

“Cross-Border Wealth Management” Policy Implications And The Development Direction Of Hong Kong’s Wealth Management Industry

Dr. E Zhihuan, Chief Economist of Bank of China (Hong Kong)

Recently, PBOC Guangzhou and Shenzhen, CBIRC, CSRC, and six other agencies, opened up “Greater Bay Area Cross-Border Wealth Management Business Pilot Rules” for public comment, to be completed by May 5th before it is officially released and made effective at a later date. “Cross-border wealth management” has always been the focus of domestic and foreign financial markets. Previously, the People’s Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission, the State Administration of Foreign Exchange, the Hong Kong Monetary Authority, the Hong Kong Securities Regulatory Commission, and the Macau Monetary Authority signed an agreement on its development in the Guangdong-Hong Kong-Macao Greater Bay Area. A memorandum of understanding on the “cross-border wealth management” pilot program was launched to clarify the scope of responsibility of relevant agencies. The detailed rules clearly define the buyers and sellers, targets, amounts, and channels of the “cross-border wealth management” product. After fully soliciting opinions, financial management authorities of Hong Kong and Macau will formally promulgate implementation arrangements involving overseas counterparts, thus signifying the product’s readiness to open up new development space for the wealth management industry in the Greater Bay Area.

1. “Cross-border Wealth Management” is an integral part of financial industry supporting the construction of the Guangdong-Hong Kong-Macao Greater Bay Area

The “Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area” released in February 2019 proposes to “expand the space for Hong Kong and mainland residents and institutions to make cross-border investment, and steadily expand the channels for residents of the two places to invest in each other’s financial products.” In November 2019, Greater Bay Area construction group leaders announced the exploration of establishing a “cross-border wealth management” mechanism. In May of the following year, four ministries and commissions including the People’s Bank of China jointly issued the “Opinions on Financial Industry Supporting the Construction of the Greater Bay Area”, proposing “support for local residents in the Greater Bay Area to purchase wealth management products sold by Hong Kong and Macau banks, and for Hong Kong and Macau Residents to purchase wealth management products sold by mainland banks.” In June of 2020, the People’s Bank of China and the Hong Kong and Macau Monetary Authority issued an announcement, deciding to launch a pilot project of “cross-border wealth management” in the Greater Bay Area.

Judging from the main content of the “Detailed Rules” released this time, “cross-border wealth management” will provide investors from Hong Kong, Macau and Mainland China in the Guangdong-Hong Kong-Macao Greater Bay Area with an endless loop of capital channels, allowing them to access cross-border investment counterparties through the regional banking system, and eligible investment products or wealth management products sold by banks.

In a nutshell, “cross-border wealth management” has the following policy implications:

(1) “Cross-border wealth management” is a financial market connection initiative to further promote financial cooperation with the mainland and cross-border financing for the residents of the region through a more convenient pipeline. “Cross-border wealth management” is divided into “northbound connect” and “southbound connect”. The

regulations of the two directions seek common ground while preserving slight differences. The specific details will be clarified by the regional financial regulatory authorities.

(2) The “Detailed Rules” reiterated the relevant arrangements for fund management, including the use of RMB for cross-border settlement, fund exchange in the offshore market, and cross-border transfer of funds through CIPS.

(3) The total quota and individual investor quota management for “northbound connect” and “southbound connect” cross-border capital flows. The total quota of “northbound connect” and “southbound connect” is 150 billion yuan, and the individual quota is 1 million yuan. The People’s Bank of China will adjust the total quota and the investment quota of a single investor according to the situation.

(4) “Northbound connect” allows Hong Kong and Macao investors to open personal investment accounts in local agency banks in the Greater Bay Area, and remit funds through an endless loop of capital channels to purchase investment products sold by mainland agency banks. The qualifications for Hong Kong and Macao investors are determined by The Hong Kong and Macau Cooperative Bank. The “Detailed Rules” puts forward specific requirements for mainland agency banks and mainland cooperative banks, including registration of legal person banks or establishment of branches in 9 cities in the Greater Bay Area, experience in developing cross-border RMB settlement business, internal control systems for carrying out related businesses, operating procedures, account management and risk control measures, risk management professionals, business processing systems, accounting systems and management information systems and other resource conditions, investor rights protection and complaint dispute resolution mechanisms, cross-border capital flow control, conditions to ensure the infinite loop transfer of funds, and “northbound connect” investment product requirements given by the financial management department.

