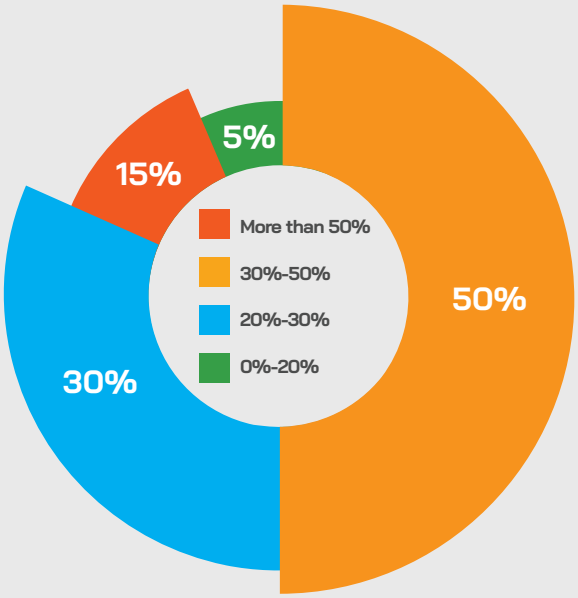
## China onshore offers considerable appeals

He also pointed to opportunities in the region, especially Mainland China's onshore market which could be worth as much as USD30 trillion or more already. "Clearly, we are looking at that onshore market, we are very open minded, not only looking at establishing a banking presence there, but also perhaps fund management licenses, or a wealth management JV with important local banks," he explained. "We are still actively looking, but we are, like many others, keenly looking at offshore strategies and also onshore strategies regarding Mainland Chinese wealth."

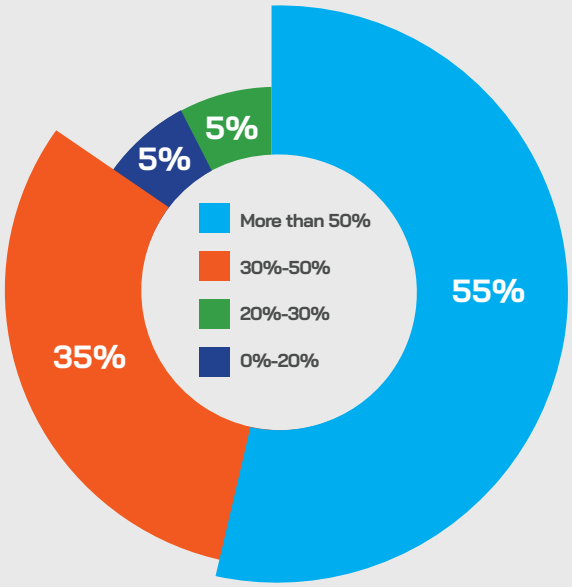
As to the right approach, he expanded on this, remarking that the clients are different and so too the regulators. "Chinese wealth is somewhat younger, the culture is very different, and they are all actually very well advised locally. Moreover, for international wealth managers, the investment into China will pay off as the market is so huge and growing, but do not expect very quick returns. "Any international wealth manager needs to be well prepared for this before they go into China," he cautioned.

**Market participants expect rapid growth in Mainland China clients for the Hong Kong wealth management market, with 55% expecting that they will account for more than 50% of the market by 2030, a nearly 4-fold increase on their estimates today.**

### WHAT PERCENTAGE OF THE HONG KONG WEALTH MANAGEMENT MARKET DO YOU ESTIMATE MAINLAND CHINA CLIENTS ACCOUNT FOR TODAY?




### WHAT PERCENTAGE OF THE HONG KONG WEALTH MANAGEMENT MARKET DO YOU ESTIMATE MAINLAND CHINA CLIENTS WILL ACCOUNT FOR BY 2030?



## Choosing your booking centres carefully

He also offered a historical perspective of Switzerland as a favoured booking centre for many HNWIs in Asia, but that Hong Kong and Singapore had been greatly rising in prominence and popularity in the past decade in particular. "Within Asia, both Singapore and Hong Kong are really equally popular these days," he reported.

