



# Hong Kong Private Wealth Management Report 2020







# Contents

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- 04** Executive summary
- 06** Overcoming a challenging period
- 12** Growing the market
- 18** Technology
- 24** Regulation
- 28** Talent
- 32** About the PWMA
- 33** About KPMG
- 34** Contact us



# Executive summary

## **Hong Kong's private wealth management industry has remained resilient amid a challenging environment. COVID-19 is transforming ways of working and client expectations and accelerating the adoption of technology**

The fifth annual Hong Kong Private Wealth Management report provides an in-depth view into the current landscape and how the industry has coped with recent unprecedented challenges. The report also examines growth opportunities and trends along important themes of technology, regulation and talent.

The report is largely based on an online survey of Private Wealth Management Association (PWMA) member institutions – of which 35 of the 44 member firms responded – and a client survey, as well as interviews with industry executives in Hong Kong. Both surveys were conducted from June to July this year.

The findings show that despite the challenging environment, Hong Kong's private wealth management (PWM) industry has remained resilient. Assets under management increased significantly due to positive returns on assets and net inflows in 2019, while the industry is seen to have successfully met client expectations during COVID-19.

In line with last year's report, mainland China remains the most important growth opportunity for Hong Kong's PWM industry, with the ongoing development of the Greater Bay Area (GBA) cited as a key driver. The announcement of the launch of a Wealth Management Connect scheme in the GBA is a positive step, although the industry is awaiting further

implementation guidelines in order to evaluate the full impact and value of the scheme, as well as the relevance to high-net-worth individuals.

Attracting family offices remains a top priority, highlighted by a number of notable developments in the last year. For example, the Financial Services Development Council published a white paper in July that sets out a number of recommendations to create a more conducive regulatory environment for family offices. Meanwhile, in September the Securities and Futures Commission (SFC) provided further guidance on the assessment of the corporate structure and investment process of Corporate Professional Investors, particularly the investment vehicles owned by family trusts or family offices that engage investment professionals to manage their investments. The SFC also issued a circular (January 2020) and FAQs (September 2020) on the licensing obligations of family offices.

Targeting the younger generation also remains a key focus, with an emphasis on tailored value propositions, enhancing digital channels and selecting appropriate relationship managers (RMs) to serve them.

The survey findings indicate that PWM institutions have shown a marked improvement in meeting their clients' digital expectations. The onset of COVID-19 has accelerated digitalisation among many firms, and

has led to an increasing client preference for digital channels across the advisory process. However, challenges around legacy systems appear to have increased significantly, but organisations are starting to consider new approaches to technology which can address these challenges. Cybersecurity threats and the risk of data breaches also remain areas of concern.

The challenging regulatory environment continues to be the biggest concern for surveyed member institutions, with a significant amount of resources being spent on KYC, anti-money laundering and sales practices and suitability. With pricing transparency coming under increasing focus, firms are seeking to enhance training for frontline staff, strengthen system controls for spreads and commissions, and revise disclosures. There is an opportunity for PWM institutions to implement technologies such as Regtech solutions to reduce costs, improve efficiency, strengthen risk management and enhance regulatory compliance.

In terms of talent, while supply is increasing, the RM role continues to be viewed as the most critical gap. Interviewees point out that grooming newer RMs can be a long process, while demand for senior RMs has also increased as private banks increasingly compete against external asset managers for this talent. Remuneration and relieving the administrative burden are viewed as the most important factors to make the RM role more attractive. More supportive IT infrastructure is also viewed as a key factor, given the greater focus on accelerating digitalisation by most PWM institutions.

Despite the ongoing macroeconomic challenges, there are significant opportunities for Hong Kong's PWM industry to grow. Meanwhile, COVID-19 is likely to fundamentally change how PWM institutions operate, as well as client expectations and investment strategies. Firms that are able to transform their business and operating models, adapt their product suites and equip their staff with the tools and technologies to effectively service clients in this new reality will be well positioned for long-term success. The shift to digital is accelerating, and the firms that seek to invest more in technology now are likely to achieve greater cost and operational efficiencies over time.

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

## Key findings



**The PWM industry in Hong Kong has overcome the unprecedented challenges seen since June 2019**



**Mainland China, attracting family offices and targeting the younger generation remain the main growth opportunities for Hong Kong's PWM industry**



**The industry is improving at meeting clients' digital expectations, with clients rating PWM institutions higher than they rate themselves. COVID-19 is accelerating digital transformation, but challenges around technology solution implementation need to be addressed**



**Amid recent events in Hong Kong and global market uncertainty, the industry remains concerned about the regulatory environment**



**Although talent supply is increasing, recruitment, retention and finding the right skills and experience remain key industry challenges**

# Overcoming a challenging period

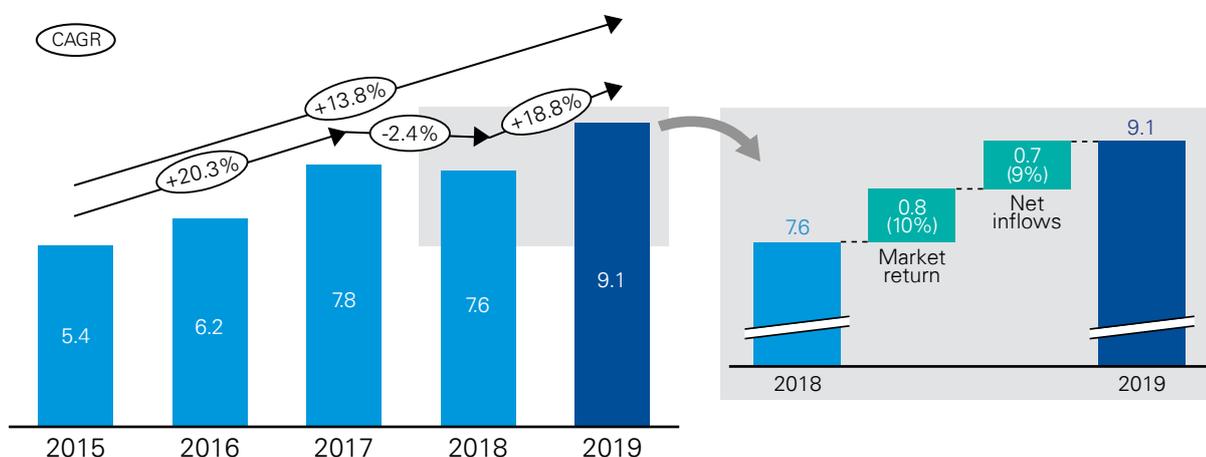
**The PWM industry in Hong Kong has overcome the unprecedented challenges seen since June 2019**

## Hong Kong has remained resilient in the face of unprecedented challenges

2019 and 2020 has been a challenging period for global economic growth, and for Hong Kong as a result of US-China trade tensions, social unrest and the significant socioeconomic impact of COVID-19. However, Hong Kong's private wealth management (PWM) industry remained resilient in the face of these challenges, both in terms of assets under management (AUM) and its ability to meet client expectations.

Industry AUM increased significantly by 19% to HKD 9.1 trillion (USD 1.2 trillion) in 2019, up from HKD 7.6 trillion (USD 1 trillion) in 2018<sup>1</sup> (Figure 1). Despite predictions of outflows, 2019 saw net inflows of HKD 681 billion (about 9% of December 2018 AUM) which, combined with a 10% return on assets, led to healthy AUM growth. While these figures represent industry AUM before the onset of COVID-19, they indicate a positive investment outlook despite the other challenges faced in 2019.

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

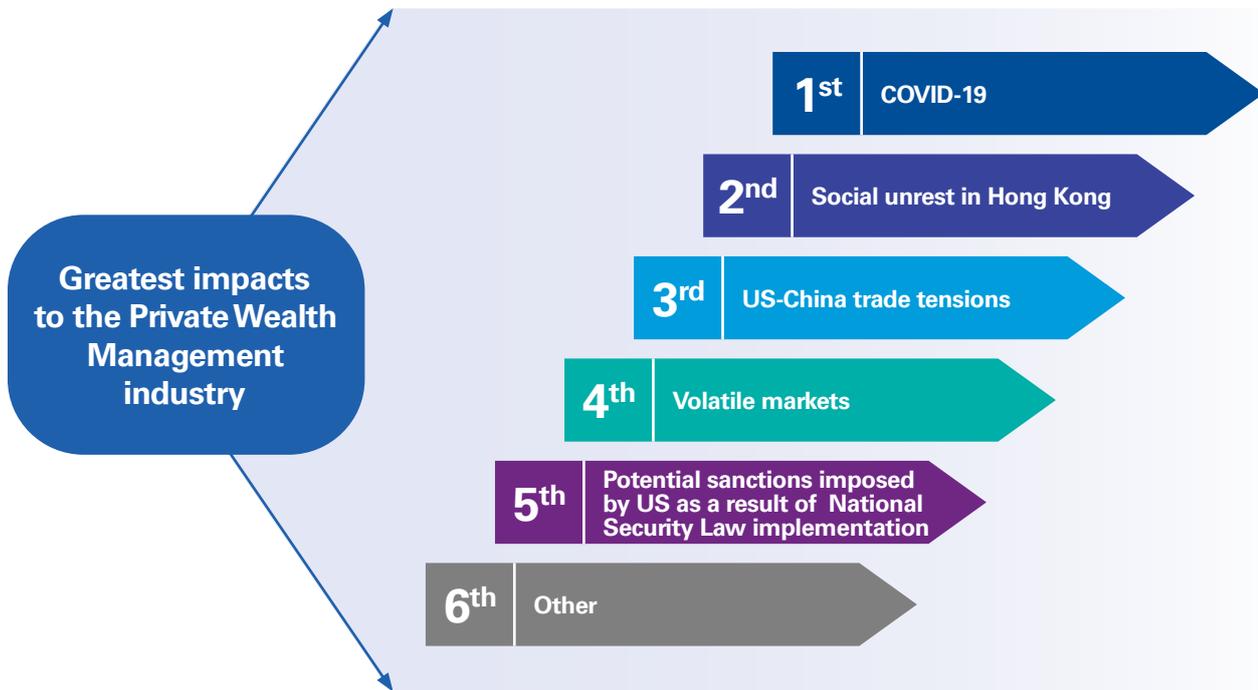


Note: Figures may not sum due to rounding error

Source: SFC Asset and Wealth Management Activities Survey 2019

<sup>1</sup> Asset and Wealth Management Activities Survey 2019, SFC, August 2020

Figure 2: Events with the greatest impact on the PWM industry



Source: PWMA Member Survey, KPMG analysis

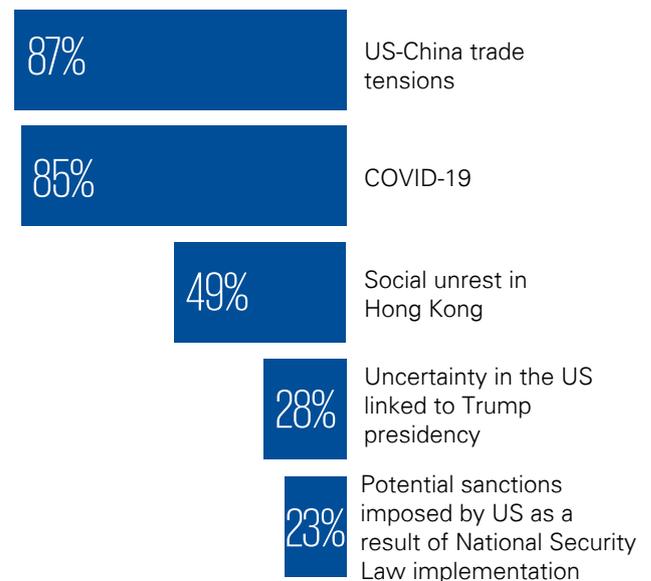
The number of high-net-worth individuals (HNWIs) – defined as individuals with more than USD 1 million in investable assets – increased by 12% to 172,000 from 2018 to 2019<sup>2</sup>, while the number of billionaires increased by 10% to 96 people<sup>3</sup>. This is being driven by underlying economic growth in the region and a recovery in asset prices in 2019.

### COVID-19 was viewed as having the greatest impact on the PWM industry in the past year, while US-China trade tensions are weighing most heavily on clients' investment outlook

At the time of the survey in June and July, PWMA member institutions identified the COVID-19 pandemic as having the biggest impact on the Hong Kong PWM industry, followed by social unrest in Hong Kong and US-China trade tensions (Figure 2).