(5) “Southbound connect” involves investors from nine inland cities in the Greater Bay Area to open personal investment accounts with Hong Kong and Macau banks, and remit funds through an endless loop capital channel to purchase investment products sold by Hong Kong and Macau banks. The investment products that can be purchased for the “southbound connect” business will be promulgated by the Hong Kong and Macao financial management authorities. The qualifications for mainland investors participating in the “southbound connect” business include: regional household registration or payment of social security or personal income tax, more than two years of investment experience, and a monthly balance of household financial net assets in the last three months being no less than one million yuan, etc.

2. “Cross-border Wealth Management” promotes the high-quality development of the financial industry in the Greater Bay Area

“Cross-border financial management” will give new development momentum to the wealth management industry in the Greater Bay Area and promote the high-quality development of the regional financial industry.

The Greater Bay Area is one of the key construction areas of the National 14th Five-Year Plan and the development of urbanization in the Mainland. It geographically covers 9 cities in Guangdong Province, Hong Kong and Macau. There are 11 cities in total, with a total population of more than 70 million. Guangdong Province has always been an important engine of economic growth in the Mainland, and its economic aggregate will surpass South Korea in 2020. In recent years, economic and financial exchanges between Guangdong, Hong Kong and Macao have shifted from the initial livelihood field to financial market interconnection, which has brought a lot of business opportunities to the development of the financial industry in the region.

First of all, the basis for the high-quality development of the financial industry in the Greater Bay Area is the rapid accumulation of wealth through economic aggregates.

According to the official data released by Guangdong Province and Hong Kong, the economic aggregates of Shenzhen and Guangzhou surpassed Hong Kong for the first time in 2017 and 2020 respectively. Between 2014 and 2019, the compound annual growth rate of per capita GDP of the nine bay area cities in the Mainland was 6.1%, of

which Guangzhou and Shenzhen's per capita GDP exceeded 20,000 US dollars, into the ranks of high-income areas. In 2020, GDP in these 9 cities maintained a 1.1-3.1% growth, with strong resilience.

In 2019, the total savings of 9 cities in the Greater Bay Area was approximately US\$ 567 billion. According to research conducted by the World Bank, the savings rate of mainland residents is as high as 45%, far exceeding the 25% of Hong Kong residents. The high savings rate and the huge economic aggregate promote the rapid accumulation of wealth, and the development of the regional financial industry leads the country's major regions.

The number of high-net-worth individuals in cities in the Greater Bay Area is huge. "2020 Hurun Wealth Report" shows that Chinese families with 6 million yuan, 10 million yuan, and 100 million yuan of assets total 5 million, 2.02 million, and 130,000 respectively, an increase of 1.4%, 2.0% and 2.4%, with total assets of 1.46 trillion, 0.94 trillion, and 89 trillion yuan respectively. Among them, the number of wealthy households in Guangdong Province ranks second in the country in the above three indicators, second only to Beijing, with 692,000 households, 291,000 households, and 16,900 households respectively. A large number of wealthy people have brought huge business demands to financial institutions in the region.

Second, the high-quality development of the financial industry in the Greater Bay Area requires the balanced development of wealth management and insurance businesses.

Residents of cities in the Greater Bay Area are keenly interested in buying Hong Kong financial products. A Bain market survey from November 2020 showed that 82 percent of respondents including mainland individuals and small and medium enterprises do not buy cross-border financial products. 83% of mainland respondents customer does not have cross-border insurance. Among them, the penetration rate of cross-border financial products for individual customers is about 20%. For those who have yet purchased cross-border financial products, 75% and 67% of individuals said they will buy Hong Kong wealth management or insurance products over the next 3 years; the same figure for financial and insurance SMEs were 45% and 38% respectively.

The insurance penetration rate of cities in the Greater Bay Area is about 6%, which is significantly lower than the average level of 18% in Hong Kong and 10% in developed countries. Tony Grace predicts that if the penetration rate increases to the average level of developed countries, then an additional 500 billion dollars of annual premium income would be generated.

Third, "cross-border wealth management" will promote the development of the financial industry in the Greater Bay Area towards high-quality development

The opening of "cross-border wealth management" will gradually turn potential business opportunities into reality, clear policy barriers for mainland residents to invest in Hong Kong wealth management products, and significantly increase the number of Hong Kong wealth management customers and the scale of asset management. The industry generally expects that after the launch of the "cross-border wealth management" pilot program, it will further enrich existing investment channels, facilitate the residents to invest in cross-border wealth management products, and balance the merchandise of existing assets.

