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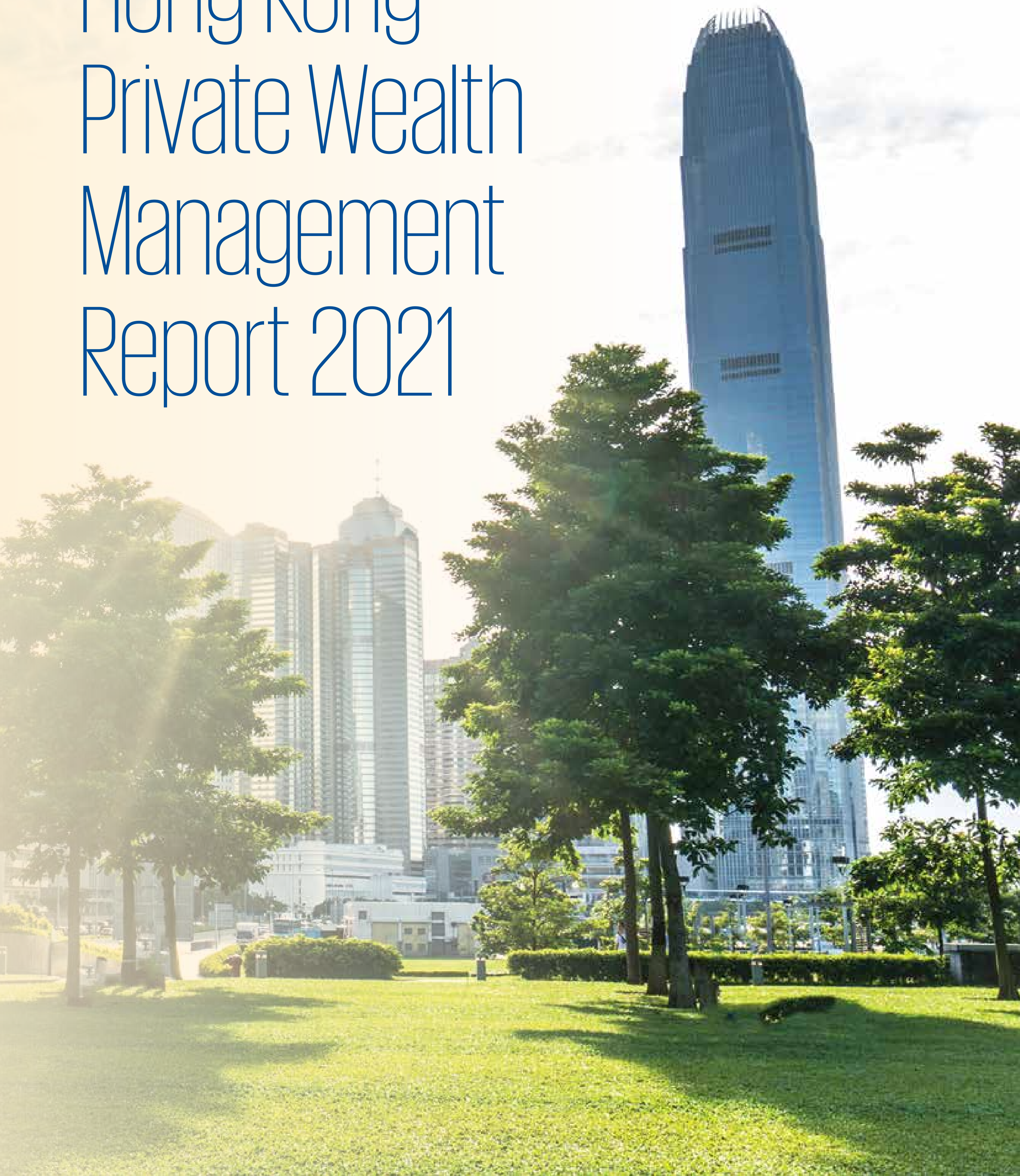
PWMA
Private Wealth Management Association

Hong Kong Private Wealth Management Report 2021



Contents

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Executive summary

Hong Kong's private wealth management industry is firmly in growth mode, with mainland China expansion, targeting the next generation and ESG investing viewed as key growth opportunities. Technology investment is increasingly significantly, with some resources being allocated to new – and most likely permanent – ways of working

Background

The sixth 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 current landscape and how the industry continues to manage ongoing 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 PWMA member institutions – of which 33 of the 42 members responded – and a survey of more than 280 clients of member institutions, as well as interviews with industry executives, regulators and other industry stakeholders in Hong Kong. Both surveys were conducted from June to July this year.

The findings show that Hong Kong's private wealth management (PWM) industry continues to grow at a healthy pace, despite ongoing challenges. Assets under management (AUM) have grown significantly year on year – driven by both robust growth in net new money and market return – while the industry has managed to maintain its level of service to clients throughout Covid-19. Client investment appetite is also expanding and there is an increasing interest in environmental, social and governance (ESG) and sustainable investing, virtual assets, and 'new economy' sectors.

Growth Drivers

Surveyed institutions are optimistic about the growth of Hong Kong's PWM industry, with mainland China both offshore and onshore – including the Greater Bay Area (GBA) – remaining a critical growth driver for the industry, and a major source of both current and future AUM. In particular, the industry views the GBA Wealth Management Connect scheme as a key development. The hope is that a successful rollout could lead to the potential expansion of the scheme to make it more relevant to PWM institutions and their clients.

Targeting the next generation of clients is also viewed as a significant growth opportunity; tailoring multi-channel offerings, self-service investment platforms and holistic wealth solutions will be essential in order to more effectively attract and serve this key segment.

Attracting family offices remains a key focus area, and there have been some positive developments in the last few years. InvestHK set up a dedicated team in June 2021 to promote family office business in Hong Kong, and the Securities and Futures Commission (SFC) in 2020 issued several helpful clarifications relevant to family offices. The industry hopes that further measures can be introduced to increase Hong Kong's competitiveness and attractiveness as a family office hub.

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The extent to which clients' digital expectations are being met remains fairly high, although there is still room for improvement, particularly around broadening the scope of online services and enabling a degree of self service and customisation. Overall investment in digital transformation is expected to increase significantly for the rest of this year and next year, with an emphasis on areas such as trading platforms, on-boarding solutions and compliance solutions, as well as on new ways of working.

Challenges

The challenging regulatory environment remains one of the biggest concerns for Hong Kong's PWM industry, with "know your customer" and anti-money laundering rules, sales practices and suitability being key pain points for both PWM institutions and their clients. However, interviewees do acknowledge the efforts of the regulators in Hong Kong in seeking to balance growth and investor protection. There is also an opportunity for PWM firms to trial or adopt Regtech solutions – across a range of application areas – to enhance risk management and compliance, reduce costs and improve customer experience.

The supply of PWM talent has grown at a slightly faster rate in previous years, with relationship managers (RMs), product specialists, and IT and digital specialists viewed as the key roles where gaps remain. Interviewees pointed out that while the overall supply of RMs may be increasing, this is likely to consist of younger, less experienced talent, as they have observed more senior RMs retiring early or leaving the industry altogether. Focusing on creating attractive remuneration packages and resolving administrative inefficiencies, as well as on providing opportunities for personal development, will be essential to attract and retain top RM talent.

Looking Forward

With Hong Kong's PWM industry showing a healthy growth trajectory and clients' investment outlook improving, this is an opportune time for PWM institutions to focus on key growth opportunities and accelerate their investment in digital transformation to increase efficiency, manage costs, enhance the client experience and support new ways of working. This includes developing and offering new ESG and yield enhancing products, tailoring multi-channel offerings and holistic wealth solutions to effectively attract and serve the next generation of clients, and implementing new strategies to acquire new clients, particularly in mainland China. PWM institutions that are able to capitalise on these growth opportunities, transform their operating models to adapt to a rapidly evolving business landscape and nurture suitable talent in critical growth areas such as IT/digital, ESG and virtual assets will be well-placed for success.

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

Key findings

Hong Kong's private wealth management industry is showing **healthy growth**, continued investment return and net new inflows, with clients' investment outlook improving. **ESG investing has become a core theme for the industry**

The **challenging regulatory environment** remains a key industry concern

Mainland China remains a significant growth opportunity for Hong Kong's PWM industry, while targeting the **next generation of clients and attracting family offices** are becoming increasingly important

Talent supply continues to increase, although skills gaps remain. **Flexible working** is set to become permanent

The extent to which clients' digital expectations are being met remains fairly high, although there is still room for improvement. **Investment in technology** is increasing significantly to enhance the front office and compliance, as well as to **support new ways of working**

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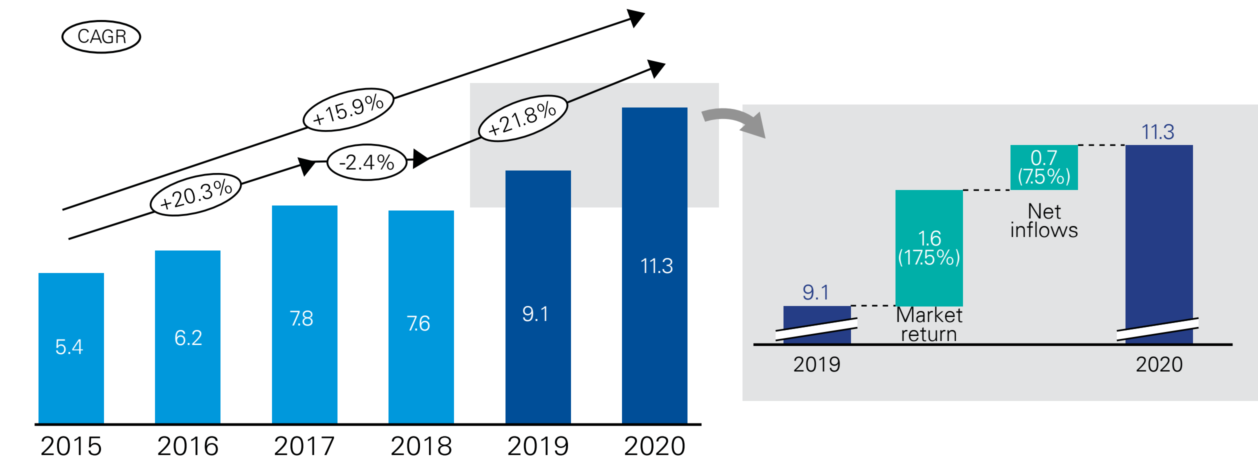
Industry overview

Hong Kong's private wealth management industry is showing healthy growth, continued investment return and net new inflows, with clients' investment outlook improving. ESG investing has become a core theme for the industry

Despite a challenging environment that continues to affect the macroeconomic outlook, Hong Kong's private wealth management (PWM) industry is firmly in growth mode. Industry assets under management (AUM) increased significantly year on year by 25% to HKD 11.3 trillion in 2020, up from HKD 9.1 trillion in 2019 (Figure 1).[1]

Net fund inflows to the Hong Kong PWM industry amounted to HKD 656 billion in 2020 (about 7.5% of December 2019 AUM) which, combined with a 17.5% return on assets, led to significant AUM growth. Surveyed PWMA member firms said that on average, 41% of their AUM is currently sourced from mainland China, up from 40% in 2020, indicating mainland China inflows may have helped boost overall AUM.