The same three events were viewed as having the greatest impact on surveyed clients' investment outlook, although US-China trade tensions ranked slightly higher than COVID-19 (Figure 3).

Figure 3: Macro trends impacting client investment outlook and risk tolerance



Note: Calculated based on the sum of respondents who have ranked options as top 3

Source: PWMA Member Survey, KPMG analysis

<sup>2</sup> 'World Wealth Report 2020', Capgemini, July 2020

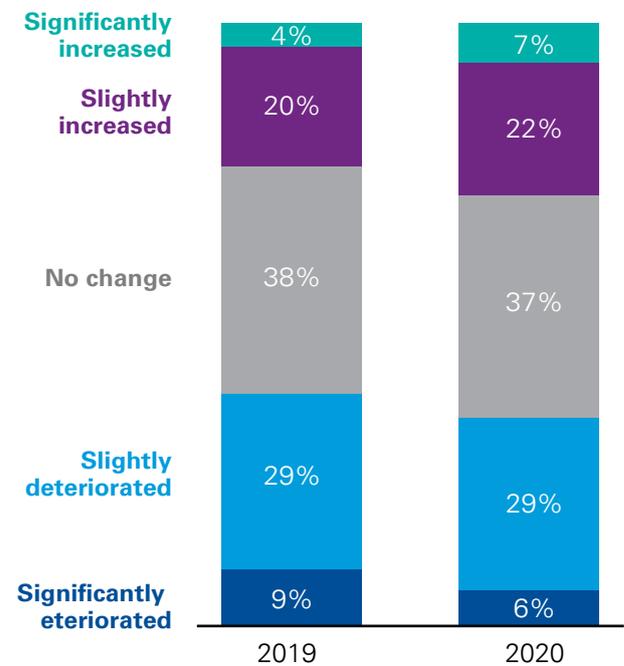
<sup>3</sup> 'Billionaire Census 2020', Wealth-X, June 2020

## Investment strategies have shifted

Global capital markets fluctuated significantly in the first half of 2020. In March, many global indices fell by around 25% compared to the end of 2019 as investors became concerned about the potential economic impact of the COVID-19 pandemic. By the time the surveys for this report were conducted in June, market sentiment had recovered to pre-COVID-19 levels, with clients' willingness to take on investment risk across all asset classes in the next 12 months remaining similar year on year (Figure 4).

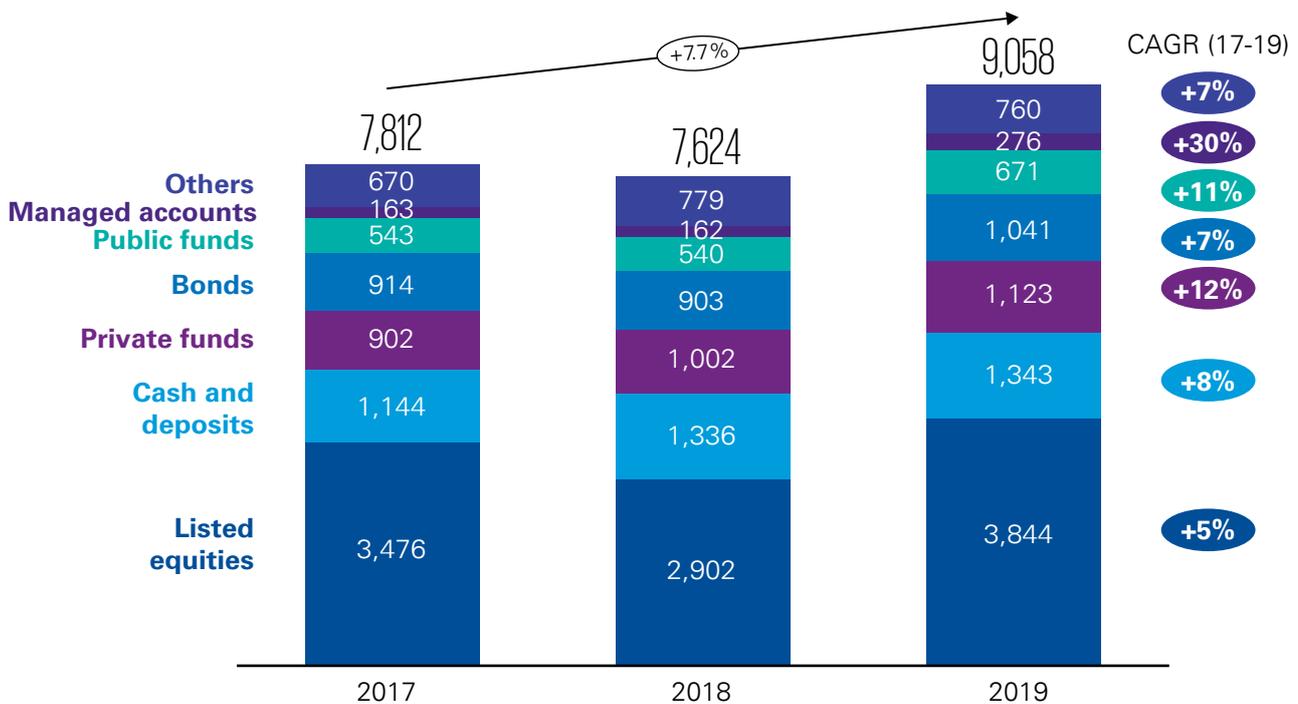
One interviewee from a large PWM institution noted that overall client engagement has remained similar to pre-pandemic levels, but client trading activity has increased. It was also observed that there has been a fundamental shift in investment strategy, with more than two-thirds of surveyed clients seeking to 'enhance yield in a low interest rate environment' as their most important investment objective (Figure 6). Many clients remain interested in equities, while another interviewee noted an increasing focus on short-term strategies amid ongoing market uncertainty. Investment interest has also increased in certain sectors such as technology and healthcare.

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



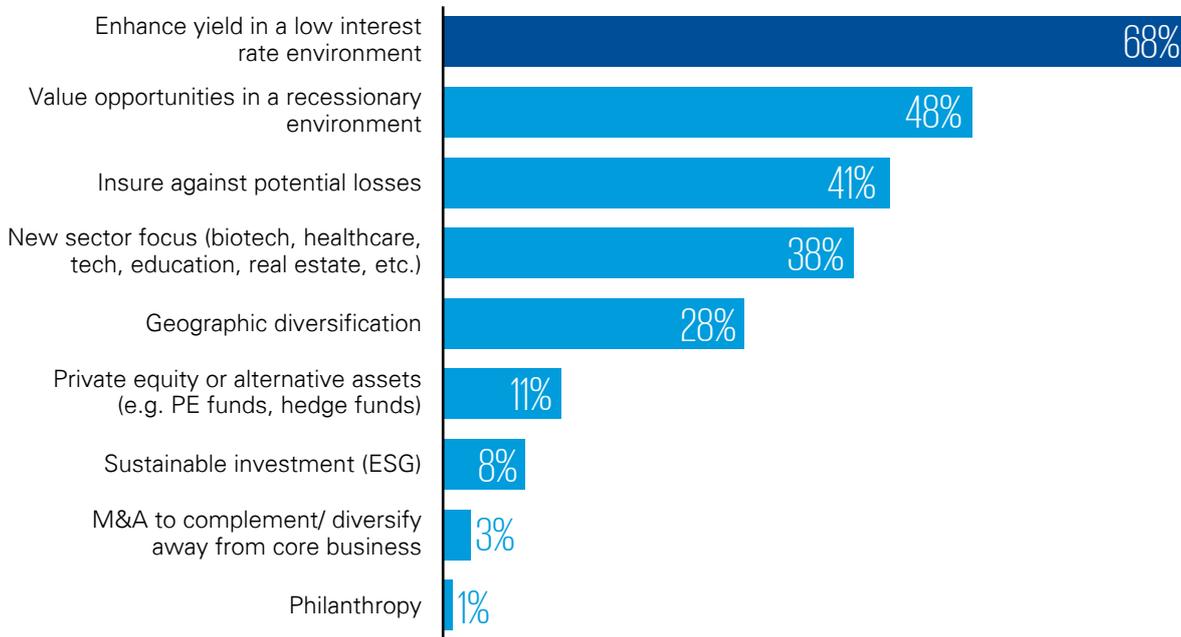
Note: Numbers may not add up to 100% due to rounding  
Source: PWMA Member Survey, KPMG analysis

Figure 5: PWM AUM by asset and product type 2017-2019 (HKD billion)



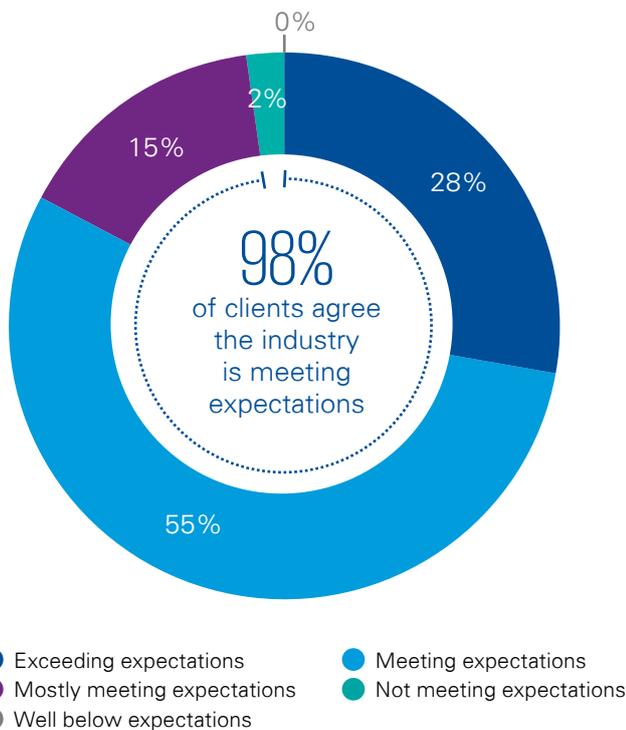
Source: SFC Asset and Wealth Management Activities Survey 2018 & 2019

Figure 6: Overall investment focus amid recent macroeconomic uncertainty



Source: PWMA Member Survey, KPMG analysis

Figure 7: Perception of private wealth manager's performance during the extended period of working from home due to COVID-19



Source: PWMA Client Survey, KPMG analysis

## The industry successfully met client expectations during COVID-19

The PWM industry in Hong Kong adjusted well to the new ways of working brought about by the COVID-19 pandemic, with 98% of surveyed clients stating that the industry is mostly meeting, meeting or exceeding their expectations during this time (Figure 7). Interviewees from PWM institutions noted that their firms had rapidly ramped up infrastructure support in a short period of time to allow client-facing staff to be more effective in engaging clients remotely. This involved equipping them with their own laptops and enhancing mobile phone features to support off-prem engagements with clients in a more effective manner.

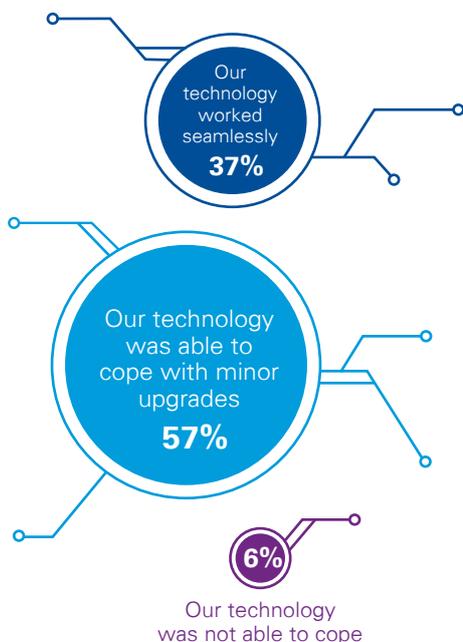
## Most PWM firms' Business Continuity Plans proved robust and rapidly adapted to COVID-19 due to advancements in technology, but working from home poses a logistical challenge for some

Three-quarters of surveyed member institutions agreed that their firm's Business Continuity Plan proved robust in the face of COVID-19. Many interviewees pointed out that recent technology initiatives helped to ensure that their institutions were better equipped to handle the challenges than they were a few years ago. Thirty-seven percent of respondents stated that their technology worked seamlessly during the pandemic, while 57% said their technology was able to cope with minor upgrades (Figure 8). Only 6% of members stated their technology was not able to cope with the challenges.

