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Private Wealth Management Association

Hong Kong Private Wealth Management Report 2024

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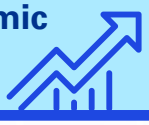
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Executive summary

Optimism about the growing family office segment, wealth opportunities coming from the Chinese Mainland and the adoption of Artificial Intelligence (AI) into the private wealth management (PWM) industry continue despite a challenging macroeconomic environment.



The ninth annual Hong Kong Private Wealth Management report, jointly authored by the Private Wealth Management Association (PWMA) and KPMG China, provides an in-depth view into the industry landscape, evolving challenges, and emerging growth opportunities, with the added lens of AI's growing impact.

The report is largely based on a survey of 35 PWMA member institutions – approximately 80% of the Association's PWM Institution members – and supplemented by the results of the SFC's Asset and Wealth Management Activities Survey 2023[1]. We also added an additional lens of AI adoption in this year's survey and interviews, with insights from industry executives, front office personnel, in-house technology staff, and technology vendors.

The findings show a more optimistic outlook compared to last year's report. Following two consecutive years of decline, 2023 marked a turning point for the industry, with net inflows nearly tripling from 2022, while assets under management (AuM) also increased marginally, despite underperformance in client portfolios.

Industry outlook

Despite these positive developments, the sector continues to navigate through macroeconomic challenges, including rising concerns about the Chinese economy. Recent policy shifts such as the interest rate cut by the US Federal Reserve and the reduction in the reserve ratio requirement by The People's Bank of China may mitigate these concerns in the short term, but the long-term outlook remains uncertain.

Geopolitical tensions, including ongoing conflicts and the unprecedented number of elections held globally in 2024 are contributing to a general sense of political uncertainty. These factors continue to influence market stability and investor sentiment, with the friction between the US and China persisting as a leading concern among member firms in this year's survey.

Against this backdrop, the trend of multi-shoring remains a prominent strategy among high-net-worth individuals seeking to diversify their risk. Given that the demand to book assets in multiple jurisdictions has become a common strategy for clients in recent years, the industry is focusing on leveraging Hong Kong's advantages as a leading wealth management centre to ensure assets continue to be managed out of Hong Kong irrespective of where they are booked.

Hong Kong continues to uphold its strengths as a premier international wealth management centre. The number of firms that see the city's regulatory environment as a constraint has decreased significantly in this year's survey. Meanwhile factors such as a robust legal system, expansive capital markets, and a strong talent pool continue to draw global attention, with more than a third of AuM continuing to be sourced from outside of the Chinese Mainland and Hong Kong.

While the government has been increasing its efforts to promote Hong Kong on the global stage, this year's survey showed that Hong Kong continues to face perception challenges. Continued efforts through public private partnerships will be required to receive feedback and address concerns from clients on some of the misinformation that may affect their perceptions of the city. These efforts should also aim to convey the robust business environment including the rule of law and supportive government policies.

Growth opportunities

Encouragingly, despite the global economic uncertainty that member firms continue to navigate, the majority of respondents report moderate or high optimism about the market's outlook over the next five years, particularly given the huge wealth opportunities that remain in the Chinese Mainland market. Surveyed firms expect AuM from this region to continue growing over the next five years.

[1] SFC Asset and Wealth Management Activities Survey: https://www.sfc.hk/-/media/EN/files/COM/Reports-and-surveys/AWMAS-2023_E.pdf?rev=5549c0965c604a2ba01e6014cf9731a7&hash=574309F73EA20486078C0BA023F7CE47

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This optimistic outlook is further bolstered by Hong Kong's strengthening position as a leading hub for family offices, with a large majority of surveyed firms recognising this sector as a growing source of business. Further government activity in this area has been welcomed; in its 2024 Policy Address[2], the Hong Kong government outlined plans to expand the scope of tax concessions and facilitate the opening of new distribution channels for private equity funds through HKEX listing.

These moves are also aimed at attracting new corridors of international wealth. Southeast Asia and the Middle East in particular remain a key international focus for member firms. To thrive internationally and capture the next generation of clients, firms are looking towards digitalisation to make a difference.

Innovative multichannel offerings and self-service investment platforms are becoming critical to attract and engage this next generation. While currently just over half of surveyed firms offer these platforms for clients to view their investment portfolios, almost all respondents expect to have this capability in five years' time.

The growing impact of AI

PWM firms are currently prioritising AI use cases that are both technically feasible and offer a high business impact, with plans to tackle more complex applications as the technology matures in the future.

The onboarding process of the customer journey has been identified as the most impactful area, with AI's use in risk profiling and suitability assessments currently seen as the most beneficial. Interviewees note that this is particularly important to speed up the profiling process and ensure adherence to KYC and AML. With human oversight, it is also enhancing the accuracy of suitability assessments by synthesising large amounts of data to align investments more precisely with client risk tolerances.

Over the next five years the industry expects to see growth in the low (under US$10 million) and Ultra-High-Net-Worth Individual (UHNWI) client segments (individuals with US$200 million or above of investable assets), with AI anticipated to reduce both acquisition and service costs for the lower-end segment.

However, AI is not expected to become a replacement for relationship managers (RMs), especially for servicing UHNWIs. Instead, it will serve as an enabler handling most of the technical and analytical work such as client profiling and portfolio building, transforming the way RMs advise, inform, and engage clients. This will allow 'RMs of the future' to focus on delivering more personalised advice as 'connectors' and 'coordinators'.

Over the next five years, the industry anticipates a shift towards utilising AI more extensively in client retention strategies, particularly through advanced performance reporting. Technologies like intelligent client reporting and performance visualisation, along with predictive analytics for market trends, will become increasingly used AI tools. Client acquisition in the form of prospect identification and targeting is also anticipated to receive more investment.

Challenges and recommendations

Despite these advancements, the adoption of AI within the PWM industry faces significant challenges that are common to the wider financial services sector, including cybersecurity and data privacy concerns, as well as regulatory and compliance uncertainties. As regulators aim to strike a balance between innovation and consumer protection, more regulator-industry collaboration is needed to instil confidence among AI developers and PWM firms.

The HKMA has launched a Gen AI Sandbox to facilitate collaboration between financial institutions and AI solution providers, allowing for pilot testing of new applications within a controlled environment. While several interviewees confirmed their participation in the sandbox, wider participation from the industry is encouraged to allow the HKMA to develop more supervisory guidance that aligns with the needs of PWM firms.

Establishing an industry working group to prioritise AI use cases and agree on common business requirements for these use cases can also benefit the industry on a large scale. Once these requirements are established, AI developers can bring their solutions to market more efficiently with greater assurance, knowing their solutions would be suitable for a broad range of PWM firms.

Upskilling existing PWM professionals in AI competencies is also a top priority for survey respondents. Although government-funded training on AI adoption strategies has been made available, member firms are advocating for more programmes specifically aimed at enhancing the AI skill sets of existing PWM professionals. Among the recommendations is financial support for AI-focused apprenticeships within the PWM industry.

[2] https://www.policyaddress.gov.hk/2024/public/pdf/policy/policy-full_en.pdf

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Key findings at a glance

A tripling of net inflows and increase in AuM has demonstrated the resilience of Hong Kong's PWM industry

Multi-shoring remains a popular risk management strategy for clients

Hong Kong's status as a leading wealth management centre remains strong, with firms reporting regulatory concerns dropping significantly

The Chinese Mainland remains the dominant source of wealth; however, 21% of firms are targeting new corridors in Southeast Asia, and 15% are focusing on the Middle East

Majority of firms see the family office sector as a growing source of business. To strengthen Hong Kong's position, the industry should continue to provide targeted feedback to the government

Most firms are in "wait and see" mode on virtual assets, with more work to be done among industry, government and regulators to improve client access to a wider product range

To attract the next generation of wealth, almost all firms plan to offer digital platforms for clients within five years time, while just over half have these capabilities today

Number of firms targeting the US$ 5M – US$ 10M wealth segment will see the biggest jump over next five years, with AI aiding in personalised services and reduced client acquisition costs

AI

Majority of firms report that their current implementation of AI is either improving or drastically improving customer satisfaction, with onboarding and KYC identified as the main focus areas

Key challenges include regulatory compliance, data privacy concerns, cybersecurity, and training

AI development will require more engagement with Hong Kong regulators, including use case experimentation via the HKMA's AI sandbox, and technology focused public private partnerships

An industry-wide working group to agree on common business requirements for priority AI use cases is recommended to allow faster scaling of these solutions

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1 Industry overview

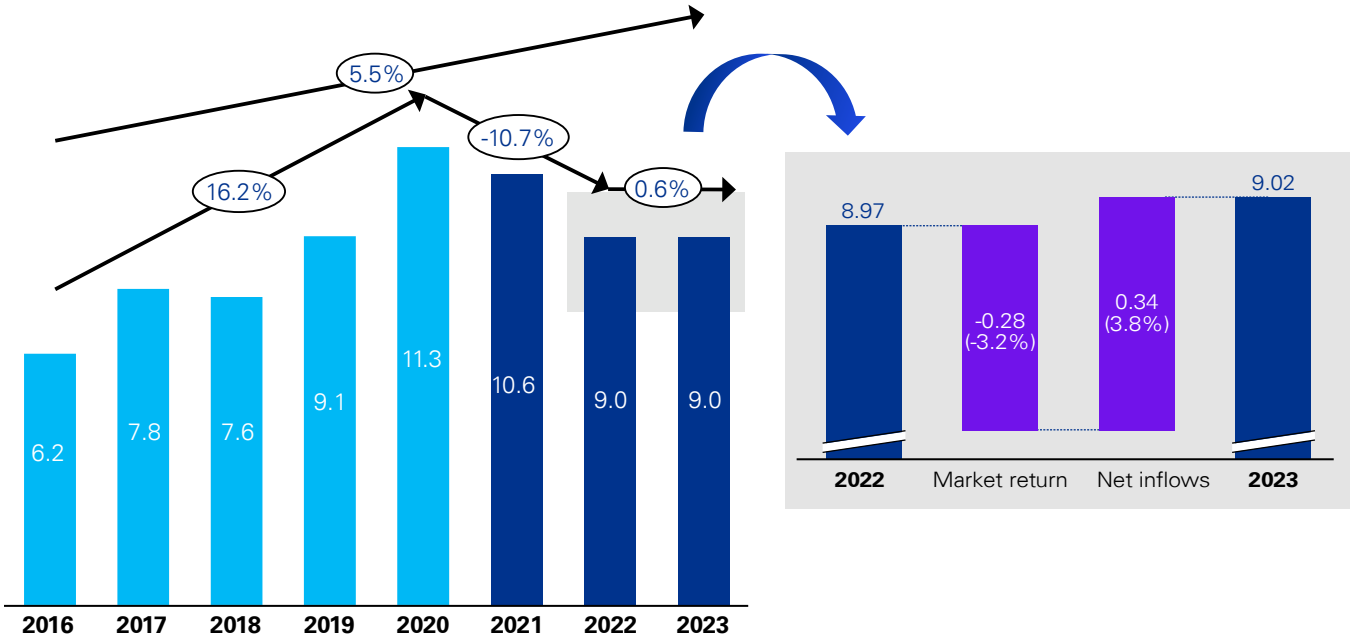
An almost tripling of net inflows demonstrates the strength of Hong Kong's private wealth management industry, however the macroeconomic environment and geopolitical uncertainties are likely to remain as challenges.

Despite being impacted by geopolitical uncertainty, concerns over the Chinese economy, and poor market performance in 2023, Hong Kong's PWM industry remained resilient. AuM saw a modest 0.6% increase to HKD 9,022 billion[3]. This uptick marks a welcome return to growth following two consecutive years of decline in 2021 and 2022. The number of licensed PWM corporations and registered institutions also increased modestly by 3.5% and 2.3% respectively.

Strong inflows of HKD 341 billion, up from HKD 121 billion in 2022, offset a 3.2% decline in asset performance. Surveyed PWMA member firms reported that an estimated 67% of their AuM currently originates from Hong Kong and the Chinese Mainland combined. These investments helped boost overall AuM, with the Securities and Futures Commission (SFC) reporting a 6% and 4% rise in AuM from Hong Kong and Chinese Mainland based investors respectively.

On aggregate, the 3.2% fall in investment returns of PWM assets during 2023 compared favourably against broader market performance in Hong Kong and the Chinese Mainland, both of which recorded another year of decline largely driven by disappointment in China's post-Covid recovery. In contrast, US markets recovered following disappointing returns in 2022, with technology stocks seeing the largest increases.

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



Note:
** Any minor inconsistencies in the total figures displayed may be due to the rounding process implemented in the SFC reported data*
*** Right hand graph displays data up to 2 decimal places for a more precise depiction of market returns, net flows, and YoY change in AuM*

[3] SFC Asset and Wealth Management Activities Survey: www.sfc.hk/-/media/EN/files/COM/Reports-and-surveys/AWMAS-2023_E.pdf?rev=5549c0965c604a2ba01e6014cf9731a7&hash=574309F73EA20486078C0BA023F7CE47

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Interest rate movements, the macroeconomy and geopolitics are currently the biggest concerns

Consistent with last year's survey, the decisions of central banks on interest rates, including "higher for longer" policies in some jurisdictions, most notably the US Federal Reserve, was the leading macro trend that impacted the industry over the previous 12 months (Figure 2). This finding aligns with responses from interviewees' who indicate that many of their clients are grappling with an underperforming, low growth environment in the global economy.

While interest rate movements are anticipated to remain an ongoing trend for the industry, it's important to note that this year's survey was conducted before the US Federal Reserve's decision to reduce interest rates by 50 basis points in September 2024, the first cut in four years. Although the timeline and magnitude of future potential rate cuts are uncertain, interviewees were hopeful that anticipated reductions over the next two years could positively influence the investment landscape.

A significant shift in this year's survey was increased "concerns about the Chinese economy" which moved from sixth to second place in the rankings. Although this issue was echoed as an ongoing worry among interviewees, recent economic stimulus is likely to alleviate concerns about the broader Chinese economy in the short term.