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



Note: Figures may not sum due to rounding
Source: SFC Asset and Wealth Management Activities Survey 2020

[1] 'Asset and Wealth Management Activities Survey 2020', SFC, July 2021

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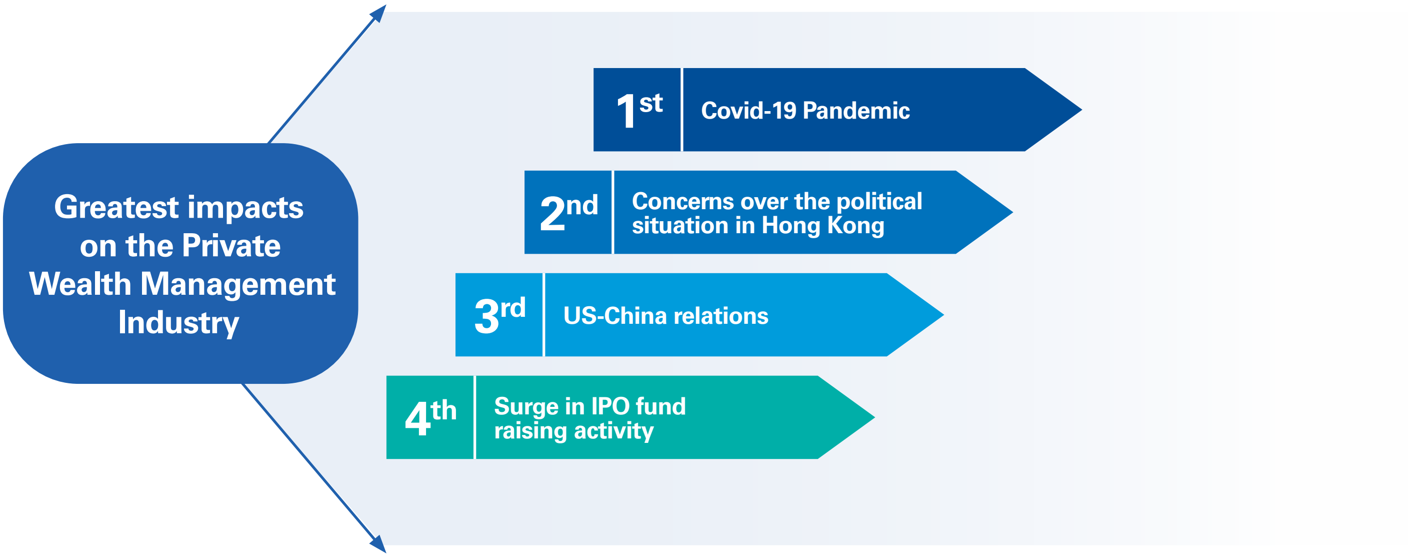
Figure 2: Events with the greatest impact on the PWM industry



Ranked 5th : 'Other'
Source: PWMA Member Survey; KPMG analysis

This is consistent with the industry's view that mainland China continues to be one of the key growth opportunities. The net new inflow is slightly less than 2019 – HKD 681 billion – but still a strong performance given the challenging environment.

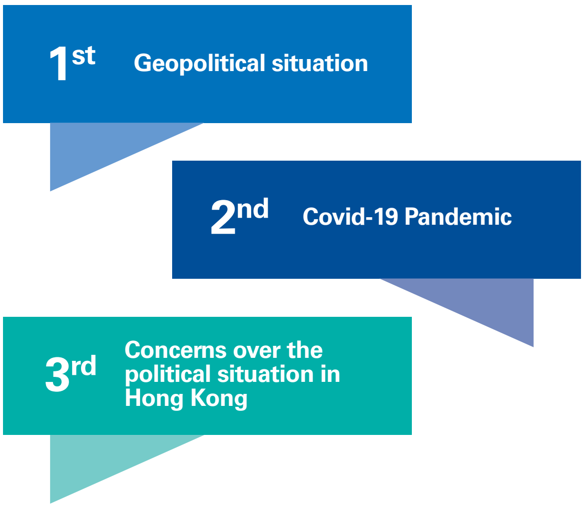
Meanwhile, the number of high-net-worth individuals (HNWIs) – defined as individuals with more than USD 1 million in investable assets – in Hong Kong increased by 9.6% to 188,000 from 2019 to 2020.[2]

Covid-19 remains the macro trend that is having the greatest impact on PWMA members, while the geopolitical situation is weighing heavily on clients' outlook

Consistent with last year's report, Covid-19 remains the key macro trend that is having the greatest impact on the PWM industry, according to surveyed member institutions. This was followed by 'concerns over the political situation in Hong Kong' and 'US-China relations' (Figure 2).

For surveyed clients, the current geopolitical situation is viewed as having the greatest impact on their investment outlook and risk tolerance, followed by Covid-19 and 'concerns over the political situation in Hong Kong' (Figure 3).

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



Ranked 4th: 'Other'
Source: PWMA Member Survey; KPMG analysis

[2] 'World Wealth Report 2021', Capgemini, June 2021

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Changing investment strategies

Surveyed clients of member institutions willingness to take on investment risk across all asset classes in the next 12 months has increased over the past year, with 42% saying that their risk appetite has significantly or slightly increased, compared to 29% in 2020 (Figure 4). Interviewees from PWMA member firms also added that they have observed more trading activity over the past year, with many clients interested in equities and alternative investments.

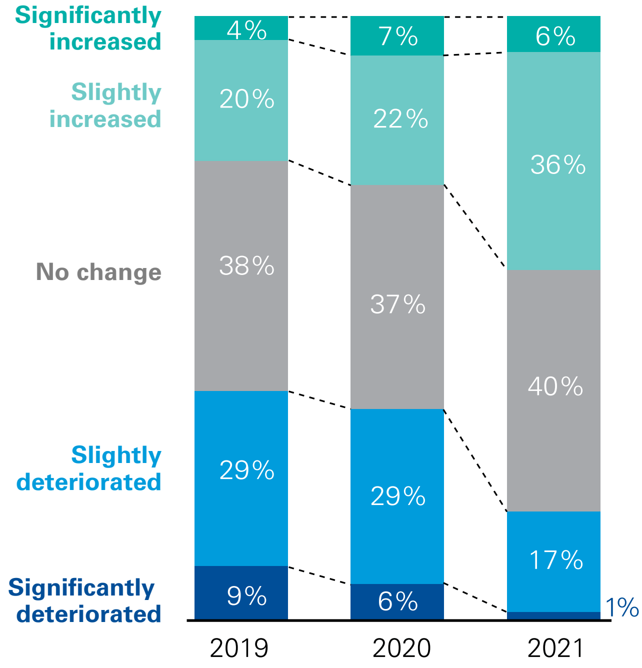
This significant 45% year-on-year increase in PWM AUM in listed equities (Figure 5) is indicative of Hong Kong's vibrant IPO market in 2020, which raised HKD 398 billion, the highest amount raised in a single year since 2010. The move toward equities is also consistent with surveyed clients' increased willingness to take on investment risk, as well as to enhance yield in a low interest rate environment, which was highlighted as their most important investment objective (Figure 6). Furthermore, while the overall AUM in managed accounts remains relatively small, the 36% year-on-year increase is a significant indicator that many banks are focusing on this offering.

'New sector focus (e.g. biotech, healthcare, tech, education)' is also a key investment objective for surveyed clients (Figure 6). However, the client survey was conducted in June and July 2021, and there has been increasing regulatory focus on certain new economy sectors in mainland China, which may have an impact on this objective and clients' investment outlook and priorities going forward. Clients and PWM institutions will need to carefully assess how these sectors or companies are positioned with regard to the overall direction of national economic development plans.

ESG coming to the fore: With ESG and sustainable investing an increasingly important area, there remains a real need for PWM institutions to invest in enhancing their capabilities

Environmental, social and governance (ESG) and sustainable investing is fast becoming a core and indisputable theme for the PWM industry, with 97% of surveyed member institutions agreeing that providing sustainable investing advice and related products is increasingly important to clients.

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



Source: PWMA Client Survey; KPMG analysis

"A few years ago, clients were talking about ESG but not taking action. Clients have since seen investment returns and real investment propositions associated with ESG investing, and are now turning talk into action and investing in these concepts. In a few years, we believe that a client's entire portfolio could be subject to ESG criteria."

-Interviewee from a PWM institution

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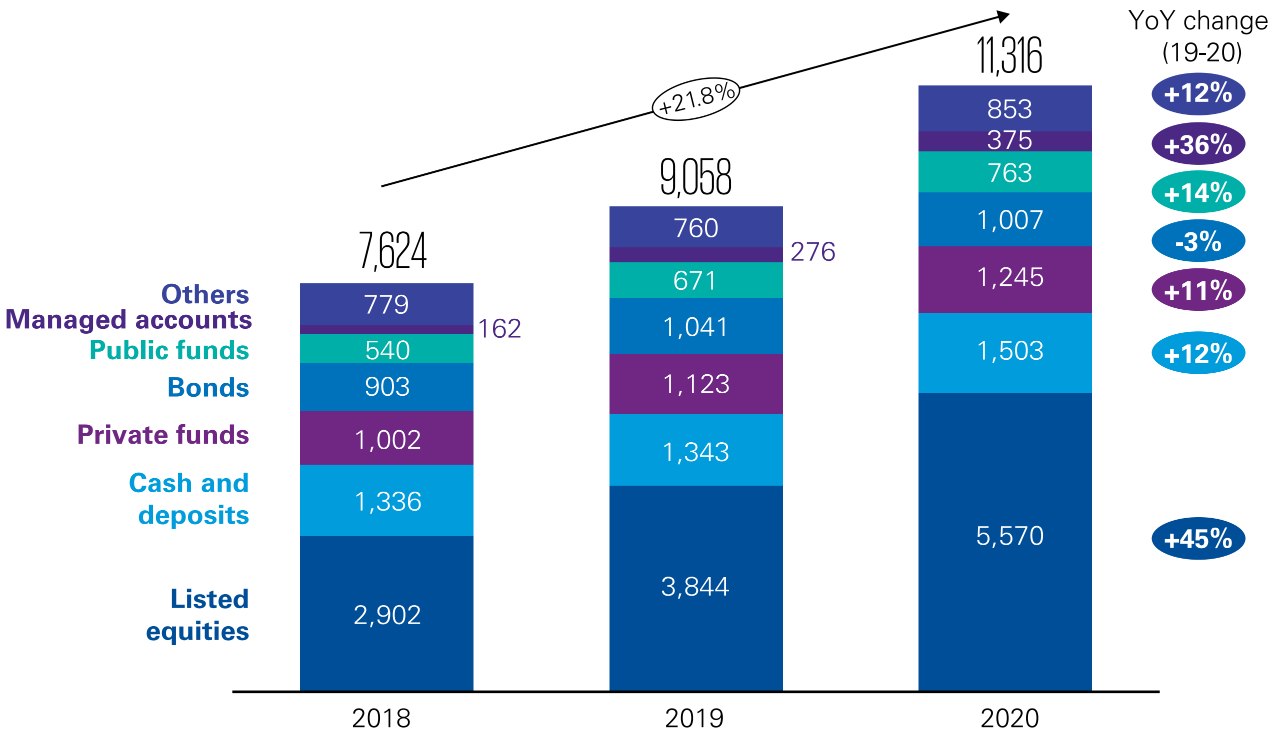
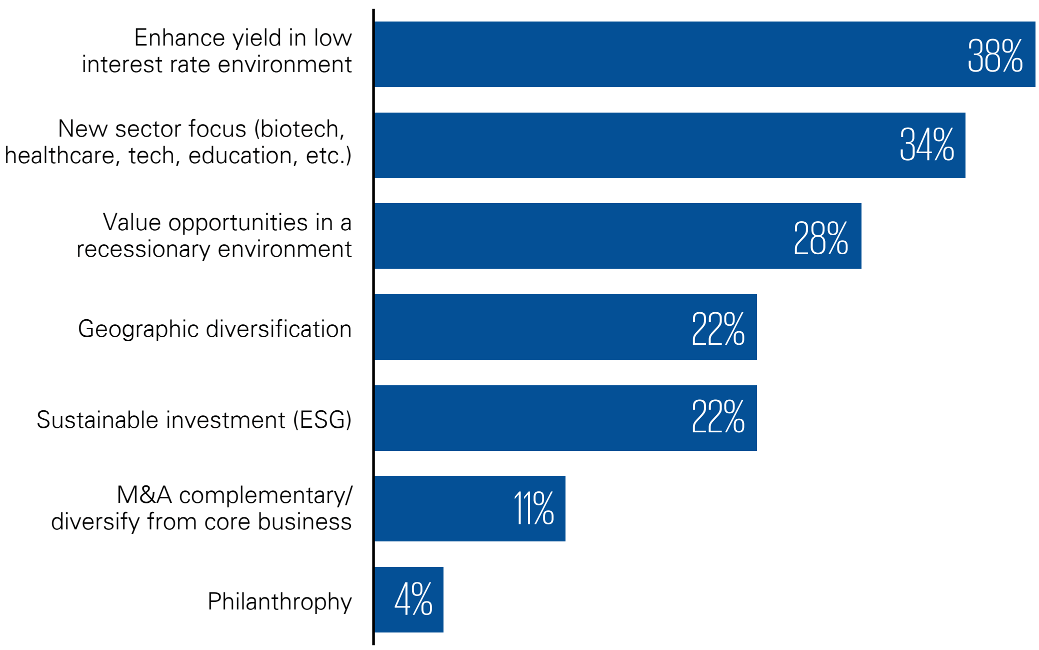
Figure 5: PWM AUM by asset and product type 2018-2020 (HKD billion)