About 47% of all staff at the surveyed member institutions worked from home during COVID-19, with larger proportions observed for middle and back office staff (Figure 9). Logistical challenges prevented some staff from working from home. For example, one industry executive highlighted that working from home was impractical for dealing desks as they need connectivity to markets, which is hard to replicate from home networks. There were also complexities around setting up voice recordings for monitoring the sales process. The home working environment can also be challenging for staff who do not have a suitable working space, or have large families in the same household.

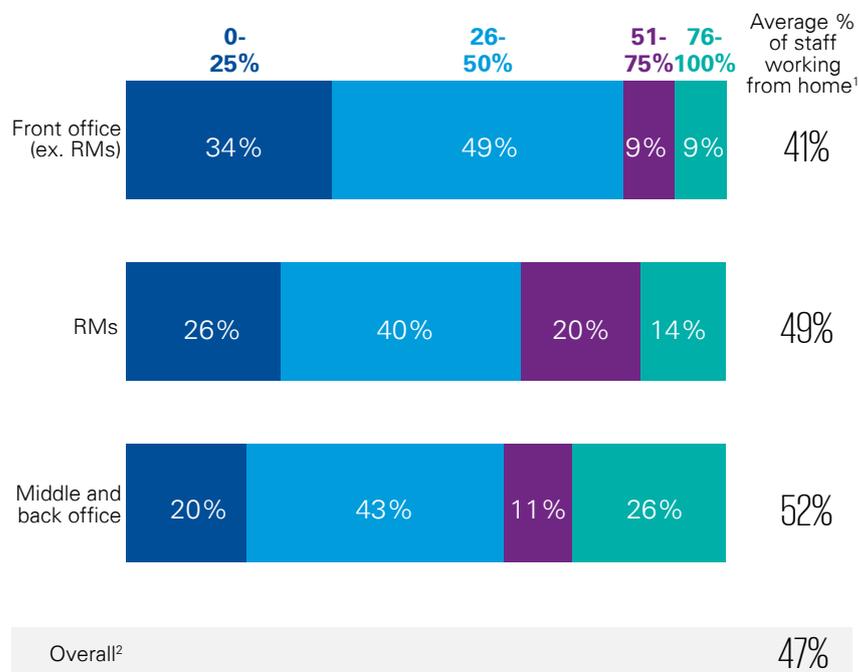
Another interviewee pointed out that not being able to interact in person hampered RMs' ability to have sensitive strategic discussions with their clients. The ability to seek out new clients has also been impacted, with one interviewee expecting this to affect their firm's pipeline and growth for 2021.

Figure 8: Ability of technology to cope with working from home during COVID-19



Source: PWMA Member Survey, KPMG analysis

Figure 9: Percentage of PWM member firm staff that worked from home during COVID-19, by function



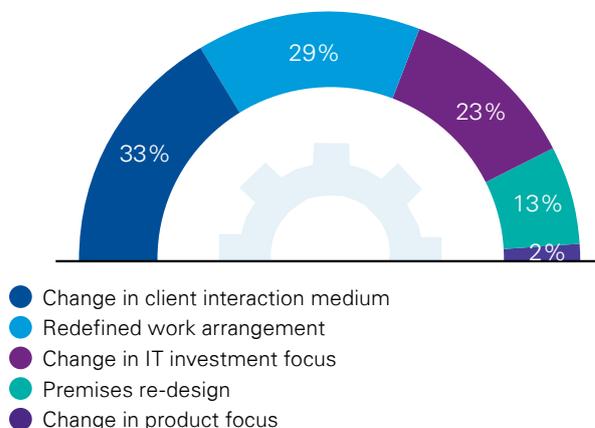
Note: (1) Average % of staff (by category) working from home during the pandemic; (2) Average of the 3 categories of staff; (3) Rounded to nearest whole number and may not sum up to 100%

Source: PWMA Member Survey, KPMG analysis

## COVID-19 could fundamentally change how PWM institutions operate in the future

COVID-19 is likely to have long-term implications on PWM firms' operating models. Survey respondents view changes in client interactions and the redefinition of work arrangements as the most significant implications (Figure 10). Some interviewees pointed out that technology has been rapidly enhanced across the industry to provide extra capacity to allow more people to work from home. This shift towards more digital channels will require a different set of skills to form and maintain strong relationships with clients with less face-to-face interaction. It also presents new operational and technology risks that need to be managed.

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



Source: PWMA Member Survey, KPMG analysis

### Key takeaways



Develop or on-board new products to match clients' changing investment strategies and risk appetites in light of ongoing market uncertainty



Continue to transform operating models to be more digitally enabled and equip staff with the tools and technologies to effectively acquire new clients and service existing clients in the new reality brought about by COVID-19



Focus on ensuring operational resilience across the whole operating model in the current challenging environment (consider double black swan events)



Consider the risks and regulatory implications of this new reality, and ways of working to ensure risks are properly managed and compliance obligations are met

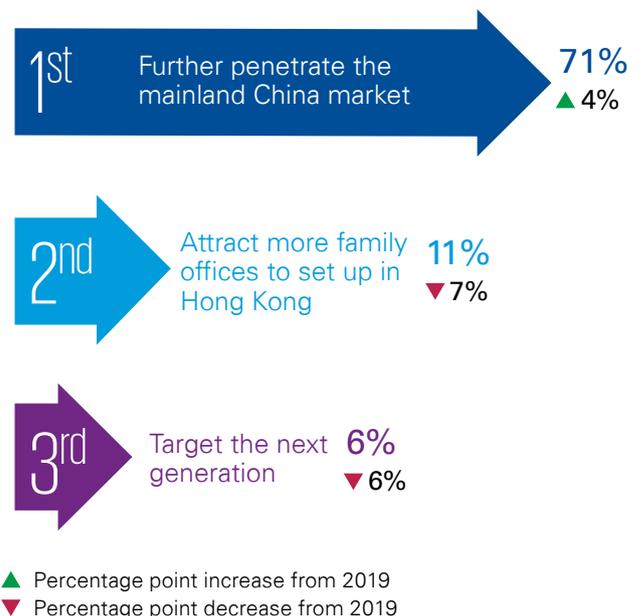
# Growing the market

## Mainland China, attracting family offices and targeting the younger generation remain the main growth opportunities for Hong Kong's PWM industry

### Mainland China still viewed as the largest growth opportunity, with the Greater Bay Area a key driver

Despite the series of challenges faced by the PWM industry in Hong Kong over the past year, the industry's growth expectations remain broadly the same. Over the next five years, AUM is expected to grow at 5-10% CAGR, while industry margins are expected to remain similar to current levels. The key growth opportunities also remain the same as last year, with a significant majority of surveyed member firms indicating 'further penetrating the mainland China market' as the main opportunity. Interviewees highlighted the ongoing development of the Greater Bay Area (GBA) – spanning Hong Kong, Macau and nine cities in Guangdong province – as a specific key driver. This was followed by 'attracting more family offices to set up in Hong Kong', and targeting the younger generation – including young entrepreneurs (Figure 11).

Figure 11: Most popular ways to grow the Hong Kong PWM industry



Source: PWMA Member Survey, KPMG analysis

## Mainland China remains the core growth driver

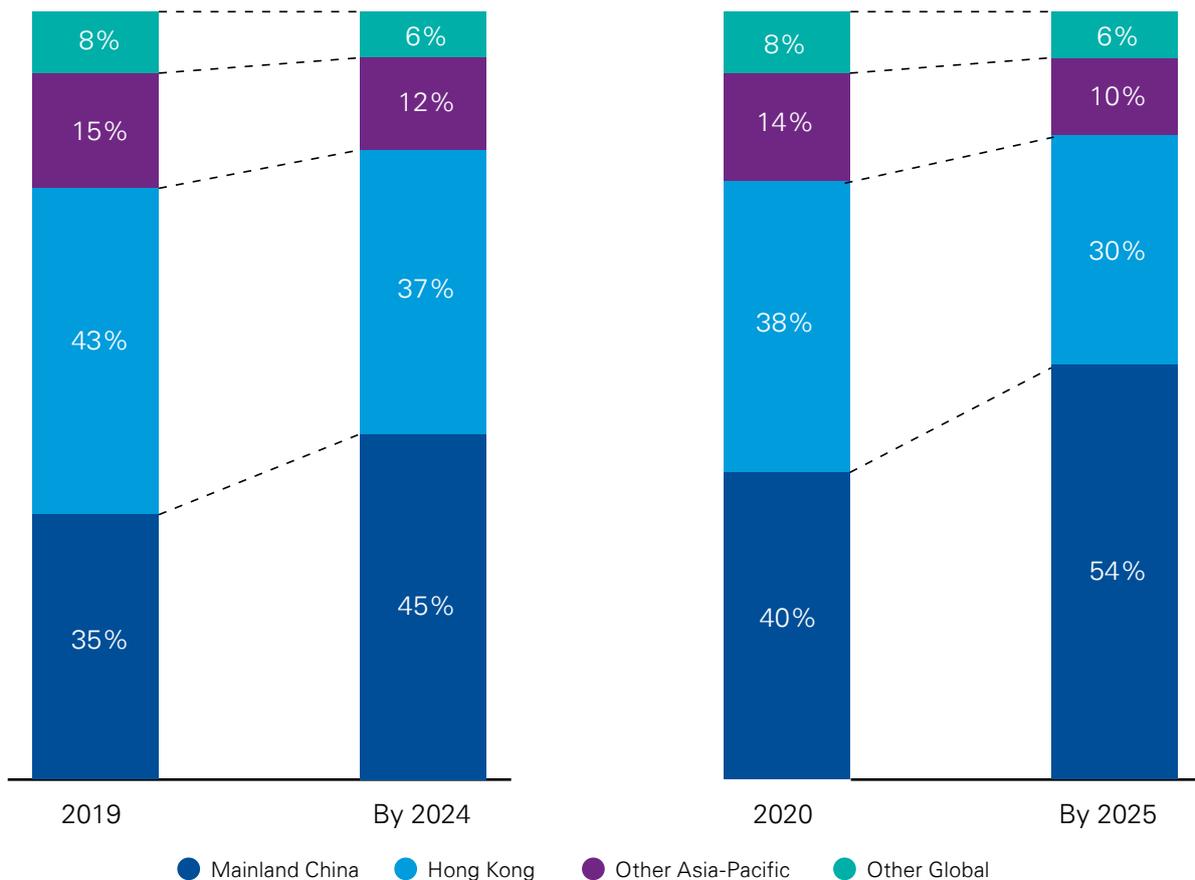
Surveyed member firms indicated that on average, 40% of AUM is currently sourced from mainland China, up from 35% in 2019 (Figure 12). This figure is expected to increase to 54% by 2025, indicating the growing significance of mainland China to Hong Kong’s PWM industry. Hong Kong and other overseas markets are expected to decline as sources of AUM over the next five years.

This view was echoed by interviewees who noted that Hong Kong is well positioned to capture the wealth being created in mainland China, which

remains one of the fastest growing markets in the world. As the PRC government continues to liberalise China’s financial services sector, this provides an opportunity for Hong Kong to fulfil its role as an international wealth and asset management hub in the GBA, and for financial institutions in Hong Kong to further penetrate the mainland Chinese market.

Interviewees noted that Hong Kong’s comprehensive product suite and broad coverage across all asset classes leave it well equipped to serve mainland Chinese clients. In addition, Hong Kong remains an attractive jurisdiction for mainland Chinese clients to access international markets, and offers strong investor protection.

Figure 12: Hong Kong-based AUM for PWM industry by origin



Source: PWMA Member Survey, KPMG analysis



## The GBA Wealth Management Connect is an important step forward

The wider financial services industry has welcomed the joint announcement by the People's Bank of China, the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Macao in June 2020 to introduce the GBA Wealth Management Connect pilot scheme<sup>4</sup>. Wealth Management Connect, which will allow residents in the GBA to invest in wealth management products in the region, was a key recommendation advocated in a joint PWMA-KPMG China white paper in 2018<sup>5</sup>. Seventy-one percent of surveyed member institutions still view this recommendation as highly relevant in today's context, and a further 20% believe it is moderately important. The implementation of this scheme is a clear indication that governments and regulators are listening to the industry on how to grow the PWM market.

