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Private Wealth Management Association

Hong Kong Private Wealth Management Report 2023

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Contents

Executive summary

Global uncertainty will continue to affect the private wealth management industry in Hong Kong but opportunities in Chinese Mainland market, the growing family office segment and Government and regulatory reforms provide reason for optimism

The eighth annual Hong Kong Private Wealth Management report, jointly authored by the Private Wealth Management Association (PWMA) and KPMG China, provides an in-depth view into the industry landscape, evolving challenges and emerging growth opportunities.

The macroeconomic and geopolitical environment will continue to impact the private wealth management sector in the Hong Kong (SAR). Rising interest rate rises, which may persist in the medium term, have impacted investment returns and ongoing geopolitical tensions, in particular between the United States and China, which are likely to be a more permanent feature, have impacted sentiment.

At the same time, however, our survey found many positive drivers including regulatory reforms and policy initiatives to attract new sources of wealth.

Challenges for the industry

Hong Kong's private banking and private wealth management sector experienced a decline in assets under management (AUM) and a drop in net inflows last year, although the drop in AUM is consistent with the poorer market returns observed in 2022. Uncertainty is also weighing on the outlook for the sector and firms expect to see slower growth in AUM in the years to come. However there are signs of a brighter outlook, with more clients expressing a willingness to take on investment risk.

The regulatory environment continues to be cited as a key pain point for both member firms and their clients, in particular with regards to suitability and KYC. However, the industry has been in discussion with the regulators in Hong Kong about the pain points and is now seeing results, such as the new guidance for Sophisticated Professional Investors (SPI).

Evolving opportunities

On a more positive note, the ongoing wealth creation in the Chinese Mainland will continue to be a major source of growth for the industry as Hong Kong remains as the key wealth management centre for the Chinese Mainland. Hong Kong's unique attractions including its physical and cultural links mean that the city is well placed to remain the first choice for wealth management for Chinese Mainland clients.

In addition to the growth expected from the Chinese Mainland many firms noted that they expected to see more fund inflows and AUM sourced from the Middle East and South East Asia in the future - widening Hong Kong's investor base.

A continuing development has been the growth of the family office segment, which the Hong Kong SAR Government has been encouraging through a range of measures including new tax incentives announced earlier this year.

Looking forward

Our survey and interviews reflect that, despite the challenges posed by Covid-19 restrictions and external headwinds, the city's many advantages as a private wealth management hub remain intact.

While geopolitical tensions are a concern for members and clients what is often lost is the strength of Hong Kong as a wealth management hub. There is a need for a more proactive articulation and marketing of Hong Kong's strengths, including the advantages of the One Country, Two Systems framework, the US dollar-linked exchange rate and the free flow of capital, to reassure existing clients and attract prospective clients.

With the end of Covid restrictions, with support from the regulators and the Government to grow the private wealth management sector further, and with significant opportunities to grow AUM there are clearly reasons to be optimistic about the industry's future even in the current uncertain climate.

The report is largely based on a survey of PWMA member institutions and their clients, and supplemented by the results of the SFC's Asset and Wealth Management Activities Survey 2022. Almost 80% of member firms – 33 out of 42 – responded to the PWMA survey, as well as more than 200 clients. We also conducted interviews with industry executives and other stakeholders in Hong Kong to hear their insights on the latest developments and trends. The surveys and interviews were carried out between June and August this year.

We would like to thank all the survey respondents and interviewees for taking the time to participate in this report.

Key takeaways

AUM decreased in 2022 which was largely correlated to the wider market performance

Hong Kong retains its strengths and benefits as a leading private wealth management hub

Tax incentives for family offices and SPI show the benefit of engagement with government and regulators.

Actions

More proactive marketing of Hong Kong's strengths to reassure existing clients and attract prospective clients

New sources of wealth in the Middle East and Southeast Asia offer potential but require ongoing efforts to secure new clients.

Industry engagement with the Hong Kong government and regulators should continue to strengthen Hong Kong's position as the leading private wealth management centre

Industry overview

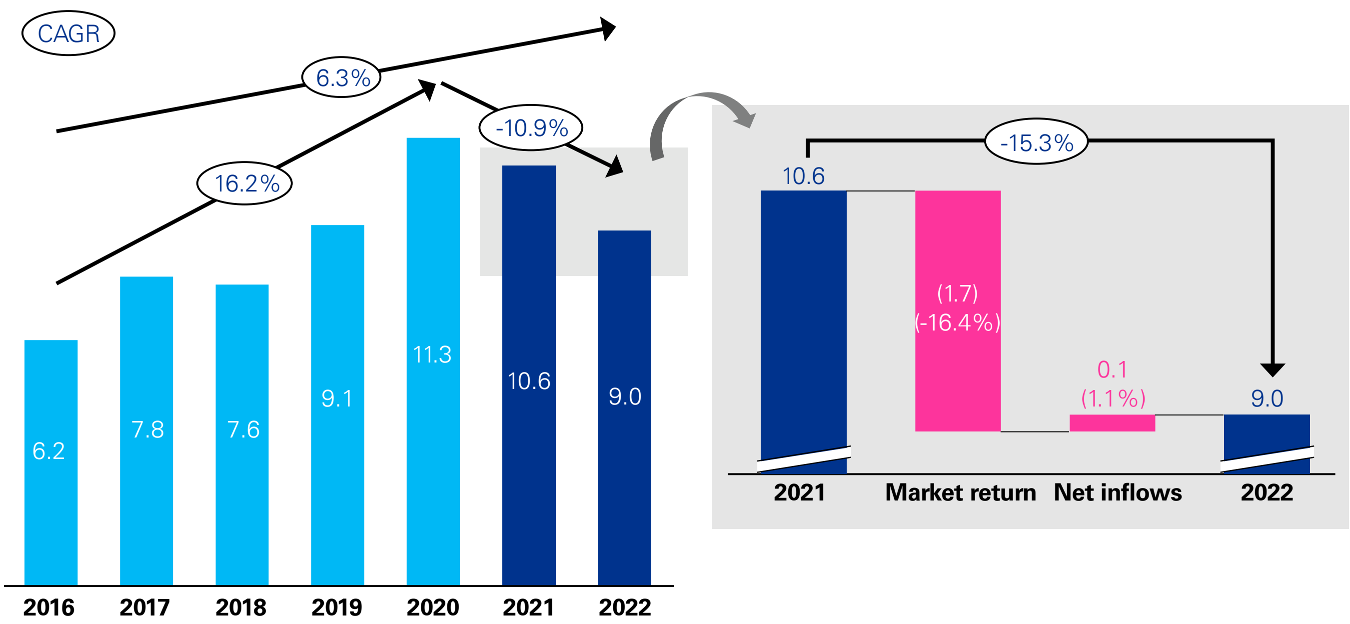
The difficult macro environment and geopolitical uncertainties are likely to remain as challenges for the industry while the ambition for ESG investing is not materialising yet

Challenging market environment

2022 saw a decline in assets under management (AUM) for Hong Kong's private banking and private wealth management business, mostly reflecting the challenging market environment during the year. Net fund inflows were positive but down compared to the year earlier.

Total AUM of Hong Kong's private banking and private wealth management business stood at HK$8,965 billion as at the end of 2022[1], a 15% decrease from the previous year, largely due to changes in the value of investments held by clients. (Figure 1)

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



Source: Asset and Wealth Management Activities Survey 2022, SFC

[1] SFC Asset and Wealth Management Activities Survey: https://www.sfc.hk/-/media/EN/files/COM/Reports-and-surveys/AWMAS-2022_E.pdf

The drop in AUM corresponds with the broader market performance during the year. The Hang Seng Index (HSI) and the Hang Seng China Enterprises Index (HSCEI) were down 15.5% and 18.6% respectively. In the Chinese Mainland, the Hang Seng China A Industry Top Index and the Hang Seng Stock Connect China A 300 Index declined by 19.6% and 21.2% respectively[2]. In the US, the S&P 500 fell 18.1% in 2022[3], and the Nasdaq Composite dropped by 34%[4].

Net fund inflows to Hong Kong amounted to HK$121 billion (US$15 billion), a drop of around 80% from HK$638 billion and HK$656 billion in 2021 and 2020, respectively.

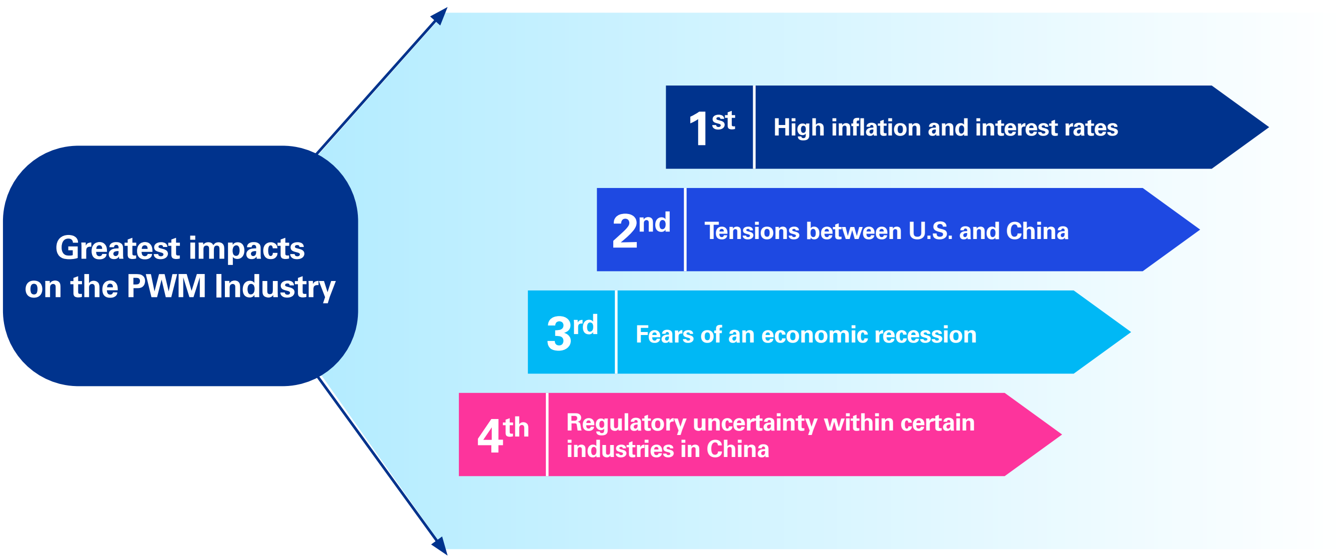
The private wealth management sector faced a number of challenges in 2022 that may have contributed to this reduction in inflows. General economic performance in the Chinese Mainland and Hong Kong was down in 2022 largely due to the continuing effects of Covid restrictions in Hong Kong and the Chinese Mainland, which have now lifted. This had a knock-on effect on stock market performance, the volume and value of IPOs and general sentiment which likely contributed to the fall in net inflows.

While the private wealth management industry should not be complacent, this drop in AUM is correlated to the overall market. Looking forward there remains reason to continue to be optimistic about Hong Kong's resilience as a wealth management centre with a recent report by a global consultancy stating that Hong Kong would become the world's leading offshore wealth centre, overtaking Switzerland, by the end of 2025[5].

Events that had an impact on the industry in 2022-2023

While the ending of most of the Covid-19 restrictions was a boost to the private wealth management industry in Hong Kong, facilitating the return to normal operations, 2022 was still an eventful year for the sector. Member firms said that of the events affecting the industry in 2022, rising inflation and consequent interest rates increases had the biggest impact. (Figure 2)

Figure 2: Ranking of the greatest impacts on the Private Wealth Management industry in last 12 months



Note: Weighted average ranking per survey results

[2] Hang Seng Indexes 2022 Year-End Report: https://www.hsi.com.hk/static/uploads/contents/en/dl_centre/other_materials/20221230e.pdf
[3] S&P Global Market Intelligence: https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/
[4] Nasdaq 2022 Review and Outlook: https://www.nasdaq.com/articles/2022-review-and-outlook
[5] BCG Global Wealth Report 2023: https://www.bcg.com/publications/2023/global-wealth-report-resetting-the-course

There is a considerable jump from last year's survey, where rising inflation was ranked fourth among events having an impact on the industry by member firms, behind Covid, the geopolitical situation and Chinese policy changes.

Higher inflation and interest rates seem likely to remain a key concern going forward. While it is impossible to predict when they will fall, it seems likely that higher interest rates are here for the next 12 to 24 months at least, and the private wealth management sector will need to consider how they can continue to best serve their clients' investment needs.

Industry concerns about the future

Looking ahead, the external environment also dominates the key concerns for both member firms and clients as they plan for the future. Amid higher interest rates and persistent inflation in many developed economies, the macroeconomic environment and market volatility has remained as the top concern of the industry, according to member firms. (Figure 3) As noted above, the point at which interest rates start to reduce, and the extent of that reduction, is difficult to predict but it is likely to remain an issue for the short-medium term.

Figure 3: Ranking of concerns with regards to the Private Wealth Management industry

	2022	2023
Macroeconomic environment and market volatility	1	1
Geopolitical tensions	11	2
Regulatory environment	6	3
Talent attraction and retention	8	4
Financial risk (credit, market, liquidity, capital)	2	5
Anti-money laundering (AML) and tax evasion	10	6
Technology and information security, including cyber security	3	7
Competition from other financial hubs	9	8
Conduct practices	5	9
Governance and operating model (including outsourcing arrangements	7	10
Threat of new entrants	4	11

Note: Weighted average ranking per survey results. As some options are updated in 2023 survey, 2021 and 2022 rankings are adjusted accordingly, the total number of options were 13 and 12 in 2022 and 2021 respectively

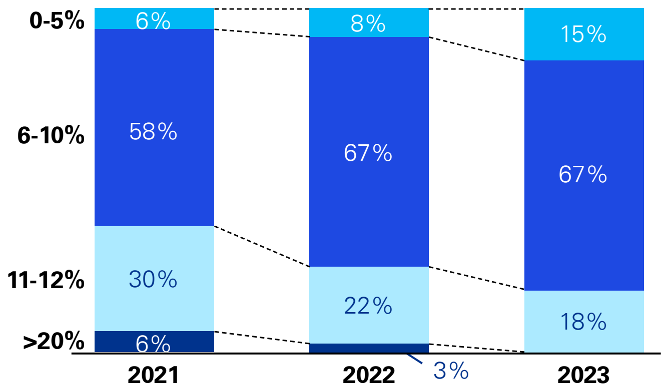
An increasing concern is geopolitical tensions, which jumped from number 11 in last year's survey to become the second biggest concern this year. Interviewees pointed to the recent US Executive Order that further restricts investment in Chinese technology as a sign that the US-China tensions are unlikely to ease in the near future.

Unlike interest rates, which are cyclical, the geopolitical tensions are likely to be a longer-term issue for the private wealth management sector and Hong Kong in general. Given the likely persistent nature of these geopolitical concerns, the industry will need to work with other stakeholders, such as government and regulators, to articulate Hong Kong's strengths as a wealth management hub and address concerns of investors.

The regulatory environment and talent were rising concerns for member firms, moving up to third and fourth place, compared to last year's survey. The threat of new entrants, however, which was ranked fourth last year, fell to the bottom of the table.

The challenging external conditions have affected the industry's outlook. Forecast annual AUM growth for the next five years is subdued, with considerably more member firms (15%) expecting to see under 5% growth compared to last year's survey (8%). Meanwhile, 18% of member firms anticipate growth of greater than 10% in this year's survey, compared to 25% a year earlier. (Figure 4)

Figure 4: Expected annual growth in industry AuM per year in next 5 years



Member firms' outlook for the next few years is muted, which is a reflection of the global environment with AUM growth expected to revive when market conditions improve. Clients share broadly the same concerns about the future as member firms. In our client survey, US-China tensions was ranked as having the largest impact on investment outlook and risk tolerance, followed by high inflation and interest rates.