In October 2024, the People's Bank of China introduced support measures including a 50 basis point cut in the reserve ratio requirement. These measures are expected to improve confidence in the economy in the short term, with additional fiscal stimulus anticipated before the end of 2024.

Considering China's position as the world's second largest economy, the longer-term outlook for Hong Kong remains positive. This is reflected in this year's survey, with respondents ranking the expanding wealth in the Chinese Mainland as the second biggest opportunity for the industry. This is especially true considering the vast number of high-net-worth individuals residing in the Chinese Mainland, and potential opportunities arising from the family office sector and the Greater Bay Area.

Figure 2 Ranking of the greatest impacts on the PWM industry in the last 12 months

	2023	2024	
Central Banks' actions on interest rates	1	1	→
Concerns about the Chinese economy	6	2	↑
Tensions between the U.S. and China	2	3	↓
Fears of an economic recession	3	4	↓
Geopolitical uncertainty due to global elections	-	5	
Regulatory uncertainty within certain industries in China	4	6	↓

Note: Geopolitical uncertainty due to global elections was added as a criterion in the 2024 survey due to major elections in leading economies this year

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The macroeconomic environment is dominating the outlook for PWM industry members

There was very little change year-on-year in where member firms see the greatest risks as they plan for the future. The "macroeconomic environment and market volatility" persist as the top worry, while "geopolitical tensions" continue to be the second largest concern for the industry (Figure 3).

With the ongoing conflict in the Middle East, the Russia-Ukraine war, and major elections scheduled in more than two dozen countries in 2024, including the U.S. Presidential election in November - geopolitical tensions are likely to remain concerns for the PWM industry in the near future.

Technology competition is further contributing to this geopolitical uncertainty, with the US and China engaged in decoupling involving advanced technologies like AI, semiconductors, and quantum computing.

Against this backdrop, clients are understandably concerned about how ongoing geopolitical developments may impact their wealth management plans and the value of their investments. Amid this uncertainty, Hong Kong has an opportunity to benefit from its role as a secure wealth management centre for international investors and its position as one of the leading financial centres globally, and the top financial centre in Asia[4].

With over 70 of the world's largest 100 banks operating in the city[5], Hong Kong's deep talent pool, diverse investment products, competitive and open market, robust regulatory framework, and cultural and business proximity to the Chinese Mainland are key differentiators that should be used to reassure investors that Hong Kong is a safe place to invest.

Amid geopolitical uncertainty, the industry has an opportunity to collaborate with other stakeholders such as government bodies and regulators, to highlight and communicate the advantages of Hong Kong as a leading wealth management centre to international investors.

Aside from geopolitical and macroeconomic concerns, "financial risk" and "technology and information security, including cybersecurity" were rising concerns for member firms, moving up to fourth and fifth place respectively, compared to last year's survey, while "talent attraction and retention" fell two places to sixth position.

Figure 3 Ranking of future concerns with regards to the PWM industry

	2023	2024	
Macroeconomic environment and market volatility	1	1	→
Geopolitical tensions	2	2	→
Regulatory environment	3	3	→
Financial risk (credit, market, liquidity, capital)	5	4	↑
Technology and information security, including cybersecurity	7	5	↑
Talent attraction and retention	4	6	↓

Note: AML and tax evasion ranked 6th in our 2023 survey, but was not ranked amongst top 6 choices this year

[4] The Global Financial Centres Index 36 (GFCI 36) - China Development Institute: https://en.cdi.org.cn/about-us/governance/item/898-the-global-financial-centres-index-36-gfci-36#:~:text=The%20thirty-sixth%20edition%20of%20the%20Global%20Financial%20Centres,a%20valuable%20reference%20for%20policy%20and%20investment%20decision-makers.

[5] Hong Kong Monetary Authority: Hong Kong Monetary Authority - Banking: https://www.hkma.gov.hk/eng/key-functions/banking/

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Multi-shoring remains a popular risk management strategy for clients

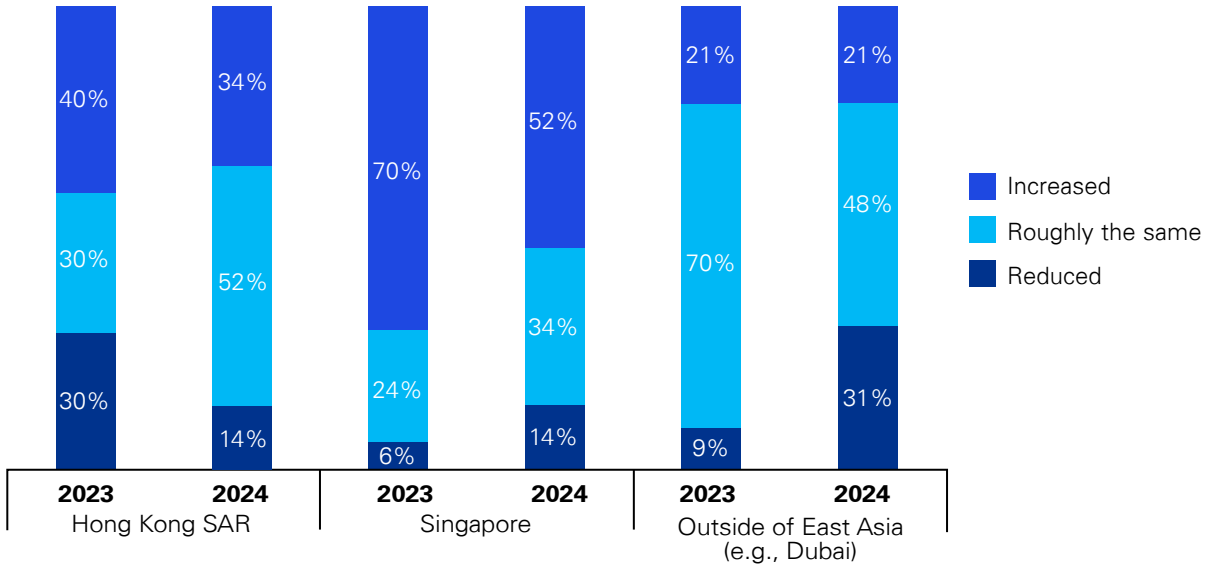
In the race to become the world's largest wealth management centre, Hong Kong is steadily gaining ground. A recent report by a global consultancy predicts that by 2028, Hong Kong will be competing with Switzerland as the leading offshore wealth centre[6]. As part of this journey, the client strategy of multi-shoring, which involves opening accounts in multiple jurisdictions to diversify investments and manage risk, is largely seen by the industry as being complementary to Hong Kong's growth, rather than a competitive risk.

For Hong Kong to grow its position as Asia's leading wealth management centre, it is critical for relationships and assets to remain managed from Hong Kong with the opening of accounts in other jurisdictions being part of a broader risk diversification strategy offered to clients.

Singapore remains a popular booking centre, however client demand for new account openings in the city-state has declined, with firms reporting increased demand falling to 52% from 70% in 2023.

Given that multi-shoring will remain a part of Hong Kong's private wealth management landscape, the potential impact of this trend needs to be considered by the industry. While most private wealth management firms currently possess the capacity to register client assets across multiple jurisdictions, firms lacking this capability should take note of this ongoing client need.

Figure 4 Level of client demand for new accounts to be opened, and/or client assets to be held in the following booking centres



[6] BCG Global Wealth Report 2024: https://www.bcg.com/publications/2024/global-wealth-report-the-gen-ai-era-unfolds

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Demand for new account openings in Hong Kong remains strong amid changing client behaviours around preferred wealth management centres

This year's survey shows Hong Kong continues to be a leading booking centre, with 86% firms reporting "increased or roughly the same" demand for new client accounts compared to last year (Figure 4). However, the results also show an increase in the number of clients who do not have a strong preference for Hong Kong over other wealth management centres (Figure 5).

Analysis of survey data indicates that this is likely due to political perceptions rather than Hong Kong's fundamentals as an international financial centre (IFC). Firms report clients who are concerned about Hong Kong's political future have increased from 21% in 2023 to 28% this year. Meanwhile, competition from other regional financial centres, a new question in this year's survey, has been identified as the second biggest challenge facing Hong Kong (Figure 6).

Figure 5 Clients preference for Hong Kong over other wealth management centres

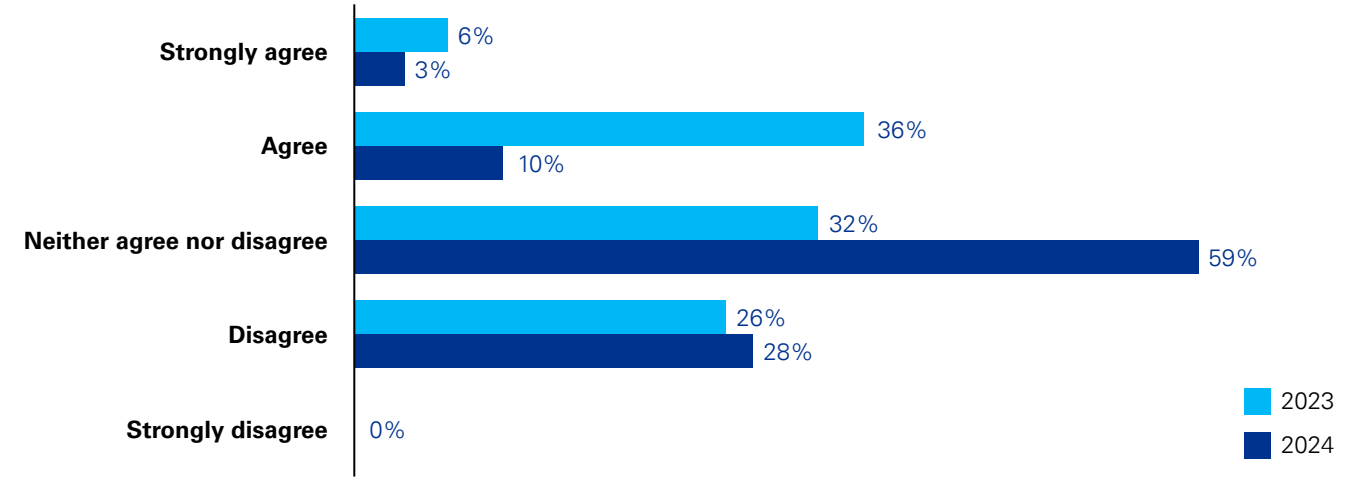
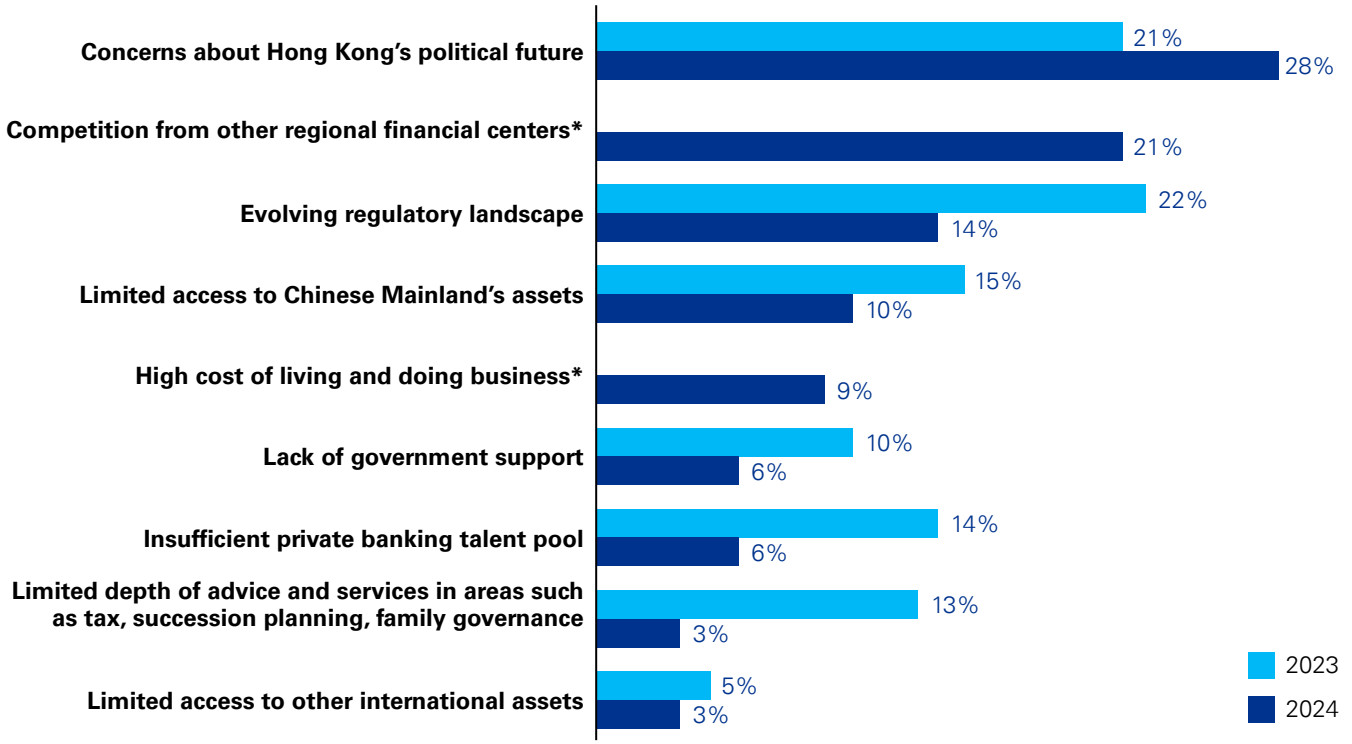


Figure 6 Most significant constraints facing Hong Kong as a private wealth management centre



*Note: *Option added as a new criterion in 2024 survey*

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To strengthen Hong Kong's position as the preferred wealth management centre in Asia, our survey findings on key constraints facing Hong Kong serves as a call to action for the government and the industry as a whole.

While the government has been making significant efforts to market the city to a global audience, continued efforts through public private partnerships will be required to receive feedback and address concerns from clients on some of the misinformation that may affect their perceptions of the city. Reaffirming the stability provided by the "One Country, Two Systems" principle, supported by practical examples and success stories will improve international confidence in Hong Kong.