Under the Wealth Management Connect scheme, residents of the mainland Chinese cities in the GBA can invest in eligible investment products distributed by banks in Hong Kong and Macao, and vice versa. Cross-boundary remittance will be carried out in RMB, and conducted and managed in a closed-loop through the bundling of designated remittance and investment accounts. Cross-boundary fund flows will also be subject to aggregate and individual investor quota management.

Although the scheme as it stands is likely to target simple investment products aimed at mass affluent clients, the joint announcement has been positively received by the industry and is a potential sign of future opening up that could benefit wealthier segments. More information on product and investor eligibility, as well as quota structures would help shed light on the degree to which each client segment can benefit from the scheme.

## Family offices remain a key focus, but more needs to be done to enhance Hong Kong's competitiveness

Family offices are an important segment of the PWM industry, and their presence is often reflective of a market's overall capabilities and robustness. As Asia

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<sup>4</sup> Joint Announcement of the People's Bank of China, the Hong Kong Monetary Authority, and the Monetary Authority of Macao on the Launch of the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area, HKMA, June 2020

<sup>5</sup> Hong Kong: A leading global wealth management hub of the future, PWMA and KPMG China, September 2018

has in recent years experienced rapid growth in the number of family offices, Hong Kong must act quickly to promote itself as a leading family office hub and capitalise on this opportunity.

The portion of surveyed member firms that believe family offices are an increasingly important source of business has increased to 73%, compared to 64% last year. 'More attractive tax policies' and 'streamlined suitability and disclosure requirements based on knowledge and experience' are the key reforms that surveyed firms believe would be most effective in attracting family office clients to Hong Kong.

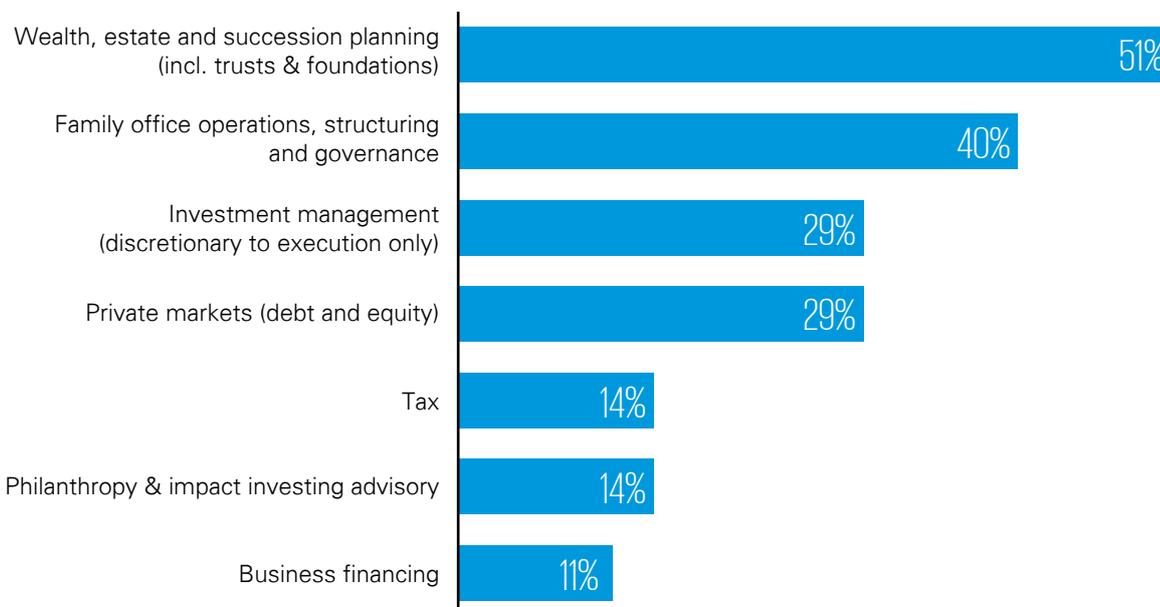
In July 2020, the Financial Services Development Council (FSDC) published a number of recommendations in a paper, *Family Wisdom: A Family Office Hub*<sup>6</sup>, with the aim of creating a more conducive regulatory environment for family offices in Hong Kong. The recommendations are consistent with those in the PWMA-KPMG China Whitepaper in 2018 and centre around four key areas: regulatory requirements, tax considerations, talent development and interdisciplinary coordination. Interviewees generally support these positions, with one industry executive adding that Hong Kong has room for improvement, particularly around

regulatory licensing requirements and tax incentives. Policy developments in these areas would help enhance Hong Kong's competitiveness as a family office hub.

Furthermore, in September 2020 the Securities and Futures Commission (SFC) issued updated guidance on investment vehicles owned by family trusts or family offices. The updated guidance should allow more single family offices run by experienced professionals to qualify as Corporate Professional Investors and be eligible for certain exemptions related to sales suitability, client agreements and disclosures. The SFC also issued a circular in January 2020 and published a set of FAQs in September to provide more clarity on whether family offices require licensing to conduct their investment activities in Hong Kong. The guidance issued by the SFC should help to further promote the growth of Hong Kong as a family office hub.

'Wealth, estate and succession planning services' were the services most firms identified family offices as needing, cited by 51% of respondents (Figure 13). This was followed by 'family office operations, structuring and governance' (40%) and 'investment management' (29%) and 'private markets' (29%).

Figure 13: Service requirements of family offices



Note: Calculated based on the sum of respondents who have ranked options as top 3  
Source: PWMA Member Survey, KPMG analysis

<sup>6</sup> Family Wisdom: A Family Office Hub in Hong Kong, HK Financial Services Development Council, July 2020



Figure 14: Attributes to attract the next generation of clients



Note: Ranking based on the sum of respondents who have ranked options as top 3  
Source: PWMA Member Survey, KPMG analysis

## Targeting the younger generation is the third priority; getting digital and talent strategies right are keys to success

Targeting the younger generation is another key growth driver for Hong Kong's PWM industry. As more wealth is transferred to the next generation via family succession, and new wealth is created by young entrepreneurs from technology and new economy companies, this client segment will become increasingly influential. To capitalise on this opportunity, the PWM industry needs to tailor appropriate propositions that cater to the needs and expectations of this group. Surveyed member firms indicated 'holistic digital ecosystem/multi-channel delivery', 'self-service investment platforms' and 'instant messaging apps' as the top three capabilities that would help to attract the next generation of clients (Figure 14).

It is not surprising that the younger generation of clients expects solutions and services to be built into a digital ecosystem that caters for both financial and lifestyle needs. The PWM industry has started to recognise this, with some institutions adopting solutions that integrate communications apps into the way they serve clients.

The younger generation typically also has different investment strategies and preferences to other client segments, for example an increased interest in ESG, impact investing and crypto-currency. Interviewed



industry executives are seeking to target younger clients with PWM professionals of a similar age and, critically, digital mindset.

The focus on the transfer of wealth to the younger generation also presents an opportunity for Hong Kong to further develop its family office capabilities by learning from other experienced markets. For example, an interviewee noted that the European and US markets have clients that have transferred wealth across seven or eight generations, and therefore may have more diverse investment strategies and more

mature and sophisticated solutions. In contrast, the relatively recent wave of wealth creation across Asia means that family wealth has mostly been passed down only one or two generations. The continued development of capabilities such as wealth, estate and succession planning services would leave Hong Kong well placed to service mature European family offices seeking to explore investment opportunities in mainland China and the broader region.

### Key takeaways



Accelerate changes to business and operating models to capitalise on mainland China growth opportunities. This includes considerations around product suite, distribution capabilities and talent



Government, regulators and industry to continue to actively work together to implement appropriate measures to attract family offices to Hong Kong



Tailor propositions and digital channels to cater to the needs and expectations of the younger generation of clients, including young entrepreneurs

# Technology

**The industry is improving at meeting clients' digital expectations, with clients rating PWM institutions higher than they rate themselves. COVID-19 is accelerating digital transformation, but challenges around technology solution implementation need to be addressed**

## Marked improvement in meeting clients' digital expectations

Twenty-four percent of surveyed PWM institutions believe they are meeting or exceeding clients' digital expectations, while a further 35% feel they are mostly meeting client expectations (Figure 15). This has been the best result in the last three years – last year nearly two-thirds of surveyed member firms noted that their digital offering was not meeting client expectations. The acceleration of firms' digital transformation and the clear focus on digital client engagement as a result of COVID-19 were highlighted by interviewees as key contributing factors.

Surveyed clients themselves have a more positive view, with 56% saying that their digital expectations are being met or exceeded by their private wealth manager, and a further 33% noting that their expectations are mostly being met (Figure 16). Despite the positive client feedback, PWM firms need to continue to maintain their focus on enhancing their digital offering.

Clients are increasingly demanding more digital interaction and better digital experiences. Half of the surveyed member firms believe that over 20% of client engagement that is currently offline (e.g. face-to-face meetings, phone calls) will take place

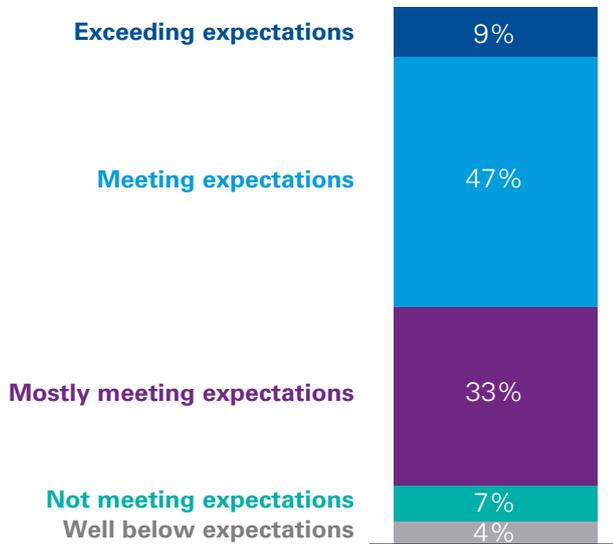
through digital channels within five years. With client expectations continuing to rapidly evolve, based in large part on their positive digital experiences in other industries, the need to invest and improve will be an ongoing priority.

Figure 15: PWM institutions' view on whether their digital offering is meeting customer expectations



Source: PWMA Member Survey, KPMG analysis

Figure 16: Clients' view on their private wealth manager's digital offering performance

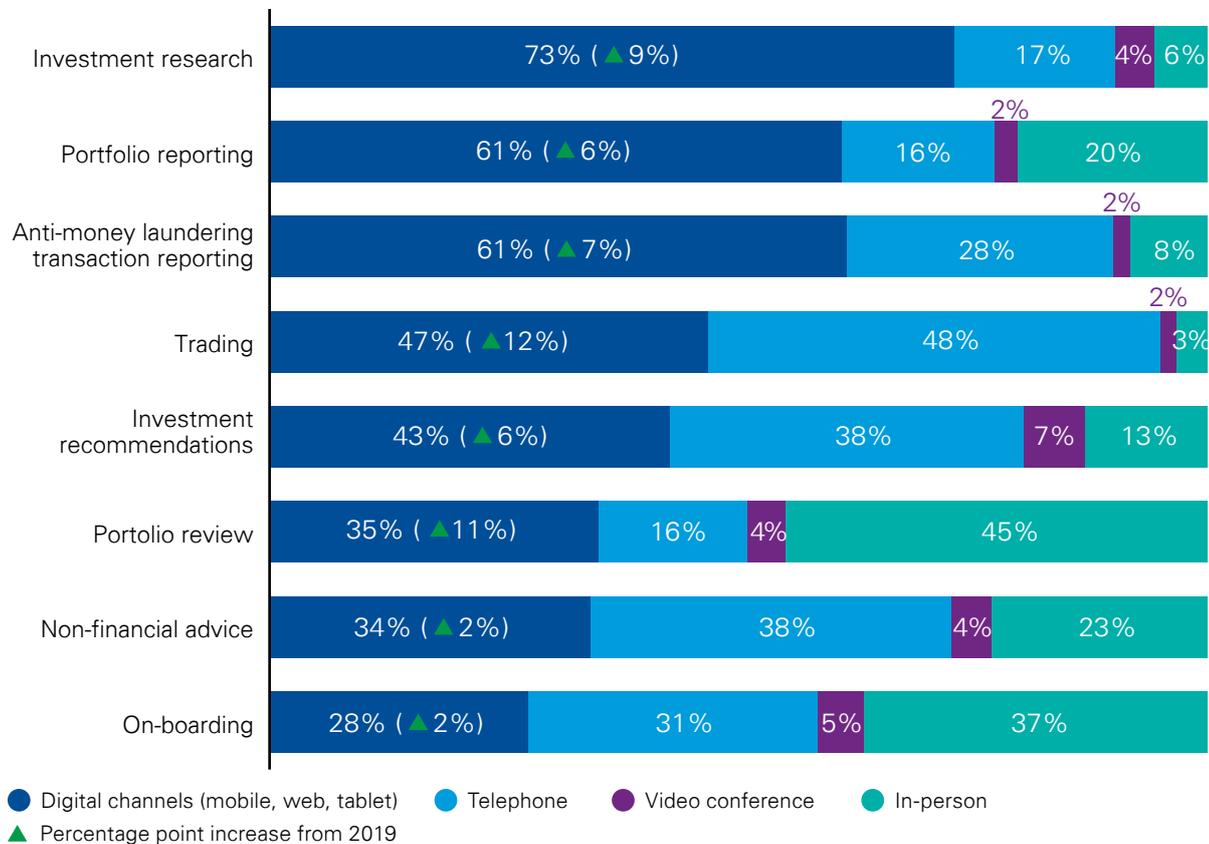


### Clients prefer different modes of delivery for different parts of the advisory process; face-to-face interaction is preferred for strategic discussions

PWM clients' digital preferences and expectations vary significantly across the advisory process (Figure 17). There is a clear preference for investment research, portfolio reporting, AML transaction reporting and trading to be delivered through digital channels. On the other hand, face-to-face meetings remain essential for conducting strategic and other sensitive discussions, such as portfolio review and on-boarding. However, the survey findings show that there has been an overall increase in demand for digital channels across the whole advisory process, with trading and portfolio review recording the biggest increase.