Source: SFC Asset and Wealth Management Activities Survey 2019, 2020

Figure 6: Overall investment focus amid recent macroeconomic uncertainty



Note: Respondents were allowed to select more than one option
Source: PWMA Client Survey; KPMG analysis

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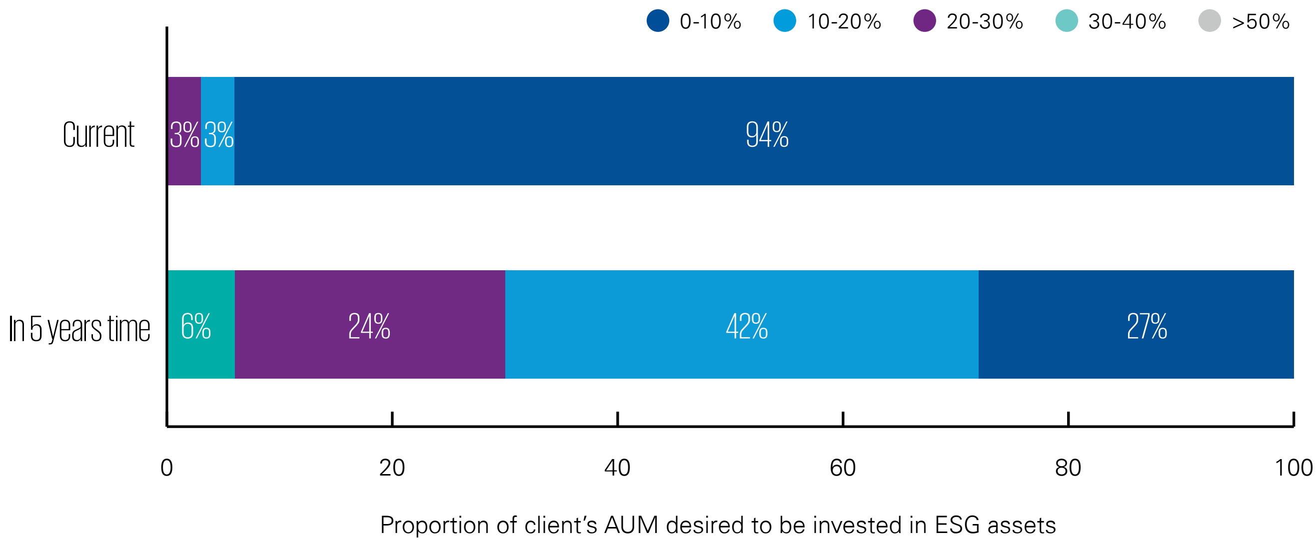
Figure 7: Proportion of organisations' AUM invested in ESG (currently and in five years)



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

PWMA members firms are expecting a significant shift into ESG investments in the medium term. Currently, only 6% of surveyed member institutions have more than 10% of their AUM in ESG investments. However, in five years, 72% of surveyed member institutions believe more than 10% of their AUM will be in ESG investments (Figure 7). 'New relevant products' and 'more client education' are viewed as the key areas of focus for PWM institutions to further develop the level of AUM in ESG investments.

From the surveyed clients' perspective, 47% want more than 10% of their portfolio invested in ESG, indicating that a gap exists between what clients want and what PWM institutions are currently offering in this space (Figure 8). The introduction of new relevant products, coupled with more client education, would help to bridge that gap while raising awareness of ESG products, strategies and standards.

One interviewee from a large PWM institution highlighted that while the degree of client interest in ESG and sustainable investing may vary, there is no reason why all investments cannot be viewed through some sort of ESG lens in the future.

As barriers to investing in virtual assets are removed, PWM firms need to consider how to proceed in this space, or risk clients bypassing them

The past year has also seen an increasing focus on virtual assets worldwide, including in Hong Kong. 69% of surveyed member institutions agree that their clients are increasingly interested in cryptocurrencies such as Bitcoin and other virtual assets. While interest is increasing, PWM clients and institutions alike are adopting a cautious approach to this emerging asset class. 51% of surveyed clients want less than 1% of their portfolio invested in virtual assets while a reasonable proportion (23%) are seeking more than 5% of their portfolio invested in this asset class (Figure 9).

However, 97% of surveyed PWM institutions currently do not allow for custody and trading of cryptocurrencies and other virtual assets. This is likely to change over time as 29% are actively considering whether to allow custody and trading of virtual assets.

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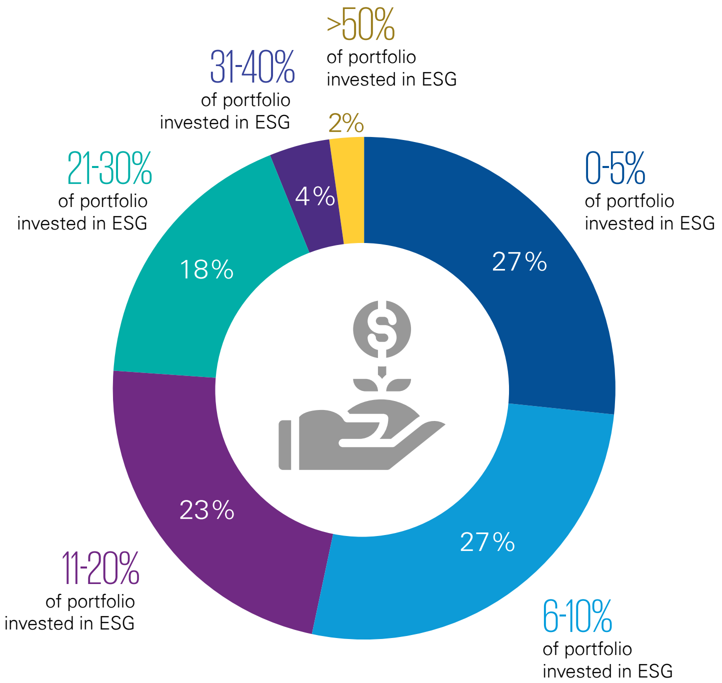
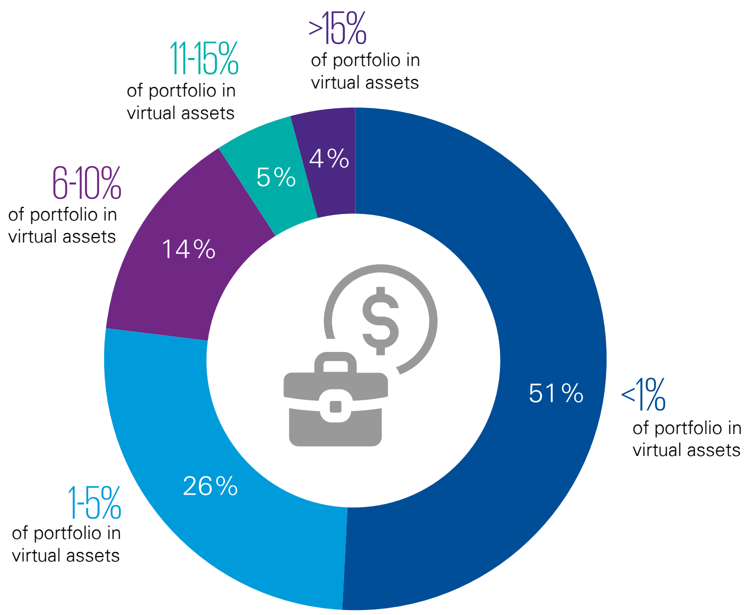
Figure 8: Proportion of portfolio that clients want to be invested in ESG



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

Figure 9: Proportion of portfolio that clients want to be invested in virtual assets



Source: PWMA Client Survey; KPMG analysis

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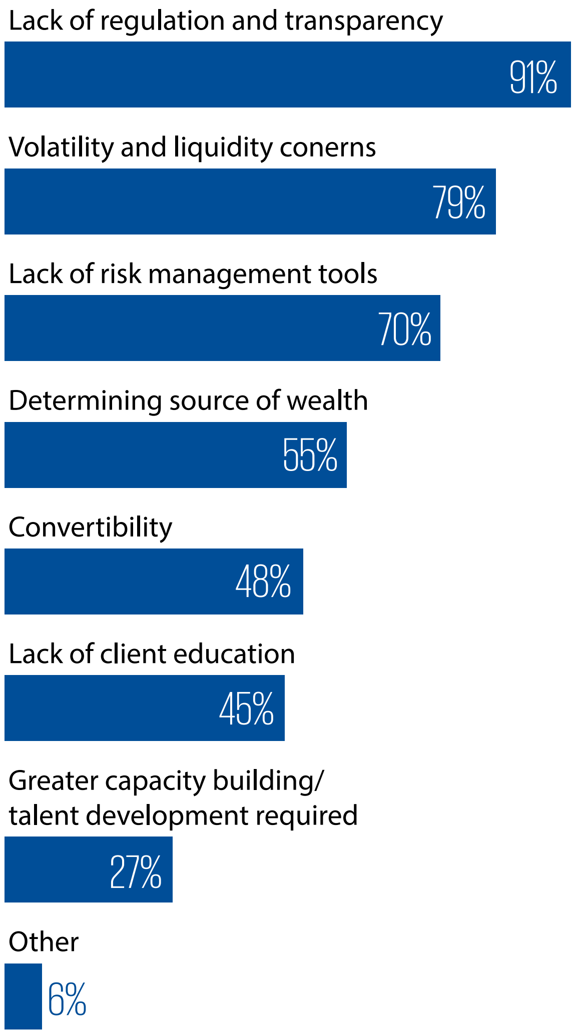
According to surveyed PWMA member firms, the top three main barriers to greater investment in virtual assets are 'lack of regulation and transparency', 'volatility and liquidity concerns' and a 'lack of risk management tools' (Figure 10). Virtual assets are a growing area of focus for Hong Kong's regulators, with the Securities and Futures Commission (SFC) introducing new licensing requirements for virtual asset trading platforms and taking steps to bring virtual assets under its regulatory purview. One interviewee from a virtual assets trading platform voiced their support for increased regulation in this space, adding that it would help to address some clients' risk concerns, while maintaining a level playing field for virtual assets within a regulatory framework.