The fundamental advantages of Hong Kong as a wealth management centre remain intact, with government agencies including the regulators continuing to refine their policies and frameworks to promote the growth of a thriving private wealth management industry. Tangible progress in this area can be seen in this year's survey, which shows an 8% year-on-year reduction in firms that view the regulatory landscape as a significant constraint.

Hong Kong traditionally receives high scores for most key attributes as a wealth management centre when compared with other top jurisdictions, ranking first in last year's survey in onboarding, range of investment options, and investor protection. These are unique advantages of Hong Kong that are typically not easily replicated or found in other wealth management centres. Other advantages include the well-known fundamentals such as the business-friendly environment, regulatory regime, low and simple tax rate, deep capital markets and strong talent pool.

The government and regulators have been making concerted efforts to enhance the city's IFC status and attract talent in recent years. A major policy is the Top Talent Pass Scheme[7], launched at the end of 2022 and open to graduates of elite global universities. This scheme was recently expanded as part of the government's 2024 Policy Address, to now include 198 international and Chinese Mainland universities. Meanwhile, the validity of the first visa for high-income talent under the scheme will be lengthened from two to three years.

The talent pool is integral to Hong Kong's status as a global financial hub and continues to benefit private wealth management industry clients. In fact, only 6% of survey respondents this year reported a shortfall in private banking talent, with a mere 3% pointing to limited depth of advice and services in areas such as tax, succession planning, and family governance.

Interviewees note that professionals in Hong Kong not only have the knowledge and expertise required to serve clients in the Chinese Mainland and international investors looking for opportunities in China, but also have the broader experience and expertise to serve the Asia Pacific market. Hong Kong also has a unique advantage in its connectivity to the Chinese Mainland not only in terms of investments but also geographical proximity and cultural links.

Given all of these advantages, Hong Kong should continue to position itself as the preferred wealth management centre for clients, while keeping high value-added activities including relationship and portfolio management in the city, taking advantage of the wider ecosystem built for the sector.



[7] https://kpmg.com/xx/en/our-insights/gms-flash-alert/flash-alert-2023-016.html

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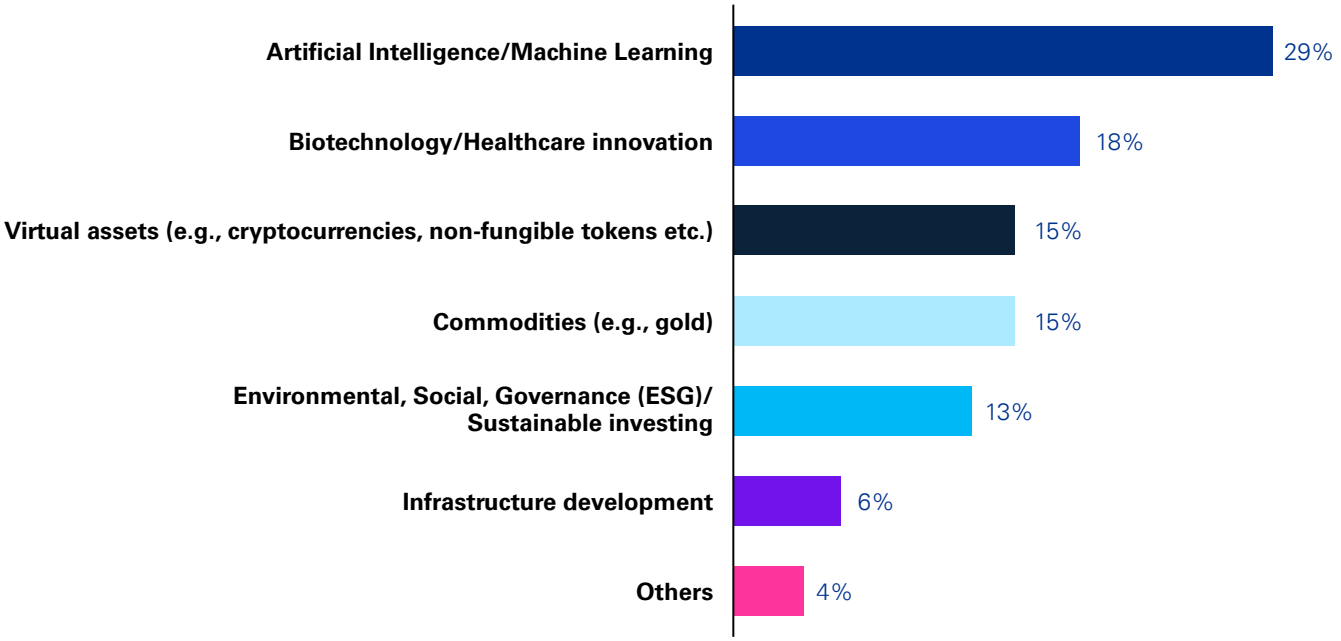
Clients show strong investment preferences for Artificial Intelligence and Biotechnology

Artificial Intelligence is emerging as the most popular investment theme among PWM clients, followed by biotechnology and healthcare innovation (Figure 7). While the Covid-19 pandemic raised the profile of the biotechnology sector among investors, the sector's allure has been further reinforced by strategic moves from the Hong Kong government in recent years.

Financial support through the Innovation and Technology Fund[8], for example, has actively financed a wide array of biotech projects, aiming to secure a competitive edge for Hong Kong in global biotechnology markets.

Given the current macroeconomic environment it is not surprising that commodities – including the traditional safe-haven of gold – are also popular among clients, with 15% citing them as an investment priority. Recent initiatives outlined in the government's 2024 Policy Address to facilitate gold trading in Hong Kong are likely to further bolster investor interest in this area.

Figure 7 Client investment priorities by theme



PWM members remain cautious on virtual assets as Hong Kong ecosystem grows

Analogous to other jurisdictions such as Singapore and Dubai, Hong Kong has ambitions to become a virtual asset hub and is refining its regulatory regime to encourage more financial innovation within a robust regulatory environment. The SFC has introduced new licensing requirements for virtual asset trading platforms and has taken steps to bring virtual assets under its regulatory purview. Meanwhile, the HKMA has also issued guidelines, including a joint circular with the SFC on virtual asset-related activities[9].

The regulatory regime developed by the SFC and HKMA is comprehensive and covers all major types of virtual asset activity including virtual asset trading platforms, dealing and advising on virtual assets, and the management of investment portfolios which include virtual assets[10]. The level of detail and guidance provided by the regulators in Hong Kong has been widely welcomed and contrasts with some other jurisdictions where regulation over this asset class is not as clearly defined.

[8] https://www.itf.gov.hk/en/home/index.html

[9,10] SFC and HKMA: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2023/20231222e1.pdf

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Despite these improvements, PWM firms are yet to make significant strides in adopting virtual assets. While 17% are currently developing virtual asset trading and/or custody services for their clients, marking a meaningful increase from 3% in 2023, the majority (79%) are adopting a "wait and see" approach (Figure 8).

The integration of virtual asset products into existing banking systems presents operational challenges, including the need for specialised knowledge and infrastructure to manage these assets effectively while ensuring compliance with evolving regulations. While there is growing interest in virtual asset products among investors, PWMA member firms remain cautious due to concerns over volatility, satisfying product diligence and suitability requirements, and the overall complexity of integrating these products into their offerings.

Despite these obstacles, the increased regulatory clarity from the SFC and HKMA has likely positioned Hong Kong favourably for the long term by giving financial institutions the confidence that they are not entering a 'grey zone' or conducting virtual asset related activities which are not supported by the regulator.

Interviewees expressed confidence in the future growth of Hong Kong's virtual asset sector, pointing to increased activity and progress within the ecosystem. They note that as the investment infrastructure expands, it is likely to stimulate increased client interest.

In April 2024, three spot BitCoin ETF applications were approved by the SFC, the first of their kind for the Hong Kong market. These ETFs which invest directly into the underlying virtual assets are anticipated to attract interest from investors and position Hong Kong as a leading destination for virtual asset investment opportunities. Between 2023 - 2024, Hong Kong saw an 85.6% rise in cryptocurrency transaction value, the largest increase in East Asia[11].

This uptick in activity is mirrored in the expectations of surveyed firms, with 32% anticipating 6-10% of their AuM to be allocated to virtual assets in five years' time, a considerable jump from 2% of firms today.

Figure 8 Firm-wide plans pertaining to virtual assets

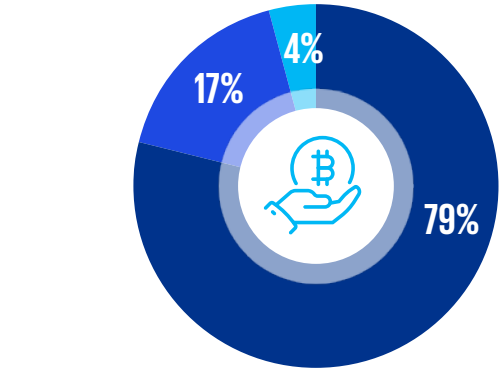
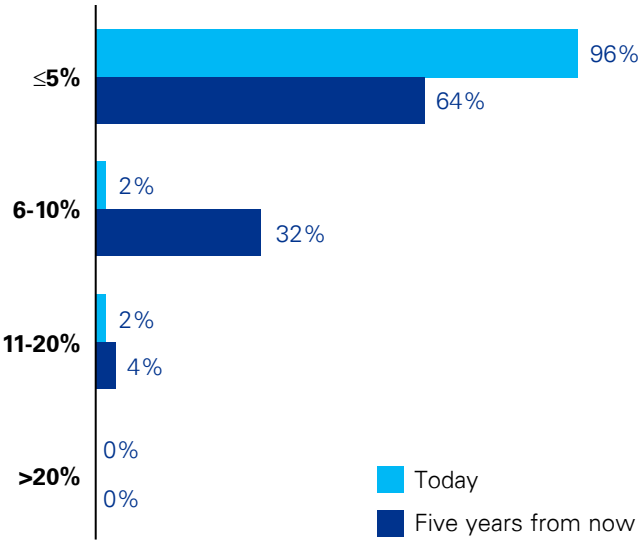


Figure 9 The percentage of surveyed firms' AuM invested in virtual assets currently and in five years



[11] The 2024 Global Crypto Adoption Index: https://www.chainalysis.com/blog/2024-global-crypto-adoption-index/

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The rate of ESG investment is decelerating despite ongoing interest from a subsection of clients

Environmental, Social and Governance (ESG) investing has been an ongoing theme for the PWM industry for some time, however the jump in investment that has been expected in this area for several years is yet to materialise. While 13% of clients consider it a priority investment area (see Figure 7), the extent of investment has not met the industry's initial expectations.

In fact, the number of firms with 11% or more of their AuM invested in ESG has declined slightly from 14% in 2022, to 12% in 2023 and 11% in 2024 (Figure 10). This decline despite notable client interest is likely due to the current macroeconomic climate where investors are focusing on protecting their portfolios and finding value above other considerations.

In a 2023 ESG survey focusing on Hong Kong's PWM Industry produced by PWMA and KPMG, most interviewees reported a relative dip in demand for ESG products over the preceding one to two years, attributing it to broader macroeconomic conditions and a decline in "overall market sentiment." Clients are concerned that choosing sustainable investment products comes with a trade-off in returns, assuming that a reduction in returns is an inevitable consequence.

As a result, firms appear to be adjusting their future ESG investment expectations. Firms who expect larger allocations of their AuM in ESG investments over the next five years has decreased, with only 7% of firms anticipating allocations of over 30%, down from 14% in 2022.

This decline in interest mirrors trends in ESG investment globally. Investors have withdrawn a net US$ 40 billion from ESG funds so far this year according to research from Barclays[12], with many funds hit by the poor performance of sectors related to ESG, such as clean energy.

Figure 10 The Percentage of surveyed firms' AuM currently invested in ESG

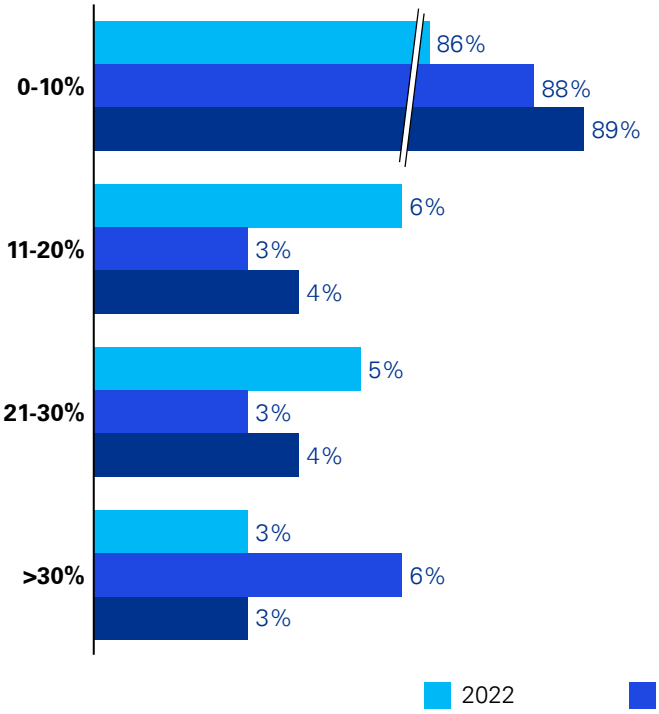
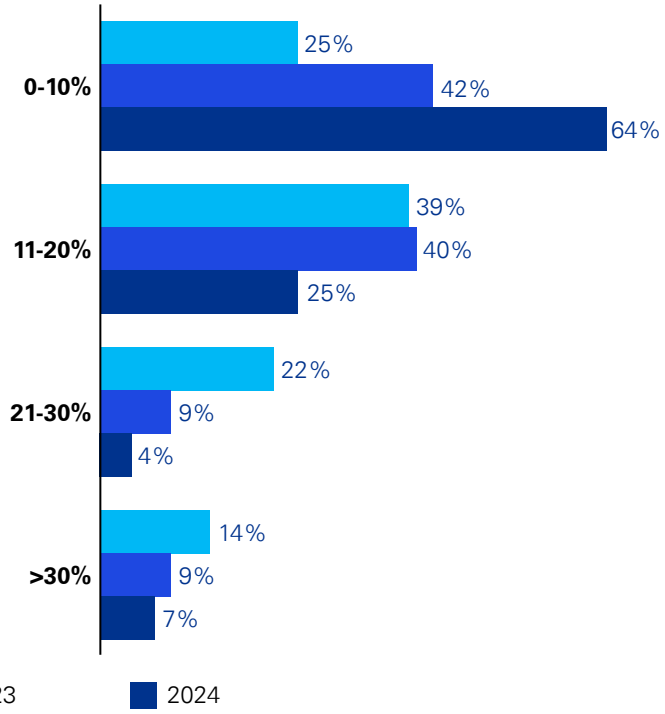