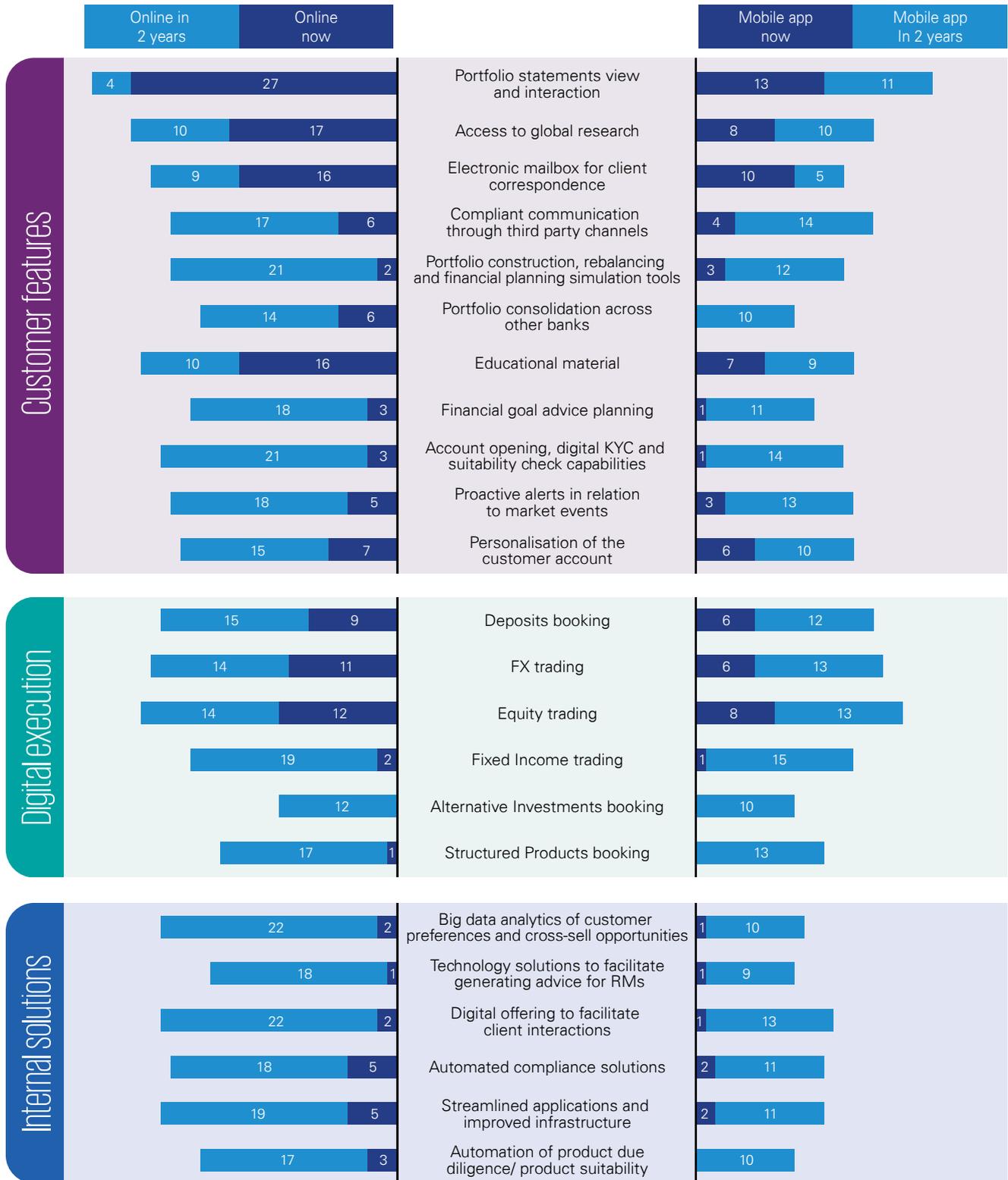
Source: PWMA Client Survey, KPMG analysis

Figure 17: Preferred mode of delivery across the advisory process



Source: PWMA Member Survey, KPMG analysis

Figure 18: Digital solution availability by number of respondents



Source: PWMA Member Survey, KPMG analysis

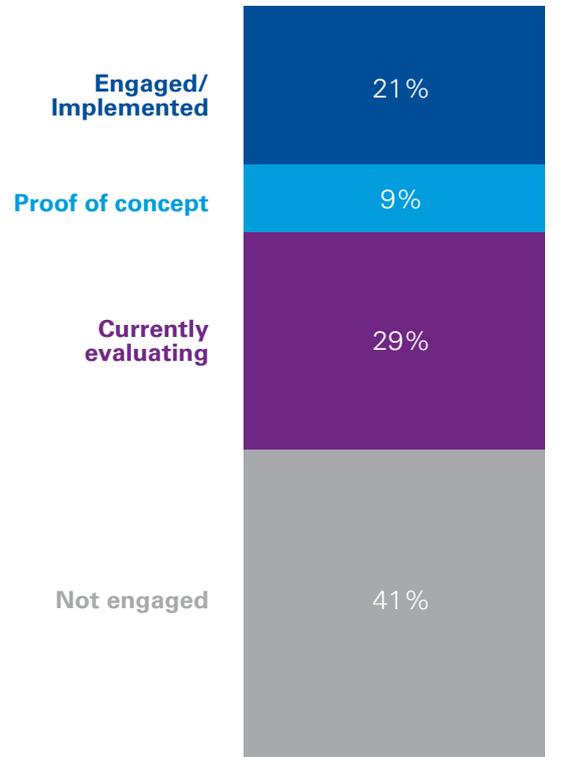
## Digital spend seen as key to reducing costs

While 86% of surveyed member firms believe their cost structures are appropriate for the future, the challenging business environment in 2020 is leading to a greater focus on cost management. In order to streamline costs, 57% of surveyed member firms intend to invest in process automation, and 51% expect to accelerate their digitalisation efforts (Figure 19). This indicates that most institutions are taking a longer-term view of their cost structures and are willing to invest more to achieve greater cost and operational efficiencies over time.

## Use of Fintech solutions can help to reduce costs, improve customer experience and better manage risk in the industry

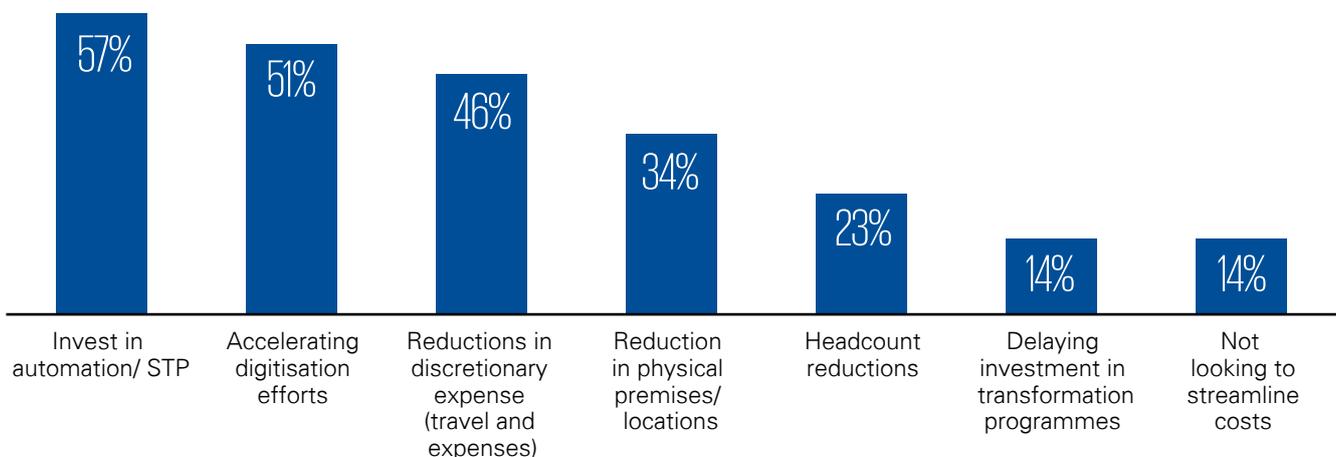
There is a significant opportunity for PWM firms to adopt Fintech and Regtech solutions to help reduce costs, improve efficiency, enhance customer experience, and better manage risk and compliance obligations. In the past year, 21% of surveyed member firms have engaged Fintech or Regtech solution providers for their technology initiatives, and a further 38% are evaluating or developing proof-of-concepts (Figure 20).

Figure 20: Engagement with Fintech/ Regtech solution providers in the past year for technology initiatives



Source: PWMA Member Survey, KPMG analysis

Figure 19: Activities planned to streamline costs



Note: STP = Straight-through-processing

Source: PWMA Member Survey, KPMG analysis

The implementation of Regtech in particular is an increasing focus for financial institutions in Hong Kong. The HKMA has recently released a white paper – with the support of KPMG – on accelerating Regtech adoption in the banking industry<sup>7</sup>. This includes guidance and recommendations that can help PWM institutions to adopt Regtech solutions.

While there are clear benefits to using digital solutions, organisations can face a number of new challenges during the adoption process. Seventy-one percent of surveyed member firms identified lengthy or costly implementation processes as a ‘top three’ challenge when working with Fintech providers (Figure 21). ‘Solutions cannot accommodate the regulatory variance across regions’ and ‘risk of client confidential data leakage is higher than traditional solutions’ were both cited by half of the surveyed member firms. This presents areas for Regtech providers to invest in to better meet customer needs.