As to the quality of each centre, he expanded on this comment, noting that both are similar, although of course China ultimately controls Hong Kong, so as a booking centre it can be perceived the two are the same.

"So, for clients from Mainland China looking for some diversification in terms of sovereignty, in terms of booking, Singapore, obviously, is a different sovereign jurisdiction. On the other hand, Hong Kong is physically so close to Mainland China, the Hong Kong capital market is very deep, IPOs are very active for major Chinese enterprises." He indicated that while Hong Kong has been somewhat less stable in recent years than Singapore, it is far more stable today."

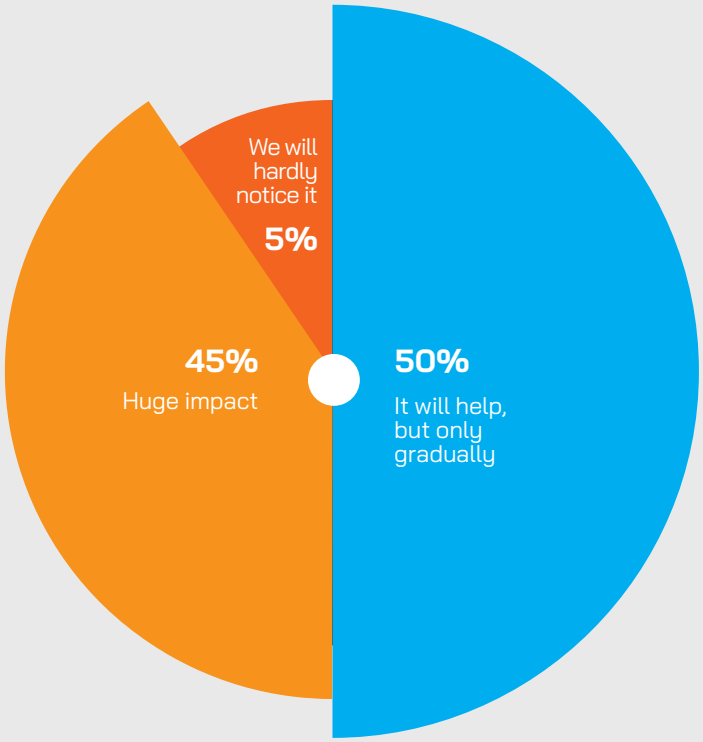
## Hong Kong gears up for the future

Another expert pointed to some of the advantages Hong Kong had been generating more recently, including the great efforts made at developing virtual banks.

"We have eight licenses, and Hong Kong is actually a very good example of how virtual bank business models can evolve," they reported. "However, in terms of digital wealth management, I hate to say it, because I grew up in Hong Kong, but Singapore is a little bit ahead. We were established in Singapore five years ago, we are the leading player in Singapore, and in Hong Kong we are now spending on marketing, letting the people know there is an alternative way of using technology to manage wealth, not just for those starting investments, but also for people who invest but who actually may not have the time or resources, or the sophistication to manage a portfolio."

**95% of replies said they expect that the GBA and WMC will either have a huge or more gradual impact on the Hong Kong wealth management market.**

**WHAT IMPACT WILL THE GREATER BAY AREA AND WEALTH MANAGEMENT CONNECT HAVE ON HONG KONG AS A WEALTH MANAGEMENT CENTRE?**




## Aiming to release idle cash

They observed that the concept of assembling a portfolio is not so well embedded in Asia, that there is still a lot of cash sitting in banks, and not enough diversification, or tactical and strategic allocation. They also explained how they use technology to provide a highly sophisticated but easy to use investment framework based on a systematic asset allocation framework, driven from the top down.

"We are then able to optimise each person's portfolio according

to the combination of the macro factors, the macro regime, as well as the personal preferences of that particular investor," she explained. "This has been done predominantly manually by a lot of sophisticated wealth advisors or investors, but when we do it using technology, we can scale it to a much bigger audience, and then also to offer very personalised, differentiated products to our customers."