Figure 10: Barriers to greater investment in virtual assets



Note: Respondents were allowed to select more than one option
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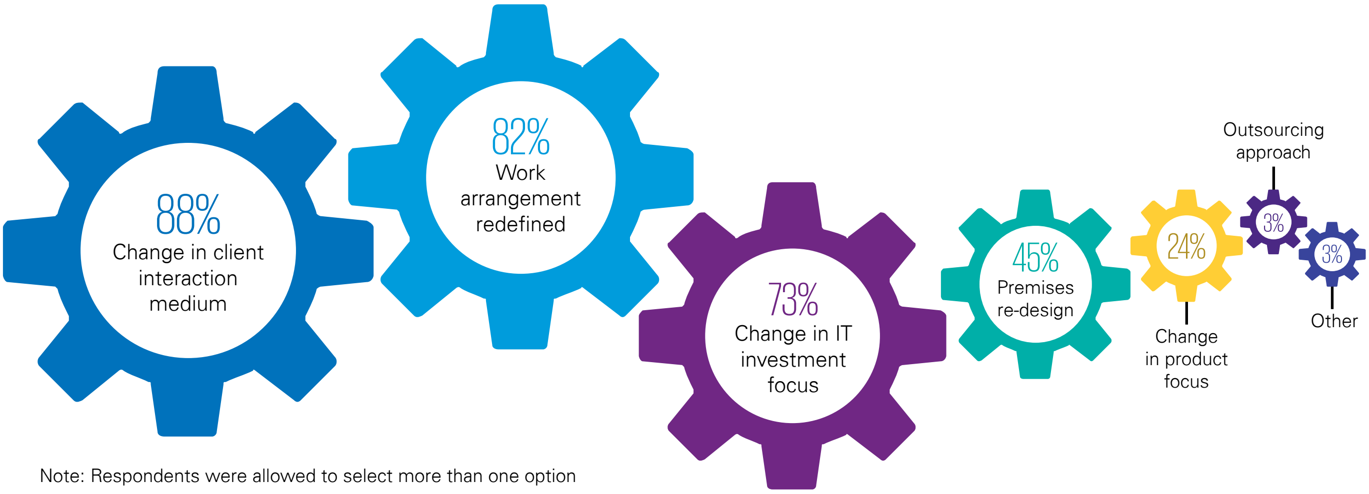
PWM firms have continued to serve their existing clients well during Covid-19, with operating models set to change

Surveyed clients say they have been well served by their private wealth manager during the extended period of working from home related to Covid-19, with 80% saying their private wealth managers are exceeding or meeting their expectations, and 16% saying their expectations are mostly being met. This is in line with the findings from last year's report, suggesting that PWM institutions have managed to maintain their level of service throughout the pandemic.

The prolonged recovery from Covid-19 and the significant impact it continues to have on business and society are likely to have long-term implications on PWM firms' operating models. Surveyed member institutions identified 'change in client interaction medium' as the main long-term implication, followed by 'work arrangement redefined' and 'change in IT investment focus' (Figure 11).

Figure 11: Long-term implications of Covid-19 on operating models



Note: Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

Key takeaways

Embedding ESG into client offerings

Introduce new products and focus more on **client education and outreach to further develop the level of AUM in ESG investments.** More broadly, seek to embed ESG into the advisory framework, which entails focusing not just on relevant product offerings, but also on ESG standards and measurement, research and capacity building

Growing interest in virtual assets

As barriers to investing in virtual assets are removed, consider **allowing custody and trading of virtual assets** to meet growing client demand with reference to evolving regulatory guidance and internal risk appetite

Operating model transformation

Continue the **transformation of operating models,** which Covid-19 accelerated, to become more **digitally enabled**, support new ways of working and improve client engagement across multiple channels

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Growing the market

Mainland China remains a significant growth opportunity for Hong Kong's PWM industry, while targeting the next generation of clients and attracting family offices are increasingly important

More optimism about industry growth, although margins expected to remain the same

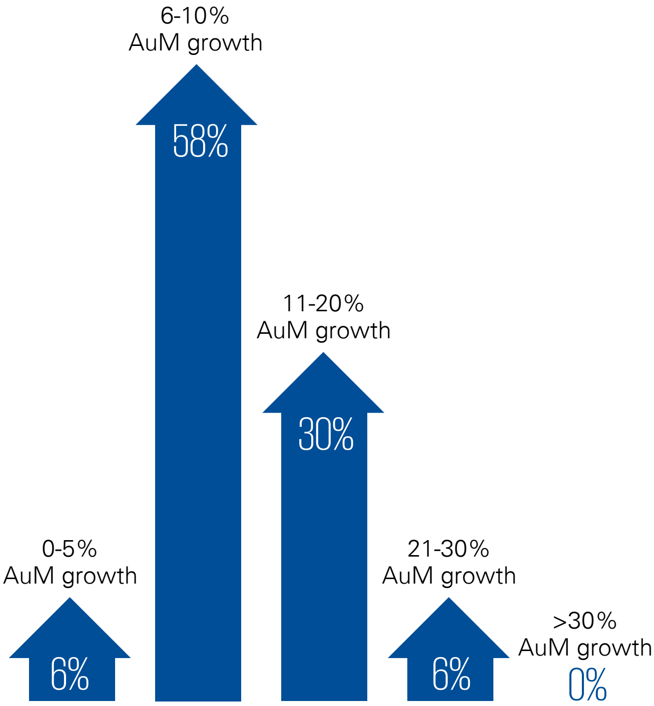
There is continued optimism about the growth of Hong Kong's PWM industry, which is broadly in line with last year. Over the next five years, the majority of surveyed member institutions (58%) expect industry AUM to grow by 6-10% CAGR (Figure 12). Others are more bullish, with 30% expecting industry AUM to grow by 11-20% CAGR and 6% by 21-30% CAGR. Industry margins are expected to remain similar to current levels, with slight downward pressure.

PWM firms have done well to grow their AUM. Interviewees from PWM institutions note that the growth in their organisations' AUM has come primarily from existing clients. Cultivating new clients and building new relationships have been challenging due to travel restrictions as a result of Covid-19, which has hampered the ability to meet prospective clients in person. This reduction in new clients could present challenges for future growth.

Targeting the next generation the largest growth opportunity

'Targeting the 2nd (or 3rd) generation' was identified as the biggest opportunity to grow the Hong Kong PWM market, according to 85% of

Figure 12: Expected annual growth in industry AUM in the next five years



Source: PWMA Member Survey; KPMG analysis

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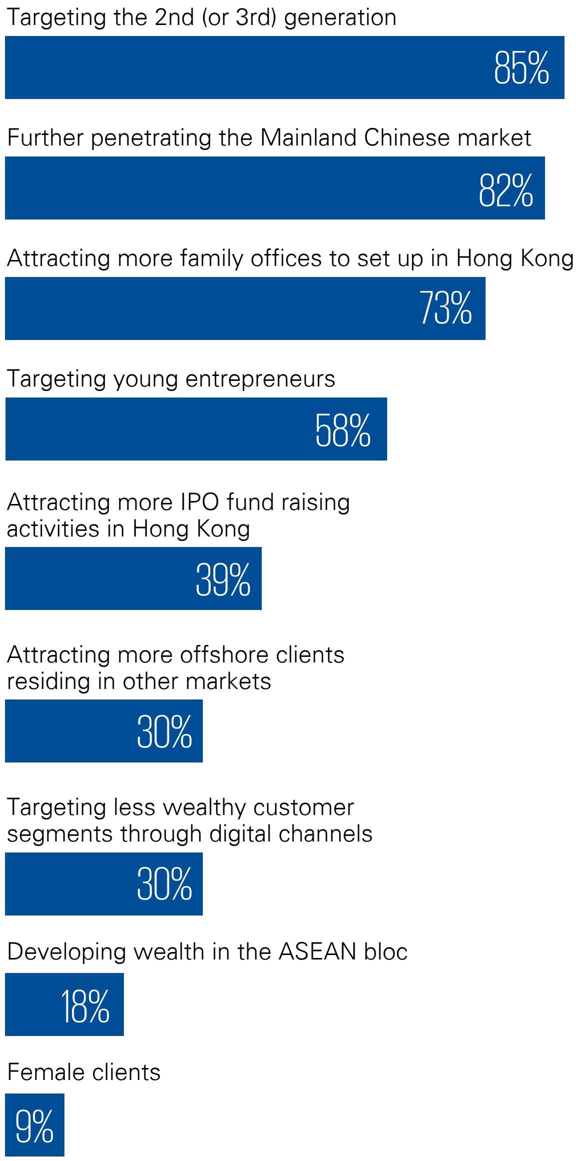
surveyed member institutions, followed by 'further penetrating the mainland Chinese market' (82%) and 'attracting more family offices to set up in Hong Kong' (73%) (Figure 13).

Several interviewees from PWM institutions noted that their clients have been focusing a lot more on wealth and succession planning, as Covid-19 has led to reduced travel and therefore more time to consider wealth planning than in previous years.

However, 40% of member institutions feel that current industry practices in private wealth management are not well suited to the next generation of PWM clients, suggesting that more needs to be done to serve their needs properly.

The top three attributes to attract the next generation of clients are 'holistic digital ecosystem/ multi-channel delivery', 'self-service investment platforms' and 'holistic wealth solutions', according to surveyed member institutions. Survey and interview insights reveal that PWMA member institutions are focusing more on digital transformation, and plan to ramp up investment in digital offerings and ways of working. Hong Kong's regulators also continue to encourage the adoption of technology in financial services. For example, the Hong Kong Monetary Authority (HKMA) launched its 'Fintech 2025' strategy in June this year to drive fintech development in the financial services industry, enhance and create new data infrastructure, and nurture fintech talent. This increased focus on digital transformation and development should position the PWM industry well to cater to the next generation of clients.

Figure 13: Most popular ways to grow the Hong Kong PWM industry



Note: Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

> ***I have seen a slowdown in new account openings due to Covid-19. While existing clients are providing a larger share of their wallet, opening new accounts and bringing in net new assets is becoming more challenging because you need to meet those new clients face to face and conduct due diligence.***
>
> **-Interviewee from a PWM institution**

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Mainland China – including the Greater Bay Area – remains a key growth driver

Mainland China remains a significant opportunity to grow the Hong Kong PWM industry, both onshore and offshore. Surveyed member institutions indicated that on average, 41% of AUM is currently sourced from mainland China, slightly up from 40% in 2020 (Figure 14). This figure is expected to increase to 51% in five years, emphasising the growing significance of mainland China to Hong Kong's PWM industry. Hong Kong continues to be a top destination for IPOs, reaching a historic high in terms of total proceeds for the first half of 2021, driven by the listings of Chinese 'new economy' companies – which refers to high-tech innovative services-driven businesses.[3] 82% of surveyed PWM firms are also seeing a shift to the new economy as a source of new money. It is expected that Hong Kong will continue to benefit from this burgeoning IPO activity in the coming year.

The Greater Bay Area (GBA) remains a key focus for Hong Kong PWM institutions as part of their overall China and growth strategies. 71% of member institutions see the GBA initiative as being important to their offshore business in the next 12 months, while 18% have a neutral view.

The GBA Wealth Management Connect is a good start, but more changes needed to make it more relevant for the PWM industry

A key development in the GBA is the launch of the Wealth Management Connect scheme, which was jointly announced by the People's Bank of China, the HKMA and the Monetary Authority of Macao on 10 September 2021.

Indeed, while interviewees acknowledged that GBA Wealth Management Connect is a key development, they noted that the scheme in its current form is not wholly relevant for the PWM industry. Surveyed PWM institutions highlighted 'greater quota size/freer conversion of funds', 'wider range of products' and 'harmonisation of investment selling rules and regulation across the GBA' as the top three key areas that would make the scheme more relevant to the PWM industry.