Figure 11 The percentage of surveyed firms' AuM expected to be invested in ESG in five years' time



[12] Financial Times: https://www.ft.com/content/cf9001ab-e326-4264-af5e-12b3fbb0ee7b

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Key takeaways

A three-fold increase in net inflows and overall AUM growth demonstrates the robust strengths of Hong Kong's private wealth management industry

Multi-shoring remains a popular risk management strategy for clients

Investment in virtual assets is expected to increase over the next five years as supporting ecosystem grows

Clients are showing strong investment preferences towards AI and biotechnology, while the rate of ESG investment is decelerating

Actions

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

Work with stakeholders, including government and regulators, to facilitate easier access for wealth management clients to a broader range of virtual asset products

ESG education initiatives are needed to highlight investment benefits to clients beyond short-term financial value, including longer-term returns and societal impacts

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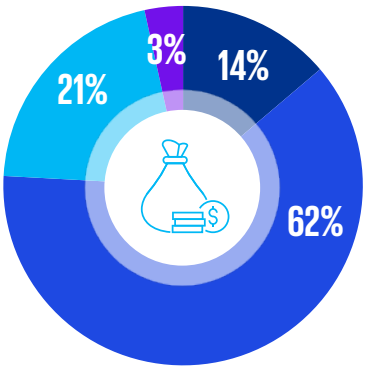
2 Growing the market

Capitalising on the growing wealth in the Chinese Mainland, and in particular developing Hong Kong as a hub for family offices continues to be a key growth opportunity.

Despite a challenging macroeconomic environment and witnessing only moderate AuM growth in 2023, optimism runs high in Hong Kong's PWM industry. Survey data reveals that 76% of respondents are moderately or highly optimistic about the market's outlook over the next five years (Figure 12).

Year-on-year, the industry's anticipated sources of growth have remained mostly unchanged, although their priority order has changed. The opportunity to develop Hong Kong as a hub for family offices has jumped from third place to the top spot, followed by capitalising on expanding wealth in the Chinese Mainland and targeting second (or third) generation clients (Figure 13).

Figure 12 Overall sentiment about the Hong Kong Private Wealth Management market over the next five years



- Highly optimistic (significant growth opportunities, favorable regulatory environment, and strong client confidence)
- Moderately optimistic (steady growth, some challenges, and stable client base)
- Neutral (market conditions largely remain unchanged, balanced view of opportunities/challenges, and maintaining current strategies)
- Somewhat pessimistic (market contraction, regulatory pressures, economic headwinds, and client retention concerns)

Figure 13 Ranking of the main opportunities to grow the Hong Kong private wealth management market

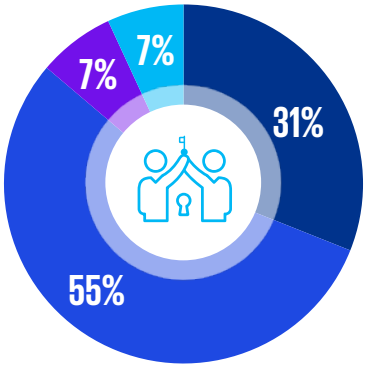
	2023	2024	
Develop Hong Kong as a hub for family offices/super-connector	3	1	↑
Capitalise on the expanding wealth in Chinese Mainland	1	2	↓
Targeting the second (or third) generation	2	3	↓
Targeting young entrepreneurs	4	4	→
Explore new markets such as Southeast Asia and Middle East	6	5	↑
Attracting more IPO fund raising activities in Hong Kong	5	6	↓

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Growing the family office segment remains a priority amid competition from other jurisdictions

The global PWM industry has increasingly focused on the family office sector in recent years with strong competition among jurisdictions. Hong Kong's interest in this sector continues to gain momentum, with a large majority (86%) of surveyed firms recognising this sector as a growing source of business (Figure 14).

Figure 14 Participants' views on family offices being an increasingly important source of business for their organisations



Recognising this potential, the HKSAR Government has prioritised the family office sector by actively engaging global family offices to set up operations in Hong Kong through a number of government-led initiatives and proposals.

In its 2024 Policy Address, the government outlined plans to expand the scope of tax concessions and facilitate the opening of new distribution channels for private equity funds through HKEX listing.

This follows measures in 2023 to strengthen the ecosystem for international family offices and asset owners[13]. These measures included a restructured Capital Investment Entrant Scheme, talent development programmes, and a new network of Family Office Service Providers.

Given that the incentives offered in Hong Kong must be competitive compared with other jurisdictions, these initiatives have been well received by the industry, with interviewees describing the framework as attractive and effective in developing the family office business.

Interviewees also note that the appeal of Hong Kong extends beyond these initiatives. As an international financial centre, Hong Kong boasts a deep talent pool that includes not just wealth management professionals, but a complete supporting ecosystem of lawyers, accountants, trust firms and philanthropy advisors who are experienced in handling family office clients and their complex needs.

Professionals operating out of Hong Kong also find themselves more culturally attuned and responsive to clients from the Chinese Mainland, making it easier for these families to manage their businesses and wealth from Hong Kong.

Despite these advantages and the progress made, when it comes to attracting global clients, the industry will continue to face strong competition in the family office segment from other jurisdictions, particularly Singapore. Less mature wealth management jurisdictions such as Malaysia and India are also providing competition, including the recently launched family office incentives at the Forest City Special Financial Zone in Johor.

As it seeks to extend its global reach, it's crucial for the PWM industry in Hong Kong to effectively communicate and promote its advantages as a family office hub to international investors. In addition to the latest policy incentives, these advantages include a robust legal system, low tax rates, and a transparent regulatory regime.

The Hong Kong Government has taken strides in this direction by establishing FamilyOfficeHK, a specialist team within InvestHK, in 2023. This team is designed specifically to promote Hong Kong's family office ecosystem. Given the level of global competition, this will need to be a long-term focus from the government to ensure Hong Kong retains and builds upon its position as one of the world's leading jurisdictions for the sector.

[13] The Government of Hong Kong Special Administrative Region: https://www.info.gov.hk/gia/general/202303/24/P2023032300717.htm

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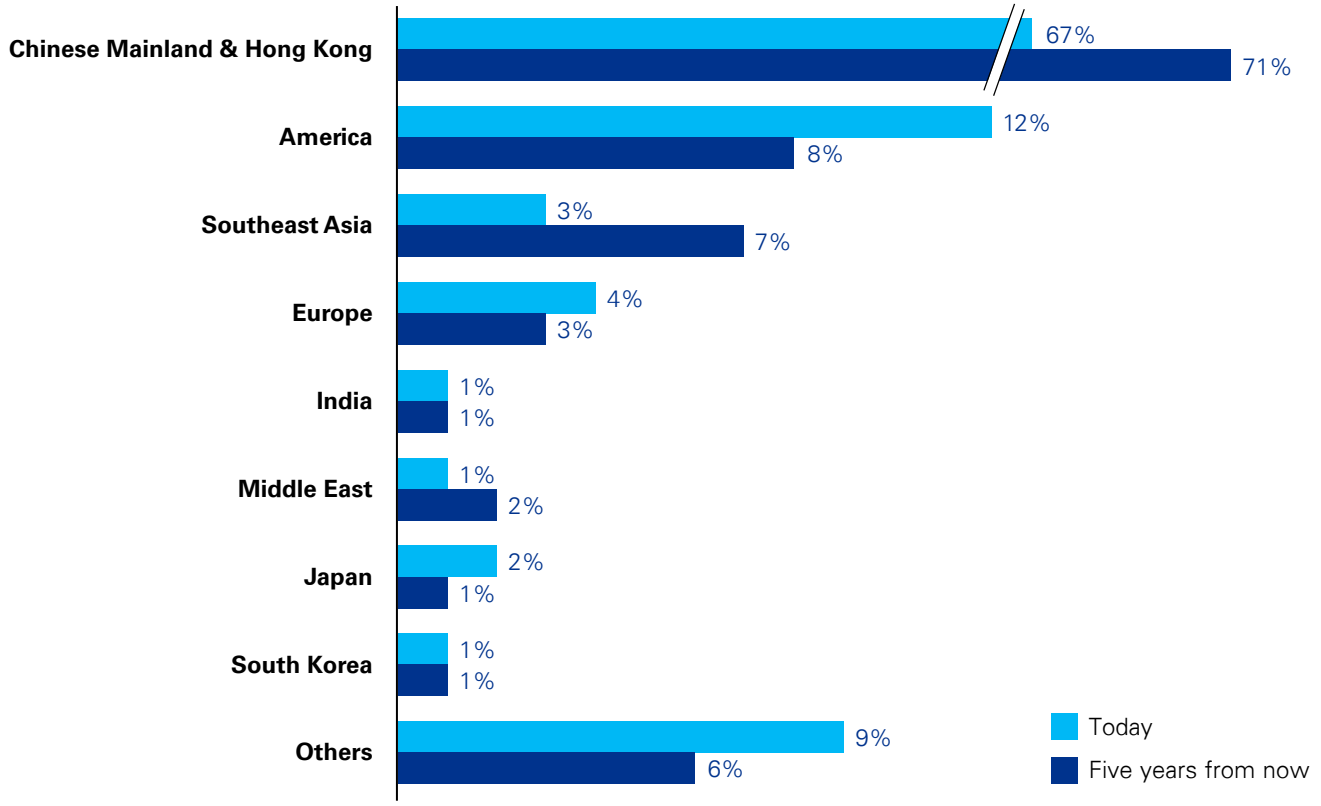
Industry targets organic growth as wealth opportunities in the Chinese Mainland continue to grow

The Chinese Mainland will continue to be the biggest source of wealth for PWM members, with a small decline in the amount of wealth sourced from the US and Europe expected over the next five years (Figure 15). However, there is a growing corridor of wealth from Southeast Asia and the Middle East, which, although only expected to increase marginally and starting from a low base, may present valuable opportunities for expansion and diversification in the longer term.

Member firms expect the proportion of Hong Kong-based AuM sourced from the Chinese Mainland and Hong Kong combined to increase from 67% today to 71% in five years' time.

Hong Kong's status as the gateway between the Chinese Mainland and the rest of the world will be key as the city continues to benefit from being the first port of call for wealthy Chinese Mainland individuals looking to diversify and manage their wealth globally. Since 2008, the median wealth in the Mainland has expanded by over 200%[14]. Currently, China ranks second worldwide in the number of USD millionaires, home to just over six million – a population that will continue to present significant opportunities for PWM firms.

Figure 15 Member firm estimates of where Hong Kong-based AUM comes from today vs. in five years' time



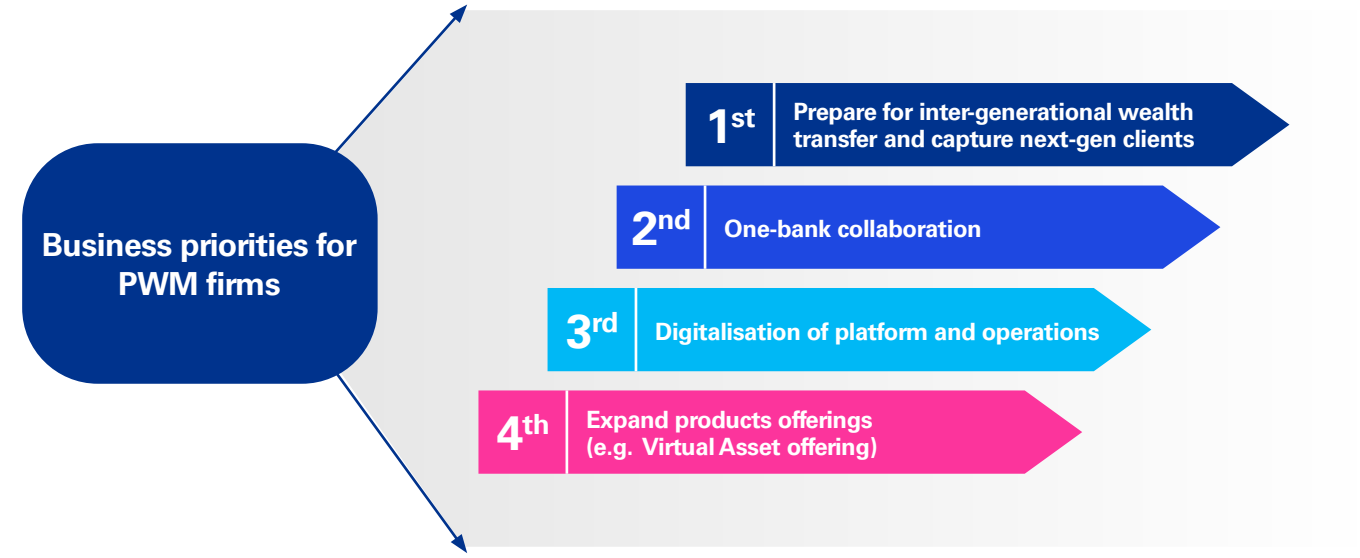
[14] UBS Global Wealth Report 2024: https://www.ubs.com/content/dam/assets/wm/static/noindex/wm-germany/2024/doodownload/Global-Wealth-Report-2024.pdf#:~:text=Our%20analysis%20of%20over%2050%20key%20markets%20in%20this%20year's

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Member firms are focusing on capitalising on this wealth expansion by prioritising relationship building with their existing customers over pursuing inorganic expansion strategies like entering new markets. The main business priority for surveyed member firms this year is "preparing for the transfer of wealth between generations and capturing the next generation of clients." Member firms are also focusing on providing more comprehensive and unified "One-bank collaboration" services to their clients (Figure 16).