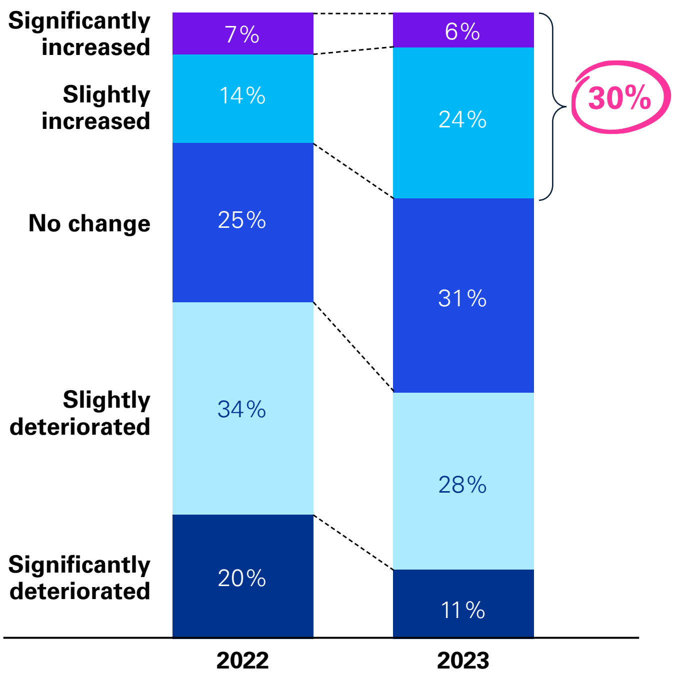
However, despite these concerns, clients may be becoming more optimistic about the future. In this year's survey, 30% of respondents said that their willingness to take on investment risk in the next 12 months had increased, compared to 21% of respondents in last year's client survey. (Figures 5 and 6)

Figure 5: Macro trends impacting investment outlook and risk tolerance of clients

- 1st Tensions between the U.S. and China
- 2nd High inflation and interest rates
- 3rd Fears of an economic recession
- 4th Russia / Ukraine conflict

Note: Weighted average ranking per survey results

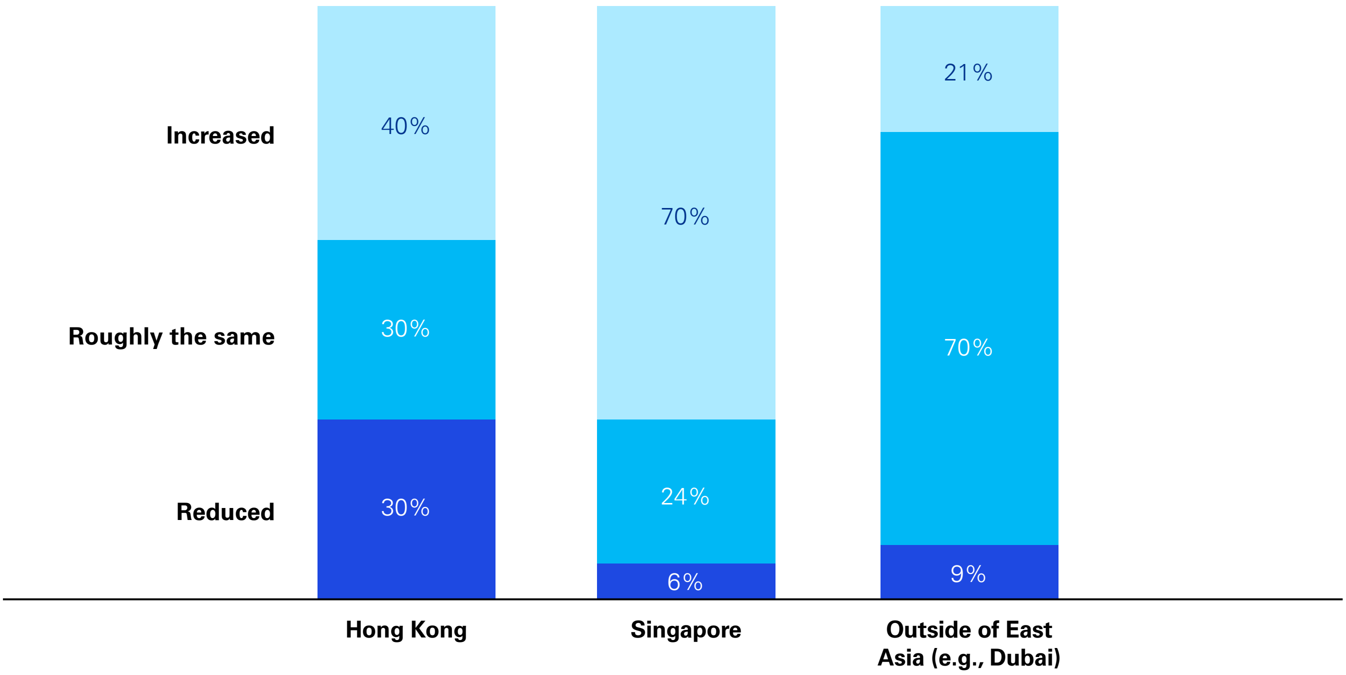
Figure 6: Clients' change in willingness to take on investment risk across all asset classes for the next 12 months versus the last 12 months



Multi-shoring trend picks up pace

Multi-shoring – opening accounts in two or more jurisdictions to spread risk and diversify investment – is a significant trend in the industry revealed by this year's survey. Demand for Singapore as a booking centre has increased significantly, with 70% of member firms reporting a higher client demand for new accounts to be opened, and/or client assets to be held in Singapore. (Figure 7) There is also interest in other jurisdictions, with 21% of member firms seeing increased demand for new accounts to be opened outside of East Asia.

Figure 7: Level of client demand for new accounts to be opened, and/or client assets to be held in the following booking centres



The client survey shows the same trend, with the proportion of clients with accounts booked in Singapore rising to 73% compared to 64% in last year's survey. (Figure 8) Besides Singapore, the percentage of clients with accounts in the US also increased to 17% from 11% in the previous year.

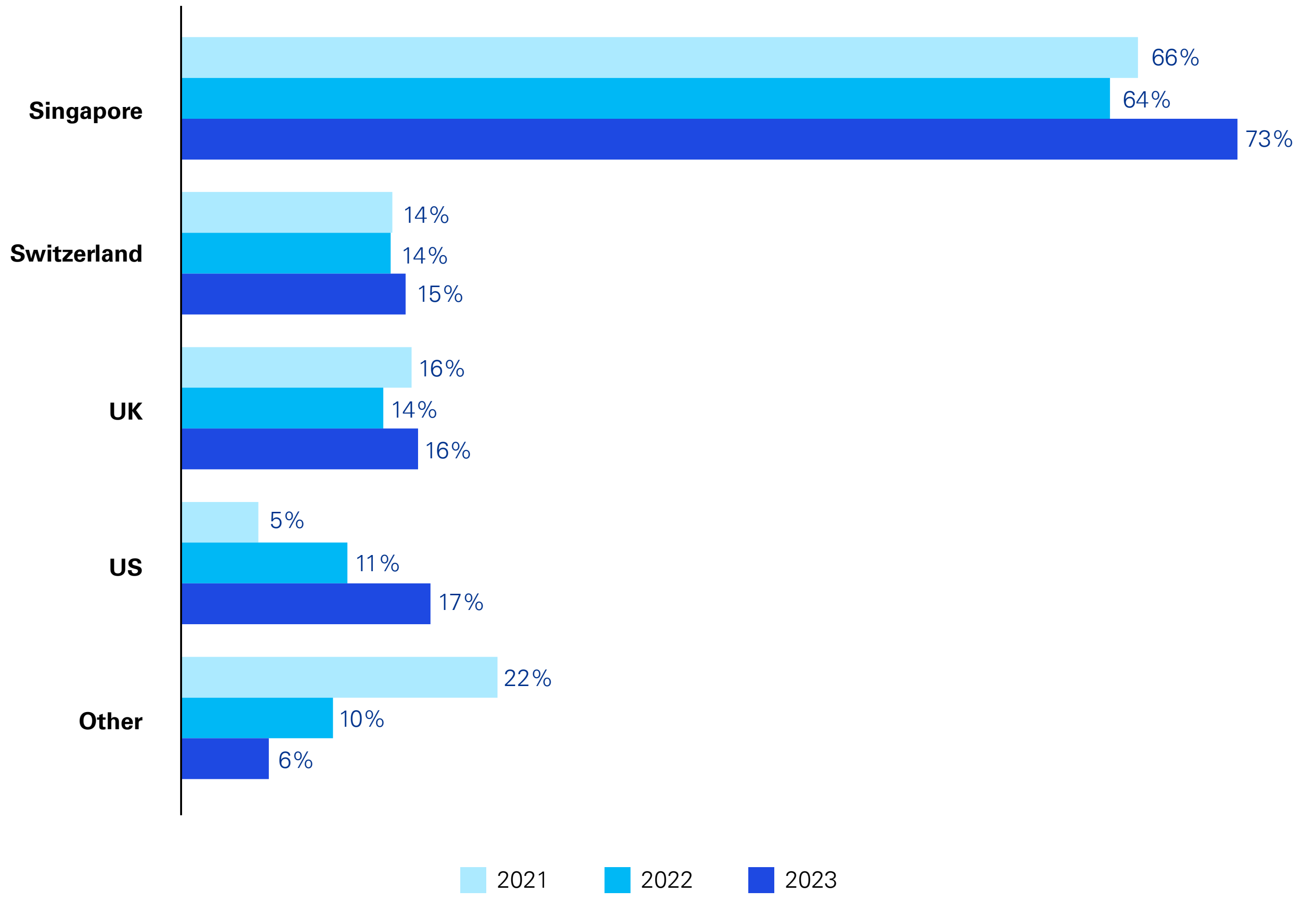
While this trend may be considered concerning on the face of it, our discussions with the industry on the results indicate that the impact is less significant. Many noted that what is critical is that the relationship and assets are still being managed from Hong Kong with the opening of accounts being part of a risk diversification strategy of using dual booking centres across Hong Kong, Singapore and other locations.

Most private wealth management firms already operate with the ability to book client assets in multiple jurisdictions, so this has minimal impact on most firms. For those firms without that capability this may be a client need that should be addressed.

One interviewee also suggested that this multi-shoring trend may have peaked, as they had seen a significant slowdown this year in demand for new account opening in Singapore, compared to 2022.

However, multi-shoring seems likely to become a permanent feature of Hong Kong's private wealth management landscape and the industry will need to consider the potential impact. At present there is no indication that the management of assets is being moved and the industry should continue to focus on ensuring Hong Kong remains the preferred location for clients to manage their assets.

Figure 8: Clients' accounts in other jurisdictions

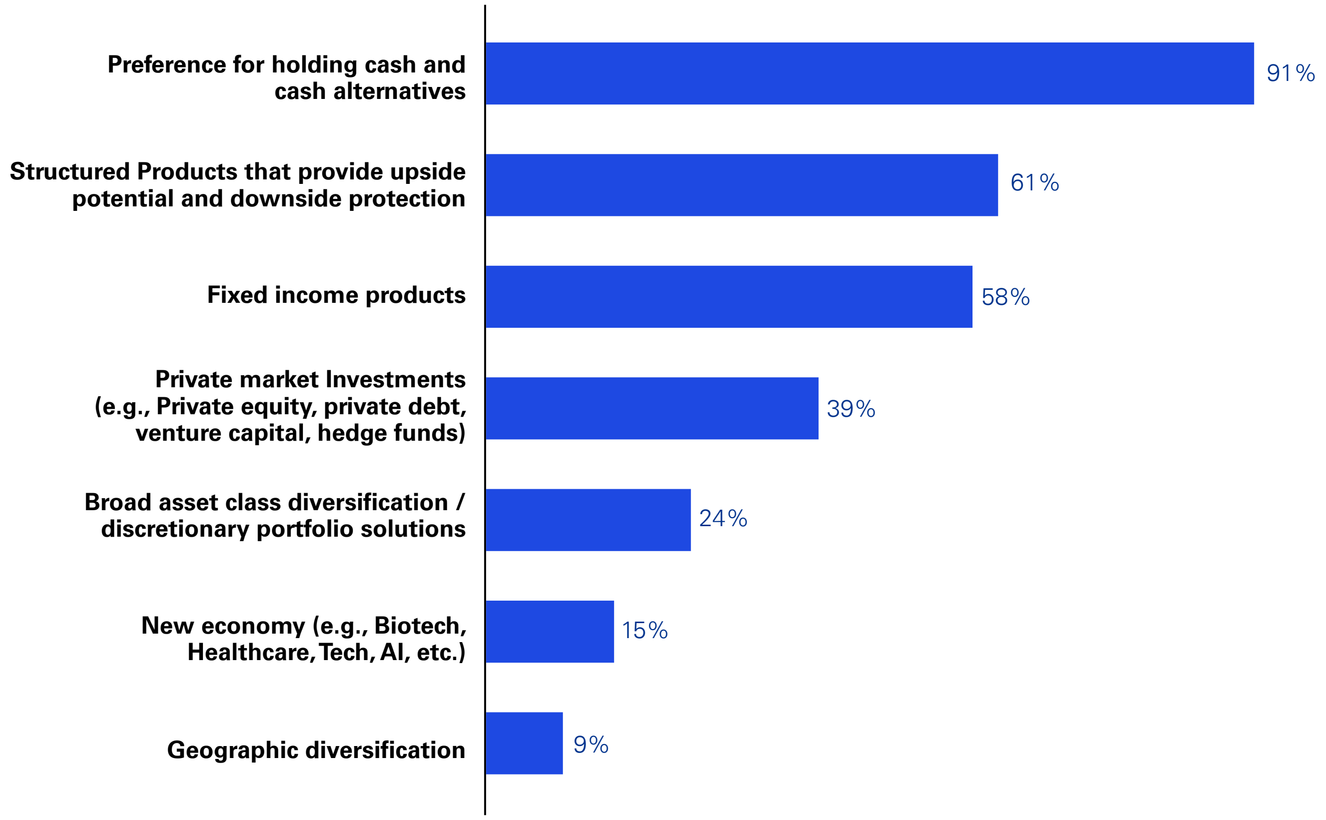


Investors seeking protection against inflation and growth

Given the macroeconomic factors, it is not surprising that member firms report that relatively low-risk investment options are the most popular with clients. Low-risk cash and cash alternatives were by far the top investment choice, favoured by 91% of clients at member firms, followed by structured products (61%). (Figure 9)

At the same time, however, clients are showing an increased risk appetite and growing interest in alternative investments as they seek growth amid the global uncertainty.

Figure 9: Ranking of trend / theme with respect to clients' product preference in the context of current high inflation and high interest rate macroeconomic environment



Interestingly given the market environment, clients' risk appetite has increased, with more clients expressing a greater willingness to take on investment risk compared to last year's survey. Their top investment objectives remain unchanged, with "protecting portfolio value against inflation" being the top choice, followed by "value opportunities in a recessionary environment". (See Figure 12 in next section on ESG.)

To meet these goals, clients may be willing to take on more risk, and some investors are broadening their scope in terms of product preference, including alternative investments. Interviewees noted that they had seen increasing interest in alternatives among their clients, in search of higher yielding investments.

Interviewees said that this shift of focus to alternatives includes increased interest from clients in hedge funds, private equity, private credit and investment in distressed assets. A wider range of products outside the equities market would help satisfy this demand and provide more choice for investors.

Approximately half of the clients surveyed said that they had geographical investment priorities. Among these clients, Developed Asia was the primary focus, followed by North America and emerging Asia ex-China. China's ranking in fourth place suggests that investors are currently looking for higher growth opportunities in other markets.

ESG investing: misalignment between ambition and reality

While ESG investment has been a hot topic for some time, our survey suggests that the gap between ambition and reality in this area remains. Member firms and clients continue to state their increasing interest in allocating more AUM to sustainable products. However, the actual proportion of investment being allocated to ESG has not started to rise to meet that stated ambition.

Clients are becoming more interested in ESG products. Firms ranked "providing sustainable investment advice and related products to clients" as the number one focus area, ahead of digital platforms and next-generation wealth.