[3] 'Mainland China and Hong Kong IPO markets 2021 mid-year review', KPMG China, June 2021

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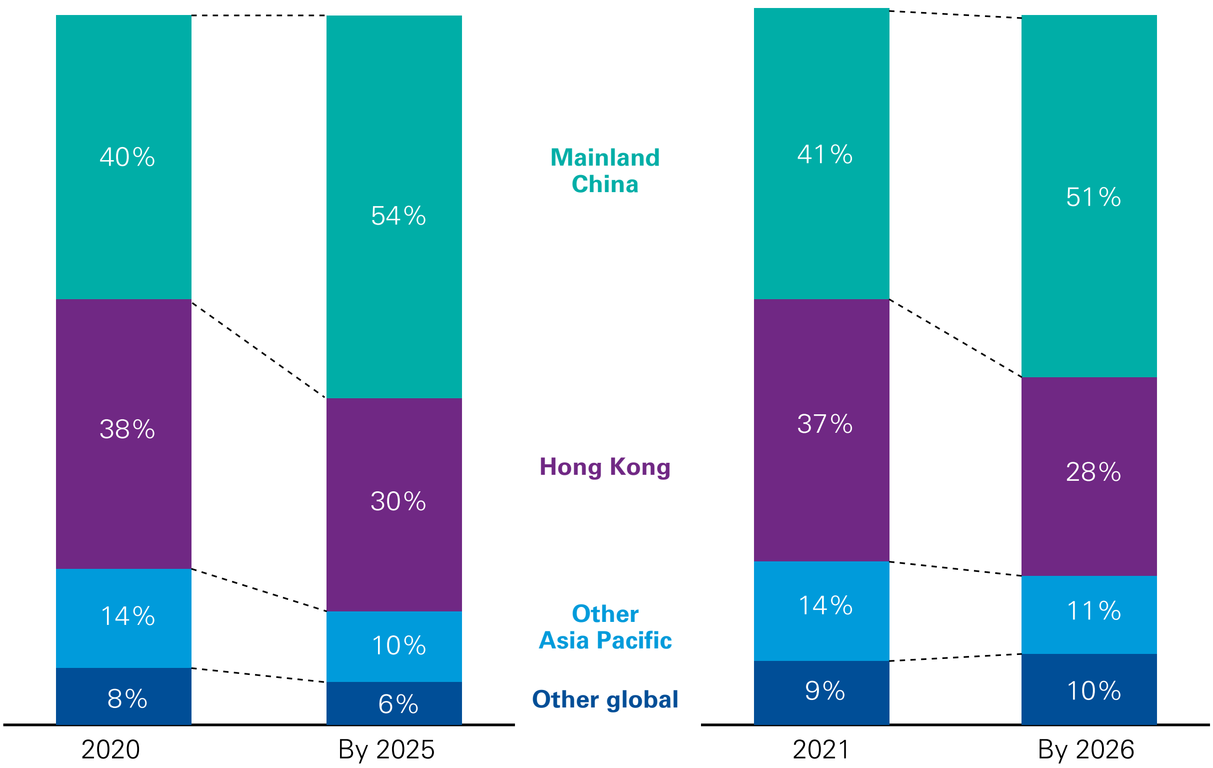
Expanding onshore in mainland China is also a key development area for many PWM institutions in Hong Kong, with interviewees viewing the onshore business as complementary to their business in Hong Kong, rather than competitive. 27% of surveyed member institutions are planning to invest in an onshore entity in mainland China, while 39% have already set up. One interviewee highlighted that having an onshore presence in mainland China allows their institution to obtain licences to manufacture RMB products, broadening their RMB product platform, and therefore enabling their business to capture RMB investment activity.

Figure 14: Hong Kong-based AUM for the PWM industry by origin



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

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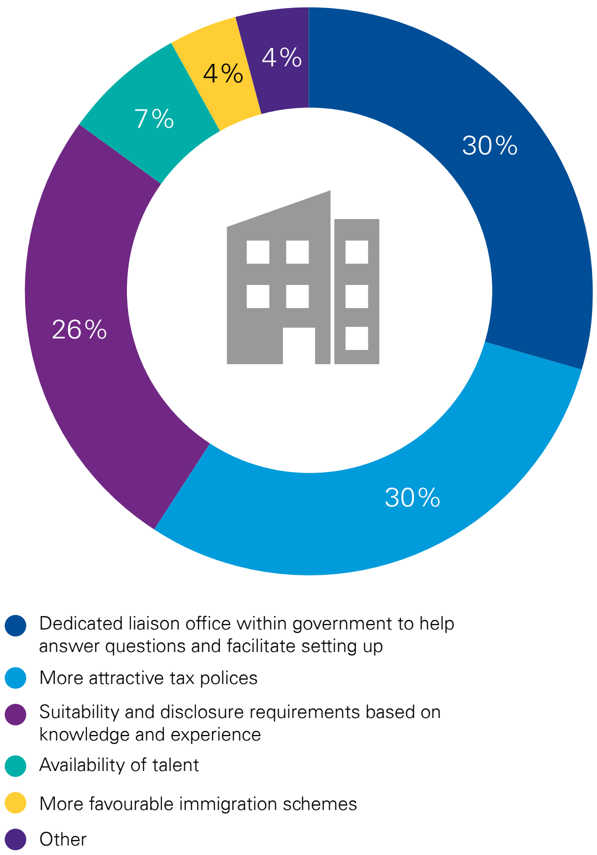
Attracting family offices is a key focus area to grow the PWM industry, but more needs to be done

Attracting family offices to Hong Kong is also a growing area of focus for the industry. There have been some positive developments over the the past few years, such as SFC clarifications on licensing and regulatory requirements affecting family offices and InvestHK setting up a dedicated team in June 2021 to promote family office business in Hong Kong.

77% of surveyed PWM institutions agree that family offices are an increasing source of business for their organisation. However, interviewees generally feel that more needs to be done to make Hong Kong a more attractive centre for family offices in Asia, particularly around more regulatory clarity and the introduction of tax incentives. Figure 15 shows the measures that surveyed PWMA member institutions indicated would help to attract family offices to Hong Kong. The most effective measure was cited as 'dedicated liaison office within government to help answer questions and facilitate setting up', and the setup of InvestHK's dedicated family office team is a positive sign that the first measure is being addressed. The Government and other industry stakeholders should continue to assess the further reforms needed to make Hong Kong an attractive destination for family offices.

Figure 15: Most effective measures to attract family offices



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Key takeaways

Omnichannel approach
Given the significant growth opportunity from the next generation of PWM clients, **tailor multi-channel offerings, self-service investment platforms and holistic wealth solutions** to more effectively attract and serve this segment

Innovative client acquisition
Consider **strategies to acquire new clients** – particularly in mainland China – in the short term given the current challenges faced by the industry due to travel restrictions

Develop the GBA
Industry to **maintain dialogue and work closely with regulators** on rules to make GBA Wealth Management Connect more relevant to the PWM industry

Attract family offices
PWM industry to continue to **work closely with the Government and regulators** to build on recent initiatives and seek out additional measures to attract family offices to Hong Kong

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Technology

The extent to which clients' digital expectations are being met remains fairly high, although there is still room for improvement. Investment in technology is increasing significantly in the front office and compliance, as well as to support new ways of working

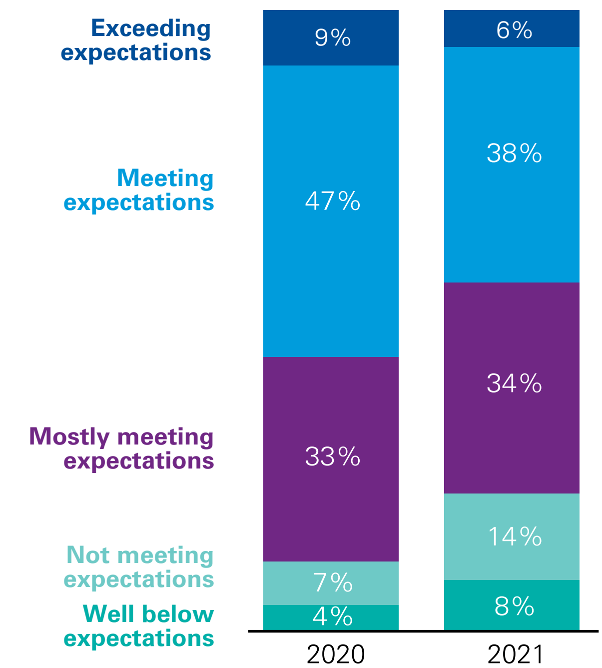
The proportion of clients whose digital expectations are being met is broadly similar to last year

Surveyed member institutions feel that their digital offerings are meeting client expectations with regard to the viewing of portfolio and statements, banking services (deposit and loan booking, personal information changes), securities trading, FX trading, research portal and payment services. Areas for improvement include robo-advisory services, crypto product trading, chatbots, and portfolio and data consolidation across banks.

For their part, 44% of surveyed clients say that their digital expectations are being met or exceeded by their private wealth manager – slightly lower than last year – and a further 34% note that their expectations are mostly being met (Figure 16). Surveyed clients noted that the top three most useful digital improvements they have observed from their private wealth manager over the last year are 'portfolio statements view and interaction', 'communication through 3rd party channels (e.g. WeChat, WhatsApp)' and 'access to global research'.

However, with 78% of surveyed clients saying that their digital expectations are being met, this also means that nearly one-quarter of clients feel that their expectations are not being met. For those clients whose expectations are not being met, the top three

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



Source: PWMA Member Survey, KPMG analysis

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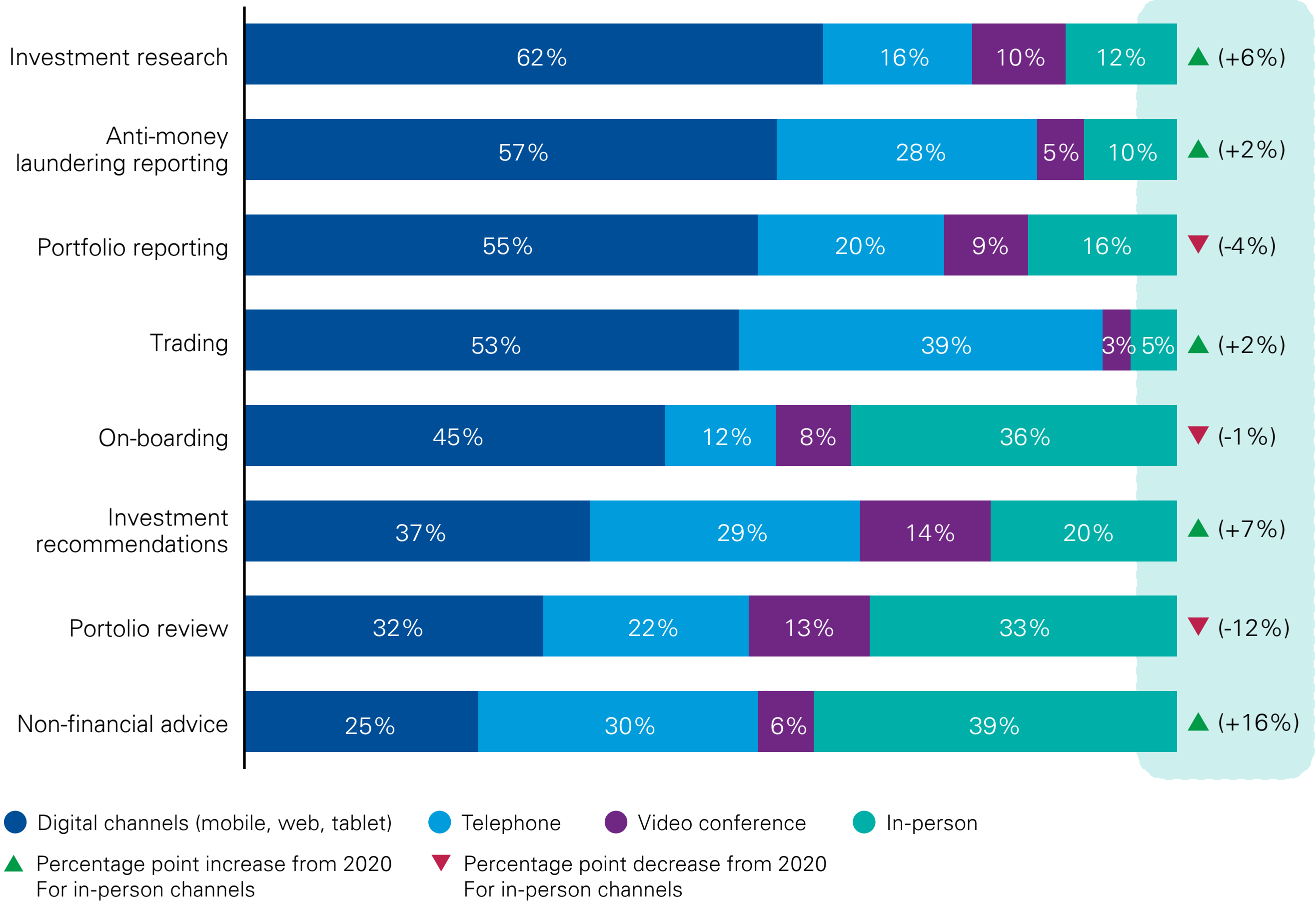
areas where the most improvement is needed are 'scope of online services', 'degree of self service' and 'access to real-time data and information'.

