Cementing Hong Kong’s Role as a Premier Private Wealth Management Hub in Asia

7 September 2022

Digitalisation in Private Wealth Management in Hong Kong

01 Culture

There is a notable paradigm shift in PWM's demographics. With the client base gradually shifting to younger generations raised in the digital age who are heavily dependent on the internet in seeking out knowledge, RMs can add value through deploying technology in distilling and personalising data, including market data, to meet client expectations.

02 Customer experience

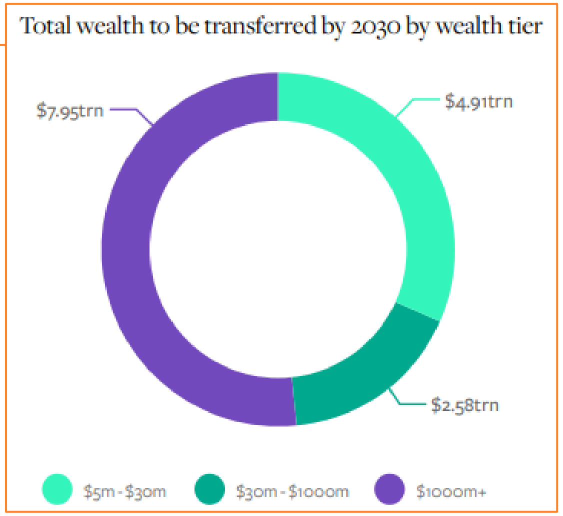
In the era of high-speed technology, clients expect their information to be immediately accessible. In order to provide personalised services, it is pivotal for banks to learn clients' preferences in obtaining information.

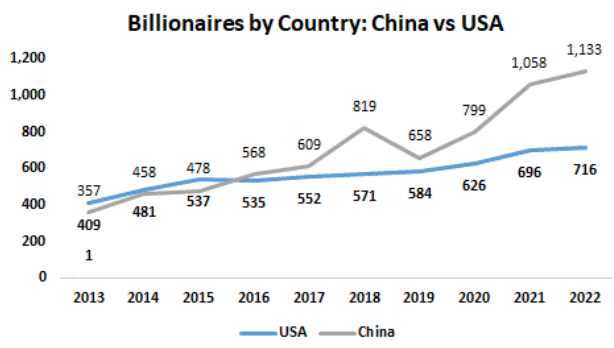
03 Distribution and sales

Many banks are leveraging technology to improve distribution and sales strategies; the convergence of big data and AI-driven automation has allowed private banks to deliver targeted and personalised customer experience at scale and relatively lower costs.

04 Opportunities relating to the Mainland Chinese market

Multiple studies have identified Mainland China as the global driver for investable wealth in the next few years. With the launch of Wealth Management Connect in September 2021, cross-boundary collaboration among regulators and market participants is further strengthened.





Source: JDYD LIQUOR · Hurun Global Rich List 2022

To review certain key areas to enhance the city's competitiveness

- AML Practices in Private Wealth Management
- The Professional Investor Regime & Sophisticated Professional Investors in Hong Kong
- Suitability Framework
- Tax Complication for Private Wealth Management in Hong Kong
- Education and Talent Development

AML/CFT Practices in Private Wealth Management

Regulatory challenges faced by the PWM industry

- A notable challenge is in relation to group-wide AML/CFT systems, in particular the requirement for an overseas branch or subsidiary undertaking of a Hong Kong-incorporated authorised institution, to apply the higher of the requirements of: (i) the jurisdiction where the overseas branch or subsidiary undertaking is located (i.e., the host jurisdiction) and (ii) Hong Kong, if the AML/CFT requirements in the host jurisdiction and Hong Kong differ and to the extent that the host jurisdiction's laws and regulations permit.

Long onboarding time and high costs for KYC/AML compliance

- Based on the PWMA and KPMG annual survey in 2021, the average client onboarding time for PWM institutions has witnessed a slight improvement from 40 business days in 2020 to 36 business days in 2021.

- Notwithstanding the shorter time span in client onboarding, 85% of the surveyed practitioners still considered KYC and AML/CFT as the regulatory areas requiring the most resources and budget.