Figure 10: The percentage of my organisation's AuM in ESG investments in Hong Kong currently

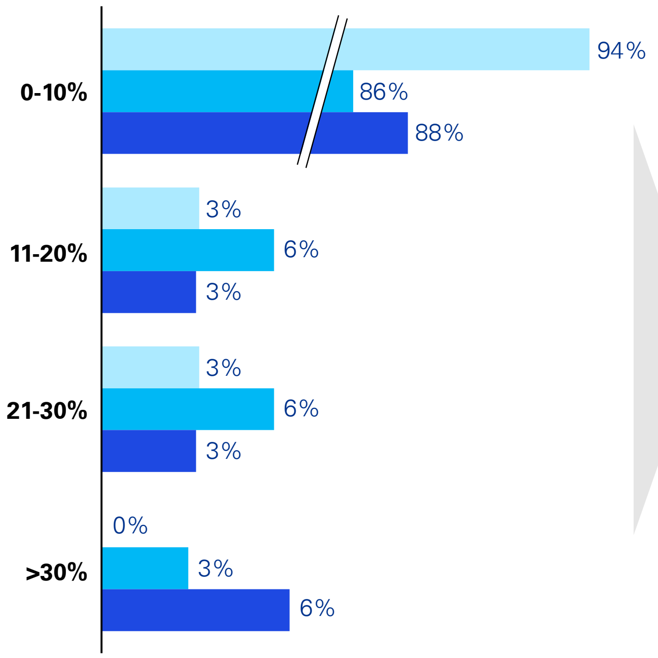
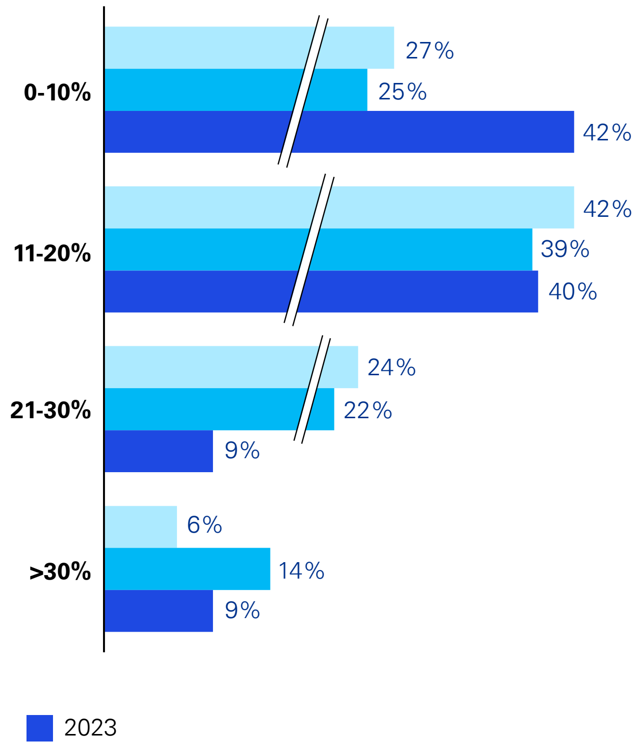


Figure 11: In five years, the percentage of my organisation's AuM in ESG investments in Hong Kong is expected to be



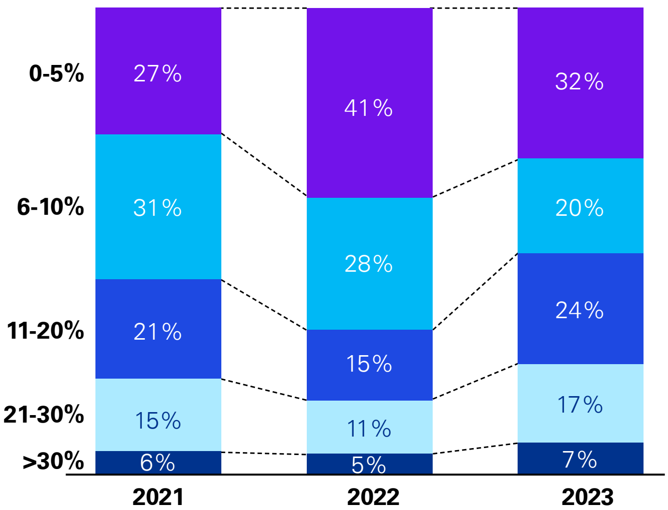
Firms continued to indicate that they expect growth in the proportion of AUM invested in sustainable products. (Figures 10 and 11) 58% of firms said that they expect to have greater than 10% of AUM invested in sustainable products in five years' time. This ambition to invest more in ESG has dropped from the previous two years, when around 75% of firms said that ESG investment would be above 10%. However, member firms' stated ambition is still a long way from the reality of their ESG investment as the vast majority – 88% – of member firms currently have less than 10% of AUM invested in sustainable products.

Most notably, this percentage has barely changed from previous years. So while the intention to increase allocation to sustainable investment has been stated for several years, the actual investment in ESG has not started to rise to meet this ambition.

The client survey had similar results, with 48% of respondents saying they plan to increase the proportion of their assets invested in ESG to more than 10% over the next five years. (Figure 12)

However, when prioritising their current investment objectives, only 19% said that they prioritised sustainable investments, and this is ranked at number six out of eight investment objectives / priorities, with their key objectives being a desire to focus on capital preservation and growth opportunities.

Figure 12: Proportion of assets/portfolio that clients would like to be invested in ESG and sustainable investments in five years



Member firms interviewed for this survey also reported a significant increase in interest among their clients in discussing sustainable investing. They said that this trend was particularly evident among the next generation, but most clients are also now more willing to learn about ESG options, where previously some had not wanted to know.

That this interest in sustainable investing has not yet translated into reality may be due to the macroenvironment, which means that investors are currently focusing on protecting their portfolios and finding value above all other considerations. In this year's survey, 77% of clients said that protecting their portfolio value against inflation was a priority, compared to 70% last year, while 61% said that finding value opportunities in a recessionary environment was a priority, down from 67% last year.

Beyond the external environment, there is no single reason for the fact that investment in ESG has not gained more traction, and the blockers to greater adoption may differ among financial institutions. There is a great deal of variation within the industry, with some private wealth management firms having a strong focus on ESG, while others are not proactively growing the segment.

One possible reason is that RMs do not have enough information or knowledge about the range of products that are available. The lack of a clear definition and standards for ESG investment is also an issue for firms and could put them at risk of accusations of greenwashing.

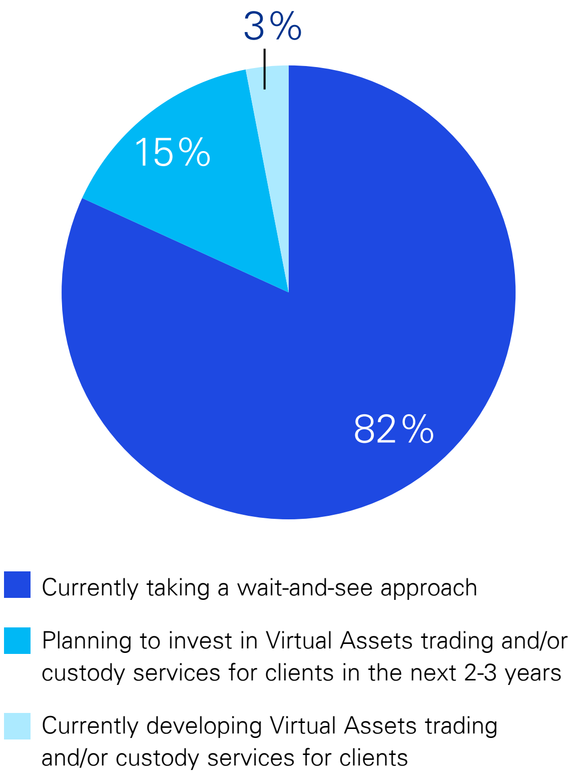
ESG is a growth area that is seeing rising interest from clients. Member firms should investigate the specific factors that they are experiencing in constraining growth in this segment and consider how to address them in the longer term.

One interviewee also noted that there is an opportunity for Hong Kong to develop the "S" part of ESG through a focus on philanthropy, where Hong Kong has an edge over other wealth management hubs. Indeed, while philanthropy has remained low on the list of objectives for clients, it has grown from 2% in 2022's survey to 6% this year.

Virtual assets a minority, but growing, interest among clients

Last year was particularly tumultuous for the virtual assets sector, so it is not a surprise that member firms are remaining cautious about virtual assets trading, with 82% adopting a wait-and-see approach and 88% having no plans to offer cryptocurrency trading and custody services. (Figure 13)

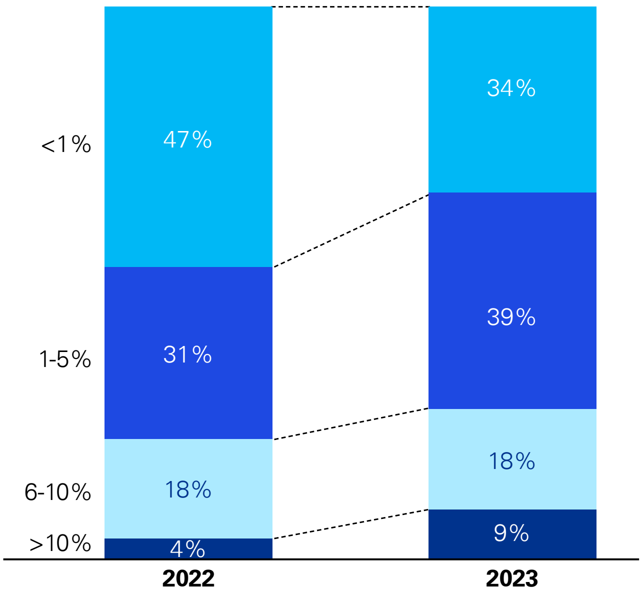
Figure 13: Firm-wide plans pertaining to virtual assets



The last 12 months saw significant upheaval in the virtual asset sector with the collapse of FTX being the most notable event. However, the Hong Kong SAR Government has stated its intent to develop the city into a hub for the virtual assets sector, with recent regulatory developments including a new licencing regime for Virtual Assets Trading Platforms. In last year's survey, member firms said that concern about the regulatory environment was the main barrier to greater investment in virtual assets, so the increased clarity provided by the regulators on their requirements for virtual asset trading platforms and distribution by intermediaries may ease this concern.

Virtual assets remain a minority interest among clients, but appetite is rising. This year, 9% of clients indicated that they would like to have more than 10% of their portfolio allocated to virtual assets, up from 4% in 2022. At the same time, the proportion of clients who want to keep their portfolio allocation to less than 1% also dropped considerably, from 47% to 34%. (Figure 14)

Figure 14: Proportion of assets / portfolio clients would like to be invested in virtual assets



So while clients want to keep their virtual assets investments at a fairly low level, the interest is there and the amount of investment that they intend to allocate to the sector is set to increase.

Given that there are other options for clients to access these asset classes, such as direct investment on crypto exchanges or with hedge funds, it may be worthwhile for private wealth managers not to "wait and see" for too long before deciding to develop virtual asset trading or custody services for their clients.

Key takeaways

Geopolitical tensions are likely to remain an issue the industry needs to contend with over the longer term

Multi-shoring has become an established feature of managing Hong Kong client's accounts

Gap between ambition and reality in ESG investing is not closing

Actions

Work with stakeholders, such as government and regulators, to address concerns around geopolitical tensions by articulating Hong Kong's strengths as a wealth management hub

Continue to develop Hong Kong as the preferred choice for investors to manage their assets regardless of booking location.

Member firms should review what is blocking an increase in sustainable investment so they can capture the growing interest in ESG among clients

Growing the market

Chinese Mainland, particularly the GBA, continues to be the most important source of business while family offices are becoming an important growth driver

Key growth drivers: Chinese Mainland, next-generation and family offices

There was very little change year-on-year in where member firms see the top opportunities to grow the private wealth management market. Further penetrating the Chinese Mainland market remained the top opportunity, followed by targeting the second (or third) generation, and attracting more family offices to set up in Hong Kong – the same top three opportunities as in last year's survey. (Figure 15)

There remain huge opportunities in the Chinese Mainland market, including the continued expansion of the middle class, with median wealth rising from US$3,155 in 2000 to US$30,696 in 2022[6], as well as growth in the number of high-net-worth individuals.

Chinese Mainland: huge opportunities

The Chinese Mainland market remains the number one opportunity for growth, according to member firms. This is not surprising, given the wealth creation taking place across the Chinese Mainland, including in the Greater Bay Area (GBA). Under recent Chinese Mainland policies, such as the 14th Five Year Plan and the Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area, one of Hong Kong's key roles is the international wealth management centre for China and the GBA specifically. Therefore Hong Kong should expect to continue to benefit from the growing wealth created in the Chinese Mainland.

The Chinese Mainland will continue to be an attractive market for private wealth managers for the foreseeable future. Members expect the proportion of Hong Kong-based AUM sourced from Mainland China to increase from 36% today to 46% in five years' time. (Figure 16) This is a drop compared to the results of the previous two surveys, which were around 50%. This appears to be a reflection of the industry's focus on developing new sources of wealth to manage with plans to seek more clients from other markets. Of member firms exploring other markets, Southeast Asia and the Middle East were the top two locations (see discussion later in this report).

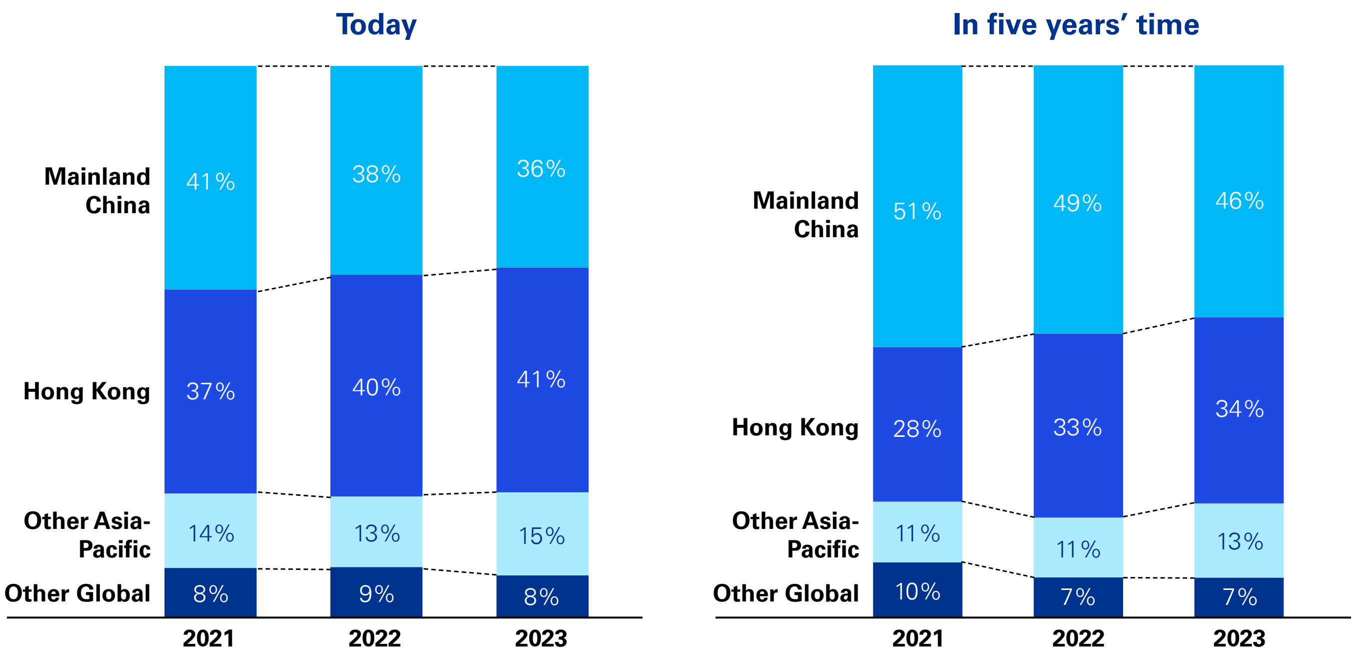
[6] UBS Global Wealth Report 2023: https://www.ubs.com/global/en/family-office-uhnw/reports/global-wealth-report-2023.html#executive

Figure 15: Ranking of the main opportunities to grow the Hong Kong wealth management market

	2022	2023
Further penetrating the Mainland China market	1	1
Targeting the second (or third) generation	2	2
Attracting more family offices to set up in Hong Kong	3	3
Targeting young entrepreneurs	4	4
Attracting more IPO fund raising activities in Hong Kong	6	5
Attracting more offshore clients residing in other markets	5	6
Developing wealth in the ASEAN bloc	7	7
Targeting less wealthy customer segments through digital channels	8	8
Targeting female clients	9	9
Other (please specify)	10	10

Note: Weighted average ranking per survey results. As some options are updated in 2023 survey, 2021 and 2022 rankings are adjusted accordingly, the total number of options were 11 in both 2022 and 2021.