Client preferences of delivery across the advisory process vary, but there is a strong view that more client engagement will be digital in five years

PWM clients' digital preferences and expectations vary significantly across the advisory process. There is a preference for investment research, anti-money laundering (AML) reporting, portfolio reporting and trading to be delivered primarily through digital channels, while in-person is the preferred medium for portfolio reviews and non-financial advice (Figure 17). There has been a notable increase in preference among clients for on-boarding to be conducted via digital channels (45% in 2021 compared to 28% in 2020).

Overall, some areas of the advisory process have seen a year-on-year increase in client preference for non-physical channels of delivery (e.g. digital, telephone, video conference), such as for portfolio reviews (up 12 percentage points year on year) and portfolio reporting (up 4 percentage points year on year), as the impact of Covid-19 seems to have also made clients more comfortable with using video conferences or telephone. Interestingly, many PWM clients have traditionally preferred face-to-face interaction for certain processes, and Hong Kong's ongoing recovery from the pandemic may have made some clients more comfortable with conducting meetings in person again. For example, the number of surveyed clients who prefer to receive 'non-financial advice' and 'investment recommendations' in person has increased by 16 percentage points and 7 percentage points respectively from last year.

Figure 17: Preferred mode of delivery across the advisory process



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

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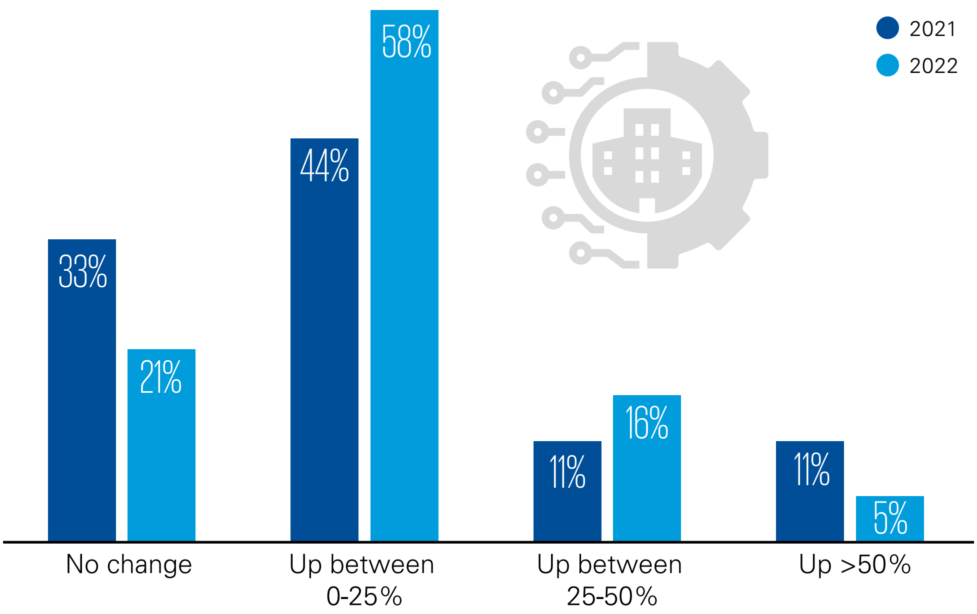
Figure 18: Expected year-on-year change in investment in digital transformation in 2021 and 2022 compared to 2020



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

Figure 19: Digital transformation areas where investment has increased the most year on year

Note: Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

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While surveyed clients have provided a mixed view, PWM institutions believe that there will be an increasing shift to digital channels. 64% of surveyed member institutions (compared to 50% in 2020) say 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.

Regulators in Hong Kong also share this view. "The Covid-19 pandemic has accelerated digital transformation of banks, and Private Banks are no exception. Digitalisation will complement banks' traditional business model, including client-driven roles, to enhance the customer experience rather than replace human interaction," says the HKMA. "Digital Onboarding/Know Your Customer (KYC) is one example of digital initiatives being pushed to the top of banks' agenda due to the pandemic. As evidenced by the progress made by retail banks and virtual banks in Hong Kong, client onboarding can be partly or fully automated through electronic channels such as mobile applications or the internet."

Investment in technology increasing significantly, with a focus on the front office and compliance solutions

Overall investment in digital transformation among surveyed PWMA member firms is expected to increase at a healthy rate (Figure 18). More than two-thirds of surveyed institutions are seeing an increase in investment in digital transformation in 2021, with 79% expecting an increase in 2022. Compared to 2020, surveyed member institutions have increased their year-on-year investment the most in digital transformation areas such as trading platforms, KYC solutions and compliance solutions (Figure 19).

In terms of digital investment, the three key priorities for digital capability build are 'increase focus on digital experience design for clients and RMs', 'ability to allow interactions/transactions across digital and RM channels in a seamless manner', and 'enhanced connectivity of front office and back office with digital connectors'.

However, there are challenges that need to be addressed. Surveyed member institutions note that the top three hurdles for managing organisations' digital transformation strategies are 'resource allocation (i.e. people, manhours)', 'prioritisation on business asks' and 'budgeting and cost constraints'.

The importance of investing in digital capabilities remains key not just to drive growth, but also to better manage costs in a challenging business environment. Surveyed PWM institutions said that 'investing in automation/straight-through processing' and 'accelerating digitisation efforts' are their key priorities in order to streamline costs, in line with last year.

"Besides customer-facing solutions, banks are also investing in digital tools to better support relationship managers in providing a customer-centric and personalised experience to their clients in order to remain competitive. Artificial Intelligence and Data Analytics can help apply a qualitative lens to a combination of internal and external data to analyse and predict customer needs, empowering relationship managers to offer tailored advice to their clients during face-to-face or remote interactions."

-HKMA

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Longer lead times and knowledge gaps are key challenges for in-house solutions, while inflexibility in customisation, high costs and data security risks are difficulties for vendor/ fintech solutions

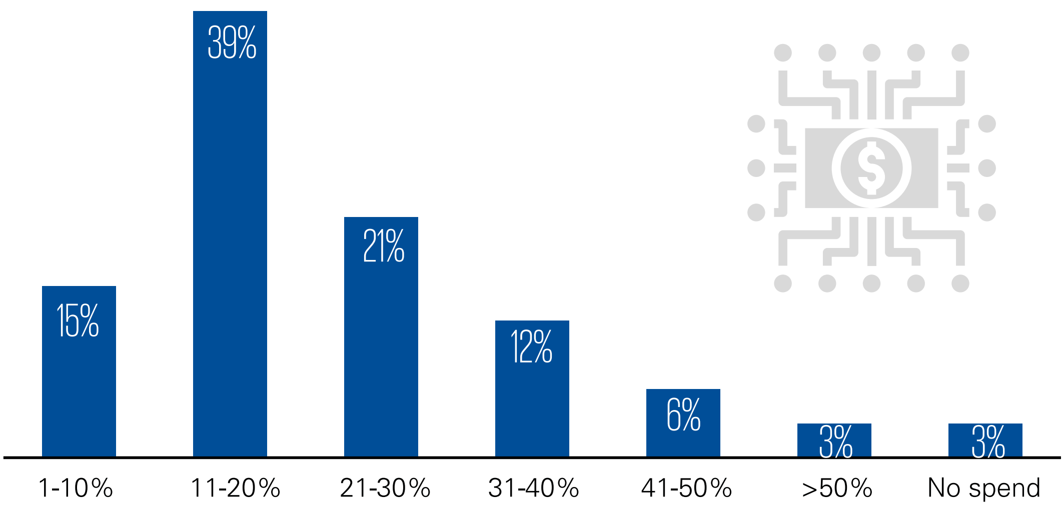
While there are challenges associated with using in-house solutions and third-party vendors, both options should be considered in order to best support digital transformation and to address pain points. PWMA member survey findings reveal that key challenges differ between digital offerings provided by in-house solutions and by vendors/ fintech partners. For in-house solutions, the top three challenges are 'longer project timeline on development', 'knowledge gaps from in-house IT on latest technologies in the market', and 'lower flexibility of customisation on functions built'.

One interviewee from a fintech provider highlighted that banks can often underestimate the scale of the problem when building in-house solutions, as well as how much additional time and resources are required from front office staff to detail end user requirements thoroughly. Development roadblocks often arise when staff need to be diverted away from in-house development activities to focus on their day job or urgent regulatory matters, often causing delays.

The top three challenges with engaging vendors/ fintech partners for surveyed PWM institutions are 'solutions are not easily customisable', 'higher cost on implementation', and 'higher risk on data security'.

In our view, many PWM institutions will seek to engage third-party vendors/fintech partners for parts of their digital transformation on top of their in-house solutions, and therefore need to be prepared to work closely with third parties. PWM institutions should ensure that they instil a transformation mindset among their teams, and also place a greater focus on managing third-party risk. PWM firms should also consider their risk tolerance and openness to cloud-based technology, especially as many fintech and Regtech providers use cloud as an underpinning technology for their solutions. Findings from the HKMA's White Paper on Regtech suggest that banks that are open to using cloud-based technology have been more successful in adopting Regtech solutions.

Figure 20: Proportion of future technology investment expected to be attributed to supporting new ways of working (% of total spend)



Note: Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

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Some future technology investment to support new ways of working, but majority likely to go toward client facing solutions or maintaining current systems

The majority of surveyed member institutions (54%) expect up to 20% of their future technology investment to be attributed to supporting new ways of working. 21% think 21-30% of their technology investment will go towards new ways of working, and 21% think the proportion will be more than 30% (Figure 20).

Some survey respondents say that new ways of working arising from Covid-19 have changed their organisations' plans to invest in technology by focusing more on enhancing their platform and functionalities related to remote communication with clients, online trading capabilities and remote computing for staff, as well as on the front office's process on suitability checking and client disclosure for complex/derivative products.

Another respondent highlights that while technology has always been an integral core investment for their institution, Covid-19 has prompted senior management to predict how the industry might evolve 10 to 20 years from now, and to plan for necessary investments from today.