### Legacy system integration/ compatibility issues have become the top challenge around using technology; cybersecurity threats and risk of data breach remain key concerns

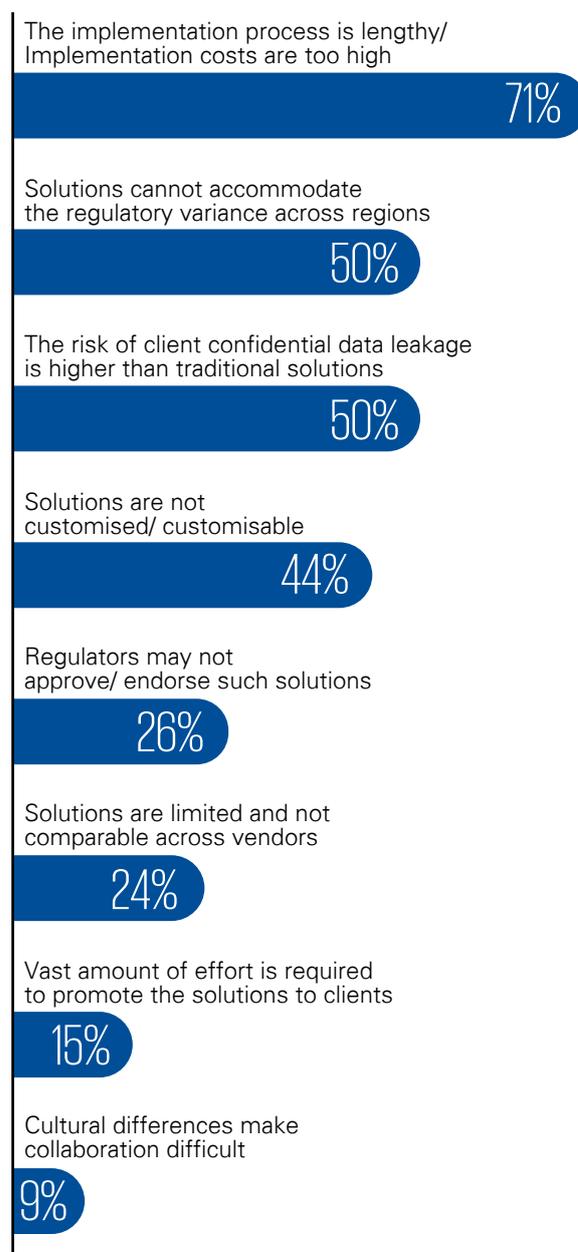
Legacy systems (and data) being incompatible for digital integration has risen to become the top challenge around using technology, cited by 68% of surveyed member firms as a ‘top three’ challenge, up from 42% last year (Figure 22). This significant increase may suggest that PWM institutions have been more active in exploring technology solutions, and have thus encountered issues commonly associated with integrating new digital solutions with complex legacy systems and data infrastructure.

Importantly, it is possible to significantly improve functionality without having to replace core systems through the use of microservices and other associated tools. This helps to provide the agility needed to incorporate a range of requirements for digital technology arising from the front line.

As PWM institutions continue to digitalise their services, cybersecurity and the risk of data breaches also understandably continue to be key concerns. Nearly two-thirds of surveyed member firms cited

these as a ‘top three’ challenge around using technology. Phishing threats exploiting the COVID-19 pandemic have increased significantly. Staff training, awareness, re-baselining controls and governance are considered effective to counter this threat while working from home or abroad.

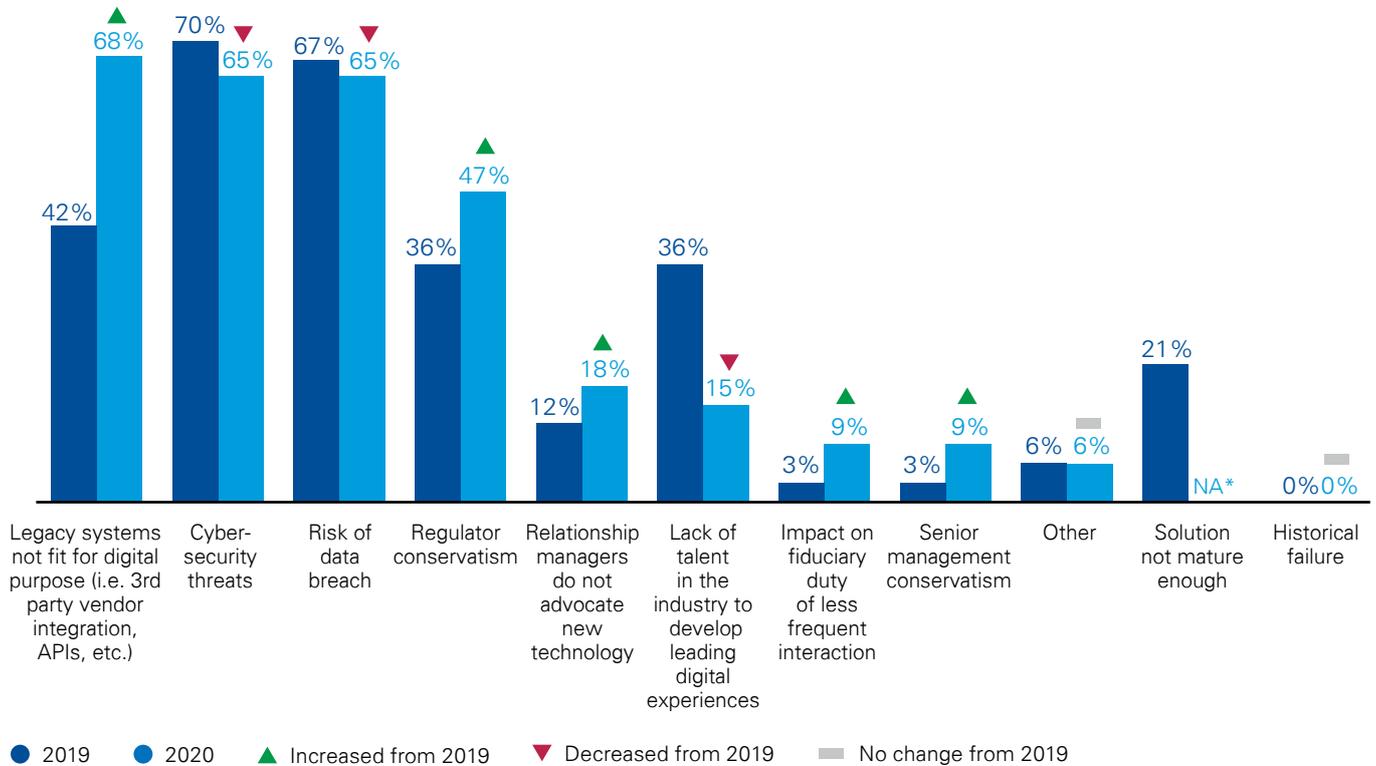
Figure 21: Top challenges related to working with Fintech companies



Note: Calculated based on the sum of respondents who have ranked options as top 3  
Source: PWMA Member Survey, KPMG analysis

<sup>7</sup> Transforming Risk Management and Compliance: Harnessing the Power of Regtech, November 2020, HKMA

Figure 22: Top concerns and challenges around using technology



Note: \*Not included in 2020 survey; Calculated based on the sum of respondents who have ranked options as top 3  
 Source: PWMA Member Survey, KPMG analysis

### Key takeaways



Continue to invest in and accelerate digitalisation to meet clients' rapidly evolving expectations, particularly in 'must have' areas such as investment research



Consider strategic approaches to cost optimisation (e.g. invest in automation/STP over cost control over travel and expenses)



Replace or investigate technologies to 'freeze' core infrastructure so that new technologies can be overlaid on to the core with greater ease, enabling digitalisation



Prepare cybersecurity defences to cater for the new work from home environment



# Regulation

## **Amid recent events in Hong Kong and global market uncertainty, the industry remains concerned about the regulatory environment**

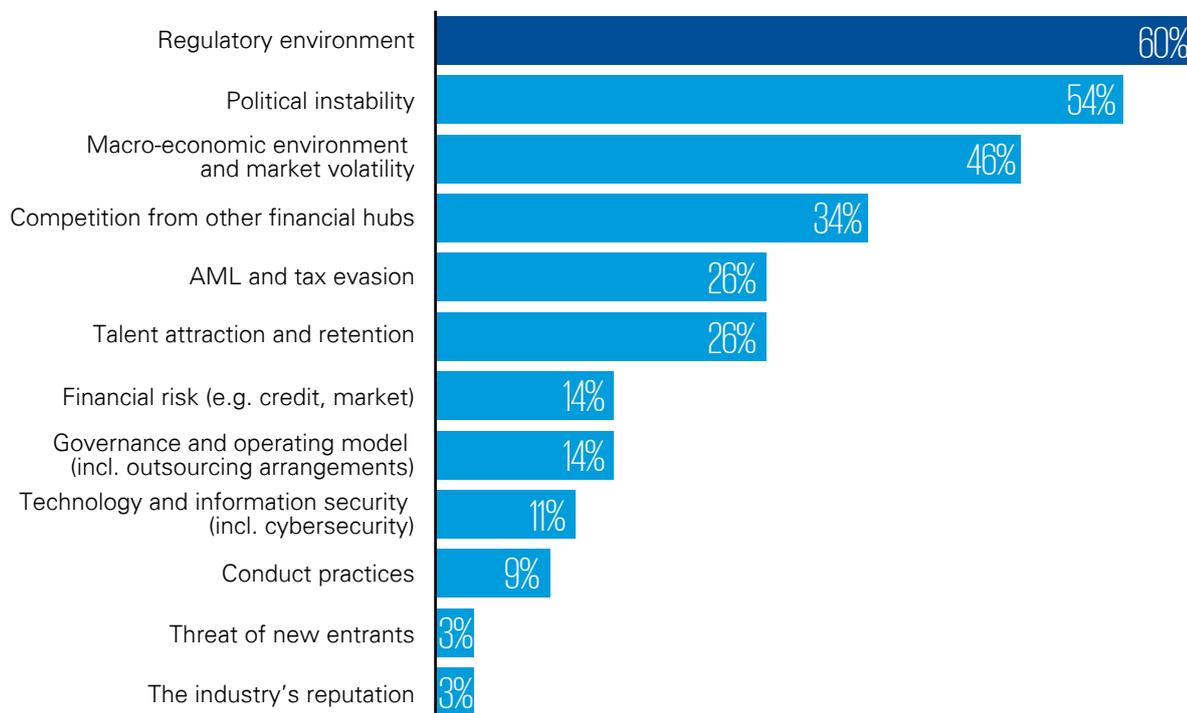
Regulatory compliance requirements continue to be the greatest concern among the surveyed member institutions in Hong Kong, followed by 'political instability' and 'macroeconomic environment and market volatility' (Figure 23). However, one interviewee welcomed the recent moves by the government and regulators to adopt a more appropriate balance between protection and business viability/ efficiency.

### **PWM member firms spending most resources on 'KYC and AML' and 'sales practices and suitability'**

More than 90% of surveyed member firms cited 'KYC and AML' and 'sales practices and suitability' as the areas requiring the most resources, consistent with the findings in 2019 (Figure 24). Despite a significant amount of resources being committed to KYC, on-boarding times have lengthened marginally back to 2018 levels, increasing from an average of 47 days in 2019 to 51 days.

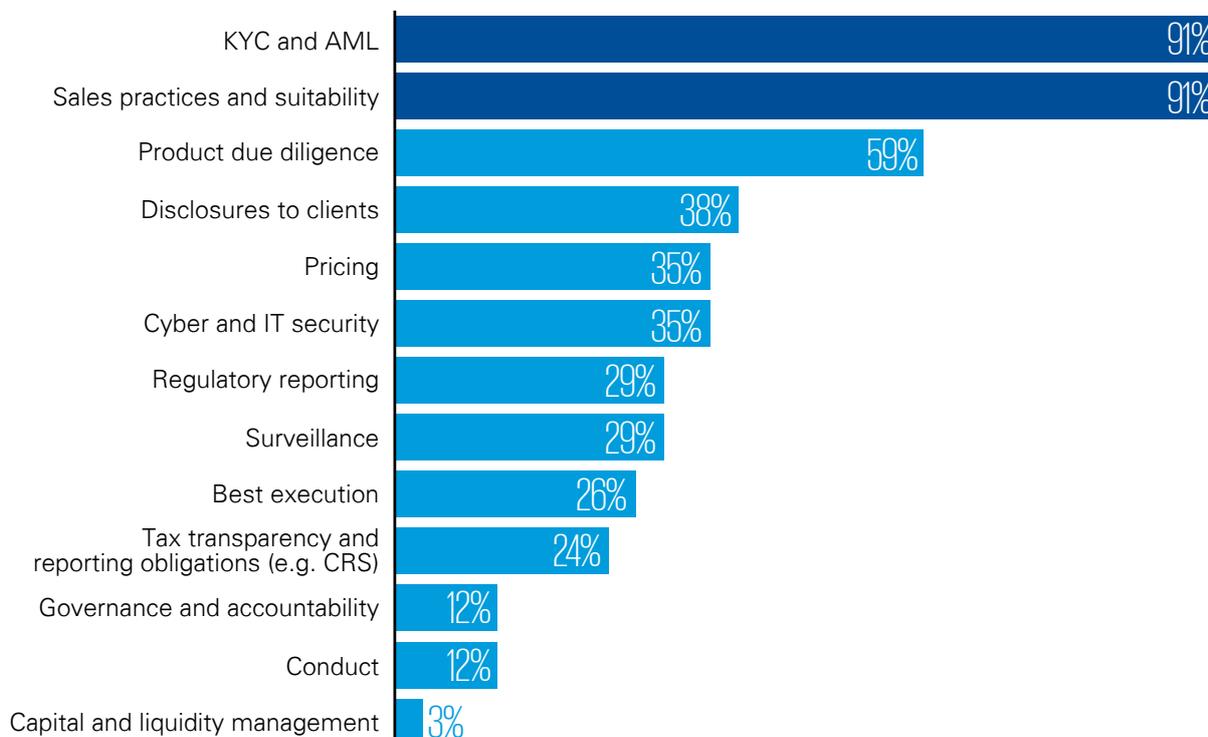
Trade disclosures is also another key area of focus, with related requirements continuing to have an impact on average trade completion times for funds, fixed income and structured products (about 30 minutes on average). One interviewee highlighted that while there have been lots of developments with regards to digital platforms, transaction automation and new execution platforms, there is an opportunity – and need – for the time required for trade instructions and disclosures to be shortened further.