Figure 16: A comparison of the estimated percentages of where member firms believe Hong Kong-based AUM for the PWM industry comes from today and will come from in five years' time



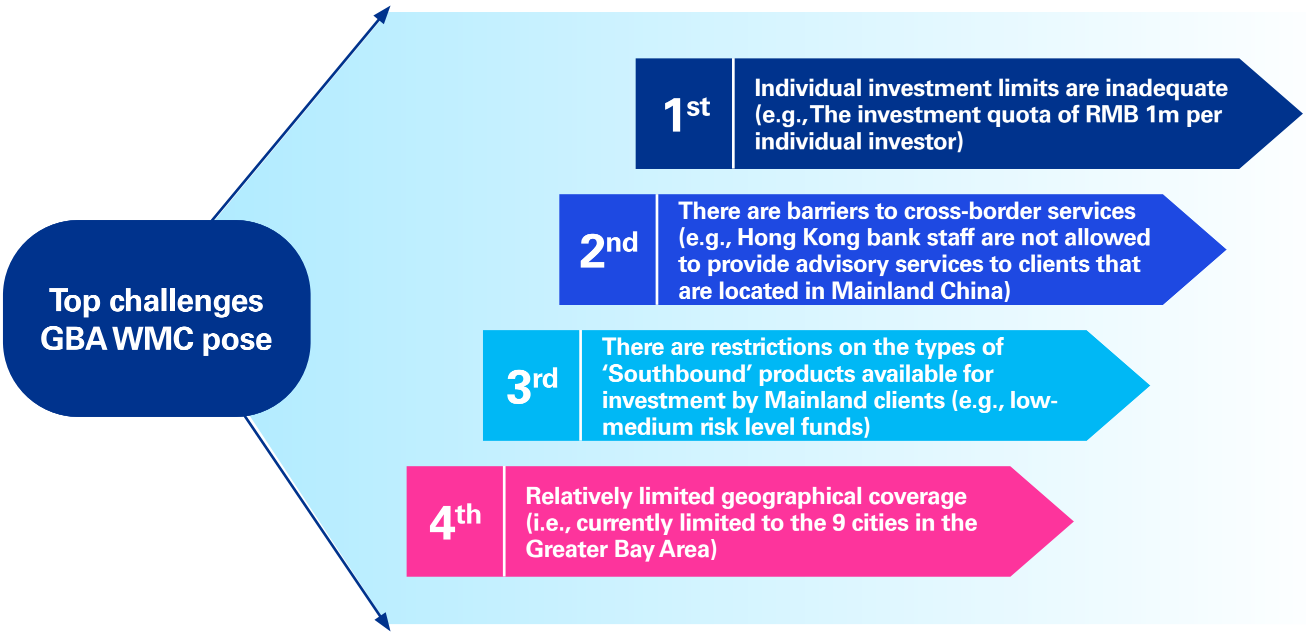
Greater Bay Area opportunities

As an important contributor to China's economic growth and wealth creation, the GBA will continue to be a key driver of growth of Hong Kong's position as a wealth management centre in the next five years. However, the ability of the industry to better access and serve clients in the GBA, including through schemes such as Wealth Management Connect, remain limited.

The Wealth Management Connect scheme in its current form is limited in scope and more suited to retail customers, and is therefore of little interest to private wealth managers in Hong Kong. Enhancements to the Wealth Management Connect that would most benefit the private wealth management sector include increasing the individual investment quota, allowing Hong Kong staff to provide advisory services to clients across the GBA, and increasing the range of "Southbound" investment products available to Chinese Mainland clients. (Figure 17)

While enhancements to the scheme are widely expected, the lack of a clear road map for widening direct access to the HNWI market is a concern for member firms, making it difficult for them to plan strategies for the GBA and how to best serve this potential market.

Figure 17: Ranking of challenges "The Greater Bay Asia Cross-Boundary Wealth Management Connect" pose



Note: Weighted average ranking per survey results

Next generation

Targeting the second and third generation of investors, particularly from the Chinese Mainland, has consistently been ranked as one of the key growth drivers of the private wealth management industry in Hong Kong. The size of the under-39 age group among clients has increased significantly, according to one interviewee.

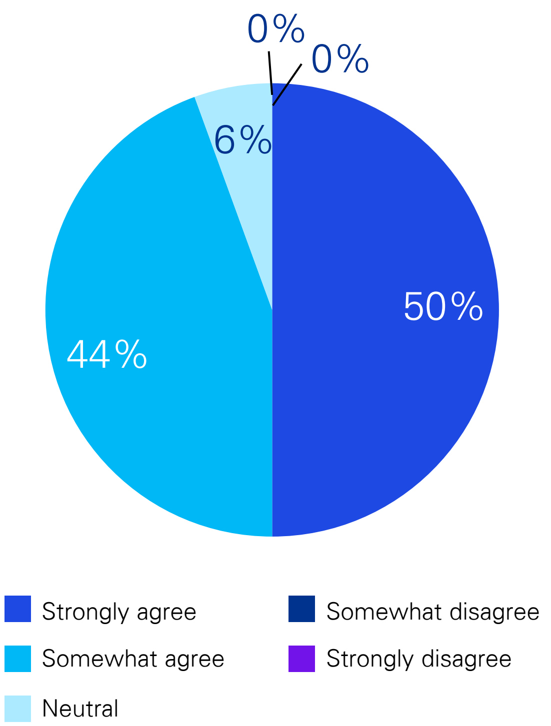
The investment approach of the younger generation differs from the first generation in a number of ways. They are seeking full-scale wealth planning solutions that include philanthropy, emigration and overseas studies. While the first generation of Chinese clients are very hands-on and want to control their investments, the next generation are more hands off and seeking discretionary solutions. They are more focused on asset allocation, with a core and satellite approach.

To understand and serve these clients it is likely that firms will have to develop their approach to wealth management to be more like the European model.

Family offices an increasingly important source of business

Growing the family office segment is a priority of the Hong Kong Government and also of private wealth managers in the city, and this has been a consistent trend over the past few years. A large majority (94%) of member firms agreed that family offices are an increasingly important source of business for their organisation. (Figure 18)

Figure 18: Member firms' views on family offices being an increasingly important source of business for their organisation



The growth in family offices has been a key trend for the past few years, but at the same time, Hong Kong faces strong competition in attracting family offices from other jurisdictions, particularly Singapore. The private wealth management industry has made considerable efforts in recent years including cooperation with the Government and regulators to enhance the environment in Hong Kong for family offices.

The growth in family offices has been a key trend for the past few years, but at the same time, Hong Kong faces strong competition in attracting family offices from other jurisdictions, particularly Singapore. The private wealth management industry has made considerable efforts in recent years including cooperation with the Government and regulators to enhance the environment in Hong Kong for family offices.

InvestHK set up its dedicated family office team in 2021. In this year's Budget Speech, the Government allocated HK$100 million to InvestHK over the next three years to attract family offices, and it also recently announced that the family office team's activities will be expanded to provide services around philanthropy and education needs.

Earlier this year, the government also announced a family office tax incentive that introduced a 0% tax rate on profits for UNHWIs and their family members on qualifying transactions.

These initiatives have been welcomed by the industry, and the family office tax inventive has already generated significant client interest. This close engagement with policymakers and regulators to develop a small number of initiatives and execute them well has been successful and should serve as a model for future initiatives. To build on this success will take continued effort from the government and regulators to make sure that Hong Kong's family office landscape is as good as, if not better, than that of other jurisdictions.

Many private wealth managers are already taking action to enhance their family office offerings. To attract more family office clients to Hong Kong, many member firms have set up a dedicated family office team and an EAM desk to serve this segment. They are also providing more bespoke and private access investment opportunities, and have increased their marketing and promotion to this segment.

As member firms are seeking to attract family offices from different locations, including the Chinese Mainland, Southeast Asia and the Middle East, they will need to ensure that they understand the key factors that will attract these different types of clients, and that they can tailor their offerings to suit them.

One particular area of note is ensuring Hong Kong continues to have the best access to investment products in both public and private markets as this is a key ingredient for a successful wealth management centre. Hong Kong's public market is well known but the industry needs to work with policymakers to ensure it remains a pre-eminent listing venue. Equally important is attracting alternative asset managers such as hedge funds or private equity firms to continue setting up in Hong Kong as this asset class is increasingly important for family offices and Hong Kong's HNWIs.

Another element of Hong Kong's wider ecosystem to support family offices and HNWIs is its expertise in the lifestyle factors such as art and wine collection that are important to many private wealth clients.

When comparing Hong Kong to competing jurisdictions, it is worth noting that Hong Kong does not have a requirement for family offices to get approval. There are likely many family offices already established here that are not explicitly registered as such. The tax incentive scheme will provide more data when family offices apply for the incentive but may not provide a full picture of the extent of family offices operating in Hong Kong.

One possible issue regarding growing the family office sector is that the proportion of member firms who are concerned about Hong Kong's depth of advice and services such as tax, succession planning and family governance has increased from 31% in both 2021 and 2022 to 42% in 2023. (see Figure 21 in Regulatory section)

This was a surprising finding in this year's survey as Hong Kong has traditionally been seen as having depth in these areas. As a contrast, the client survey reflects continuing confidence in Hong Kong's provision of ancillary services with Hong Kong ranked as the best booking centre for family office-related services (eg family trusts, tax, accounting services). (see Figure 19 in below section)

While it is not clear if concerns over Hong Kong's depth of advice are accurate, the city should not be complacent about this area, and should continue to invest in strengthening the range of professional services available in the city as they are a key part of the city's status as a wealth management centre.

Seeking new corridors for private wealth clients

While the Chinese Mainland is expected to remain the biggest source of AUM for the industry in Hong Kong, there are also potential opportunities in other global locations. Of the 39% of member firms currently targeting, or planning to target, international sources of wealth, all are targeting Southeast Asia, and around a half are targeting the Middle East.

These areas are also among the key target locations for Hong Kong as part of the Government's efforts to enhance Hong Kong's position as an international financial centre and wealth management hub. Highlighting the end of the city's travel restrictions, Government officials and senior banking executives carried out a number of high-profile visits to the Middle East and Southeast Asia earlier this year to promote the city's financial sector.

These visits have been very successful in terms of generating a lot of interest and raising Hong Kong's profile as a private wealth management centre, not just in the Middle East and Southeast Asia but also in Europe. However, member firms said that this had not yet translated into a significant increase in investment from these regions. Inflows from these regions likely will take time and continued focus.

There is a great deal of wealth creation taking place across both the Middle East and Southeast Asia that could provide significant new markets for the Hong Kong private wealth management sector. However, continued efforts will need to be made to ensure that Hong Kong does not miss out on this opportunity.

Unlike with the Chinese Mainland, Hong Kong cannot offer Middle East and Southeast Asian clients the advantages of cultural similarity and proximity. In addition, Hong Kong's many advantages as a private wealth management centre are not so well known in other jurisdictions. So the Government and industry will have to make more efforts to promote Hong Kong and its many strengths to these regions, including follow-up visits, to attract more investment to Hong Kong from these locations.

Competition between booking centres and key criteria

Hong Kong scores very highly compared to other major wealth management hubs in most key attributes as a wealth management centre, and is ranked top in almost all areas including ease of onboarding, range of investment options and investor protection (Figure 19)

Figure 19: Ranking of the global wealth management centers in terms of different given dimensions

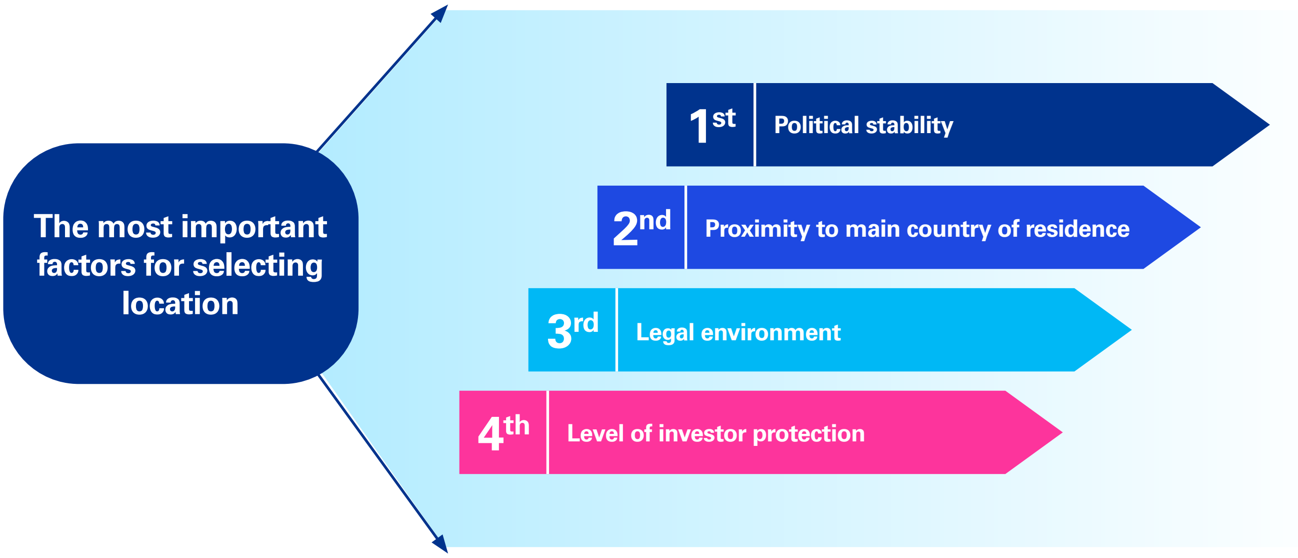
	Best				Worst
Ease of onboarding	HK	SG	CH	UK	US
Ease of trading	HK	SG	CH	US	UK
Range of investment options	HK	SG	US	CH	UK
Personal transaction reporting requirements	HK	SG	CH	UK	US
Range of non-investment related services (family trust, tax, accounting, etc.)	HK	SG	CH	UK	US
Investor protection	HK	SG	CH	UK	US
Proximity / Connectivity	HK	SG	CH	UK	US
Regulation / Jurisdiction	HK	SG	CH	UK	US
Political stability	SG	CH	HK	UK	US

Note: Weighted average ranking per survey results

There is only one dimension where Hong Kong does not take the top spot – political stability – where it drops to third, behind Singapore and Switzerland. Clients have noted that political stability is the most important factor when selecting a booking centre or Relationship Manager (RM) location (Figure 20) which underlines the importance of the industry working with other stakeholders to articulate the strength and stability of Hong Kong as a wealth management centre.

Hong Kong's many advantages include the One Country, Two Systems framework, which provides a legal and commercial environment which is trusted and understood by international investors while also having close access to the huge Chinese Mainland market. Further benefits that provide stability include the dollar peg, rule of law and free flow of capital.

Figure 20: Ranking of factors in selecting the booking centre and / or RM location in terms of importance



Note: Weighted average ranking per survey results

Promoting the city's benefits and its stable environment will be particularly important if Hong Kong's private wealth managers are to access the opportunities in other locations such as the Middle East and Southeast Asia. In general, investors who are already based in Hong Kong are happy having their assets booked in the city. However, clients who are not familiar with the city tend to be more likely to have concerns about opening accounts in Hong Kong.

While there is no doubt that Hong Kong faces strong competition for family offices and for private wealth management clients more broadly, several interviewees noted that Hong Kong's physical, language and cultural connections with the Chinese Mainland provide a unique and very strong draw in attracting Chinese clients to Hong Kong.

Key takeaways

Chinese Mainland market remains key driver of growth

Family offices will be an increasingly important source of business

Hong Kong ranks highly as wealth management hub, but political stability is a concern

Actions

Industry should continue to lobby the Hong Kong Government to provide a future road map on the opening up of the GBA

Continued engagement with Government and regulators is key to developing policies to attract family offices.

Private wealth management sector and Government should work together to promote Hong Kong's strength and stability as a wealth management hub to existing clients and potential investors from new sources such as the Middle East and Southeast Asia

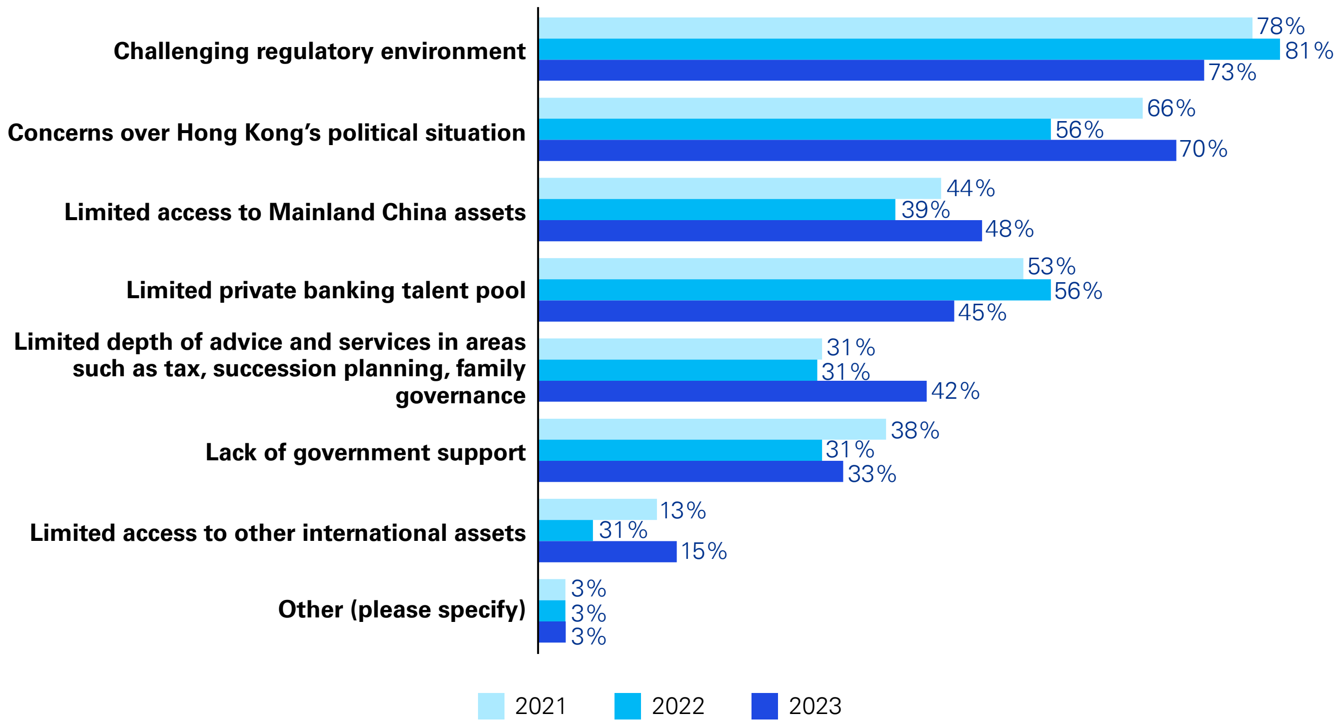
Regulation

Hong Kong's regulatory environment remains a challenge, however, industry engagement with regulators has resulted in recent reforms which should remove some of the hurdles

Regulatory environment remains a concern

A majority (73%) of member firms continued to identify the regulatory environment as the primary constraint for Hong Kong as a private wealth management centre, down from 81% last year. (Figure 21) This drop may reflect the expected impact of the recent regulatory changes (anticipated but released after the survey period) in certain areas that have streamlined processes and reduced the burden on firms.