Key takeaways

Pursue transformation

Continue to pursue **digital transformation initiatives** to cater to increasing client preferences for digital channels across the advisory process, for example in on-boarding

Enable new ways of working

Continue to invest in supporting new ways of working to **increase efficiency** and ensure business and operating models are **fit for purpose**

Invest in digital personalisation

Invest in broadening the scope of online services, enabling a degree of **self service and equipping relationship managers** (RMs) with relevant digital tools in order to deliver a more **personalised and enhanced client experience**

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The challenging regulatory environment remains a key industry concern

The challenging regulatory environment continues to be the biggest concern for Hong Kong's PWM industry, with KYC and AML, and sales practices and suitability the key pain points

The challenging regulatory environment remains the biggest constraint facing Hong Kong as a wealth management centre according to members surveyed, although interviewees acknowledge the efforts of the regulators in Hong Kong in seeking to balance growth and investor protection.

'Sales practices and suitability, including complex products' and 'KYC and AML' are viewed as the biggest pain points from a regulatory perspective, and are also the top areas that surveyed member institutions are currently spending the most resources on (Figure 21). Resources invested in these areas seem to be bearing fruit, with on-boarding times decreasing year on year from an average of 40 days in 2020 to 36 days in 2021.

For surveyed clients, since January 2021, the Hong Kong regulatory requirements that are the biggest pain points in terms of time required or administrative effort are 'the need for my advisor to make lengthy verbal risk disclosures when I wish to trade products,' 'providing source of wealth evidence,' and 'on-boarding requirements (excluding source of wealth)'. For those surveyed clients who identified as knowledgeable and experienced investors, 75% say that the required process of checking product suitability and disclosing potential product risks and other information before their trades are executed should at a minimum be streamlined.

These findings are in line with the views of surveyed PWM institutions. 61% of member institutions perceive the current regulation for Professional Investors in Hong Kong to be either too complex/difficult or somewhat complex/difficult. Interviewees from PWM institutions do, however, acknowledge the efforts of the HKMA and the SFC in issuing further guidance in December 2020 on the provision of investor protection measures with regards to sophisticated investors.

Opportunity to leverage Regtech solutions to tackle pain points

There is a significant opportunity for the PWM industry in Hong Kong to adopt Regtech solutions to address regulatory and compliance challenges. The successful adoption of Regtech solutions can bring a number of benefits to financial institutions such as enhanced risk management and reduced costs, while adding value to clients through an improved customer experience. 31% of surveyed member institutions have successfully implemented Regtech solutions to date. While a positive sign, this figure suggests that there is still significant room for greater Regtech adoption, across a number of application areas. The ability to successfully adopt Regtech solutions will depend on the industry's ability to overcome a number of challenges. Surveyed PWMA member institutions cited the main barriers to adoption as budget/resource constraints, a lack of available mature solutions, and a lack of suitably skilled talent to implement solutions.

Please note: there was a discrepancy in the average onboarding times shown in the PWMA 2020 annual report vs previous years, due to a different method being used for calculating the weighted average for onboarding times. The accurate onboarding times for previous years are as follows: 2018: 40 days; 2019: 37 days; 2020: 40 days. The narrative for the 2020 report was not affected by the difference in calculation method.

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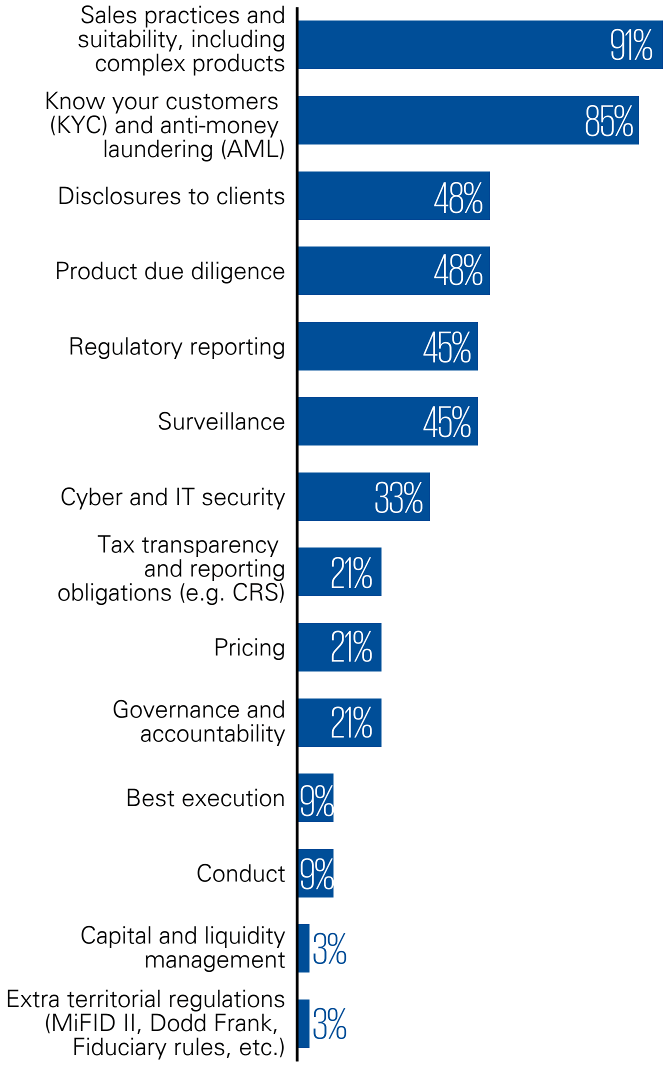
Interviewees suggested that the Government should play a more active role in supporting the development and adoption of Regtech in Hong Kong. Regtech adoption is a key focus for the HKMA and an important driver of its 'Fintech 2025' strategy. The HKMA released its flagship White Paper in November 2020 – with the support of KPMG – on accelerating Regtech adoption in the banking industry. This has been followed by a number of initiatives such as the issuance of a Regtech Adoption Index, a Regtech Adoption Practice Guide series, the hosting of its flagship virtual Regtech conference in June 2021, and the launch of a Global Regtech Challenge, a competition aimed at raising the Hong Kong banking industry's awareness of the potential of Regtech adoption. All of these initiatives continue to help provide guidance and expand the Regtech ecosystem to encourage financial institutions – including PWM firms – to trial and adopt Regtech solutions.

The HKMA's vision is that by 2025, Hong Kong will become a leading hub for developing Regtech solutions and cultivating Regtech talent, and this vision naturally encompasses the PWM industry. "For banks, firm-wide buy-ins and collaboration are key to driving successful Regtech adoption. Board members, senior and middle management's awareness of the benefits and potential of Regtech and support for changes are essential to originating, implementing and signing off on Regtech-related initiatives. It is also important for those who have successfully adopted Regtech to showcase their success stories to their peers in generating momentum," says the HKMA.

Figure 21: Regulatory areas that PWM institutions are spending the most resources on



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

Source: PWMA Member Survey, KPMG analysis

Key takeaways

Engage with regulators

As regulatory pain points in the PWM industry remain consistent with previous years, continue to **drive dialogue and engagement with regulators** in Hong Kong to address these challenges

Adopt Regtech

Trial or adopt **Regtech solutions** – across a range of application areas – to enhance risk management and compliance, reduce costs and improve customer experience

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Talent and ways of working

Talent supply continues to increase, although skills gaps remain. Flexible working is set to become permanent

Talent supply is increasing, although skills gaps remain

With industry AUM in Hong Kong growing significantly over the past year, the talent supply has also increased at a slightly faster rate than in previous years. The number of relevant PWM practitioners at surveyed PWMA member institutions increased by 3.9% year on year to 4,099 practitioners (compared to 1.9% growth in 2020). Similarly, the number of RMs increased by 3% year on year to 2,442 RMs (compared to an increase of 1.8% in 2020).*

RMs, product specialists (including for new areas such as ESG and virtual assets) and IT and digital (including cybersecurity) specialists are viewed by surveyed member institutions as the key roles where talent supply is most critical. This is supported by the finding that most surveyed institutions are looking to increase spend on their RMs, product and IT functions (Figure 22). Several interviewees pointed out that while the overall supply of RMs may be increasing, this is likely to comprise newer and younger talent as they have observed more senior RMs retiring early or leaving the industry altogether. Surveyed firms' focus on increasing hiring in their IT function is also in line with their plans to significantly increase investment in technology and digital transformation.

In order to retain RM talent, 82% of surveyed institutions believe remuneration remains the key factor to make the RM role more attractive, followed by 'relief of administrative burden' (Figure 23). 'Opportunities for personal development' (36%) is also increasingly being viewed as an important factor by surveyed firms, compared to previous years.

For surveyed clients, 'knowledge and expertise of financial products' and 'ability to listen well and tailor offerings to my needs' are the two most important attributes they expect from their RMs, ahead of 'portfolio management expertise'. With increasing client interest in ESG and sustainable products and virtual assets, PWM institutions need to ensure that they recruit and train the right specialists to help their clients understand and capitalise on these emerging investment trends. It is also important for RMs to be more digitally savvy and adequately equipped to effectively cater to the next generation of clients, a key growth opportunity for the PWM industry.

> ***Talent has been an issue for the industry for the longest time. The industry continues to grow much faster than it can find talent.***
>
> **-Interviewee from a PWM institution**

*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 2019 and 2020.

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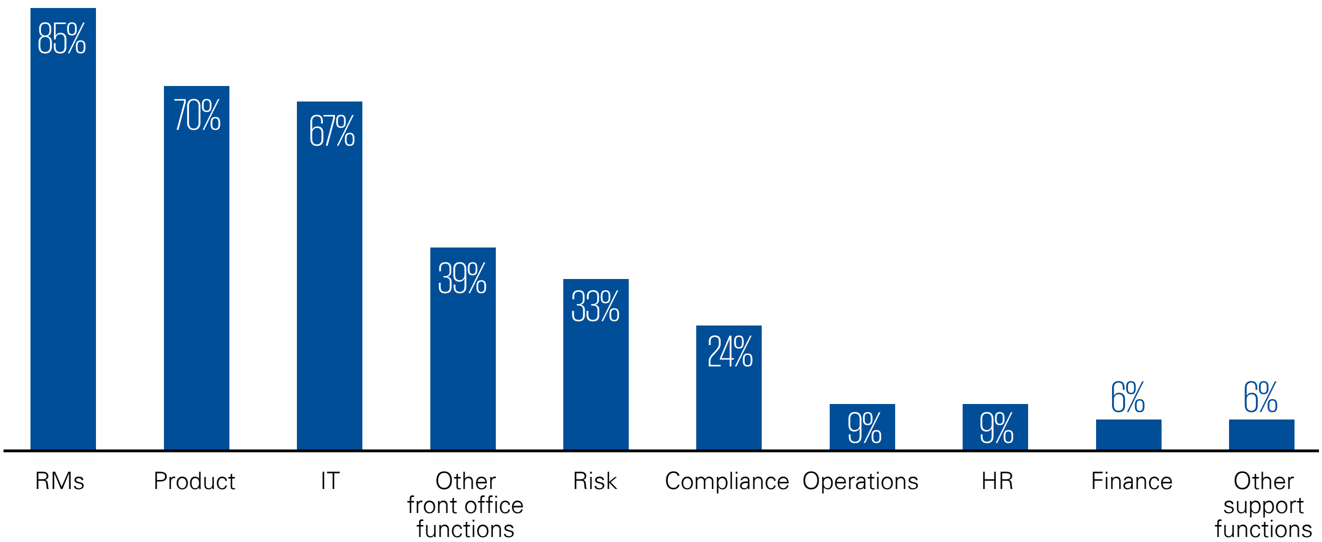
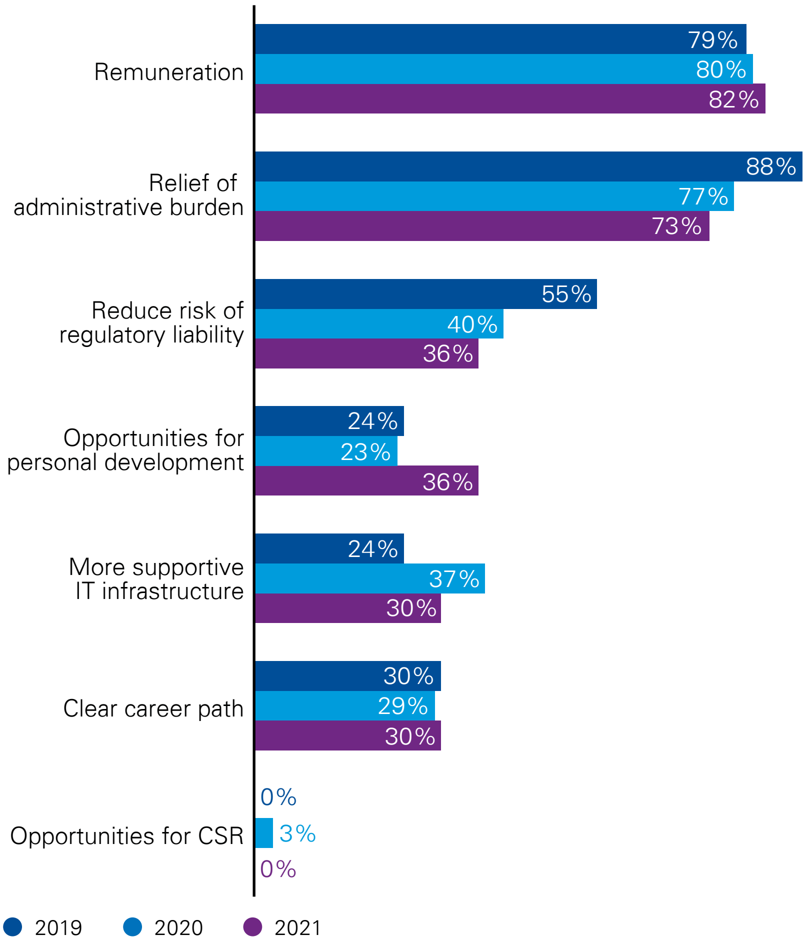
Figure 22: Functions where PWM institutions are looking to increase investment