## Hong Kong the key conduit to and from China and the GBA

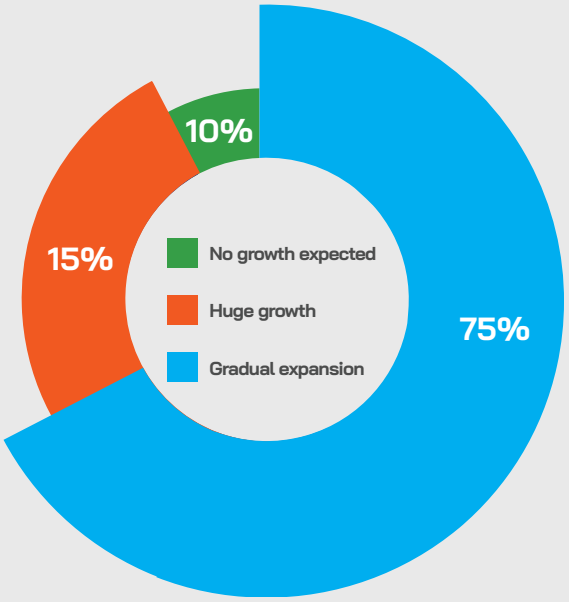
She added that China is also in their longer-term thinking, but that Hong Kong is their first port of call outside Singapore, especially as Hong Kong data shows some 40% of net worth is still liquid and sitting in the bank. "This is our first target here, and it will take some effort actually to get ourselves known and to actually acquire those illiquid assets, and to convince people that we are a trustworthy brand, with word-of-mouth recommendations following suit," she told delegates.

## Learning the robo-advisory ropes

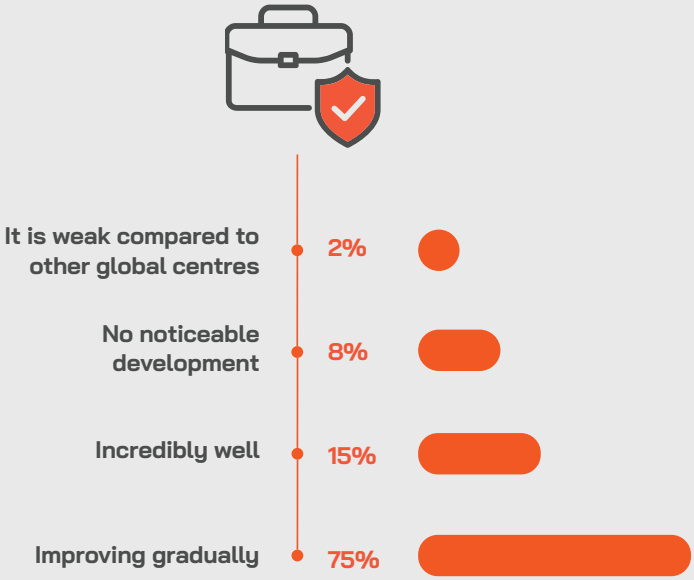
"Accordingly," she elucidated, "our first priority is really to educate people about the benefits of using a digital wealth manager, the fact that we're very low cost, very efficient, very transparent, using our mobile app is super easy, and so forth. We can then later on think about the very natural step for us to replicate the model in Hong Kong to serve the bigger population in the Greater Bay Area, and possibly beyond. This is why WMC is so critical, as we can potentially serve those customers with the infrastructure in Hong Kong, slightly modified; this is a huge opportunity for us. Beyond that, we can later establish

**90% of replies indicated they are expecting solid growth for both DPM and Estate & Legacy Planning through Hong Kong, with most expecting that to take place gradually.**

### WHAT SORT OF GROWTH DO YOU EXPECT FOR THE DISCRETIONARY PORTFOLIO MANAGEMENT OFFERING IN HONK KONG IN THE COMING SEVERAL YEARS?




### HOW IS HONG KONG DEVELOPING AS A WEALTH CENTRE IN TERMS OF ITS ESTATE & SUCCESSION PLANNING OFFERING?



a presence in other bigger cities in China, but that is a few steps ahead of where we are today."