Our Recommendations

Promoting sound AML/CFT and KYC practices

Additional best practices guidance or FAQs developed from the PWM industry (issued/ endorsed by the HKMA and SFC) can help provide greater consistency and clarity in respect of client onboarding processes and ongoing AML/CFT obligations across PWM entities.

Government involvement and support in the use of technology in client onboarding

For a longer-term solution beyond the basic digital and non-face-to-face ID verification of individuals and entities, the industry urges that a sector-wide KYC utility be established.

Developing a more facilitative regulatory regime for family offices

The financial services industry can benefit from better clarity and guidance from the regulators on the framework applicable to Hong Kong-based family offices.

The Professional Investor Regime & Sophisticated Professional Investors in Hong Kong

Current Position

- The regulators in Hong Kong have refined and streamlined the professional investor regime (PI Regime) over the years, in particular following the global financial crisis in 2008.
- The PI Regime overlooked the considerable compliance burden imposed on financial institutions. Specifically, such burden revolves around carrying out a detailed examination of their client's investment knowledge and sophistication needed to justify the PI status.
- In March 2016, PIs who are not institutional PIs were separated into two distinct categories in the amended Code of Conduct:
  - Corporate PIs
    - A corporation/partnership having a portfolio of not less than HK$8 million or total assets of not less than HK$40 million
    - A trust corporation with total assets of not less than HK$40 million
  - Individual PIs
    Having a portfolio of not less than HK$8 million

Our Recommendations

The PI framework should be reviewed in its entirety to reposition Hong Kong as a dynamic PWM hub, particularly in light of the opening up of the GBA. The FSDC is not, however, recommending the need to review the current product offering private placement safe harbours that have existed under the SFO since 2003. In our view, the Hong Kong market can greatly benefit from **addressing two areas** of industry concern as a priority, namely:

1. The financial thresholds for determining who qualifies as a PI, which have remained unchanged since 2003.

2. The suitability regime which is built upon a mix of prescriptive regulatory direction and a principles-based approach that is challenging for the industry to implement from a compliance perspective.

Suitability Framework

Our Recommendations

Regulatory intent, application and manner in which regulatory compliance is monitored by the HKMA and the SFC

- The financial intermediaries in Hong Kong face considerable challenges in complying with the Hong Kong Suitability Framework which has, over the years, evolved into a complex plethora of SFC Codes, SFC and HKMA Circulars, Guidelines, FAQs and thematic reviews.
- The industry would welcome the SFC and the HKMA clarifying and reaffirming its position concerning the principle-based approach to suitability assessment.

Review the "portfolio-based" approach for PWM industry

- It is an appropriate time for the HKMA or the SFC to review and further streamline the regime in order to better facilitate the adoption of a portfolio-based approach in the private banking sector.

Review the assessment for dis-applying Suitability Obligations

Amend Code of Conduct to allow for suitability obligations to be disapplied when dealing with:

- an individual or corporate PI who has a portfolio of not less than HK$40 million or total assets (excluding main residence) of not less than HK$80 million, who consents to waive suitability ("Asset based PI").
- an individual or corporate PI who by virtue of their experience and sophistication should be offered the ability to trade in a different manner to retail investors, and who consents to waive suitability. The current test for assessing the eligibility of corporate PIs in para 15.3A(b) could be refined for assessing the experience and sophistication of individual investors ("Sophisticated PIs").

Tax Complication for Private Wealth Management in Hong Kong

Current Position

- Certain aspects in the current tax system in Hong Kong may have undermined the intention for ultra-high-net-worth individuals (UHNWI), as asset owners, to further invest in Hong Kong-launched private management products and opt for Hong Kong private wealth managers.
- UHNWIs have the flexibility to use different investment structures for their investments; that said, if they were to use a Hong Kong private wealth manager or invest in Hong Kong private wealth products, they may be subject to Hong Kong tax, which would not otherwise be charged against other individuals.
- The tax policy recommendations are similar to those for promoting family offices set up in Hong Kong as both family offices and private wealth managers provide services mainly to HNWIs.

Our Recommendations

Applying the same tax treatment for investment by personal investment companies (PICs) as individuals

Same tax treatments for investment by PICs and that by individuals can be achieved by the IRD adopting a more liberal interpretation of the existing law and guidelines on what is considered “carrying on a trade or business” via a look-through approach.