Note: Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

Figure 23: Most important factors to make the RM role more attractive



Note: Respondents were allowed to select more than one option
Source: PWMA Member Survey; KPMG analysis

> ***We need to have more young professionals joining the industry, and we need to groom more talent as an industry in order to fuel growth. Much of the growth is from mainland China, so we need to see how to source and develop some talent from there as well.***
>
> **-Interviewee from a PWM institution**

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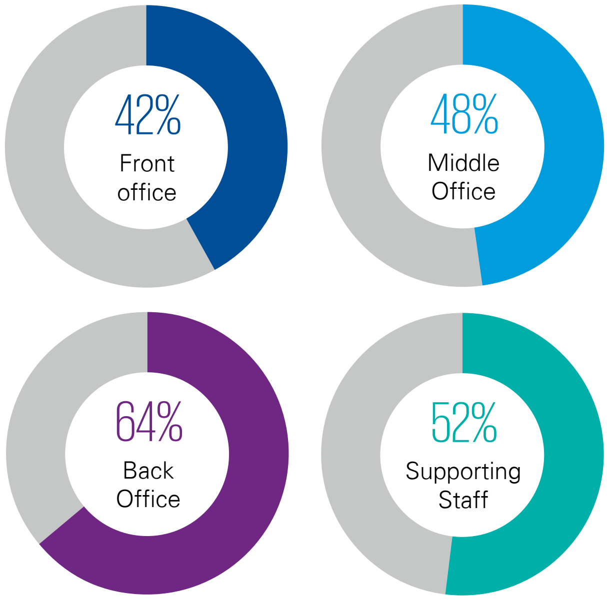
Figure 24: Areas of the organisation where more flexible working will be offered in a BAU environment on a permanent basis



Source: PWMA Member Survey; KPMG analysis

Flexible working to become BAU, across all areas of the organisation

In addition to finding the right talent that is best suited to meet their longer-term strategies and future operating models, PWM institutions are also exploring changes to their ways of working. The rapidly evolving business landscape, with Covid-19 as a catalyst, is causing many institutions to not just consider *who* will drive their business forward, but also *how* their business will be taken forward. For example, 61% of surveyed member institutions say they are planning to introduce more flexible working in a Business as Usual environment on a permanent basis. This was corroborated by interviewees, who noted that this would likely be a hybrid working model, with employees given the flexibility to work remotely for one or two days a week. This flexible working model is intended to be implemented generally across the front, middle and back offices of the organisation, rather than just for back office and supporting staff (Figure 24). PWM institutions' plans to increase their investments in technology will enable them to more effectively implement a more flexible working model and other new ways of working.

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Several interviewees also highlighted that enhancing employee experience is a key focus for their organisations in the year ahead in order to retain the best talent, ensure their well-being, and to best enable their staff to maximise their productivity, for example through tech-enablement. This will also be key to recruiting the retaining the right talent, which remains in short supply in Hong Kong. Institutions that can strike the right balance between adapting to new ways of working and improving employee experience with driving productivity and efficiency will be well placed for success in the long term.

One interviewee from a PWMA member institution highlighted that the heightened professionalism of Hong Kong's PWM industry can be leveraged as a key differentiator for clients. Certifications such as the CPWP – under the Enhanced Competency Framework on Private Wealth Management – are an example of the high standards in Hong Kong, and more needs to be done by industry stakeholders to encourage more candidates to obtain the certification. In July this year, the HKMA announced the launch of the Certified Private Wealth Professional Associate (CPWPA) certification intended for relevant practitioners who have passed the examinations but lack the work experience requirements for the CPWP certification, client service assistants, assistants to relevant practitioners, and middle and back office staff.[4]

> ***No other regime has such a high bar of qualifications for private bankers. If we can maintain this high standard and have more people take and pass the examinations, we will have a real opportunity to turn this into a selling point for Hong Kong.***
>
> **Interviewee from a PWM institution**

Key takeaways

Improve employee experience

Focus on creating **attractive remuneration packages** and **resolving administrative inefficiencies**, as well as on providing opportunities for personal development, to attract and retain top RM talent

Critical talent gaps

Increase focus on **hiring product specialists** to meet client demands for ESG and sustainable investing and virtual assets, as well as IT experts to drive digital transformation initiatives and manage cyber and third-party risks

Invest in development

Invest in training and **ongoing professional development** to nurture talent and bridge supply gaps in the PWM industry

[4] 'Update on Enhanced Competency Framework on Private Wealth Management (ECF-PWM)', HKMA, July 2021

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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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KPMG's Wealth Advisory Practice

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Contact us

Private Wealth Management Association

Peter Stein
CEO and Managing Director
Private Wealth Management
Association
+852 2537 1661
peter.stein@pwma.org.hk

Matthew Chan
Executive Director
Private Wealth Management
Association
+852 3758 2204
matthew.chan@pwma.org.hk

KPMG

Andrew Weir
Global Head of
Asset Management,
Vice Chairman,
KPMG China
+852 2826 7243
andrew.weir@kpmg.com

Bonn Liu
Head of Asset Management,
ASPAC / Head of Financial
Services, Banking and
Capital Markets, Hong Kong
KPMG China
+852 2826 7241
bonn.liu@kpmg.com

Paul McSheaffrey
Partner,
Financial Services
KPMG China
+852 2978 8236
paul.mcsheaffrey@kpmg.com

Isabel Zisselsberger
Partner, Strategy and
Performance,
Financial Services
KPMG China
+852 2826 8033
isabel.zisselsberger@kpmg.com

Darren Bowdern
Head of Financial
Services Tax, Hong Kong
KPMG China
+852 2826 7166
darren.bowdern@kpmg.com

Vivian Chui
Head of Securities
& Asset Management,
Hong Kong
KPMG China
+852 2978 8128
vivan.chui@kpmg.com

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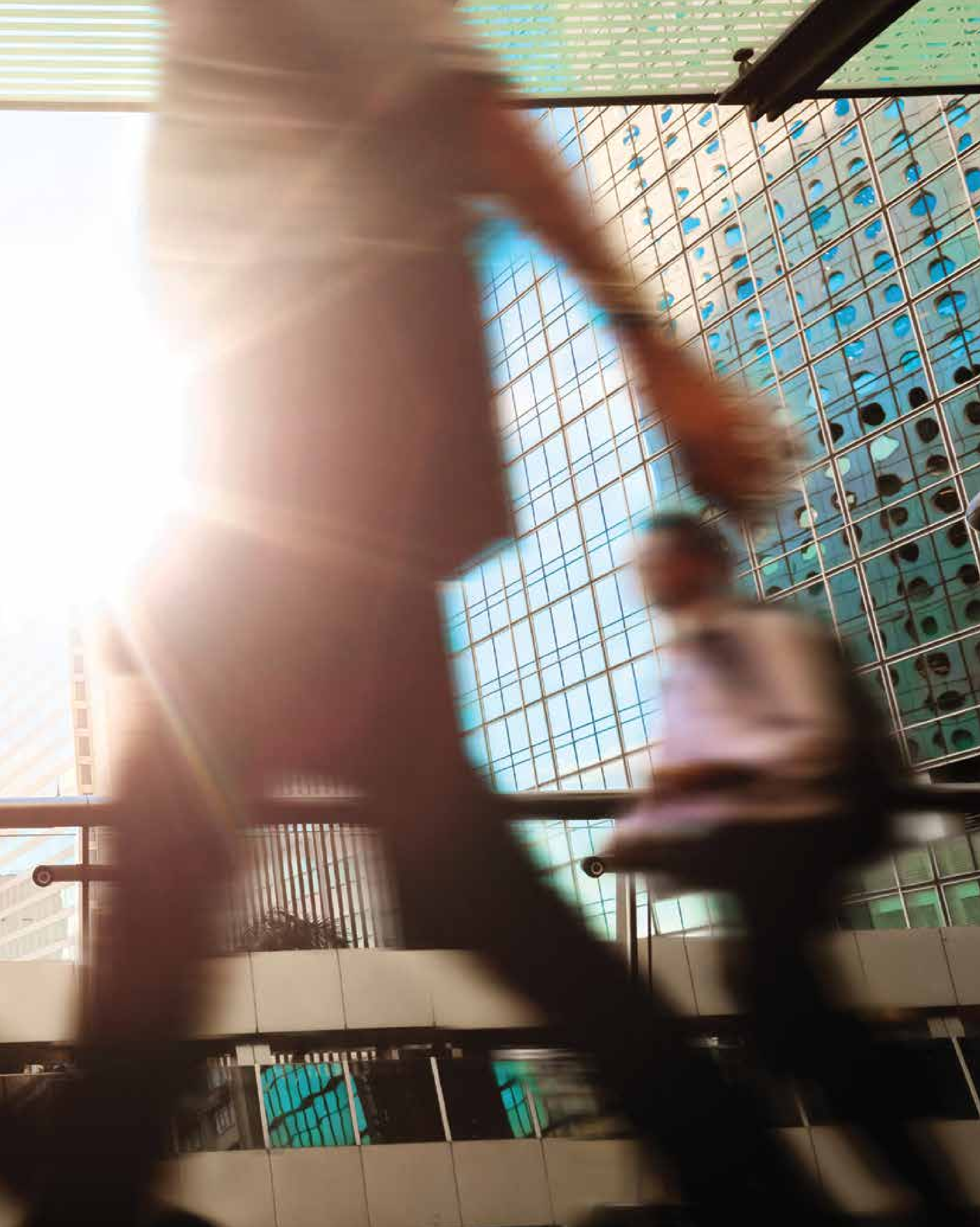

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This report was written by Paul McSheaffrey, Isabel Zisselsberger, Kanishk Verghese and Emily Jones. Research and analysis was conducted by Emily Jones, Kanishk Verghese and Imran Kanji.
Designed by April Tsang

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