Figure 21: Ranking of the biggest constraints Hong Kong as a wealth management centre is facing



Hong Kong regulators have been providing increased regulatory guidance over the past few years following discussions with the private wealth management industry. It is expected that these changes to the regulatory environment will have a positive impact and the sector will see considerable benefits from the recent enhancements, in particular the new guidelines for Sophisticated Professional Investors (SPI).

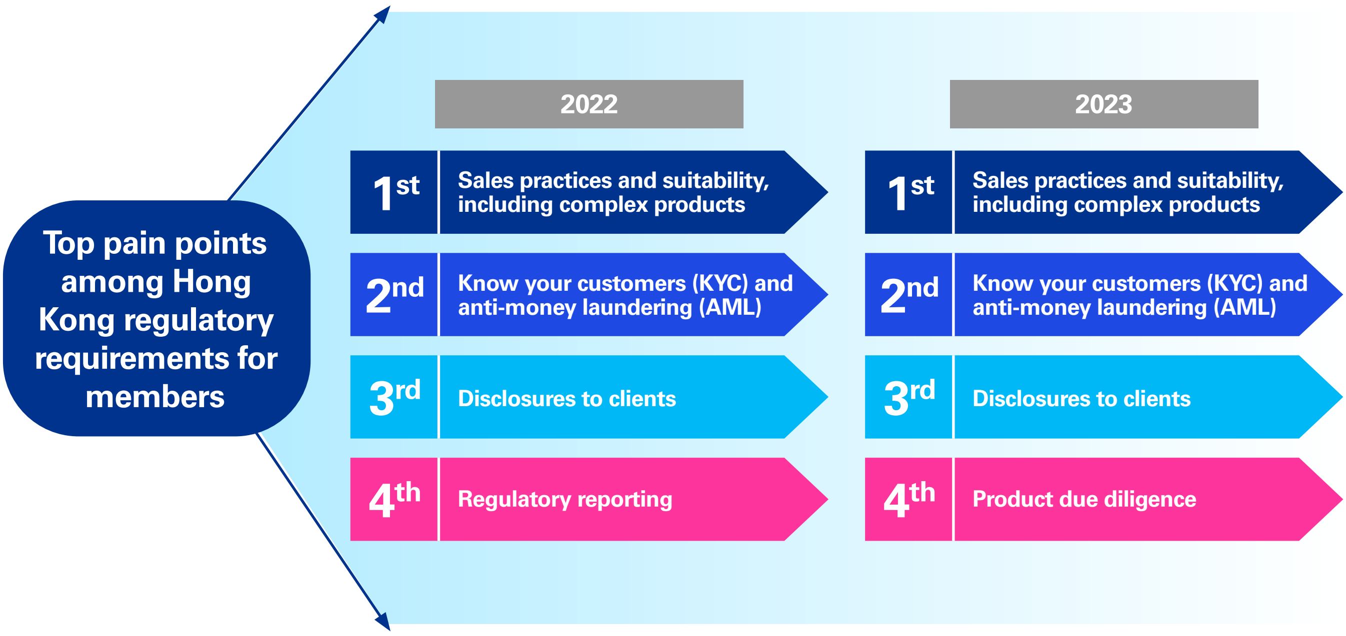
The new SPI guidelines were jointly issued by the HKMA and SFC in in late July, near the end of the survey and interview process for this report. However, the industry had been in discussions with the regulators beforehand and had had the opportunity to review and comment on the draft.

Suitability and the appropriateness of rules for sophisticated investors has been a major issue in recent years. In last year's survey, 66% of clients said that they would like the suitability and disclosure process to be more streamlined and less time-consuming. The industry has been lobbying the government on this issue, so the new SPI guidance is not only a very welcome development for member firms and clients, but also a good example of the benefit of successful cooperation between the industry and the regulators.

Suitability and KYC are the biggest pain points

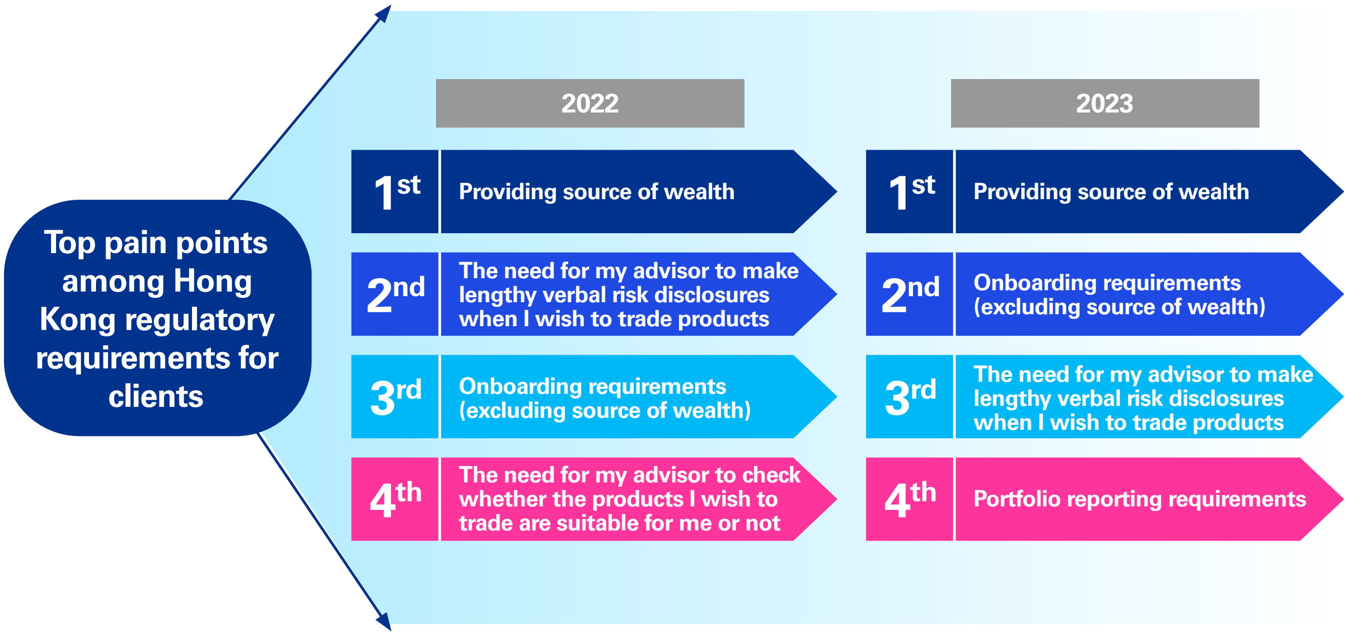
In line with last year's survey, sales practices and suitability including complex products were listed as the biggest pain point for member firms. This was followed by KYC/AML requirements. This is backed up by clients, who say that providing their source of wealth is their biggest pain point. (Figures 22 and 23)

Figure 22: Ranking of the biggest pain points among Hong Kong regulatory requirements from member firms' experience in terms of time required or administrative effort



Note: Weighted average ranking per survey results

Figure 23: Ranking of the biggest pain points among Hong Kong regulatory requirements from clients' experience in terms of time required or administrative effort



Note: Weighted average ranking per survey results

This year's survey revealed some contradictions among clients on suitability and disclosures. A significant proportion, 77% of surveyed clients, said they would be willing to remove suitability checks and disclosure requirements if it significantly reduced the time to trade. This tallies with member firms' views: 83% said that the plans to simplify suitability obligations for sophisticated professional investors would have a positive impact. (Figures 24 and 25).

However, when clients were asked about views on the process and protection, 62% indicated that they considered the level of protection offered to be appropriate -- albeit about half of those also said that wanted the process streamlined. 30% said that the process was appropriate, while 32% said that they appreciate the level of protection while also wanting the process to be streamlined. (See below in Figure 26).

The interpretation of these results is that clients will welcome more streamlined processes but ultimately still value investor protection and are looking for their private wealth manager to protect their interests.

Guidance for Sophisticated Professional Investors

While suitability requirements is ranked as the top regulatory pain point by member firms, the new SPI guidelines should reduce this issue going forward. The SPI guidelines set out a proportionate and risk-based approach with simpler requirements for private wealth managers in areas including product due diligence, suitability assessment and risk disclosure. This streamlined approach only applies to sophisticated investors who meet the qualifying criteria, which includes having portfolio of at least HK$40M, or net assets of at least HK$80M, and having relevant knowledge or trading experience.

More than 80% of member firms surveyed said that they expect that the SPI framework will bring a positive impact in terms of client experience and will ease the administrative burden (Figure 24).

Figure 24: Member firms' views on the impacts of streamlining measures outlined in the HKMA/SFC joint consultation to simplify PWMs' suitability obligations when servicing Sophisticated Professional Investors (SPI), particularly improvement in client experience and administrative burden within their firm

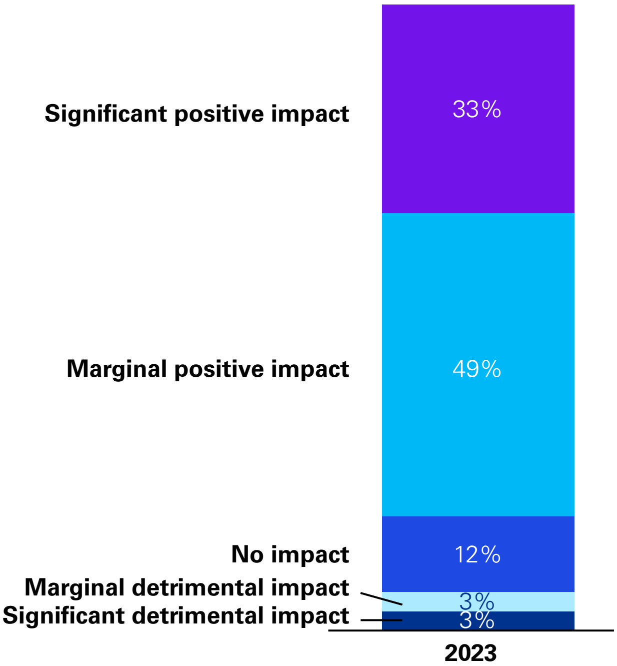
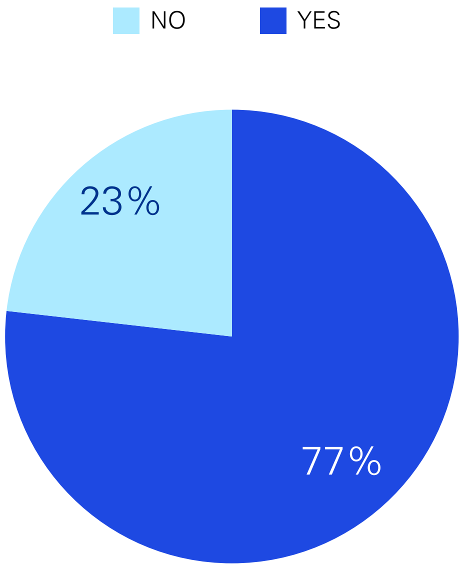


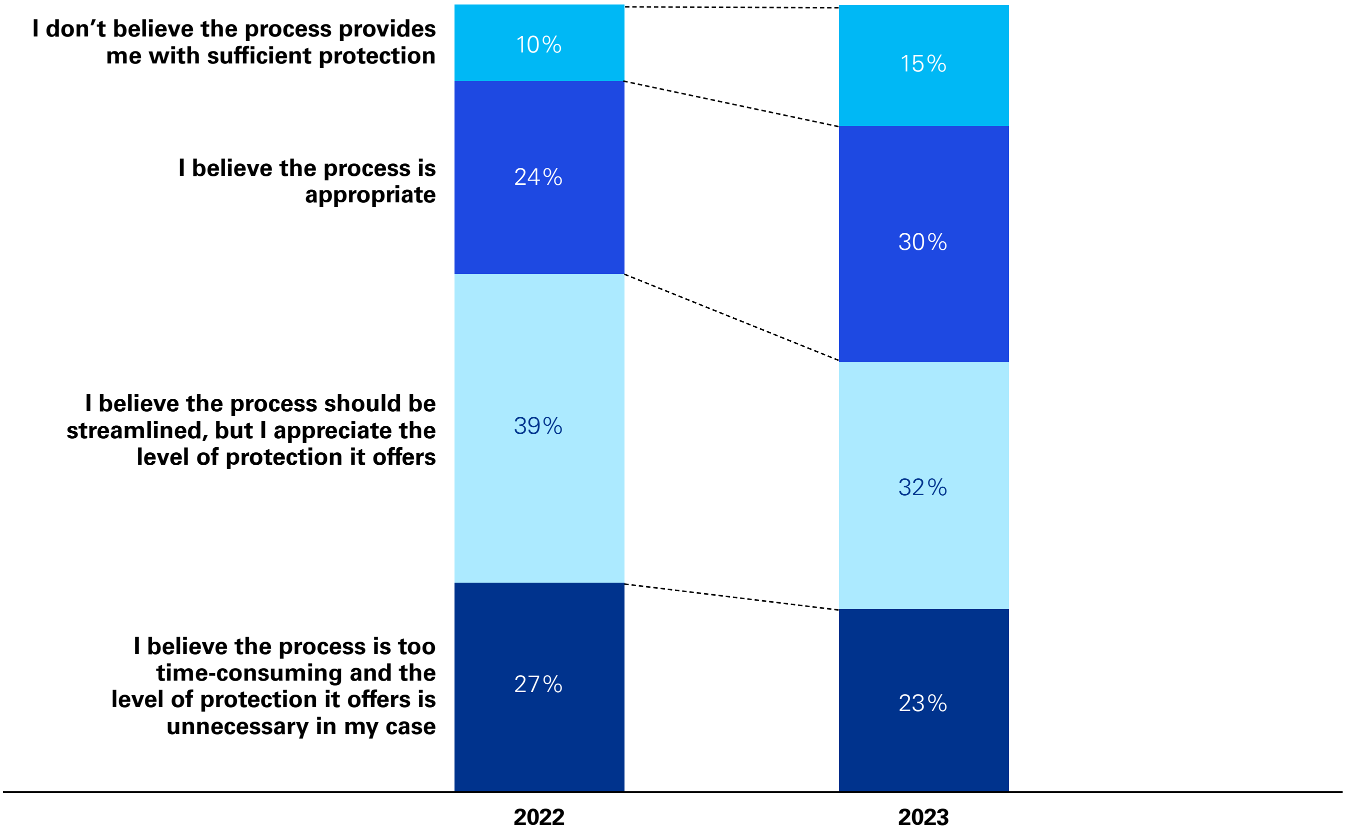
Figure 25: Clients' willingness to remove this requirement given that it significantly reduces the time required to conduct clients trades by eliminating suitability checks and lengthy risk disclosures



As noted above, protection remains important to many investors, with 32% of clients saying that the sales process should be streamlined, but that they also appreciate the level of protection the suitability framework offers them. More clients (15% in 2023 compared to 10% in 2022) feel that the current process does not provide sufficient investor protection. (Figure 26)

However, these results do not delineate the views of more sophisticated and experienced investors, who are more likely to understand various investment products' features and associated risks in depth and therefore do not benefit from lengthy disclosures during the sales process. The new SPI guidelines will benefit this more experienced customer segment in particular.