One interviewee from a sizeable firm noted that AI will likely accelerate the provision of more one-bank services, particularly in areas such as integrating different departments and supporting relationship managers to provide a seamless experience to clients.

Figure 16 Ranking of business priorities for PWM firms





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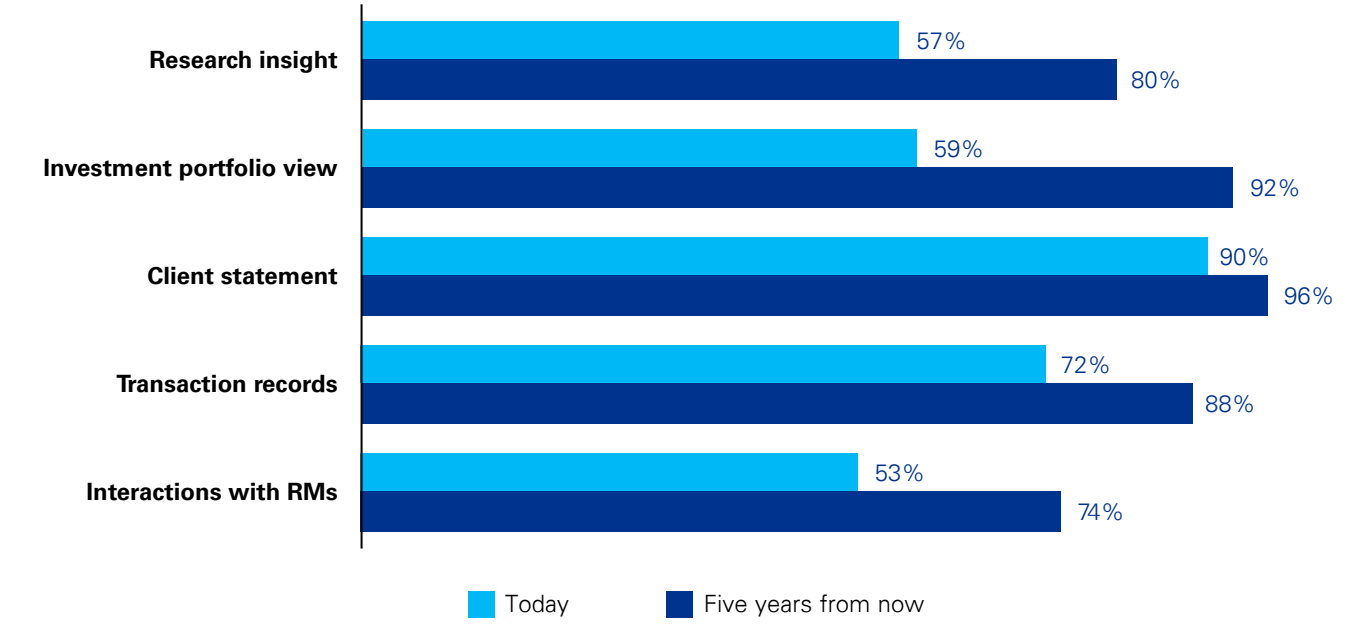
Targeting the next generation of clients through digital transformation

As more wealth is being passed down to the next generation and new wealth is created by younger entrepreneurs, this group of investors has been identified as the top business priority for PWM organisations.

Many firms are preparing to channel more resources into their digital platforms, following survey results from last year where clients said they want more control over their online investments in terms of research, portfolio building, and trading online.

Currently, 59% of firms have a digital platform for clients to view their investment portfolios. Over the next five years, this is expected to rise to 92%. Firms also plan to expand their online services in other areas, such as providing research data (to be offered by 80% of firms) and facilitating online interactions with relationship managers (to be offered by 74% of firms) (Figure 17).

Figure 17 Digital channels for customers currently and planned over the next five years



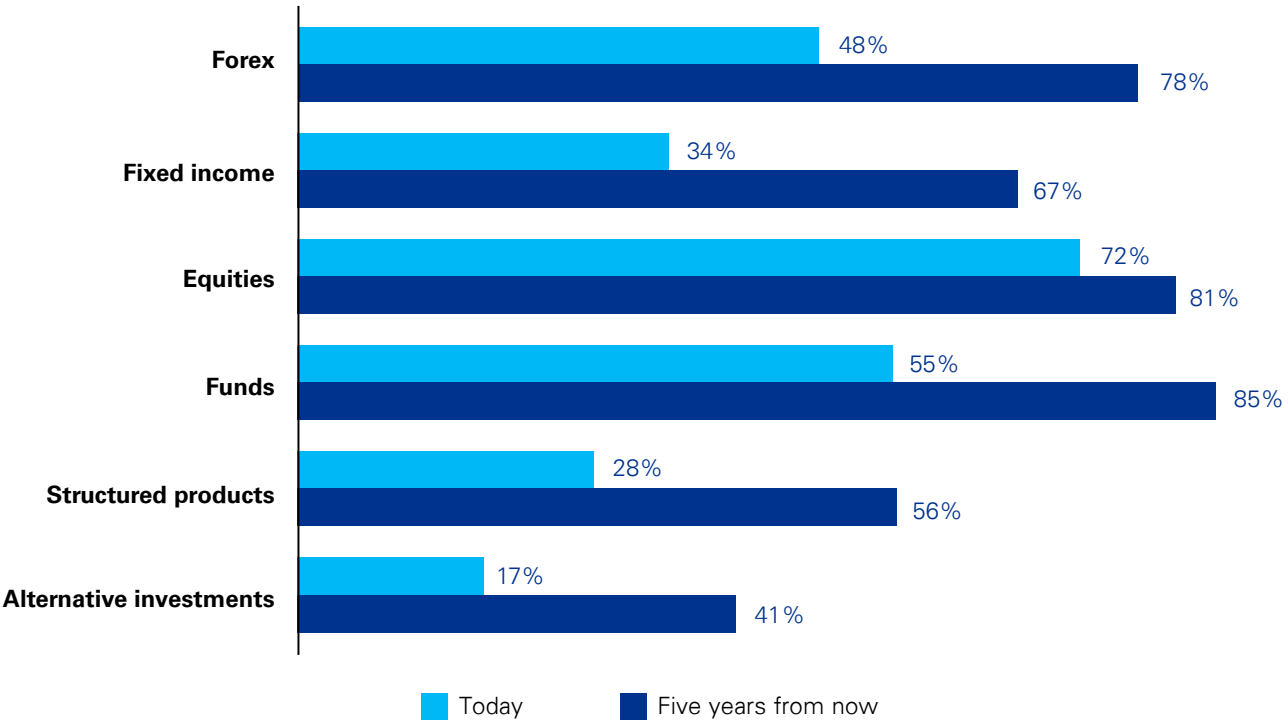


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This growing trend also applies to trading channels. As member firms prepare for more digital interactions with customers, trading in traditional products like Forex, Fixed Income, Equities, and Funds are slated for considerable digital investments over the next five years. Even for Structured and Alternative Investments – traditionally a predominantly offline area – approximately half of member firms intend to introduce online channels (Figure 18).

From our interviews with member firms, it is clear this trend is widespread. We note one sizeable firm launched new digital platforms and apps to significantly strengthen their online offerings in recent years as a necessity to keep up with market expectations.

Figure 18 Trading channels for customers currently and planned over the next five years





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Refinements to Wealth Management Connect scheme can provide a step forward for Greater Bay Area investors over the long term

The Greater Bay Area (GBA) continues to be a pivotal region in China's national development strategy, offering a wealth of opportunities for the PWM sector. According to the latest survey results, 69% of PWM member firms recognise the strategic importance of GBA initiatives over the next five years (Figure 19).

A cornerstone of these initiatives is the Wealth Management Connect (WMC) scheme, which facilitates cross-boundary investments for GBA investors into Hong Kong's sophisticated wealth management products. Recent enhancements under WMC 2.0, including the increase of individual investment quotas from RMB 1 million to RMB 3 million, signify a substantial improvement in investment flexibility for GBA investors – however this new limit is widely considered to be inadequate, with calls for further quota increases in the upcoming WMC 3.0.

In its current form, Wealth Management Connect remains limited in scope and more suited to retail customers, positioning it as a longer-term opportunity for the private wealth management industry. More immediately, there is a strong call for reducing cross-boundary service barriers, which would allow Hong Kong-based staff to provide advisory services directly to Mainland clients.

Figure 19 Member firms that agree that GBA initiatives will be important for off-shore Hong Kong business over the next five years

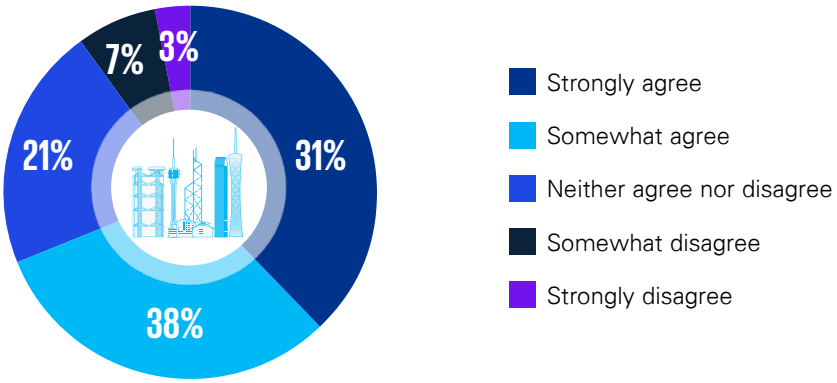
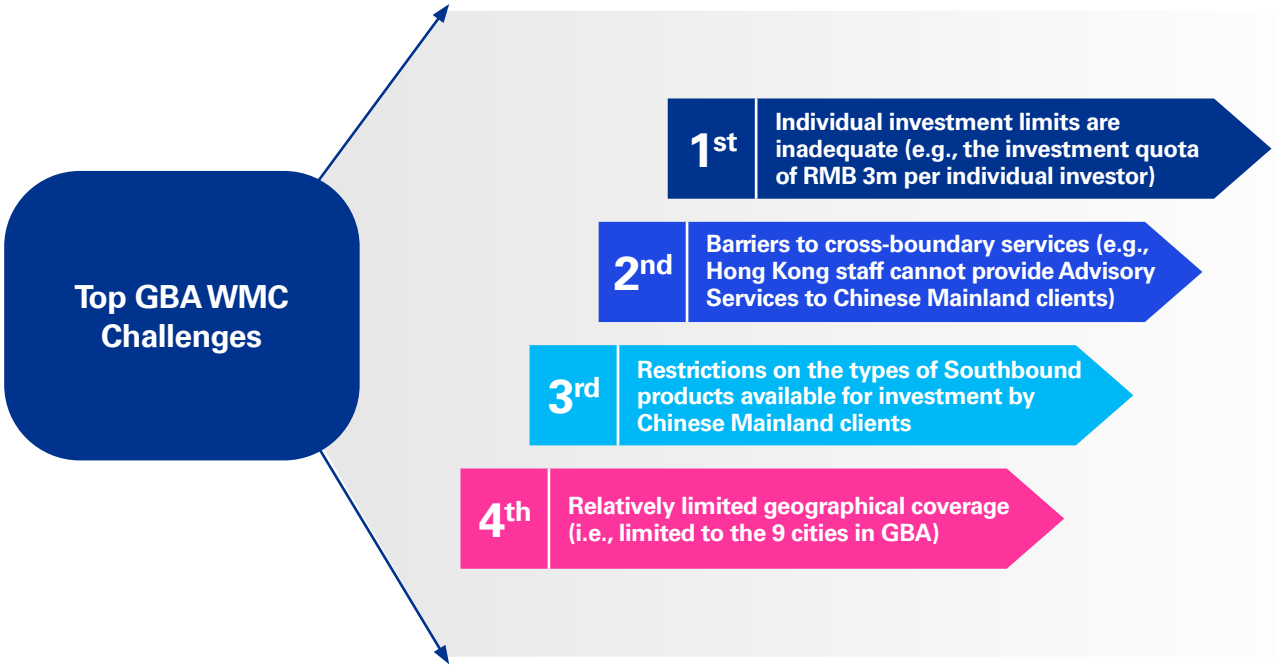


Figure 20 Ranking of top "GBA Cross-boundary Wealth Management Connect" challenges



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New corridors of wealth in Southeast Asia and the Middle East

While the Chinese Mainland remains the dominant source of wealth, PWM firms are actively exploring new growth avenues in Southeast Asia and the Middle East. Currently, 21% of firms are sourcing or planning to target wealth from Southeast Asia, with the Middle East following at 15% (Figure 21). Offshore clients make up an important part of the industry, and individuals boasting a net worth of USD 30 million or more are expected to blossom throughout Asia and the Middle East between 2023 and 2028, growing by a projected 38% and 28% respectively[15].

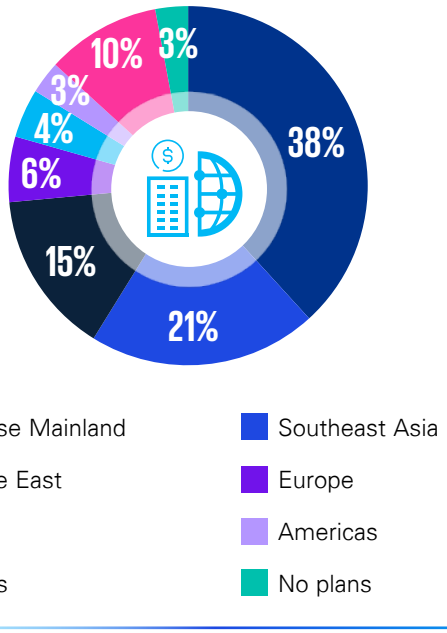
However, our interviews with PWM firms identified challenges such as market saturation in the Middle East and competitive pressures in Southeast Asia, requiring targeted strategies to effectively capture these emerging wealth corridors. Given Hong Kong's many advantages as a private wealth management centre are not as well known in regions outside of the Chinese Mainland, attracting inflows from these areas is likely to be a gradual process requiring a sustained focus.