Figure 23: Percentage of respondents' ranking of their top three PWM industry concerns



Note: Calculated based on the sum of respondents who have ranked options as top 3  
 Source: PWMA Member Survey, KPMG analysis

Figure 24: Regulatory areas with most resources and budget



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

## Industry is responding swiftly to regulatory focus on pricing transparency, and expects stronger competitive pressure on fees

Regulatory enforcement actions in recent years have placed pricing transparency and fairness under the spotlight. Seventy-one percent of surveyed member firms believe that the greater industry focus on pricing transparency will lead to more competitive pressure on fees, as well as reviews of conflicts of interest in existing fee structures (Figure 25).

Surveyed member firms cited enhanced training for frontline staff (82%), stronger system controls for spreads and commissions (79%) and revised disclosures (68%) as the key actions that can be taken to promote more transparent pricing for clients (Figure 26).

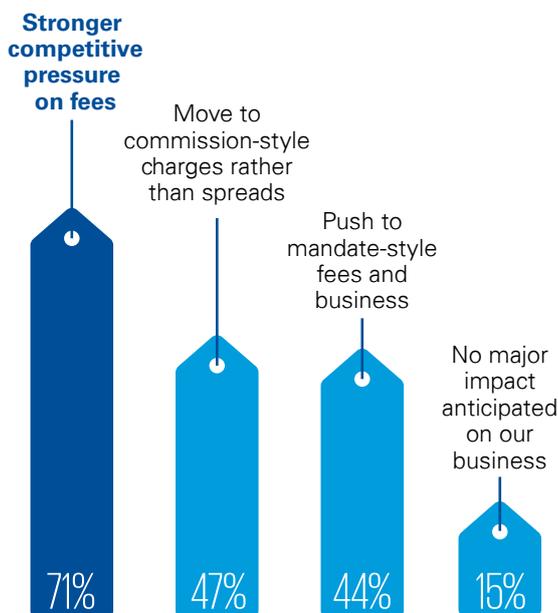
In addition, nearly two-thirds of surveyed member firms stated that they use technology to enforce and control

transparent and fair pricing for customers, while only 3% said that they do not use technology in this area (Figure 27). There is an opportunity for PWM institutions to implement technologies such as Regtech solutions to monitor pricing quality and review trading activities for potential compliance issues in a timely manner.

One interviewed industry executive pointed out that more regulator clarity on pricing would be welcomed. For example, it was noted that while the SFC's Code of Conduct already provides guidance around pricing, the language in new reports or circulars can be challenging to interpret. There is also uncertainty as to whether the new circulars supersede prior guidance. Interviewees added that a more transparent consultation to update the rules around pricing to provide greater clarity would be helpful for the industry in Hong Kong.

The SFC and HKMA have announced that in the second half of 2020 they will conduct a concurrent thematic review of intermediaries' spread charges and other practices, and will share the findings with the industry.

Figure 25: Perception of key outcome from transparency in pricing



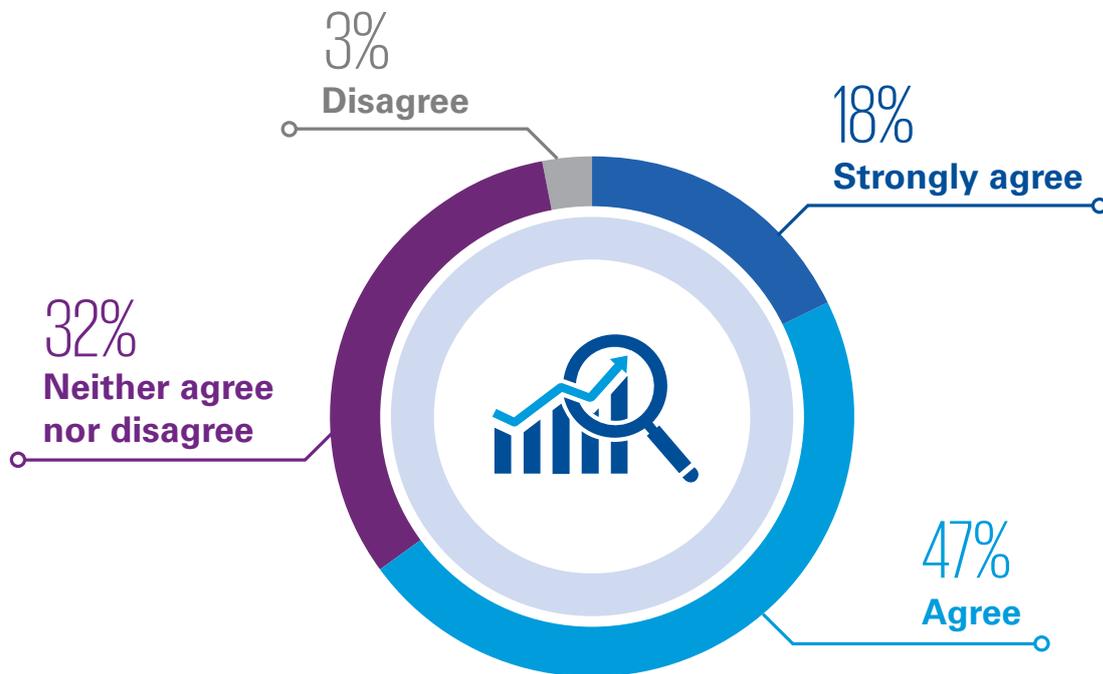
Source: PWMA Member Survey, KPMG analysis

Figure 26: Actions to promote more transparent pricing for clients



Source: PWMA Member Survey, KPMG analysis

Figure 27: Your firm uses technology to enforce and control transparent and fair pricing for customers



Source: PWMA Member Survey, KPMG analysis

### Key takeaways



Maintain continued dialogue and collaboration between regulators and other industry stakeholders to drive positive change in the PWM industry



Enhance training for frontline staff, strengthen system controls for spreads and commissions and revise disclosures to promote more transparent pricing for clients. Consider using technology to enforce and control transparent and fair pricing for customers



Consider trialling or implementing Regtech solutions to reduce costs, improve efficiency and strengthen risk management



# Talent

**Although talent supply is increasing, recruitment, retention and finding the right skills and experience remain key industry challenges**

## **Talent supply is increasing but talent gaps remain. COVID-19 has disrupted the hiring processes**

Despite the challenging events in 2019, the number of relevant PWM practitioners at surveyed PWMA member firms increased by 1.9% from 3,168 at 2018 year-end, to 3,227 at 2019 year-end. Similarly, the number of RMs increased by 1.8% from 2,229 at 2018 year-end, to 2,270 at 2019 year-end.<sup>8</sup> However, interviewees stated that the COVID-19 pandemic has had a significant impact on recruitment in the industry, as caution from both employers and candidates is leading to few new hires.

Like previous years', the RM position continues to be the key area of talent focus, with 89% of surveyed member firms citing it as a 'top three' role where talent supply is most critical (Figure 28). One interviewee pointed out that while the number of RMs might be increasing, a significant problem lies in the declining experience and quality of this talent pool, as successful RMs tend to retire early and are not easily replaceable. It often takes a long time for newer RMs to grow and mature into trusted advisors. Another industry executive noted that demand for senior RMs has also increased as private banks are increasingly competing against external asset managers for this talent.

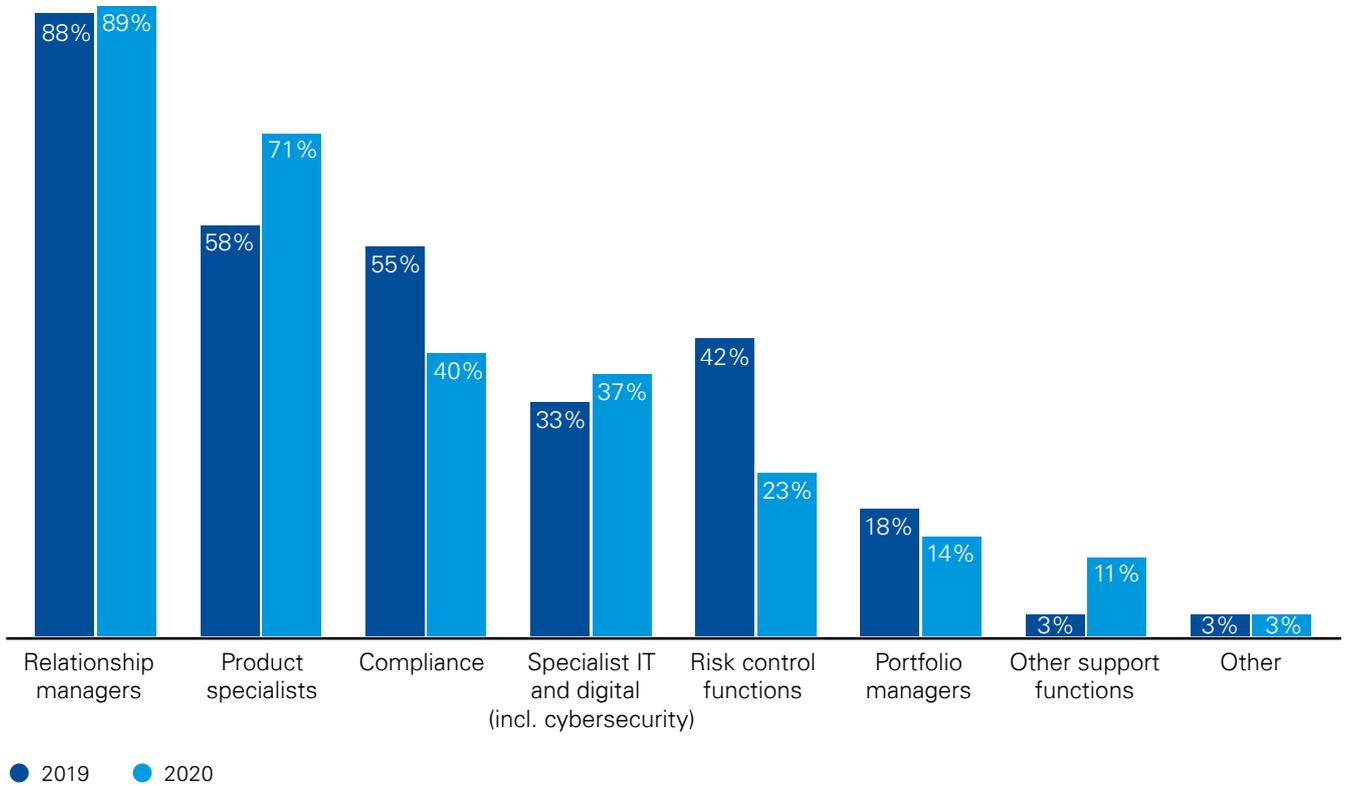
The supply of product specialists is also viewed as critical, cited by 71% of surveyed member firms, compared to 58% in the previous year. These specialists are an important component of a client-facing team, particularly as recent market conditions have led to an increase in investment product-related queries as clients seek to take advantage of the current market conditions.

## **Clients see financial product knowledge and portfolio management expertise as key attributes, but RMs are expected by employers to display a wider range of skills**

Surveyed clients identified 'knowledge and expertise of financial products' and 'portfolio management expertise' as the two most important attributes for RMs (Figure 29). However, interview insights indicate that it will take a lot more to gain a competitive edge and succeed, especially in the current climate. For example, PWM firms are looking for talent that possesses a broader suite of capabilities, including language skills and personal networks to capitalise on the mainland China growth opportunity, familiarity with emerging investment trends such as ESG, and digital literacy to cater to the younger generation of clients.