For the Hong Kong market, "cross-border wealth management" means that the potential customer base of Hong Kong banks has increased significantly from 7 million to 70 million. If the market can provide enough attractive financial products, the investment quota would still have room to increase.

With the implementation of the national strategy for the Greater Bay Area, more mainland high-net-worth individuals will be attracted to invest and live in the Greater Bay Area. At the same time, more wealth can be created in the region and the total number of high-net-worth individuals in the region will further increase. In June 2019, China Merchants Bank and Bain & Company jointly released "2019 China Private Wealth Report" survey results, which showed that under the situation of unstable global financial markets, more than 50% of the interviewed high-net-worth individuals have begun to prepare or are in the process of wealth inheritance. The number of related arrangements is the highest in ten years. At the same time, the proportion of respondents who only rely on a single

asset for investment has declined, and diversification of investment risks has become a consensus.

3. “Cross-border Wealth Management” will reshape the development form of Hong Kong’s wealth management industry

“Cross-border financial management” will bring more mainland customers and business to Hong Kong, thereby expanding the hinterland and radiation scope of Hong Kong’s wealth management market, attracting more international financial institutions to invest new resources in Hong Kong, and further consolidate Hong Kong’s status as an international financial center and offshore RMB business hub.

After years of development, Hong Kong’s wealth management industry has shown the following characteristics:

(1) The competitiveness and scale of Hong Kong’s wealth management industry rank among the forefront of global wealth management centers.

According to the 2018 Deloitte Global Wealth Management Center Research Report, Hong Kong’s comprehensive competitiveness in wealth management ranks third in the world, second only to Switzerland and Singapore. Hong Kong’s advantages are its simple and low tax system, transparent and efficient supervision, and breadth and depth of capital markets. The financial system is stable, the currency is stable and controllable, and the source of financial talents is diversified. Hong Kong’s shortcomings include the efficiency of service providers, the quality of services, and the attractiveness of the city.

The scale of wealth management in Hong Kong ranks fourth in the world, lower than that of Switzerland, the United Kingdom and the United States. Benefitting from the rapid accumulation of wealth in the Mainland and the increasing demand for high-net-worth individuals to invest overseas, the scale of assets under management is among the major wealth management centers in the world. Statistics from the Hong Kong Securities Regulatory Commission show that from 2016 to 2019, Hong Kong’s asset and wealth management scale grew at a compound annual growth rate of 16.3%. Even in 2019, which was affected by many unfavorable factors such as geopolitics and social events, it still recorded a year-on-year growth of 20.1%.

(2) Hong Kong’s wealth sources and investment types are diversified, and the Mainland has become one of the most important sources and investment destinations for Hong Kong’s wealth management.

Statistics from the Hong Kong Securities Regulatory Commission show that between 2015 and 2019, 62% to 69% of assets in Hong Kong’s asset and wealth management business came from non-Hong Kong investors. The top 5 sources are Hong Kong, North America, Asia Pacific (excluding China), Mainland China, and Europe, accounting for 36%, 22%, 14%, 10% and 10% respectively. As for Hong Kong’s wealth management business, the Mainland has grown the fastest and has become an important market with most potential. This is particularly evident in the field of private wealth. According to KPMG survey, the proportion of Hong Kong private wealth management market from mainland rose from 35% in 2019 to 40% in 2020, and may rise further to 54% in 2025.

Hong Kong wealth management products are diverse, covering listed stocks, bonds, public-private raise funds, cash and deposits, manage accounts, and other alternative investments. Investment destinations include almost all major markets in the world such as the Americas, Europe (including the United Kingdom), the Asia-Pacific region, Mainland China, Japan, and Hong Kong. According to statistics from the Hong Kong Securities Regulatory Commission, the fastest-growing investment products in the Hong Kong wealth management market in 2019 are managed accounts, stocks and mutual funds, reaching 70%, 32% and 24% respectively; the two regions with the fastest growth in investment destinations are Mainland China and Europe (including the United Kingdom) at 70% and 26% respectively.

(3) The pandemic gradually changed the behavior and demand patterns of customers, and accelerated the transformation of the wealth management industry.