Both the government and industry will need to boost promotional efforts to highlight Hong Kong's advantages such as expansive capital markets, range of investment options and a robust investor protection framework to these regions. This includes building on last year's successful visits to the Middle East and Southeast Asia, led by Chief Executive John Lee and joined by senior officials and financial services executives.

These visits have been effective in raising Hong Kong's profile as a jurisdiction of choice and have prompted follow-up visits including a recent delegation to Saudi Arabia led by Financial Secretary Paul Chan. The latest visit laid grounds for substantial financial commitments, such as the announcement of a US$1 billion agreement between the Hong Kong Monetary Authority and Saudi Arabia's Public Investment Fund, which aims to support businesses in the Greater Bay Area, including Hong Kong. The visit also coincided with the listing of two new ETFs[16] tracking the Hong Kong equity markets on the Saudi Exchange as part of broader efforts to enhance financial cooperation between Hong Kong and the Middle East.

While further efforts by the government to promote Hong Kong overseas are welcomed, supporting the acquisition of talent to specifically target Southeast Asia and the Middle East should also be a key focus. Hong Kong's Top Talent Pass Scheme, introduced in 2022, has been highly successful in attracting high calibre talent, particularly from the Chinese Mainland, with the government announcing an expansion to the scheme during its 2024 Policy Address. However, a sharper focus on attracting talent that has a deeper understanding of the local markets and cultures in the Middle East and Southeast Asia should also be considered as a priority focus moving forward.

Figure 21 International sources of wealth member firms currently target or plan to target in the near future



[15] Knight Frank: the Wealth Report: https://www.knightfrank.com/wealthreport
[16] https://www.reuters.com/business/finance/saudis-first-china-focused-etf-become-largest-middle-east-2024-10-29/

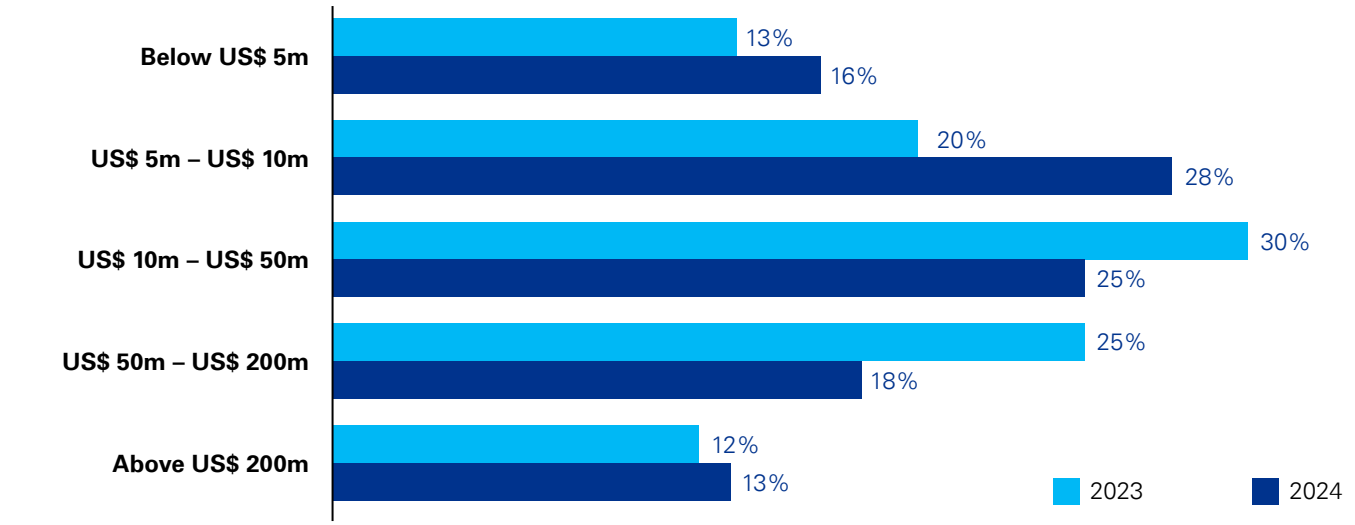
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Increased focus on lower segment of the wealth spectrum

PWM firms are increasingly focusing on the lower segments of the wealth spectrum with engagement in asset bands ranging from USD 5 million to USD 10 million expected to see the biggest increase, from 20% today to 28% in three to five years' time. This recalibration aims to capture a broader base of investors and diversify the client portfolios managed by Hong Kong-based firms. Interviewees note that greater process efficiencies and the introduction of AI will allow for more personalised targeting of the lower end of the asset band in the coming years as well as reduced client acquisition and servicing costs.

There has also been a slight increase in the focus on clients with assets in excess of US$ 200 million. 13% of firms are now targeting this Ultra-High-Net-Worth Individual (UHNWI) client segment, up from 12% in 2023.

Figure 22 Client segmentation and asset band focus for expansion in the next three to five years





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Key takeaways

Hong Kong is continuing to develop as a thriving hub for family offices

Growing wealth in the Chinese Mainland remains a driver for opportunities

WMC 2.0 has been a welcomed improvement, but further enhancements are needed

Actions

Building on the success of recent initiatives to attract and develop Family Offices, the industry should continue to engage with the government to provide feedback on strengthening Hong Kong's position

Government and industry will need to boost promotional efforts to build relationships and enhance the wealth corridor with Southeast Asia and the Middle East

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3 AI's growing impact

Since the emergence of Large Language Models (LLM) and Generative AI (Gen AI) such as Chat GPT in 2022, these technologies have permeated the global banking industry and have become a subject of intense exploration within Hong Kong's PWM sector.

Gen AI represents a significant evolution in the capabilities of AI, extending beyond traditional data processing that has been a mainstay in the financial services industry for decades, to include a more intuitive prompt-based interface, and the generation of original, text and visual based outputs.

In the context of the PWM industry, Gen AI holds the promise of delivering highly tailored customer reports and personalised financial advice to help relationship managers better serve clients. Moreover, its ability to process and analyse vast datasets with speed and accuracy presents significant potential for optimising risk management, enhancing fraud detection, and ensuring compliance with regulatory requirements.

To assess the current state of AI adoption in the PWM industry, we extended the scope of our survey this year and interviewed front office staff and technology vendors to gain insights into current and planned AI use cases.

3.1 Current state of AI adoption

PWM firms are currently prioritising technically feasible AI use cases that have a significant business impact, with plans to tackle more complex applications as the technology matures.

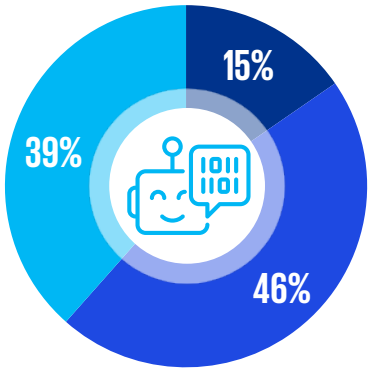
Our discussions with technology vendors and member firms suggest that there has been a lack of urgency amongst PWM firms in the past to explore implementing new AI applications as a means to differentiate themselves from other firms. Facing a more competitive environment and tighter margins, the industry is now focused on streamlining internal processes and boosting revenue. This is being achieved with help from Gen AI, designed to enhance workforce and RM productivity, rather than directly interacting with clients.



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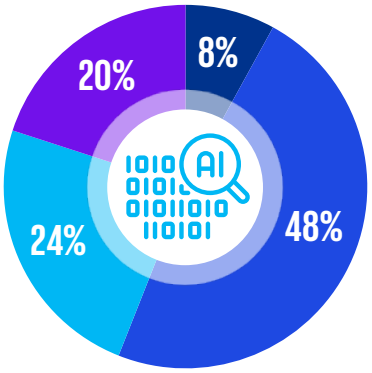
The benefits of this positive exploration are already evident, with 61% of PWM firms reporting that current implementations of AI are either improving or drastically improving customer satisfaction (Figure 23). In contrast, only 20% of firms report that AI is not currently improving their firm's operational efficiency or productivity (Figure 24).

Figure 23 How do you perceive the impact of AI adoption on customer experience and satisfaction within your firm?

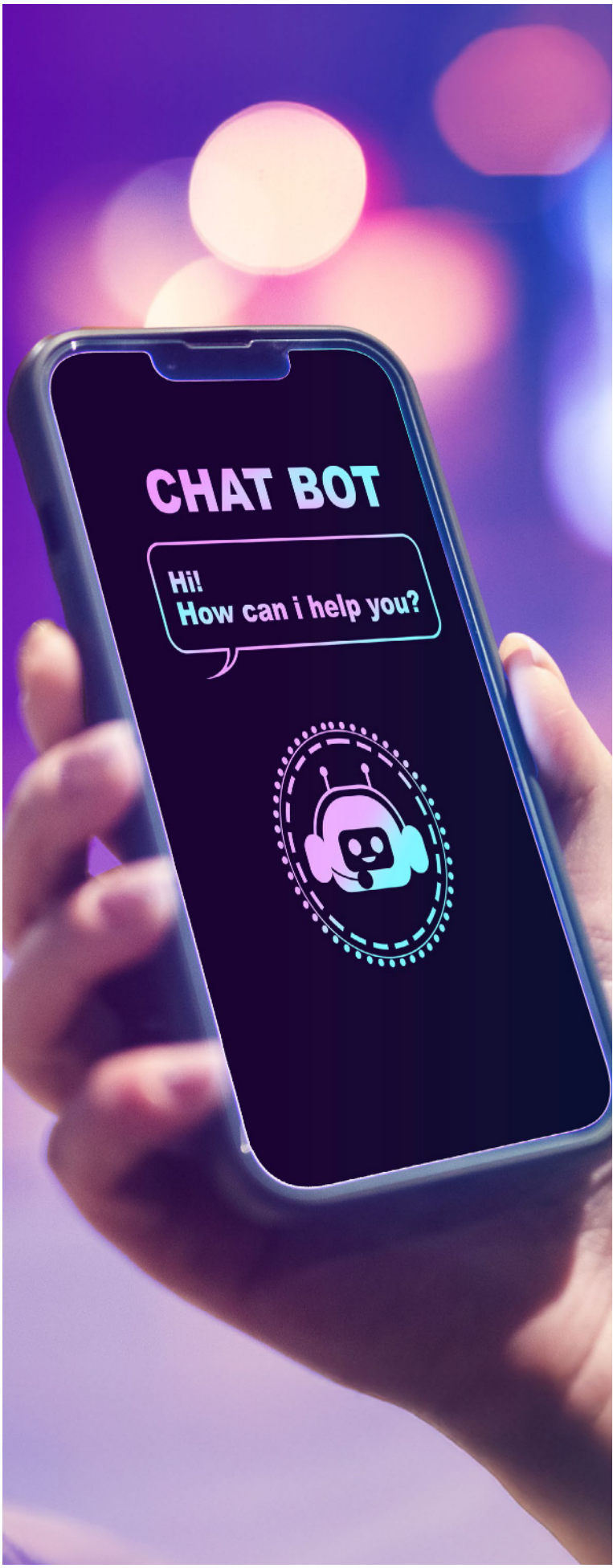


- Drastically improved
- Improved
- Neutral
- Declined (0%)
- Drastically declined (0%)

Figure 24 To what extent has AI technology improved the operational efficiency and productivity of your firm?



- Significantly
- Moderately
- Slightly
- Not at all



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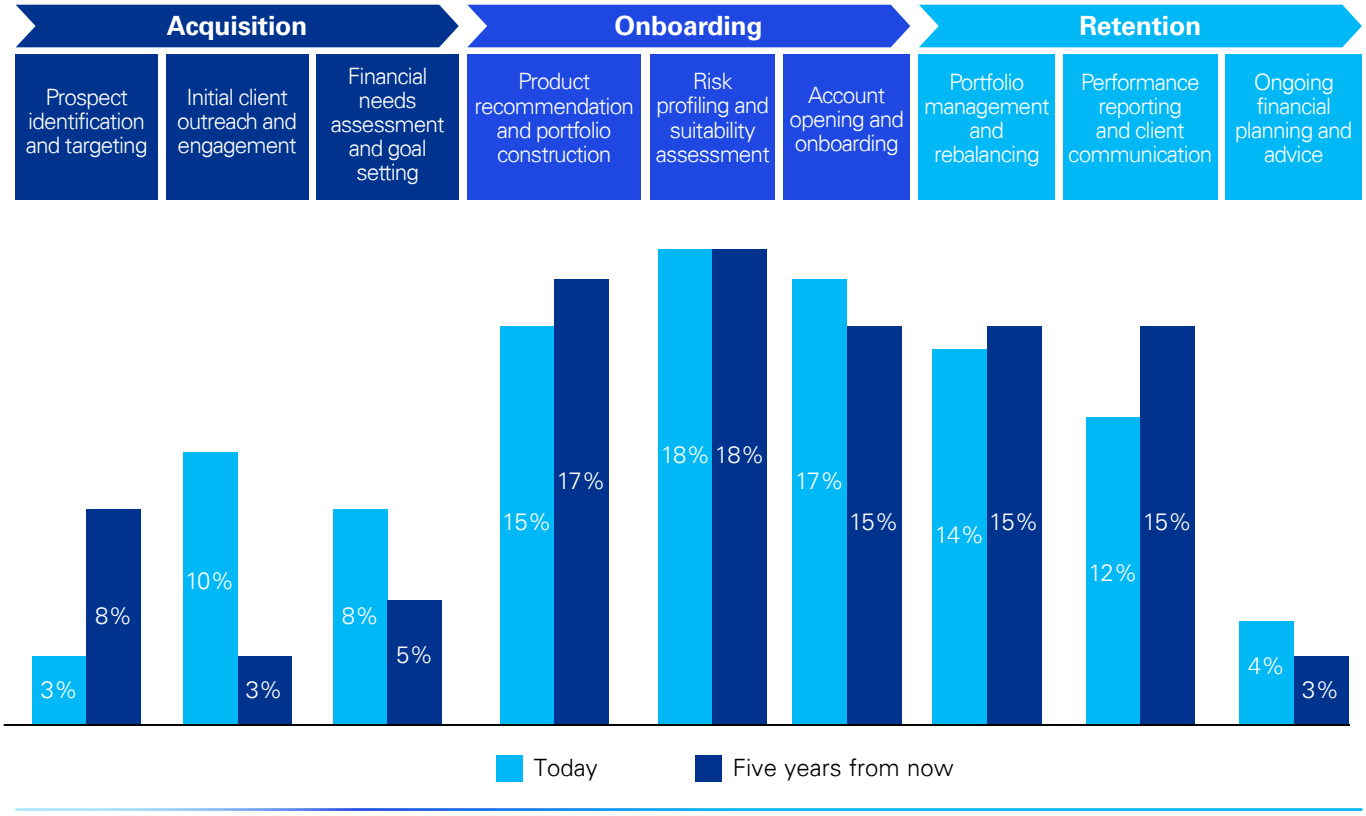
Amid competition for clients and the drive to reduce operational costs, AI is emerging as a key differentiator within the client onboarding process

The demands of onboarding are consistently cited by member firms as a key factor in both rising costs and deteriorating client experience. Firms that have already successfully implemented Gen AI solutions in the onboarding process are focusing on areas where it has the greatest potential, namely where there is abundant information to interpret and synthesise.