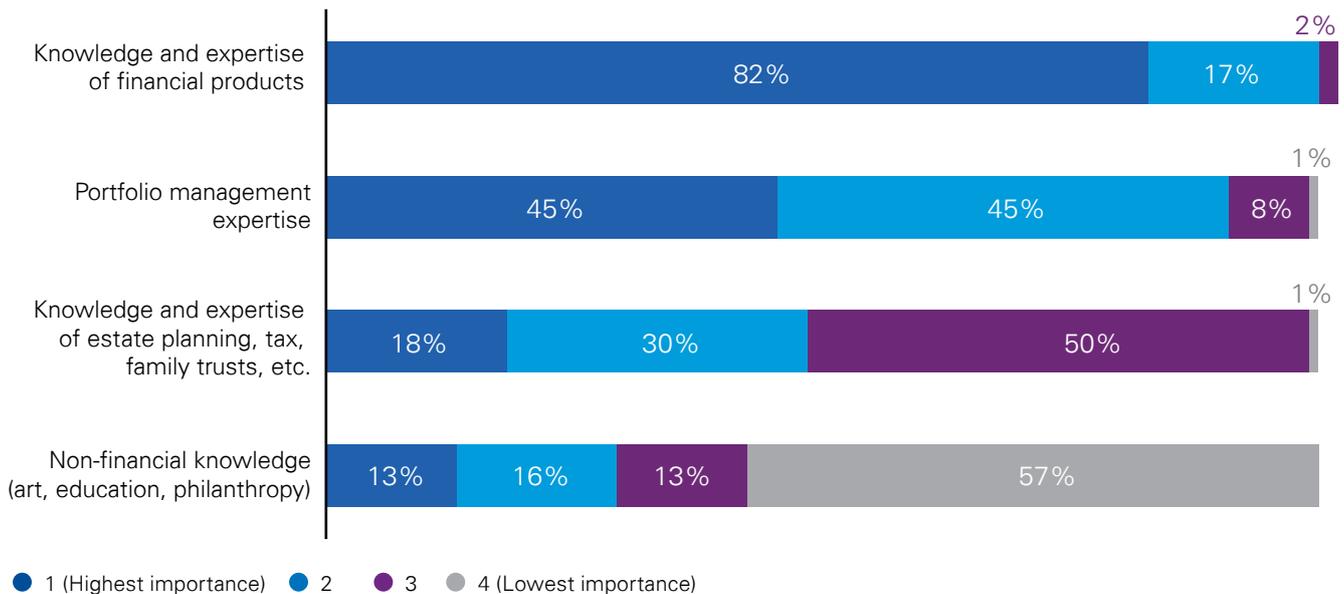
<sup>8</sup> Figures may differ from prior year reports as this year member firms were asked to re-state the number of Relevant Practitioners and Relationship Managers in their employment in both 2018 and 2019.

Figure 28: Roles where talent supply is the most critical



Note: Calculated based on the sum of respondents who have ranked options as top 3  
 Source: PWMA Member Survey, KPMG analysis

Figure 29: Attributes of relationship managers by importance



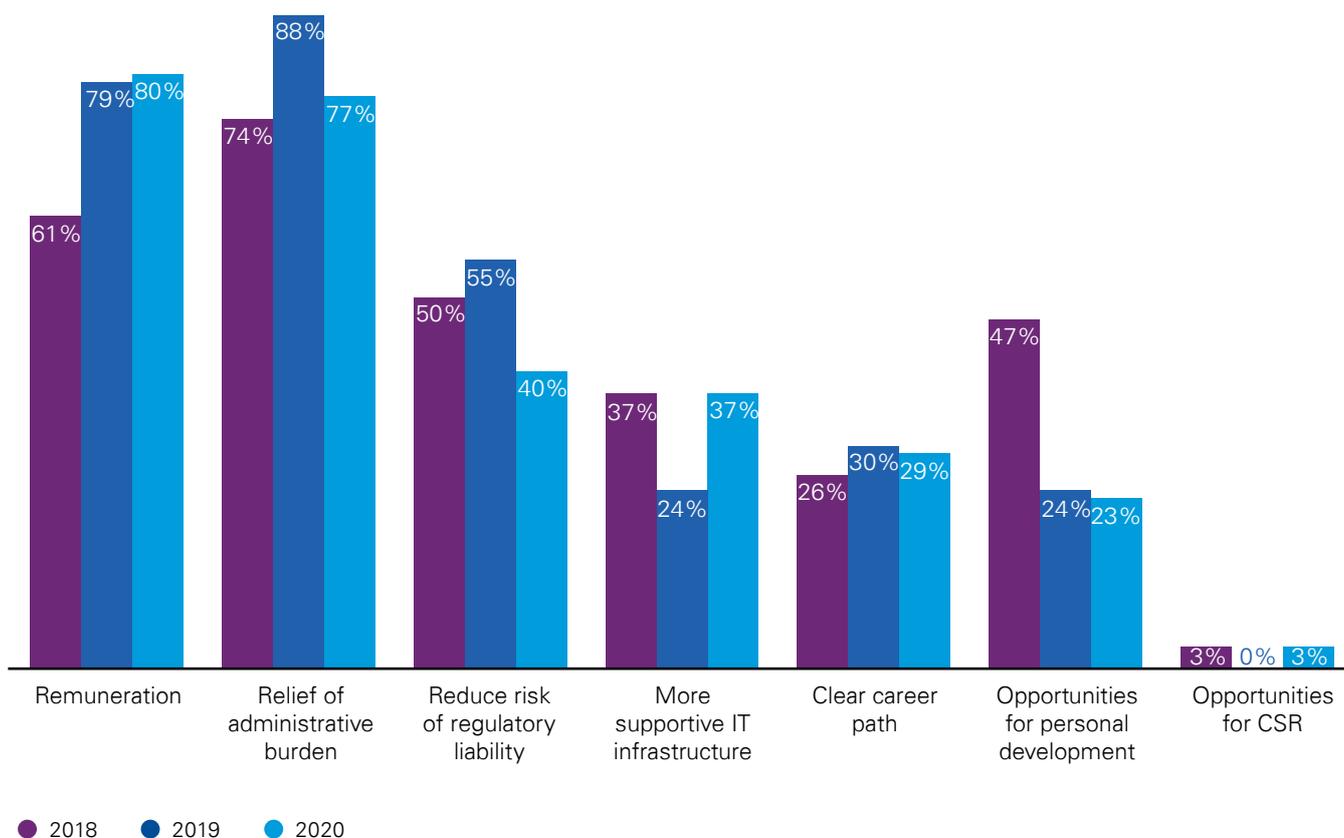
Note: Numbers may not add up to 100% due to rounding  
 Source: PWMA Client Survey, KPMG analysis

Amid increasing regulatory scrutiny and enforcement activities, employers are also paying more attention to conduct and culture, and ensuring that their staff are treating their customers fairly and complying with regulatory requirements. It is essential for PWM practitioners in customer-facing roles to pursue ongoing professional development in order to meet these expectations. The Enhanced Competency Framework was developed with this objective in mind, with 89% of surveyed member firms agreeing that it plays an important role in nurturing talent in the PWM industry.

## Remuneration is viewed as the most important factor for RMs, while relieving the administrative burden continues to be a key focus

Remuneration has overtaken 'relief of administrative burden' as the most important factor to make the RM role more attractive, cited by 80% of surveyed member firms, up from 61% in 2018 (Figure 30). While the latter was identified by 77% of respondents – down from 88% in 2019 – it remains a key factor. 'More supportive IT infrastructure' increased from 24% to 37%, which is understandable given the greater focus on accelerating digitalisation by many PWM institutions.

Figure 30: Most important factors to make the RM role more attractive



Note: Calculated based on the sum of respondents who have ranked options as top 3  
 Source: PWMA Member Survey, KPMG analysis

## Selected qualitative comments from interviews



"**Relationships and having a longer-term view** are important qualities for the wealth management industry. With relationship managers having a high turnover rate, it is difficult for us as we are in a **predominantly relationship-based industry**. More **diversity, intellectual curiosity and passion for investment** are required to better serve our clients."

**Interviewee from a private bank**

"Apart from RMs, **product specialists** are also important for us to fulfil client needs or answer their specific questions, especially in **alternative investments and structured products**."

**Interviewee from a private bank**



## Key takeaways



To attract and retain top RM talent, review remuneration packages, and invest in technology that drives administrative efficiency and improves client engagement



Increase focus on hiring product specialists to cater to clients' evolving investment strategies



Encourage training and ongoing professional development to nurture talent in the PWM industry

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# About the PWMA

PWMA is an industry association whose mission is to foster the growth and development of the private wealth management industry in Hong Kong. PWMA members are authorized institutions and licensed corporations in Hong Kong with dedicated private wealth management businesses providing personalized banking and portfolio management services. Established in 2013, PWMA is incorporated as a company limited by guarantee.

The main objectives of PWMA are:



to better position Hong Kong as the private wealth management hub in the region by promoting and encouraging the growth and development of the PWM industry in Hong Kong and to help maintain Hong Kong's status and competitiveness as a major financial centre;



to promote proper conduct, integrity and high standards of professional competence on the part of PWM practitioners;



to provide a forum for members to discuss and exchange views on trends and challenges faced by the PWM industry and how to strategically position for these trends and challenges;



to provide industry representation and consultation in Hong Kong on PWM related matters; and



to provide a channel for the private wealth management industry to maintain ongoing dialogue with government officials, regulators, trade bodies and non-governmental organizations.

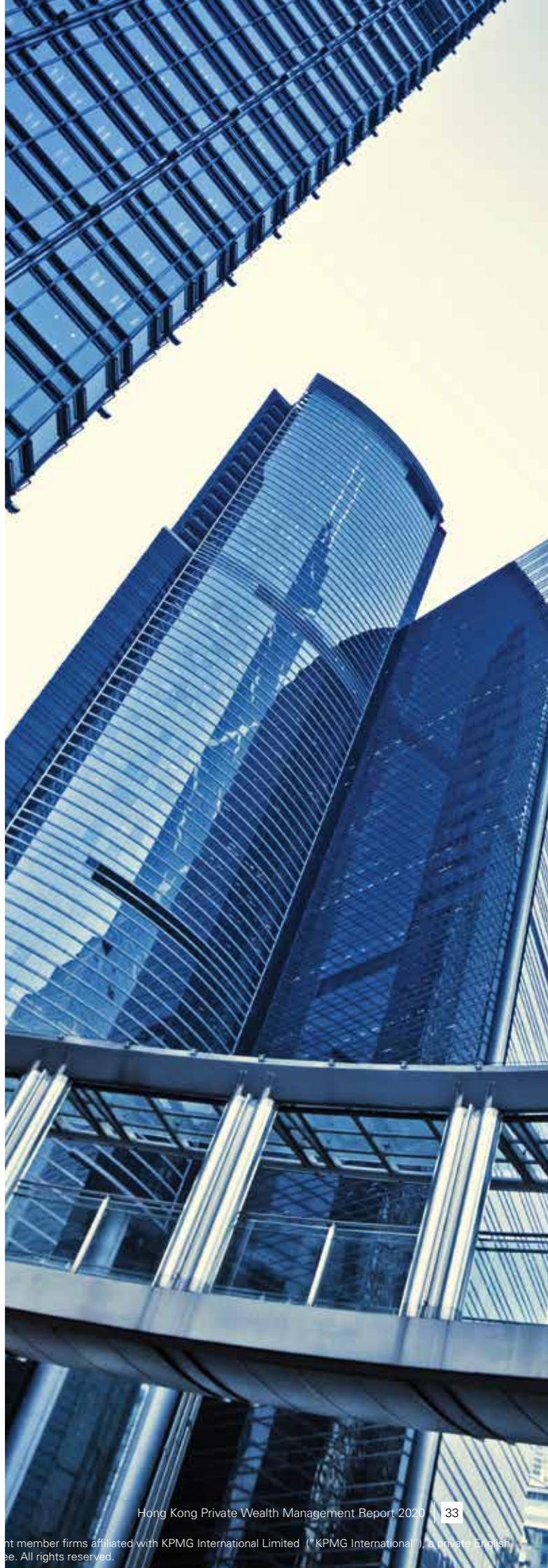
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