Figure 26: Clients' views on the process of checking product suitability and disclosing potential product risks and other information before their trades are executed



The SPI guidelines should help to serve the varying needs of investors when it comes to balancing protection and speed of trading. Qualifying as an SPI and making use of the streamlined processes will be optional, meaning clients can choose whether they want to opt in to take advantage of the streamlined trading processes.

The industry has broadly welcomed the new guidelines, which are expected to smooth the sales process for experienced investors while reducing administrative tasks for private wealth managers.

Besides suitability, KYC/AML is seen as a major pain point by member firms and clients. The private wealth management industry should continue to work with the regulators to suggest recommendations for improvement in the current regime for KYC/AML. A potential focus could be around KYC source of wealth, which is the number one pain point for clients.

In March this year, the HKMA issued Smart Tips for Private Banking, which provided more guidance on establishment of sources of wealth and source of funds including do's and don'ts and examples of good practice in a range of possible scenarios. This should help firms to avoid implementing policies that are overly conservative and that exceed the regulator's guidelines.

RegTech adoption has increased significantly

The relatively slow adoption of Regtech by the private wealth management sector, compared to other segments of the banking sector, has been noted in previous editions of this report. There has been a noted improvement this year, with 45% of member firms having implemented RegTech solutions, up from 31% in last year's survey. The common barriers that member firms mention when it comes to the implementation of RegTech have remained the same, with the primary barriers being budget and resource constraints, lack of available mature solutions, and the bank's complex legacy architecture. (Figure 27)

These hurdles to fintech adoption were also mentioned in a recent HKMA report, supported by KPMG, which also found a lack of alignment of expectations between banks and fintech solutions providers, particularly when implementing new solutions[7].

The bespoke nature of private wealth managers' operating models and services make it more difficult to apply technology solutions. Adapting Fintech solutions for their internal requirements would involve considerable effort in dealing with external providers, so many would prefer to carry out their technology upgrades in-house.

Figure 27: Ranking of barriers in implementing Regtech solutions

	2022	2023
Budget / resource constraints	1	1
Lack of available mature solutions	3	2
Complex legacy architecture	2	3
Lack of suitably skilled talent to implement	4	4
Data is not in a form that can be easily digitised	5	5
Lack of flexibility within group policy	6	6
Do not perceive significant added value vs traditional solutions	N/A	7
Other (please specify)	N/A	8
Difficulties working with vendors	N/A	8

Note: Weighted average ranking per survey results. New options were added in 2023, so previous years data is not available for those options. Ranking position may be duplicated if the weighted average of options are the same.

The fact that there has been such an increase in RegTech use over the past year while the major barriers have remained largely the same may reflect the efforts of the HKMA to encourage adoption. One member firm interviewee stated that the HKMA had played a key role in defining the RegTech adoption path and highlighting attractive solutions, and that this blueprint had encouraged private wealth management firms to adopt RegTech solutions.

In addition, the regulator in Hong Kong has been asking organisations if their talent has RegTech skills, and has included RegTech as a factor in assessing certified professionals. These moves have helped to encourage the faster adoption of technology to comply with regulatory requirements.

[7] A Bridge to the Future: Hong Kong Fintech Promotion Roadmap: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2023/20230825e1a1.pdf

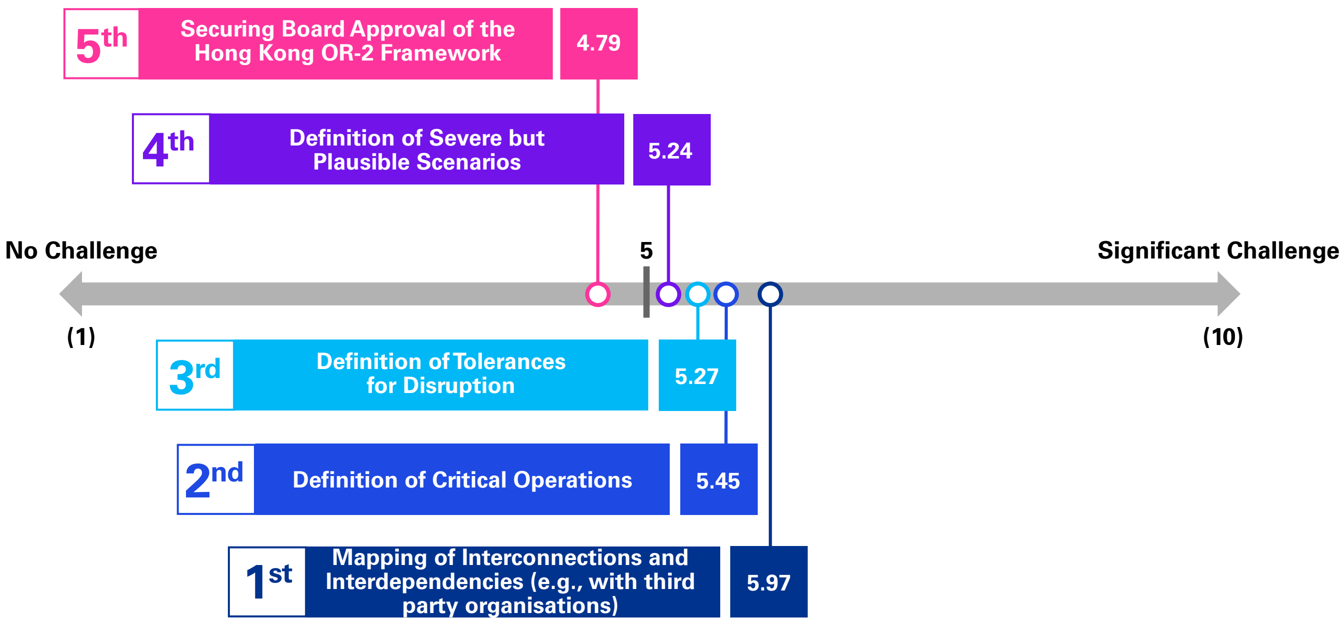
Operational resilience

Operational resilience has been a key priority for banks in Hong Kong as they have been working to meet the deadline for compliance with the first part of the HKMA's Operational Resilience 2 (OR-2) regime, in terms of having their OR framework developed and approved by their boards by 31 May this year. The framework ensures that banks are prepared for disruption to services, including those provided by third parties, and also requires increased accountability from senior executives regarding operational resilience.

The turmoil that Hong Kong has experienced in recent years, with the Covid-19 pandemic following months of protests in the city, demonstrated how serious disruption can happen very quickly and unexpectedly, and made clear how important it is for banks to be prepared for upheaval.

To meet the OR-2 requirements, banks were required to understand where vulnerabilities lie in their systems, define their tolerance for disruption, and test a number of severe-but-plausible scenarios. Member firms generally provided neutral responses when asked about the challenges of developing an OR-2 framework, indicating that meeting the OR-2 deadline was not particularly burdensome. Some member firms have been able to leverage their global frameworks, as other jurisdictions have rolled out similar requirements as those in Hong Kong. (Figure 28)

Figure 28: Ranking of challenges in understanding and meeting the HKMA's Operational Resilience (OR-2) requirements



Note: Weighted average ranking per survey results

Key takeaways

KYC and suitability remain key regulatory pain points

Guidelines for Sophisticated Professional Investors (SPI) are expected to ease suitability and disclosure challenges

Significant increase in RegTech adoption

Actions

Following the introduction of the SPI guidelines, the industry should build on this success and continue its engagement with regulators to improve the regulatory landscape

Member firms should make use of the new SPI guidelines to offer more flexibility to their clients on trading

More private wealth management firms should consider using RegTech to help them to deal with the regulatory compliance burden

Technology

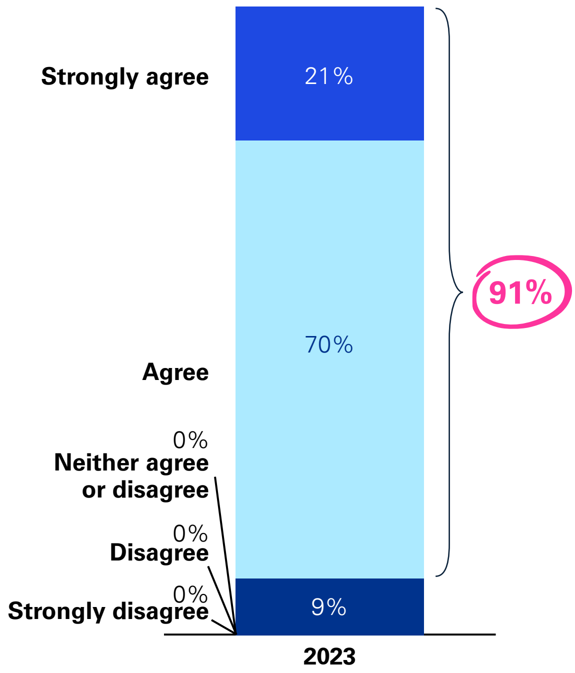
Clients are seeking more advanced digital services to provide greater autonomy in investment decisions. Firms are making strides to meet this demand, but some gaps persist

Fintech developments

Broadly, the industry is in favour of fintech solutions, with 91% of member firms agreeing that the use of technology brings more opportunities than threats. (Figure 29) Clients are also broadly happy with the digital services that are available, however, there are a few gaps where member firms have an opportunity to expand their online services to better meet client demand.

This positive attitude towards embracing emerging technologies is in line with the HKMA's Fintech 2025 ambitions and is bearing fruit in the continued satisfaction of clients in the digital services on offer. As noted earlier, there has also been a notable uptick in the number of member firms making use of RegTech solutions. However, there are also gaps between client expectations and services available in a few areas relating to digital offerings, and member firms have an opportunity to better serve their clients by offering them the ability to do more online.

Figure 29: To what extent do you think that fintech solutions introduce more opportunities (through collaboration) than threats (through competition)?



Clients' perception of digital offerings remains higher than firms' view

Many member firms have been rolling out new digital services and enhancing their online offerings over the last few years. As in last year's survey, clients' perception of member firm's digital offerings are largely positive and exceeds member firms' own perception of their customers' expectations. In this year's survey, 80% of clients stated that their digital expectations were being met, compared to 63% of member firms who believe they are meeting their clients' expectations. (Figures 30 and 31)

This is an improvement on last year, when 48% of member firms said they believed that they met clients' expectations. The improvement in firms' rating of their own offerings indicates that their investment in digital capabilities is delivering results in terms of perceived client satisfaction.

While customers are happy with the digital services available to them member firms are continuing to invest in their online offerings. Firms noted that they are also looking ahead and planning how to serve new clients in the future, who may have different expectations of the level of digital services available.

Figure 30: Clients' comments on their private wealth manager's digital offerings

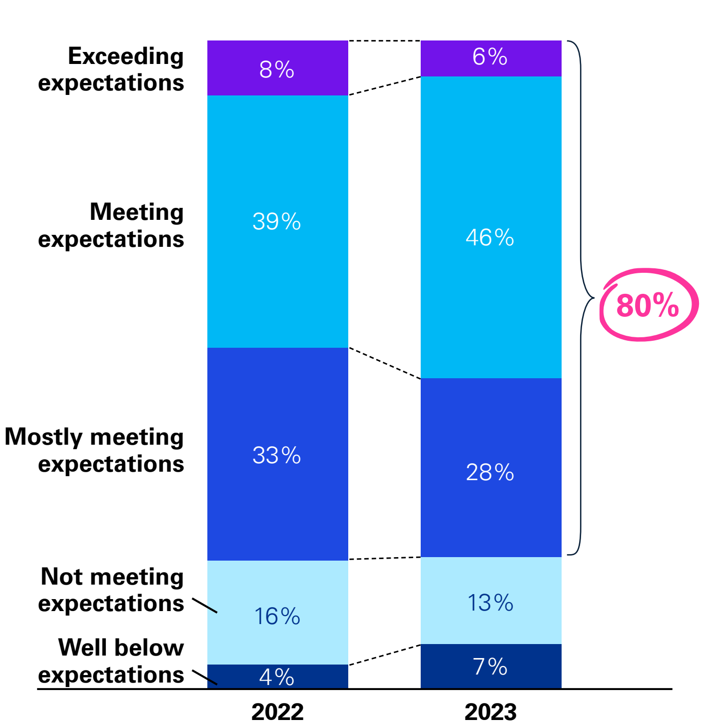
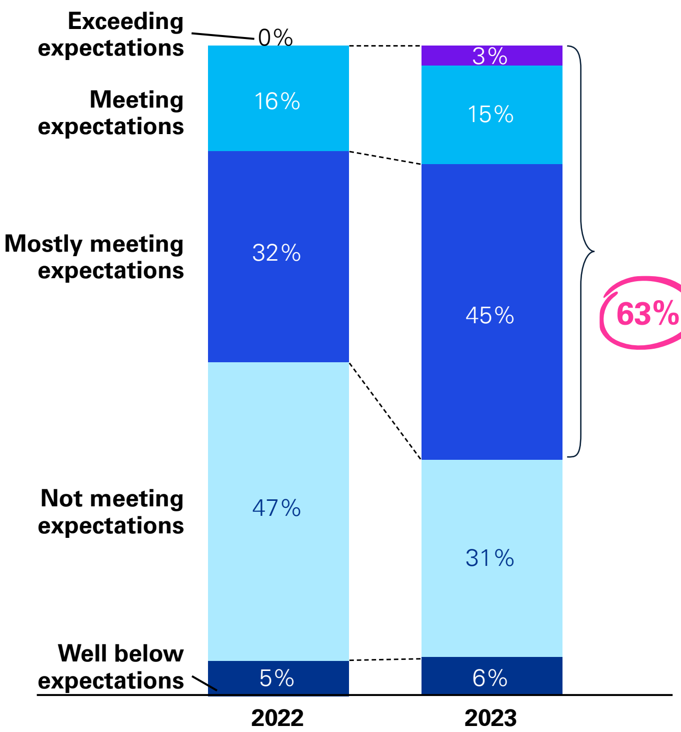


Figure 31: Member firms' thoughts on their digital offering relative to customer expectations:



Clients seeking more investment autonomy

Responses to a number of different questions about digital offerings show that clients would like to be able to do more online. Among the digital investment-related services currently available, clients said that access to research, portfolio construction and "actionable ideas" – such as the ability to transact or to be referred to a relationship manager (RM) by clicking a link when reading research – were the most useful. (Figure 32)

When it comes to areas where clients would like to see improvement, "scope of online services" was the first choice, while second and third ranked were "self-service capabilities" and "access to real-time data". (Figure 33)

Figure 32: Ranking of the most useful digital services that clients' Private Wealth Manager provides from a research and investment perspective

	2022	2023
Access to research	2	1 ↑
Portfolio construction, rebalancing and financial planning simulation tools	3	2 ↑
Actionable Ideas (e.g., The ability to transact and / or be referred to an RM by clicking on a link when reading research / investment ideas)	N/A	3
Transaction execution capability	1	4 ↓
Financial goals advice planning	4	5 ↓
Investment suitability checks and disclosures	N/A	6
Other (please specify)	N/A	7

Note: Weighted average ranking per survey results. New options were added in 2023, so previous years data is not available for those options.