While the pandemic has had a macro impact on the global economy, it also had varying degrees of impact on customer wealth management awareness, demand, and investment behavior at the micro level. The uncertainty of the macro environment has significantly increased investors' willingness to preserve wealth, inheritance, and savings. Uncertainties such as the pandemic not being fully controlled, China-US economic and trade relations facing decoupling problems, the yields of major currencies continuing to fall, increasing customers for investment, asset allocation and value preservation, have raised interest for professional wealth management consultants' opinion. Client investment strategies have also become conservative and cautious, shifting from focusing on investment returns in the past to focusing on risk management.

The pandemic has accelerated the development of Hong Kong's wealth management industry towards digitalization, simplicity and precision. During the pandemic, the housing economy has risen, customers' familiarity and demand for non-contact digital services have greatly increased, and the speed of online migration has accelerated, which has greatly promoted the process of digital transformation in the industry. At the same time, the product design and process tend to be simplified, reducing customer operation steps, transparentizing the entire service process, and automating and intelligently processing middle and back-end business. In addition, products tend to be more precise and scenario-based, and the degree of product customization has increased, more fully considering the different attributes and needs of customers such as occupation, age, health, value-added, and elderly care, and striving to be embedded in customers' daily life scenes or ecosystems, and optimizing customer journey and enhance customer experience with invisible and ubiquitous products and services.

(4) "Cross-border wealth management" will reshape the business form of Hong Kong's wealth management.

The potential impact of "cross-border wealth management" on Hong Kong's wealth management market is first manifested in the rapid accumulation of wealth in cities in the Greater Bay Area, which has expanded the source of customers in Hong Kong's wealth management market, and the further integration of the two financial markets has also brought about the Hong Kong wealth management market. This is a historic development opportunity.

Hong Kong's wealth management industry faces the Greater Bay Area and provides seamless cross-border financial services. Hong Kong's Chinese, foreign and local financial institutions all regard the Greater Bay Area as the granary of the future, speeding up business deployment in the region. According to KPMG's 2019 survey report, 64% of the surveyed institutions have formulated or plan to formulate business development plans for the Greater Bay Area or enter the implementation phase in the short term. Various types of bodies in the Service Bay Area customers have different aspects of the advantages, such as Chinese-funded institutions with a clear advantage in the mainland service network, customer familiarity, etc., and foreign agencies in terms of products and services, such as global asset allocation. Therefore, Hong Kong wealth management institutions give priority to the development of differentiated cross-border services, using their own advantages in brands, products, and service networks to increase publicity to attract customers in the Greater Bay Area to purchase Hong Kong wealth management products; focusing on high-net-worth customer groups with asset allocation needs, such as major shareholder families, senior executives and other customer groups, has established an effective cooperation and communication mechanism with mainland and overseas institutions to refer customers to Hong Kong, and use Hong Kong as a base to establish global asset allocation, family trust, and family office service system.

4. The key directions for achieving leapfrog development in Hong Kong's wealth management industry

The development plan of the Greater Bay Area positions Hong Kong as a financial and asset management center. Hong Kong wealth management institutions regard the high net worth individual market in the Greater Bay Area as a new blue ocean for leapfrogging development and an entry point for expanding the private wealth management market in the Mainland. The wealth management industry in Hong Kong needs to upgrade its full-product and global one-stop financial service capabilities as soon as possible to meet the all-round needs of high-net-worth customers and achieve leap-forward development of Hong Kong's wealth management business.

Hong Kong's wealth management industry should start from the following aspects to seize new opportunities in the "cross-border wealth management" business.

First, in-depth analysis of the characteristics of the demand for high-net-worth customers in the Mainland, and comprehensive services for all types of customers.

Facing the large-scale and fast-growing high-net-worth customer base in the Mainland, the private banking business in the Mainland has developed rapidly and competition is fierce. Only when Hong Kong peers give full play to the breadth and depth of Hong Kong's financial market and serve customers in a full range can they cope with competition.

Hong Kong's private banking business model is based on private banking department under either commercial banks or investment banks. Except for a few large international institutions, most private banks have not yet established a complete, one-stop financial service capability. Therefore, agencies should combine their own business expertise, strengthen external cooperation, and further make up for their own shortcomings in products, services, and resources. Private banks under commercial banks can cooperate to improve investment banking products, securities products and related value-added services, and participate in private placement product business for private bank customers. At the same time, private banks of investment banks can also cooperate to provide financing, mortgage, commercial banking services such as deposits.