## Hong Kong's digital days are already here

The discussion shifted fairly seamlessly to technology, with an expert commenting that even in savvy Hong Kong there is still a long way to go in terms of the investments in digital tools and solutions, even though much more rapid progress had been realised since the pandemic hit.

He commented that Hong Kong is actually a particularly advanced digital market that has been ahead of the curve in many ways in terms of digitalization, and certainly a place where he is seeing more opportunities than others.

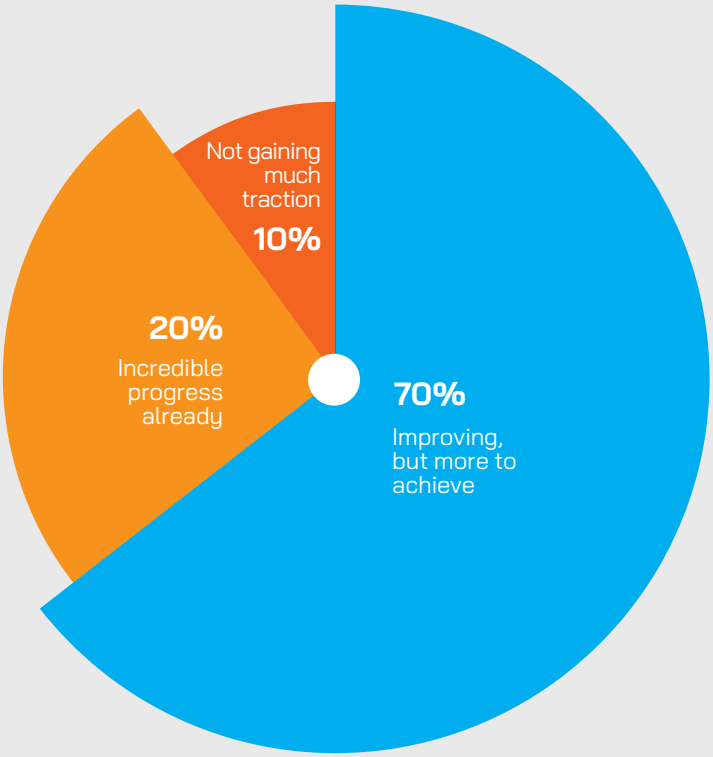
"We have a strong mix of customers, both in Hong Kong, and in mainland China using our platform for both wealth and core banking, ranging from traditional private banks, and we're really proud to be covering any servicing models from discretionary portfolio management and also direct brokerage," he reported. "We are seeing a broad range of solutions and capabilities that we're offering are in increasing demand."

## Choose your technology-driven solutions

He reported that a key focus at the moment seems to be centred on areas such as a goals-based planning and global solutions that enable bulk rebalancing of multiple portfolios. "This is focused both on an engaging client experience and a high-quality servicing offering, intuitive user journeys, the high-purpose personalisation of the customer journeys; those very strong capabilities are what we're offering and reducing operational

**Although 90% of replies indicated they are seeing positive developments in digitisation in Hong Kong, 70% believe that considerably more must be achieved, and 10% think that little progress has been made to date. This is good news for the solutions providers and FinTechs, of course!**

### HOW WOULD YOU CHARACTERISE THE DEVELOPMENT OF DIGITAL SOLUTIONS AND DIGITISATION IN HONG KONG'S WEALTH MARKET?




*Expert Opinion*

**JEAN PAUL MERGEAI, President International Sales, Member of the Executive Committee, Temenos**

"The GBA Wealth Connect Initiative offers some incredible revenue opportunities to both Mainland China banks and those in Hong Kong and Macau. It will however introduce a degree of operational complexity in areas such as onboarding, KYC, account management and reporting. With our deep domain experience in all of these regions, we feel well placed to help banks and wealth managers to solve these challenges"

costs continues to be a big driver in this market."

He reported that the banks in the Greater Bay Area are not just looking for a wealth management partner, not just looking for a banking partner, they're looking for both, including payment partners.