Figure 33: Ranking of areas that clients feel the most need for member firms to improve in:

	2022	2023
Scope of online services	1	1 →
Degree of self service	3	2 ↑
Access to real-time data and information	2	3 ↓
Specialist features e.g., analysis tools, investment goals, etc.	6	4 ↑
Speed of service	5	5 →
User interface	8	6 ↑
Degree of customisation	4	7 ↓
Cybersecurity	7	8 ↓
Other (please specify)	8	9 ↓

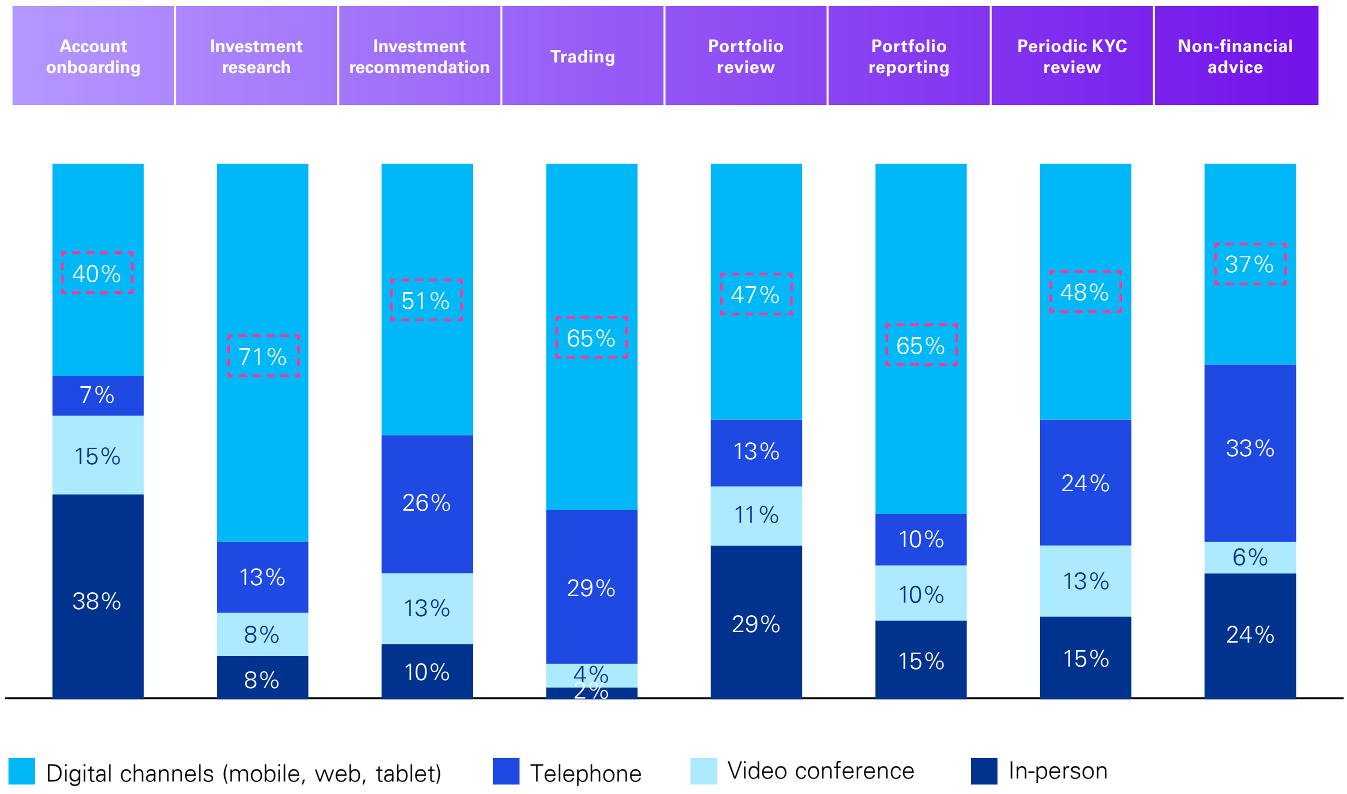
Note: Weighted average ranking per survey results

These findings indicate that clients increasingly want to take more control of their investments and carry out more of their own investment research, portfolio construction and trading online. This is in line with a trend seen during the pandemic, when client adoption of digital offerings increased. This may indicate that self-service and increased autonomy is a future trend as clients become more comfortable using technology to meet their investment and wealth management needs.

When asked about means of communications, clients also remain keen on digital options, especially in areas such as research and portfolio reporting. The ability to view portfolio statements, communicate with RMs via instant messaging apps such as WeChat or WhatsApp, and receive alerts on market developments were viewed as the most useful of current admin-related digital services. These results are broadly similar to last year's findings.

In addition, 71% of clients said they would prefer to receive investment research through digital channels, and 65% indicated a preference for online trading. Additionally, 51% of clients indicated that they would like to receive investment recommendations via digital channels. (Figure 34)

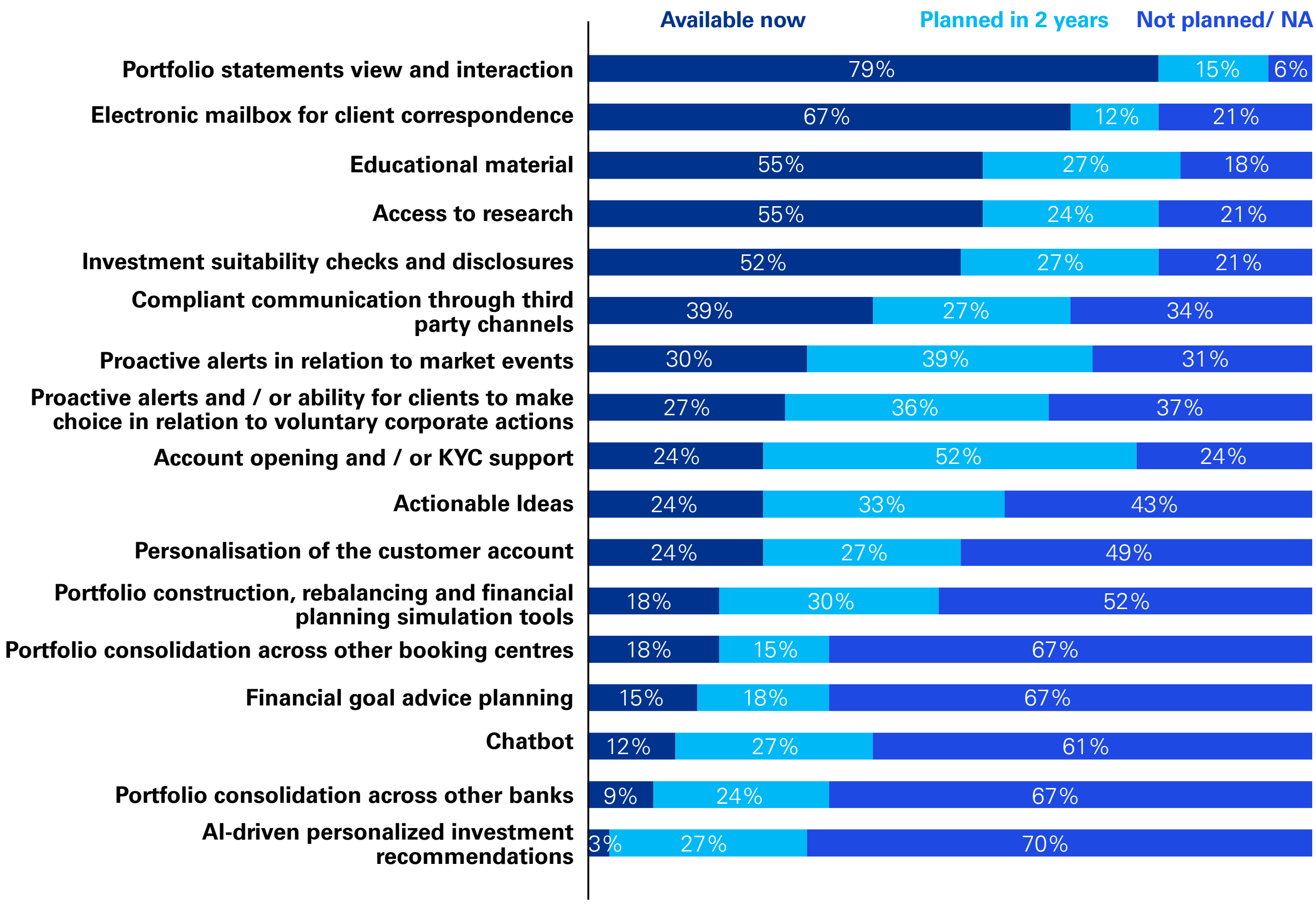
Figure 34: Communication medium preference for different elements of the client-advisor relationship:



Misalignment between client expectations and firms' plans

Although clients are keen to do more online, some of the key services that they value are either not currently offered or being developed by member firms. For example, although "Portfolio construction, rebalancing, and financial planning simulation tools" was ranked by clients who have access to this service as the second most useful among research and investment digital services, 52% of member firms do not offer these tools and have no plan to roll them out in the next two years. "Actionable ideas" (eg the ability to transact or to be referred to an RM by clicking a link) for clients are also not on the agenda for 43% of member firms. (Figure 35)

Figure 35: Availability of clients solutions (now and in 2 years)



Similarly, 34% of surveyed firms do not currently plan to introduce communication via third-party platforms like WeChat and WhatsApp, although clients that have access to this service rank it as the second most useful among useability and administration related digital services.

Given the diversity of client segments, private wealth managers will have to consider the expectations of different generations and customer types when it comes to online communication and investment activities. It was noted that some clients are extremely digital savvy, while others are not comfortable with using technology such as meeting platforms like Zoom.

Firms plan more streamlining and automation

In terms of internal solutions, member firms are planning to introduce more automation and workflow tools to streamline their processes. Within the next two years, more than 70% of member firms will have rolled out streamlined applications and improved infrastructure (such as workflow tools for client onboarding) as well as automation of product due diligence/product suitability. This should help to solve some of the pain points for both clients and member firms around KYC and suitability processes discussed previously in this report.

However, there is less enthusiasm for using big data analytics of customer behaviour to cross-sell products, or to use technology to generate advice for RMs, with half of member firms planning to make no investment in these areas. This suggests that some firms are not ready to invest in AI-based solutions for advising clients, and will continue to rely on the knowledge and experience of their client-facing staff. It is also to be expected that bigger banks will move first as they have more resources to invest in new technologies, while smaller and more niche operators will wait.

Generative AI

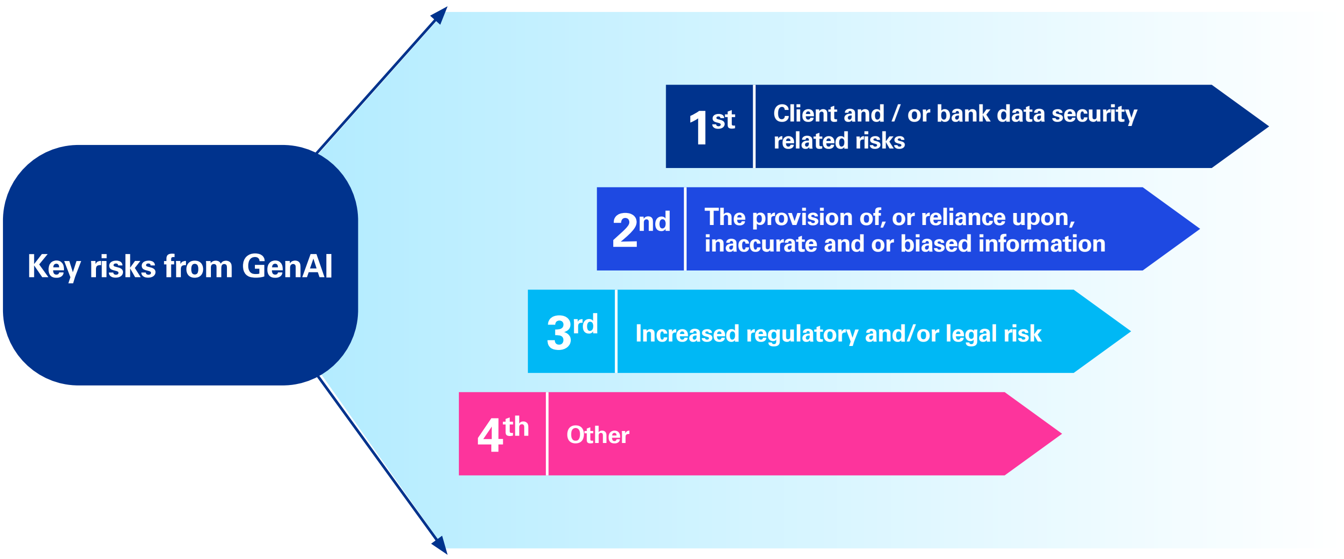
The emergence and widespread adoption of Large Language Models (LLM) and Generative AI like ChatGPT has been a key talking point for many industries in 2023. Areas where this new technology is expected to have the most significant impact for private wealth managers are data analysis (such as customer, portfolio and product data, and clients' interaction with the firm), the provision of investment advice, and AML/KYC related activities, according to our member survey.

Additionally, a number of member firms noted during the interviews for this report that they were exploring use cases around product analysis, summarising investment content for RMs, and synthesising policies and procedures. Suitability rules is one possible use for Generative AI, including cross-border suitability rules, which are very complicated. The new technology will be able to simplify this process and help in answering RM's questions.

The way that Generative AI can present information in a script format provides other potential uses. For example, it could create a document comparing different types of funds in a way that is easy for clients to understand.

While there is a great deal of interest in the industry about the potential use cases for the new technologies and how they may be deployed in the future, there are also some concerns. Key concerns around the use of LLM and Generative AI are risks related to data security and the possibility of producing inaccurate or biased information. (Figure 36) These issues mean that member firms currently have very limited appetite to use Generative AI for direct-to-client advice provision or handling personal data.

Figure 36: Ranking of the key risks due to the adoption of Large Language Model / Generative AI (e.g., ChatGPT):



Note: Weighted average ranking per survey results

Key takeaways

Clients want more autonomy to make investment decisions online

Member firms continue to invest in improving their online offerings

Private wealth managers are exploring use cases for Generative AI

Actions

There is demand from clients for more online services including digital communications and trading

Member firms should stay up to date with the potential use cases of Generative AI, which may offer a range of uses such as analysing conversations and providing information to clients

Talent and ways of working

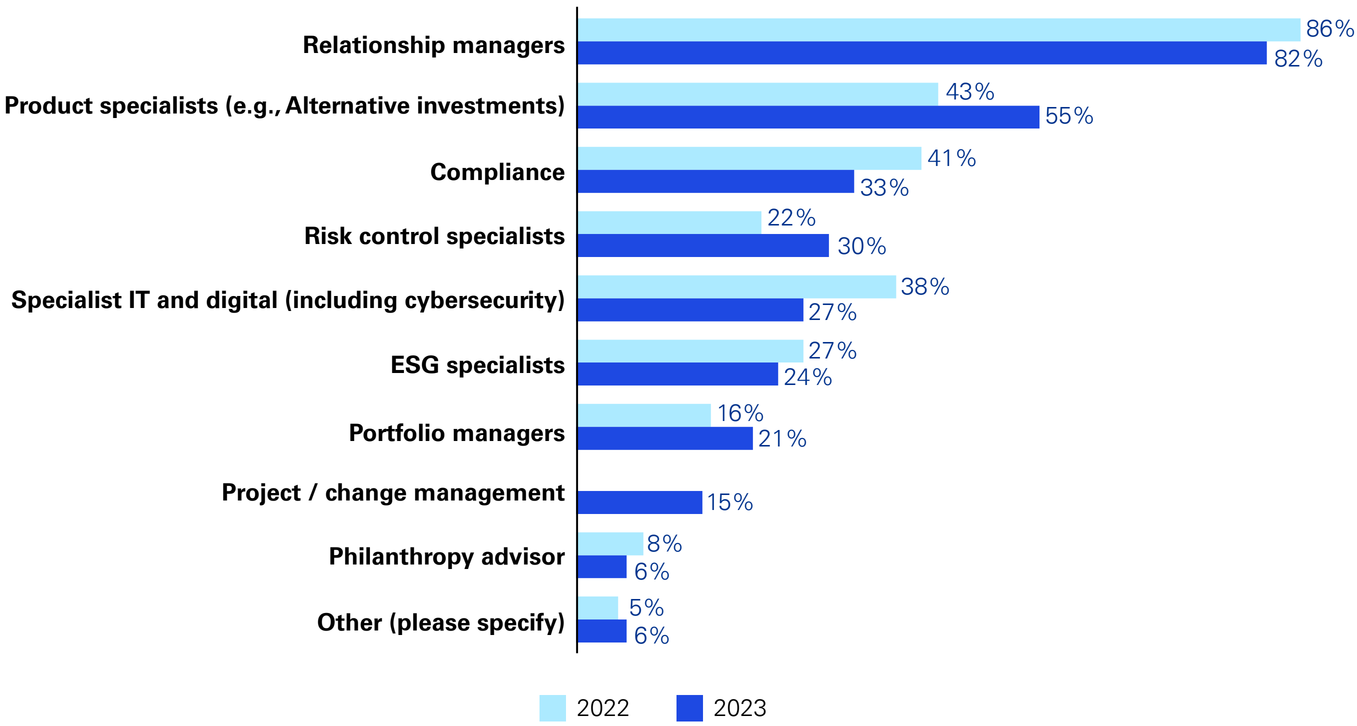
Industry should focus on longer term initiatives to address the persistent talent gap. RMs are especially in demand, with technical expertise their most valued attribute

Talent gap eases but RMs still in high demand

The number of relevant practitioners and RMs in member firms has remained very consistent with last year. Member firms reported a total of 3,610 relevant practitioners in 2022, up slightly from 3,503 in 2021, and 2,331 RMs in 2022 compared to 2,282 in 2021.