Onboarding has traditionally been riddled with challenges – cumbersome KYC processes, tedious verification processes, complex source of fund enquiries, and invasive information requests can lead to a slow and frustrating start for clients who seek a fast, frictionless entry into wealth management services.

It is not surprising that Hong Kong's PWM firms have identified the onboarding processes as the most impactful area of the customer journey to implement AI. In particular, its use in risk profiling and suitability assessments is seen as the most beneficial and is anticipated to remain so in five years' time (Figure 25). Interviewees note it is particularly important to speed up the profiling process and ensure adherence to KYC, AML, and suitability requirements.

Figure 25 Stages of the customer journey where member firms believe AI is most effective (now and in five years)



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Selected client onboarding use cases identified by PWM firms

Virtual assistant for document collection and KYC/AML

Automating and streamlining the gathering of client documents for KYC and AML compliance, minimising manual entry errors, and speeding up the client onboarding experience.

Intelligent data gathering and client profiling

Equipping RMs with summarised insights into each client's unique financial needs and preferences.

Product recommendations and portfolio construction

Using Gen AI to analyse market data, macroeconomic indicators, and individual risk profiles to develop optimised portfolios.

AI remains a subdued use case during the client acquisition stage of the customer journey. This trend is expected to persist over the next five years, with the exception of prospect identification and targeting, which is anticipated to become more effective. However, this use case is not expected to match the impact of the majority of use cases in later stages of the customer journey.

Considering that interviewees consistently emphasised AI's current and potential impact on service delivery, it is likely that the acquisition stage of the customer journey is deemed a lower priority by member firms because it does not directly boost service delivery, nor does it enhance relationship building with clients.



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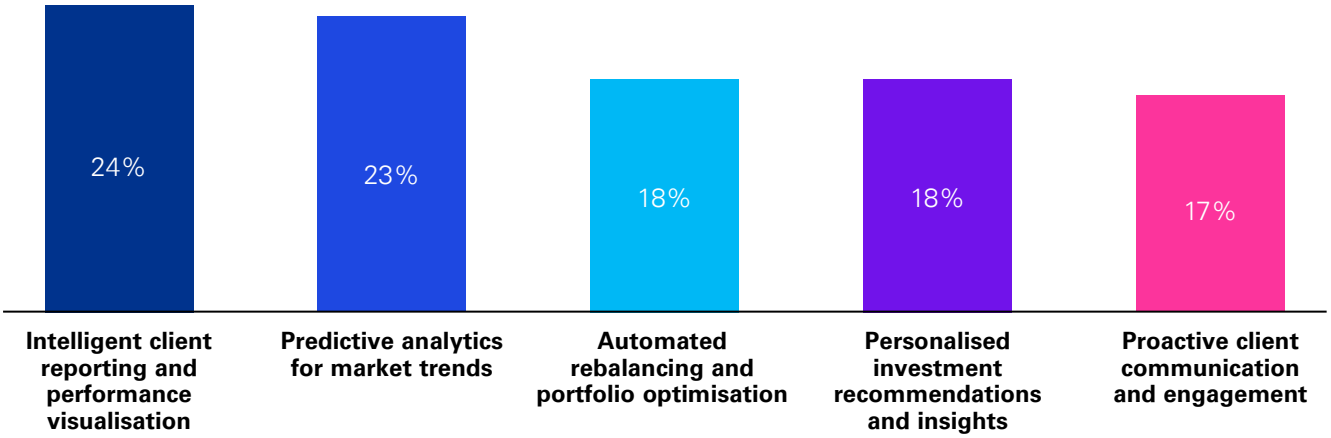
3.2 Future trends in AI

AI will have a growing influence on client retention strategies in the next five years, with performance reporting and predictive analysis of market trends likely to receive more investment.

Looking ahead, as they seek to redefine their competitive edge in client relationships, member firms anticipate AI will become more impactful in the client retention stage of the customer journey. In particular, firms expect performance reporting and portfolio rebalancing to be among the most impactful application areas of AI in five years' time (See Figure 25 in the previous chapter).

This directly aligns with client needs, given that the capacity to provide insightful portfolio statements and timely market development alerts stood out in our 2023 client survey as highly valued. When asked which specific technologies member firms prefer to adopt in order to achieve these goals, "intelligent client reporting and performance visualisation" ranked first, followed by "predictive analytics for market trends" (Figure 26).

Figure 26 Top five AI uses cases during the client retention stage of the customer journey



Intelligent client reporting and performance visualisation

Analysis of vasts amounts of structured and unstructured financial data to provide insightful performance reporting and visualisations.

Predictive analytics for market trends

Gen AI can be used to analyse news and other sources of financial data to gauge investor sentiment and anticipate market movements.

Personalised investment recommendations and insights

A tailored AI system dedicated to tracking clients' financial objectives and providing forward-looking projections that adapt to their changing needs.

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There is also a growing consensus that the AI-enabled "RM of the future" will not be burdened by low-value administrative tasks and can instead focus their efforts on higher-value activities and client relationships. More specifically, PWM firms report that the primary benefit of AI for clients will be enhanced data-driven decision making and advisory services.

This improvement will likely be accompanied by an increase in proactive alerts and notifications related to financial events, which is the second most desired improvement firms want to implement in client retention strategies. This is largely thanks to AI's abilities to sift through extensive volumes of financial data, news, and research reports to generate insightful summaries and trend analyses, thereby enabling firms to create and deliver more targeted and effective communications to their clients.

The heightened advisory experience will also include in-depth portfolio health checks, forward-looking financial planning, and investment strategies finely tailored to clients' investment ambitions and risk preferences (Figure 28).

Figure 27 Member firm views on how AI will improve overall client experience

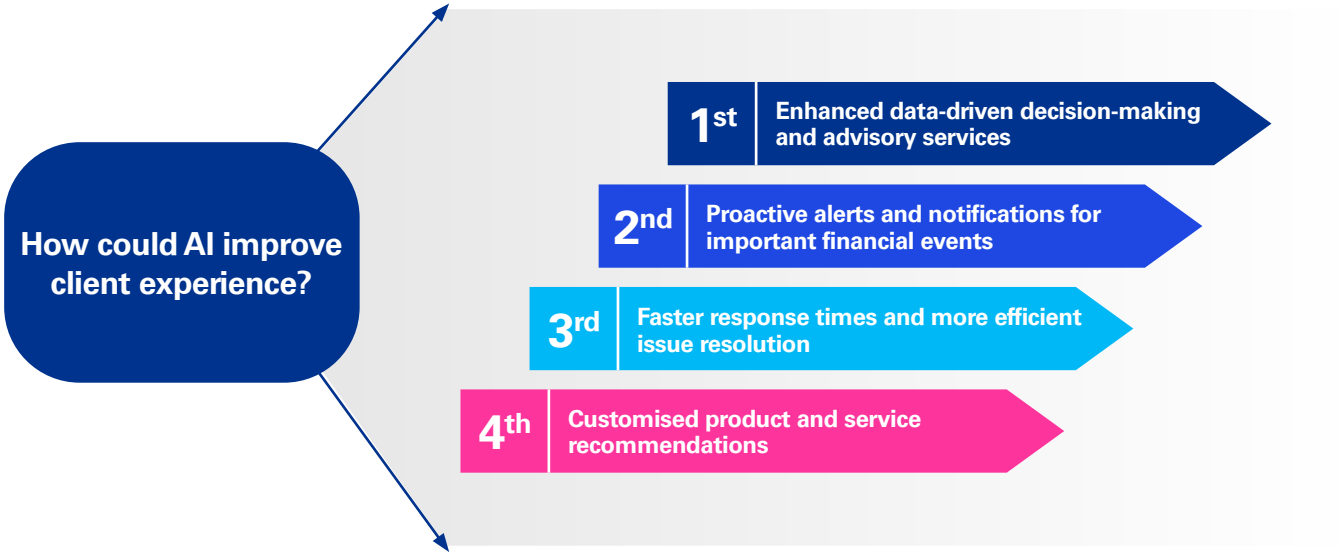
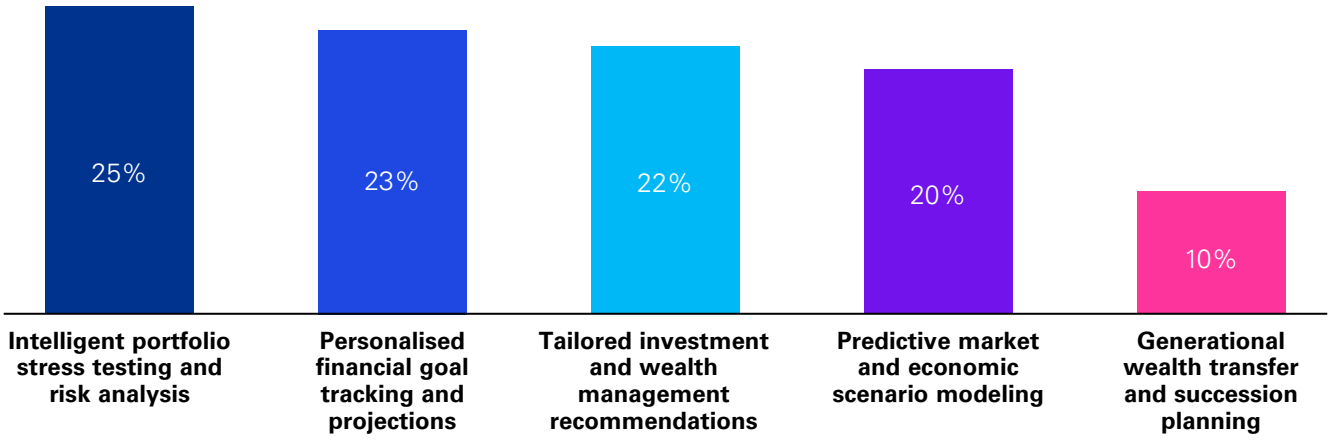


Figure 28 Top five AI use cases for client review and advisory services



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RMs will be empowered to deliver more informed advice, with AI serving as an aid rather than a replacement

Although AI has been a part of the PWM industry for many years, interviewees indicate that they see the current wave of Gen AI as dramatically altering how RMs advise, inform, and engage clients. In our AI focus groups, participants noted that the emphasis for RMs is increasingly shifting toward maximising productivity and offering clients more of the personalised recommendations mentioned above, using AI as a tool.

PWM firms view the evolving role of RMs primarily as relationship cultivators (identified by 40% of firms), with AI handling most of the technical and analytical work (Figure 29).

There is still strong scepticism about whether Gen AI is advanced enough to deliver dependable, accurate financial advice directly to end clients. Many interviewees repeatedly emphasised that a personal touch is irreplaceable when serving private wealth clients and that relationship managers will not be replaced by robo-advisors. Consequently, a substantial percentage of firms (34%) expect relationship managers to continue playing their traditional role, with AI acting as an enabler rather than a replacement.

As AI tools become more embedded in their daily work, RMs will need to develop new skills, including data literacy, technological proficiency, and an understanding of AI principles and ethics. Adaptability and continuous learning will be crucial to help RMs keep pace with the rapidly changing AI landscape according to member firms, with 41% identifying this as the most important competency for RMs in the age of AI, followed by relationship skills (31%) (Figure 30).