Removing the existing deeming provision under the UTE regime

A review of the existing deeming provisions is needed, with a focus on whether or not the existing deeming provisions would defer the genuine investors with no tax avoidance intention, including UHNWIs, to invest in locally managed funds.

The FSDC recommends that similar taxation principles and sentiments from the family office tax concession be extended to PICs / individuals, which would be advantageous for both the PWM industry and Hong Kong.

Education and Talent Development

Current Position

Entry level - Undergraduates and Postgraduates

Current Undergraduate/Postgraduate Programme with Wealth Management focus

The University of Hong Kong launched the Bachelor of Finance (Asset Management and Private Banking) (BFin (AMPB)) in September 2017.

As for post-graduate programmes, the Metropolitan University of Hong Kong launched a programme for Master of Applied Finance in Wealth Management in 2019.

Internship Programmes for Undergraduates

In 2021, the FSTB has co-organised the scheme of "Set Sail for GBA – Scheme for Financial Leaders of Tomorrow" with the Greater Bay Area Homeland Youth Community Foundation.

In 2017, the FSTB also launched a Pilot Programme to enhance talent training for the asset and wealth management sector. An Apprenticeship Programme was launched in the same year jointly organised by the HKMA and PWMA and administered by HKIB.

Mid-career Transfer and Overseas/Mainland Chinese Talent

Attracting mid-career transfer from other sectors in HK

The Enhanced Competency Framework (ECF) on Retail Wealth Management industry was launched in 2018 providing accreditation to staff working in the RWM industry. As of May 2022, there were a total of 1,684 professional qualification holders of the Associate Retail Wealth Professional (ARWP), which is the core level and the professional level Certified Retail Wealth Professional (CRWP).

Attracting talents from overseas and from the Mainland

Upon the review in 2021, the Talent List currently comprises 13 professions, including “asset management professionals” and “fintech professionals”. The Government has also added to the list the professions of "professionals in compliance in asset management" and "financial professionals in Environmental, Social and Governance“.

Continued Skill Enhancement

Enhanced Competency Framework for the Private Wealth Management Industry

The ECF on PWM Industry was launched in 2016, with trainings and examinations hosted by the HKSI and the HKIB. Candidates who passed the ECF on PWM Industry examinations will be accredited with CPWP accreditation.

With a total number of 2,326 accredited CPWPs in 2021, the industry would need to plan the pipeline as discussed above in building talents from graduate level or attracting more mid-career transfers.

Enhanced Trainings for industry practitioners and potential mid-career transfer

The HKSI, PWMA and HKIB frequently host trainings and seminars on thematic topics relating to the wealth management industry. A number of these trainings / seminars hosted by HKSI and HKIB are eligible for financial reimbursement under the FSTB WAM Pilot Programme.

Education and Talent Development

Our Recommendations

Developing more Robust Master Programme in Wealth and Asset Management in Hong Kong

- The FSDC proposes launching practice-based learning for the training of wealth management professionals at both undergraduate and postgraduate levels.
- Leveraging on the Undergraduate Programme at HKU and the Postgraduate Programme at HKMU, there is room to further develop more robust Master Programmes in wealth and asset management to attract and nurture mid-career talents to join or potentially join the PWM industry.

Facilitating Mid-career Transfers and Overseas/Mainland Chinese Talent Acquisition

- In line with the recommendations proposed in the Family Office Paper, the Government and regulators, together with the industry and professional associations, should put in place a comprehensive suite of training programmes for talent development.

Nurturing direct collaboration between universities and the industry

- Embedding industry-related courses in a curriculum is an effective way to breed students' interest in pursuing a career in the financial services industry. This is similar to the approach where universities have embedded courses into their curriculum courses relevant to the Hong Kong Institute of Certified Public Accountants (HKICPA) qualification or the Chartered Financial Analyst (CFA) qualification.
- Support from the industry will be necessary in respects such as recommending or referring competent teachers with the relevant industry experience, to foster the collaboration between the educational institution and the industry and to provide more practical and tailor-made teaching materials for students.

Thank you

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