Fewer people leaving the industry has helped to ease the talent gap, but RMs remain by far the most in-demand roles, which is consistent with prior years. (Figure 37)

Figure 37: Ranking of roles/functions where the talent gap is most critical



Note: New options were added in 2023, therefore previous years data is not available for those options

There was also a notable increase in demand for product specialists, such as experts in alternative investments, with 55% of member firms reporting a talent gap, up from 43% a year earlier, as well as an increase in demand for risk control specialists to 30%, up from 22% previously. While the shortage of compliance talent has eased, it is still an issue with 33% of member firms reporting a talent shortage in this area.

When hiring new talent, the primary sources have remained consistent, with acquiring from peer organisations and referrals from existing RMs being the top two choices. The other side of this trend is that private wealth management firms continue to see a lot of churn as their RMs leave for peer firms.

This demand is being driven by a number of different factors. Supply of RMs had already been lacking but the growth of the industry has created even more demand for experienced staff. The short-term solution for private wealth management firms has been to hire from peer organisations. Given that it takes several years for an RM to develop the required skills and knowledge, it makes sense that acquiring talent that already have experience in the field is more efficient, rather than recruiting more junior staff that will not be able to operate as effectively.

What is clear is that the industry needs to focus on the long term to train more dedicated talent to break this cycle. It was noted that some other jurisdictions have had regulatory support to train the local workforce, and that Hong Kong may benefit from taking a similar longer-term view to help solve the talent crunch.

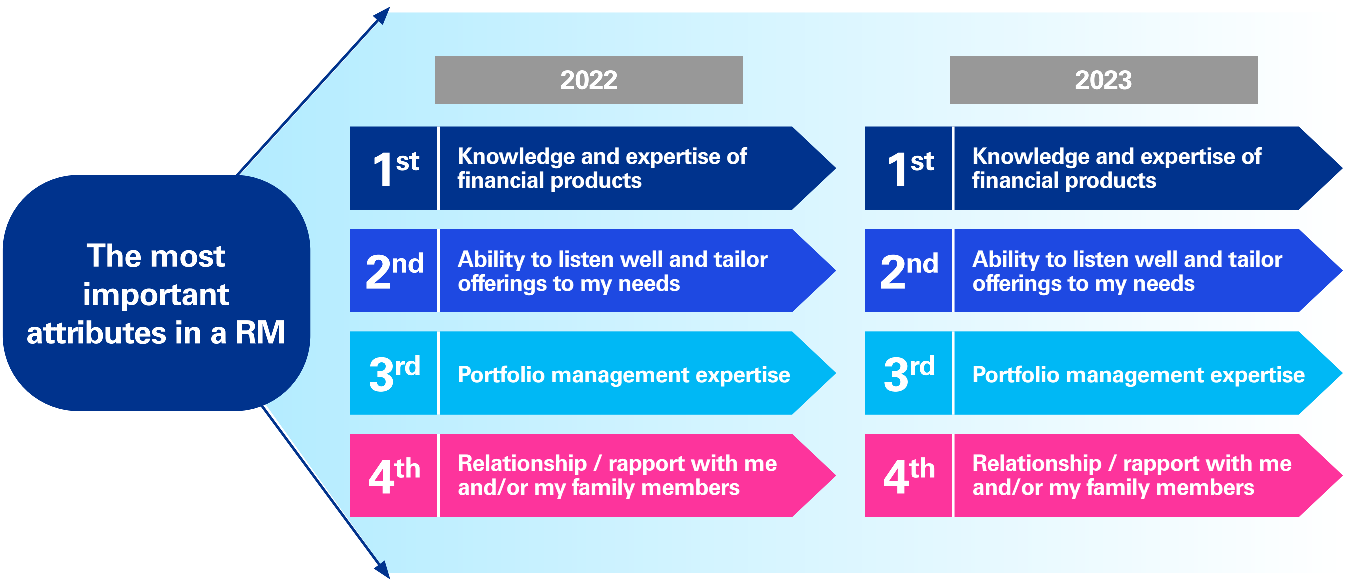
Hong Kong has made efforts in this area and the Government has launched a number of initiatives to attract talent to the industry and to enhance the skills of current staff. These include the Wealth and Asset Management Pilot Programme, backed by the Financial Services and the Treasury Bureau, which was launched in 2016 and provides professional training for in-service practitioners in the sector. In addition, the PWMA-HKMA Apprenticeship Programme includes summer apprenticeships for university students, giving them a broad range of experience in the private wealth management sector and potential job offers after graduating.

Other developments include the Government's plans to launch an Academy for Wealth Legacy under the Financial Services Development Council.

These are welcome developments, but to ease this perennial talent gap for RMs in particular, the industry and Government may need to do more to build on and expand the programmes and initiatives it has launched to date.

The importance of having experienced RMs is borne out by clients who continue to say that the most valued attribute is "knowledge and expertise of financial products" while relationship and rapport was viewed as less important. This suggests that an RM's overall technical expertise is more important to clients, and that it is worth the effort for firms to retain experienced staff and invest in developing their technical skills. (Figure 38)

Figure 38: Ranking of attributes in a relationship manager in terms of importance to clients:

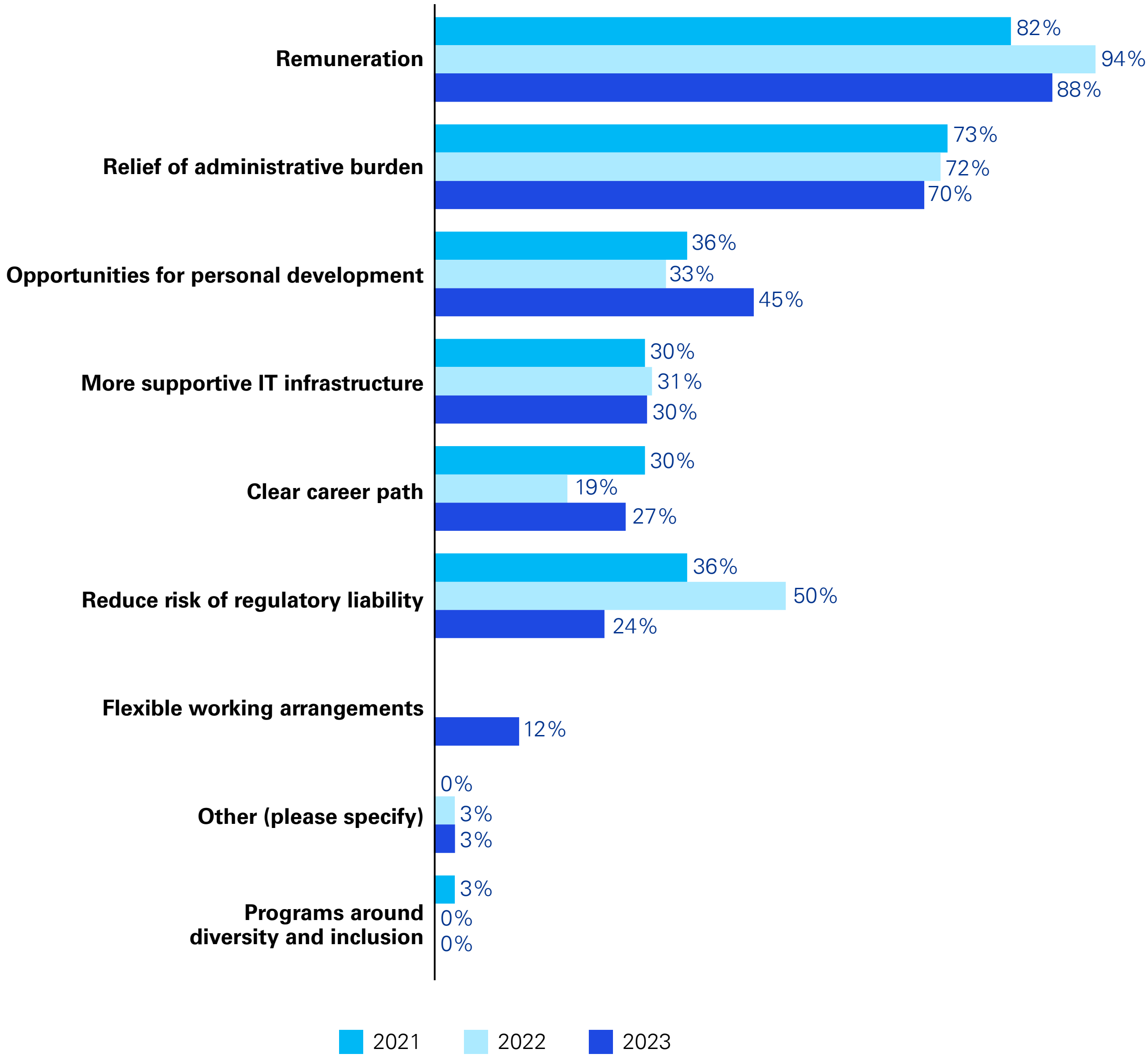


Note: Weighted average ranking per survey results

Beyond remuneration: attracting and retaining RMs

Remuneration is, unsurprisingly, the most important factor that member firms selected when trying to increase the attractiveness of the RM role. (Figure 39) Although the importance of remuneration has dropped to 88% from 94% in last year's survey, it remains the most crucial element when it comes to attracting RMs.

Figure 39: Ranking of factors that increase the attractiveness of the relationship manager role



Note: New options were added in 2023, therefore previous years data is not available for those options.

However, remuneration is not the only factor, and relief of the administrative burden is a clear second when it comes to factors that increase the attractiveness of the RM role, according to member firms. This has remained consistent over the past few years.

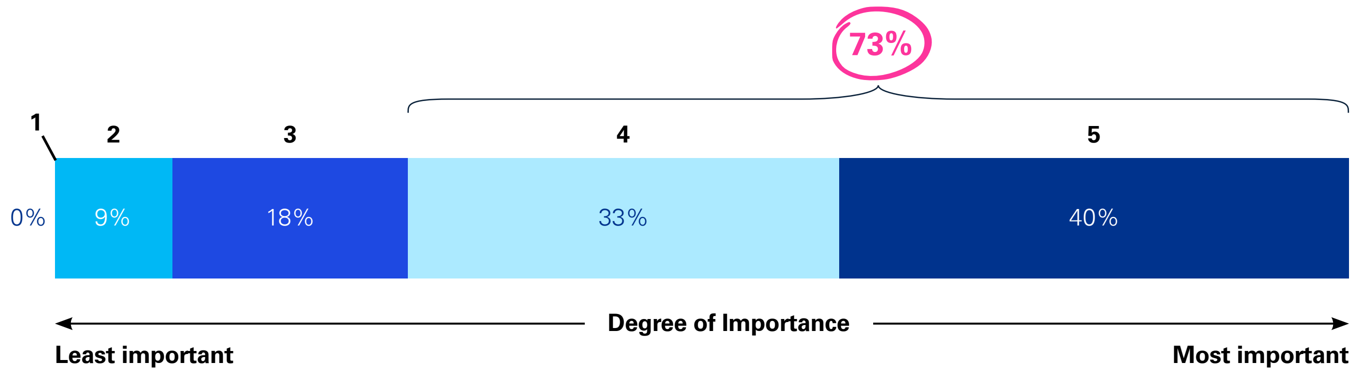
There has been a notable increase in member firms that say opportunities for personal development are important in the attractiveness of the RM role, mentioned by 45% of member firms compared with 33% last year, while a clear career path has also increased in importance. This suggests that more member firms are looking past remuneration and offering both career and personal development to their RMs as a way to attract and retain valuable member of staff.

Diversity & Inclusion

Diversity & Inclusion (D&I) has become an increasingly important consideration in the hiring process for financial services firms globally, and 73% of member firms said that they value D&I in the hiring process. (Figure 40)

A member firm highlighted that D&I is not just about gender and ethnicity, but also about hiring individuals from different backgrounds and encouraging diversity of opinions. In addition, well-being and work-life balance were mentioned as related elements to create a varied and inclusive workplace that will attract and retain quality talent.

Figure 40: The importance of diversity and inclusion in member firms' hiring process to their business success:



D&I is also viewed as an element in creating a working environment that will foster the growth of talent and help to retain the best talent. While remuneration is the most important factor in attracting and retaining staff, the employee experience -- being seen as a good place to work and develop a career – is an increasingly important factor.

One member firm noted that their D&I policies had been successful in attracting and retaining junior RMs who are often women with young families. This demographic has traditionally had a high turnover, but a more flexible environment and initiatives like mentoring new parents have increased retention rates.

Fewer people leaving the industry

While talent is a perennial issue across financial services, the private wealth management sector has seen some relief in the last year as the proportion of people leaving the industry has slowed. Last year, 53% of member firms reported that more talent was leaving the industry; this year the figure dropped to 30%. (Figure 41)

Of those leaving the industry in Hong Kong, fewer are leaving the city, compared with last year's results. Last year, 8% of those leaving the industry were remaining in Hong Kong, in this year's survey, 18% of those leaving the industry are staying in the city (Figure 42). This may reflect the return of normality in the Hong Kong's business and living environment now that the borders have reopened after the end of the Covid restrictions.

Some interviewees remarked on the Hong Kong Government's efforts since the end of Covid to promote Hong Kong as a place to work and visit, but added that more should be done to spread the word about the city's lifestyle benefits and career opportunities, to help attract the top talent needed to serve the private wealth management sector.

Figure 41: Do you feel that more talent is leaving the industry?

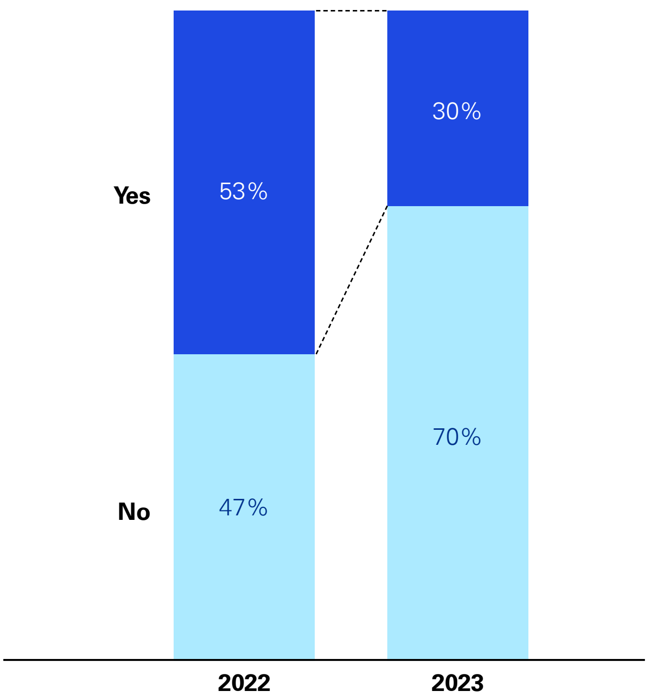
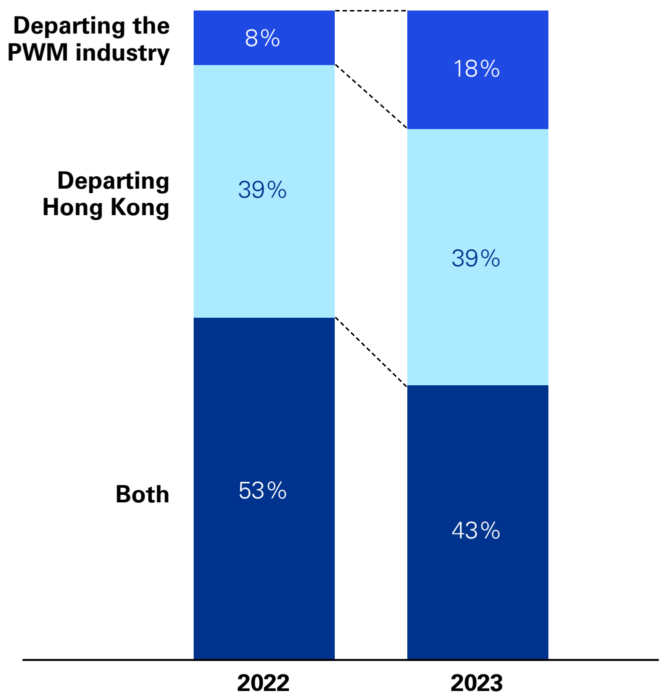


Figure 42: Are leavers departing the PWM industry, departing Hong Kong or both?



Key takeaways

Talent gap is most acute for RMs, who are most likely to be recruited from peer organisations

Talent leaving the industry has eased compared to the previous year

D&I becoming more important in hiring and retention

Actions

The industry should continue to work with stakeholders to build a pipeline of talent for the long-term

Besides remuneration, member firms should focus on the employee experience as a means to attract and retain talent

Member firms should consider taking a broad approach to D&I, such as offering more flexibility for new parents, which has helped to retain talent

About the PWMA

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

The main objectives of PWMA are:

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

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