## Tremendous opportunities mixed with some challenges

"Accordingly, we see tremendous opportunities, including in Mainland China, because our multilingual, multi-currency software addresses the requirements there very well, and we do business actually in 165 countries worldwide, and count as our customers at some of the largest and the most successful private banks in the world that are really drawn to do business in the Wealth Management Connect project. This means our customers are really contacting us to actually partner with us to expand their operations in that area. And we're also hoping to convince more the Chinese bank to use our capabilities because of the comprehensive nature of the service and the servicing levels and the capabilities that we're offering."

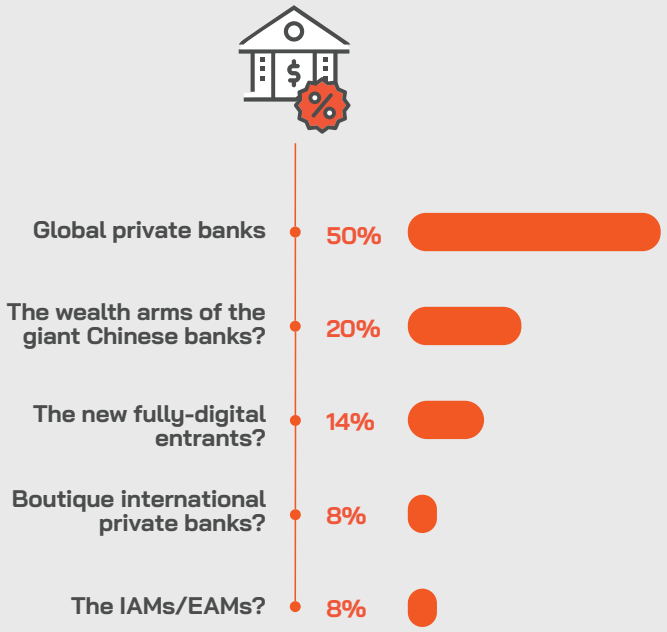
## Digital access to best-in-class solutions

Access to the best fund and best-in-class products is essential for any wealth management community. Providing these with super-simple digitised access is becoming the norm in most more advanced and liberalised jurisdictions.

An expert told delegates that is exactly what they provide, but embellished with a whole suite of services, which includes delivering financial institutions with all the data that they need in order to carry their activities. "And we have a team of

**Surprisingly, it appears that since the pandemic hit, the competitive power of the global private banks has risen significantly, with 50% of our respondents pointing to them winning the competitive battle. Moreover, 20% believe the wealth arms of the giant Chinese banks are winning the battle. The losers appear to be the boutique internals PBs, and the IAMs/EAMs. A year or two ago, Hubbis surveys were clearly indicating that the global PBs were only just edging it over the boutique players and the independent wealth community. Perhaps this is a clear statement of the flight to safety and the scalability of the big brand banks, whether global or Chinese.**

### WHO IS WINNING THE COMPETITIVE BATTLE OUT OF HONG KONG?




*Expert Opinion*

**JEAN PAUL MERGEAI, President International Sales, Member of the Executive Committee, Temenos**

"The market opportunity for International banks in China is obviously huge, but the risks much be carefully navigated. Data management, implementation risks, compliance and reporting are just some of the many considerations. Our regional experience and China model bank can help our customers to tackle these challenges and effectively manage these risks, thereby enabling them to quickly take advantage of the significant revenue potential."

analysts that can help select funds, and we have built a whole digital offering, where we help financial institutions connect better or relate better to their end clients by way of making apps, hosting and designing websites, and so forth," he reported. "We have for the past 20 years been focusing on the conventional mutual fund space, and more recently we have ventured into the private equity space."

## Racing to the WMC starting line

He explained that Hong Kong and the GBA are of huge importance to the firm, and that they had in the past year signed 16 agreements with large banks as well as challengers. "We are in a very sweet spot with regards to the offering that they need put in place for the Greater Bay Area initiatives," he reported. "At the same time we are entering agreements with local fund managers in Hong Kong, and putting together or updating the infrastructure, so that we can deal with Renminbi, and for optimised settlement and so forth. In short, we have been for over the past two years been putting in place everything that we think is going to make all these institutions successful in the Greater Bay Area."