Second, strengthen IT investment and improve the level of mobility, intelligence, scenarios and customization of wealth management services.

At present, Hong Kong wealth management institutions are still unable to meet the higher expectations of mainland customers for digital products and services. They should strengthen their investment in IT resources to fully meet customer needs from the four perspectives of mobility, intelligence, scenarios and customization, and customer experience. Accelerate the digital transformation of wealth management, insurance and other products and services, and seize the mass customer market with mobile, scenario-based, and ecological services. The changes in customer behavior caused by the epidemic may last for a long time. In particular, the demand for digital financial services is rigid and will become a high ground for competition in the industry.

Actively providing online communication channels, so that customers can choose to check online and communicate with customer managers online according to their own circumstances. The communication channel may be extended to platforms such as WeChat and WhatsApp to provide investment research results or report communication, investment portfolio report communication, anti-money laundering transaction reports, active early warning of market events, etc. Introduce innovative technological achievements in the middle and back offices, strengthen brand image and reduce operational risks. At present, deep learning technology can be used to prepare due diligence data and perform suitability analysis for debt securities and funds to meet regulatory requirements and reduce human resource input.

Third, actively promote the construction of a cross-border wealth management ecosystem.

Taking electronic payment as the starting point, expand the ecosystem of transportation, catering, retail, etc., and penetrate the various aspects of customer life and work. Optimize wealth management, especially private banking, through the system, provide customers with exclusive products or services, and enhance customer experience. Use innovative scientific and technological achievements to create 360-degree portraits of customers, analyze and predict the actual needs of customers in depth, and automatically provide targeted and relevant data to customers accordingly.

In short, Hong Kong's wealth management industry should seize policy dividends, and development opportunities, continue to optimize its own business processes, expand market share, and promote the overall development of the industry.

主要經濟指標 (Key Economic Indicators)

	2019	2020	2020/Q4	2021/Q1
一. 本地生產總值 GDP				
總量 (億元) GDP(\$100 Million)	27,997	26,277	7,138	6,975
升幅 (%) Change(%)	-1.2	-6.1	-2.8	7.9
二. 對外貿易 External Trade			2021/3	2021/1-3
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	40,961	39,275	4,091	11,078
進口 Total imports	45,714	42,698	4,361	11,748
貿易差額 Trade balance	-4,753	-3,422	-270	-670
年增長率 (%) YOY Growth(%)				
總出口 Total exports	-5.6	-1.5	26.4	33.2
進口 Imports	-8.1	-3.3	21.7	25.6
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	2.9	0.3	0.5	0.9
四. 樓宇買賣 Sale & Purchase of Building Units			2021/4	2021/1-4
合約宗數 (宗) No. of agreements	74,804	73,322	9,150	31,990
年升幅 (%) Change(%)	-5.5	-2.0	88.0	81.7
五. 勞動就業 Employment			2021/1-2021/3	2021/2-2021/4
失業人數 (萬人) Unemployed(ten thousands)	139	259.1	26.0	24.8
失業率 (%) Unemployment rate(%)	2.9	5.5	6.8	6.4
就業不足率 (%) Underemployment rate(%)	1.1	3.1	3.8	3.3
六. 零售市場 Retail Market			2021/3	2021/1-3
零售額升幅 (%) Change in value of total sales(%)	-11.1	-24.3	20.1	7.5
零售量升幅 (%) Change in volume of total sales(%)	-12.3	-25.5	19.8	7.2
七. 訪港遊客 Visitors			2021/4	2021/1-4
總人數 (萬人次) arrivals (ten thousands)	5,590	356.9	0.6	2.2
年升幅 (%) Change(%)	-14.2	-93.6	38.3	-99.4
八. 金融市場 Financial Market			2021/2	2021/3
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	779.3	775.2	775.7	777.5
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	2.6	30.1	39.8	29.5
M2	2.8	5.8	7.6	6.5
M3	2.7	5.8	7.6	6.4
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	2.9	5.4	7.8	6.6
港元存款 In HK\$	2.5	6.2	10.5	9.2
外幣存款 In foreign currency	3.2	4.6	5.1	4.0
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	6.7	1.2	3.2	1.1
當地放款 use in HK	7.1	1.7	4.2	1.8
海外放款 use outside HK	5.8	0.1	0.8	-0.6
貿易有關放款 Trade financing	-0.7	-6.2	-4.3	-4.1
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	28,189	27,231	28,980	28,378