## And building onshore is often part of the big scheme

He added that the firm is also creating a wholly owned foreign operation in China, to be based in Shanghai, with a view to creating pathways to China for institutions and for QDII. "That is another area we are very keen to explore and to see how we can bring value there as well," he said. "And in the GBA, the rapid wealth creation is a major systemic change that will create huge opportunities for the challengers, for example, and evidently for the already established retail banks, who will be more and more becoming a threat to the private banking space, if they were not before."

## Building the blocks for expansion

As to trends evolving in the GBA, another expert reported that a key shift is towards more portfolio-centric approach, hence the bank has been successfully building its CIO office and had built its capabilities in advising clients on model portfolios based on qualitative and quantitative aspects.

"And we are investing in an AI assisted advisory tool that will allow our clients to select investments in a more intelligent manner," he reported, "as well as ongoing investment in our main apps as part of developing our digital capabilities for both our Hong Kong and GBA customers, which are certainly expecting advanced digital solutions and easy execution."

## Relevance, suitability, timeliness

More than purely digital access however, he remarked that these clients also expect the wealth managers to feed them with relevant and timely investment content. "Gone are the days when you can write a very lengthy article educating clients about markets, gone are those days because clients nowadays demand social media ready, short catchy content delivered in a very direct and relevant way. So, we have significantly improved our media capabilities along with our CIO office to deliver timely and easy to absorb content to our customers."

And he observed that these customers also like the branch network, at least for more complex matters that require solutions and that should be discussed in person. "Hence, besides the digital capabilities for the day-to-day matters, having the branch present, and having relationship managers on the ground listening to these customers, talking to these customers, will still be very important going forward. The one complements the other."

The discussion rounded out with panel members in full agreement that the continuing development and maturation, as well as digital evolution of Hong Kong as the gateway in and out of China is well on track, and that many exciting opportunities lie ahead. ■

*Expert Opinion*

**JEAN PAUL MERGEAI, President International Sales, Member of the Executive Committee, Temenos**

"With a young, well-educated and financially savvy population, expensive commercial real estate and a history rooted in constant innovation, Hong Kong is the perfect proving ground for 'digital only' banking services. Many of our existing customers are already enjoying success in the 'digital only' or 'neo-bank space' and we expect to see the depth of their offerings extend into the wealth management domain quite soon. is an obvious evolution and our technology is well placed to support this push."

*The Hubbis Post-Event Survey*

## WHAT KEY STRENGTHS AND ADVANTAGES DOES HONG KONG HOLD AS A WEALTH MANAGEMENT CENTRE?

- Legal independence and mature market investors.
- The people and the legal environment.
- One country, two systems.
- Close links to China.
- A very well-established wealth management industry from knowledge to technology, and part of the GBA.
- Strongly developed and mature sector with experienced players, and has the infrastructure in place to service well beyond HK.
- Tax benefits, numerous global MNCs and global investor presence, many Chinese HNWIs.
- A well-established and trusted legal system, an attractive tax policy, a mature financial industry.
- The legal system, traditional financial markets expertise, expertise in alternative assets, minimal fund flow control, experienced professionals, robust banking system, well established financial services, time zone, high savings, and a China financial hub.
- The rule of law (security of ownership), low tax rate, deep and highly liquid capital market, strong professional services infrastructure, and a key gateway to China.
- Robust IPO market.
- Easy access to China market where the emerging ranks of HNWIs are expanding tremendously. A transparent and flexible regulatory environment. Free market for fund inflows/outflows, robust investment platform and diverse investor community, a well-established infrastructure, a long-standing reputation as a financial centre, an experienced private banking community who can serve the HNW and UHNW individuals and families, a robust regulatory framework which is transparent, clarity of legislation governing the financial markets, and mature and dynamic capital markets, a global hub for trade and commerce.
- Low rate, simple and competitive tax system, a premier business hub for Asia.
- A central hub for China and the rest of the world, free movement of people and capital.
- High quality wealth industry practitioners and pragmatic and transparent regulators, who are forward thinking.
- Proximity and connectivity to mainland China is another advantage to industry players as well as customers.
- The legal system is based on Common Law. Many international firms still prefer to book their China business through Hong Kong.
- The GBA market has 72 million people, a vast GDP and 20 % of Mainland China's HNWI population.

- Hongkong has long been home to a well-established wealth management industry with many of the well-known private and boutique banks based there. It has an acceptable tax environment with an appropriate regulatory environment. It is also positioned as the gateway to the Greater Bay Area. It is also using technology as a driving force in making transactions seamless and real time.
- It is still the gateway to China and a major Wealth management Centre for Mainland Chinese clients. Hong Kong will benefit from the Wealth Management Connect .

## CAN HONG KONG HOLD ON TO MAINLAND CHINA'S WEALTHY PRIVATE CLIENTS OR ARE THEY INCREASINGLY HEADING TO SINGAPORE OR EUROPE, AND WHY?

- Yes, due to history, quality and its proximity.
- HK is still the best choice for mainland China clients, especially those wanting to do IPOs.
- Yes, it's the largest and most important gateway to China and to the GBA.
- Yes, mainland China's wealthy private clients find it easy to deal with the HK wealth management and advisory and professional services community.
- Yes and no. HK does stand well alongside Singapore in wealth management expertise, but I do still believe some assets will be transferred to save heavens like Singapore or Europe for diversification, and certainly for custody.
- I believe for genuine private clients HK will hold on, due to the proximity, language and familiarity, and of course track record and expertise, and due to the 'one country' element. Singapore/Europe will probably more attractive to those wishing to somewhat hide or shelter their asset base somewhat, especially for those seeking alternative residency or citizenship.
- Yes, of course. Hong Kong has a better position and similar culture and investment appetite as China, more so than heading to Singapore or Europe.
- HK will continue to lose AUM to other countries like Singapore and some in Europe as China continues to tighten its grip on HK.
- Singapore and Europe, for diversification.
- HK is a unique financial centre in Asia in addition to Singapore; it is not only able to hold on to-Mainland China's wealthy clients, but also covers plenty of the needs of clients from other jurisdictions, due to its free and flexible investment environment.
- I think more Chinese clients will be looking outside of HK for diversification.
- There were some concerns about political stability due to protracted rioting in 2019 but this has now settled down and economic conditions have improved or returned to normal. However, for businesses which require booking centres (such as loans), there is the general perception that booking in Hong Kong is like booking in China, hence, for businesses looking for diversification (such as sovereign risk), there is some movement heading to Singapore or Europe.
- We are already seeing some private clients indeed move their assets to Singapore and Europe.
- Hong Kong can still hold on to Mainland China's wealthy private clients but faces tough challenges from other countries.

- A certain percentage of mainland Chinese are looking for alternative booking points such as Singapore or Switzerland. This is because booking in Hong Kong is similar to booking in the same country which may not fit the objective of customers looking for geographical diversification.
- I think over the long term, wealthy Mainland clients will head for Singapore/Europe/other markets because Hong Kong is not technically 'offshore' from China.
- I still believe a considerable portion of wealthy private clients from mainland China will still go to Hong Kong because is nearer and safe and easy at this time, rather than travelling down to Singapore or Europe. Most global or international private banks and wealth managers are able to open accounts there but to be booked in Singapore or Europe and to follow the cross-borders rules.
- I believe that Hong Kong has a firm grasp or hold to their wealthy private clients again because of its proximity to mainland China and the Greater Bay Area and the well-entrenched private banking offices of various nationalities that have been operating with much success in terms of their AUM volume. Likewise, the products and services offered are diversified in terms of asset classes.
- Hong Kong hold on to Mainland China because of the Wealth Management Connect and being near to China has its advantage too. And it is all a matter of perception - the size of the stock market and the history in wealth management can't be wiped out just like that.
- HK will retain a large share of the market, but some share will go to other centres. With increasing development of digital/online resources for wealth management, it is nowadays easier to relocate away from HK.