Figure 29 Firms' views on the evolution of RMs' roles in the era of AI

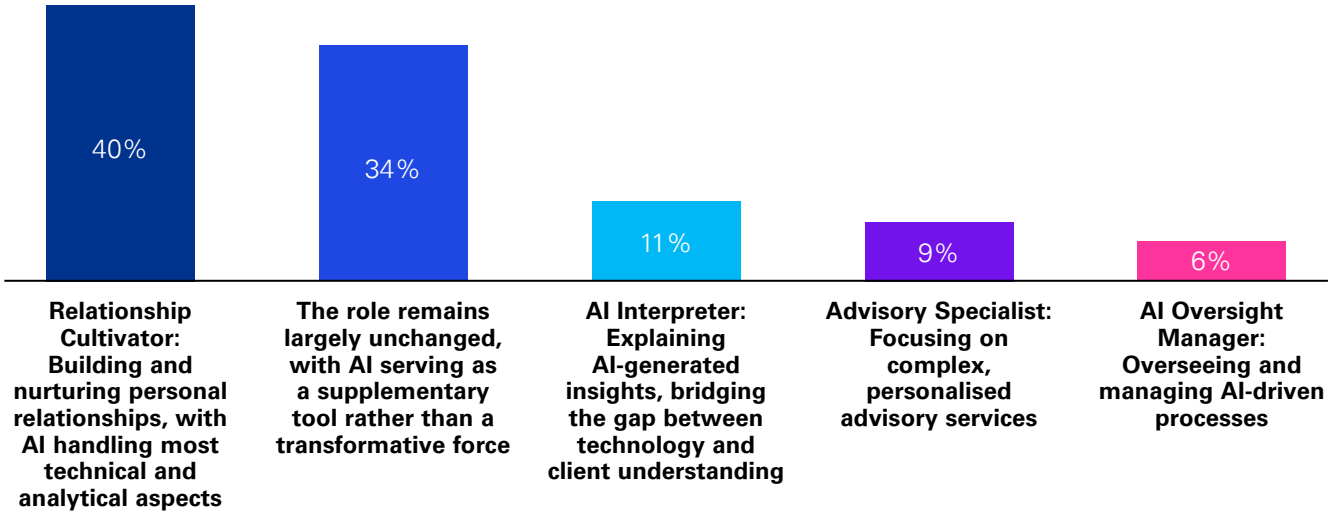
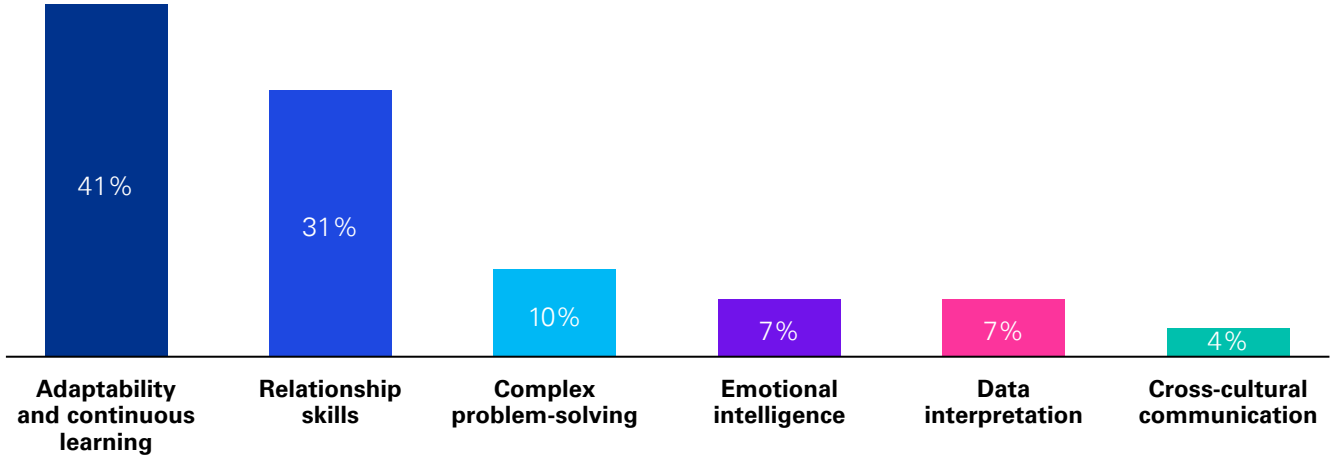


Figure 30 Most important competencies for RMs in the age of AI



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A day in the life of the RM of the future

Morning

8:00 AM

Start the day by reviewing AI-generated summaries of client portfolios and market conditions. Each summary highlights key performance indicators and suggests topics for discussion based on recent market trends and individual client interests and goals.



8:30 AM

Use an AI-driven dashboard to prioritise outreach based on alerts about significant financial events, liquidity needs, or potential investment opportunities relevant to specific clients.



9:00 AM

Meeting with the AI development team to discuss the adoption of a new predictive analytics feature that identifies potential risk factors in client portfolios based on economic forecasts.



Midday

12:00 PM

Lunch with a high-net-worth client to discuss AI-generated proposals for estate planning and charitable giving, tailored to the client's expressed values and legacy desires.



Afternoon

2:00 PM

Spend time on an AI-enhanced training module to stay updated with the latest regulatory and technological developments. Today's module includes a deep dive into global tax law changes and their potential impact on clients and their international investments.



3:00 PM

Review and adjust automated trading strategies that the AI system has optimised based on the day's market activities and client risk profiles.



5:00 PM

Prepare personalised messages for clients with updates about their portfolios. The AI script generator crafts messages that are tailored to each client's communication style and preference.



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Balancing expectations on the rate of Gen AI adoption

While the adoption of Gen AI is varying in speed across different industries, when viewed from a macro level it is the fastest adopted business technology in history. Data on historical usage and mass-market product launches in the US suggests that its adoption there has been faster than the adoption of the personal computer and the internet[17]. This is prompting leaders to reevaluate every aspect of their businesses as they consider the possibility that advances in Gen AI may materialise faster than expected.

Analysis by Gartner suggests that 80% of enterprises will have used Gen AI solutions by 2026, and a significant minority are already using it[18]. However, it's important to note that new technologies typically follow a cycle of hype and disillusionment before reaching their actual productivity potential. Consequently, there may still be ground to cover before we can fully realise Gen AI's potential, as indicated by the stages of the Gartner hype cycle.

Given that regulatory changes concerning the use of Gen AI are likely to evolve over time, many interviewees noted that they are currently employing a strategy of starting small with low risk use cases while remaining reactive to technology and regulatory updates. This suggests that many firms are currently entering the "trough of disillusionment" stage of the Gartner Hype Cycle but remain optimistic about the use of Gen AI over the long term.

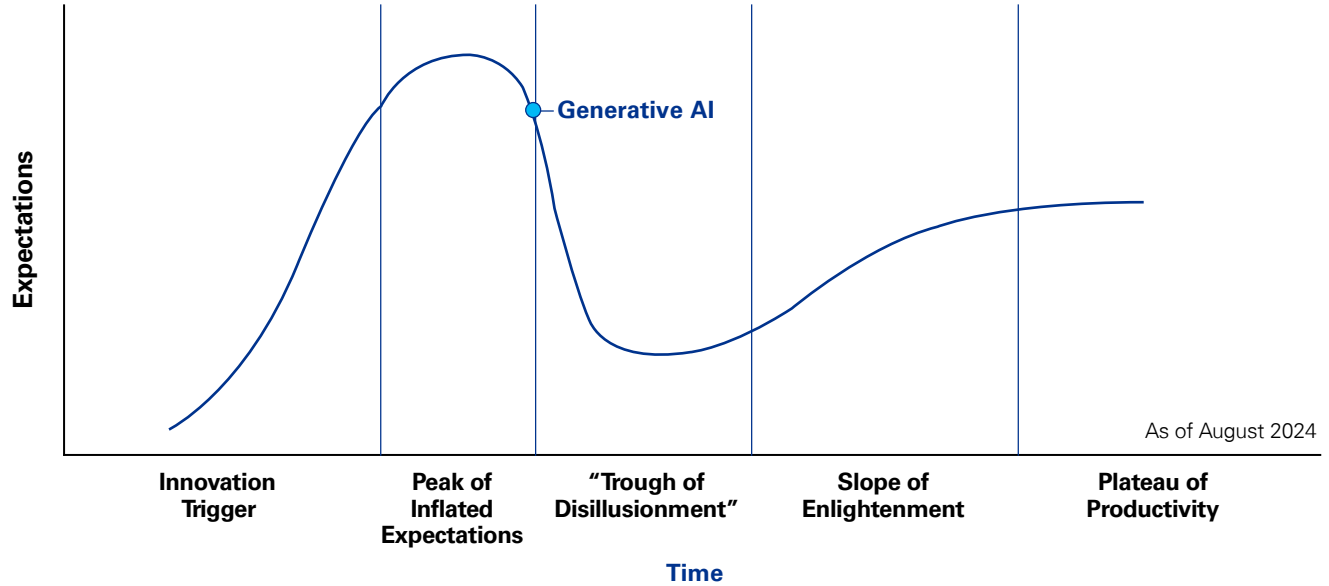
Keeping up with the rapid rate of technological change

As technology providers continue to roll out increasing numbers of solutions, firms need time to determine feasibility, ensure regulatory compliance, and assess whether these solutions can integrate into their existing IT infrastructure.

PWM firms must bear in mind that AI transformation journeys are not 'one size fits all'. Part of the equation will involve defining which use cases to select via a clear business strategy. While the onboarding stage of the customer journey is currently highlighted as the most impactful area for AI adoption by survey respondents, high-impact use cases are currently emerging across all areas of the customer journey that can provide quick wins.

According to the technology leaders and external vendors we spoke with, a solid business case and proof of return on investment is the most commonly used and effective starting point for analysing emerging AI technology. Building a business case for Gen AI often starts with identifying specific tasks that require significant time commitments but have limited outcome impact, such as processing or reviewing large volumes of information to generate insights.

Figure 31 The Gartner Hype Cycle for Gen AI



[17] Harvard Kennedy School: https://www.hks.harvard.edu/publications/rapid-adoption-generative-ai#:~:text=Historical%20data%20on%20usage%20and%20mass-market%20product%20launches,and%20job%20tasks%20at%20work%20and%20at%20home.

[18] Gartner press release: https://www.gartner.com/en/newsroom/press-releases/2023-10-11-gartner-says-more-than-80-percent-of-enterprises-will-have-used-generative-ai-apis-or-deployed-generative-ai-enabled-applications-by-2026

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3.3 Challenges to overcome

While AI brings many opportunities, there are costs, barriers and risks including data issues and regulatory uncertainty to overcome before its potential can be fully realised.

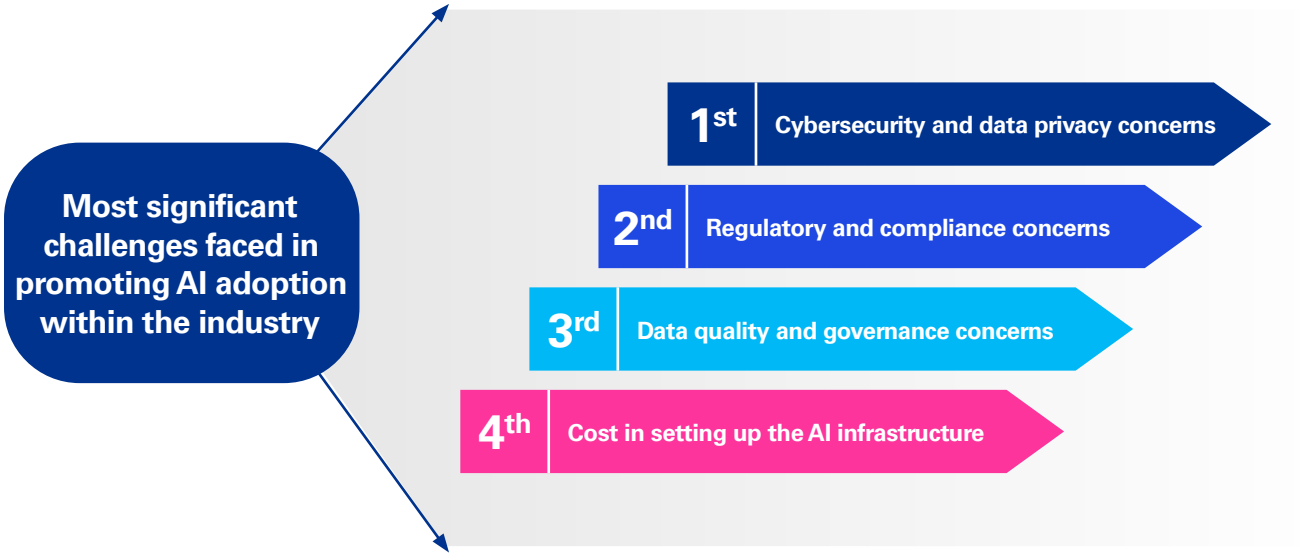
Our conversations with technology vendors reveal that they have been inundated with requests from the PWM industry for Gen AI support, however there is also widespread acknowledgment in the industry that the AI journey will take several years and require significant commitments and investment. For many firms, this is further complicated by the need to integrate AI with existing legacy IT systems.

Data privacy and regulatory compliance are key challenges for AI adoption

When asked about the main challenges of AI implementation, cybersecurity and data privacy concerns topped the list for member firms. These were closely followed by regulatory and compliance concerns (Figure 32). This aligns with input from interviewees who pointed out the need for sufficient technology infrastructure and a governance framework to ensure data privacy, particularly when working with third party AI vendors.

KYC processes, for example, handle highly sensitive personal information, including identification documents, financial records, and personal details. There's a significant risk related to feeding sensitive data into LLMs that lack robust cybersecurity controls. Unauthorised access could lead to identity theft, financial fraud, and regulatory breaches, causing severe fines and reputational damage.

Figure 32 Most significant challenges faced in promoting AI adoption within the industry



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The cautious stance towards regulatory compliance also applies to the outputs of Gen AI as they relate to direct-to-consumer use cases. At present, responsibility lies with boards and senior management for AI-driven decisions made in these scenarios. As a consequence, interviewees revealed that firms are hesitant to become a 'first mover' in deploying Gen AI technologies in client-facing roles, particularly without relationship manager supervision.

Globally, most jurisdictions, including Hong Kong, do not have a single, comprehensive legislation regulating the use of AI. Instead, current laws are being adapted to govern AI use cases. Individual guidelines on AI have also been issued by different regulatory authorities such as the Office of the Privacy Commission for Personal Data[19], the SFC[20], and the HKMA[21] to give institutions a clearer framework to operate in.

However, given private wealth management firms need to ensure that outputs are accurate, that client data is safe, and that work done by Gen AI does not violate evolving regulatory rules, numerous interviewees expressed conservative estimations on the potential impact of Gen AI in direct-to-client roles amid worries of potential reputational damage.

Selected qualitative comments from interviewees:

"We often have to anticipate the regulator's response to a certain AI feature. While the HKMA has issued guidelines, an expansion of these guidelines is needed to establish a clearer benchmark against which AI use cases can be assessed."

– Technology vendor

"The most time-consuming phase of AI implementation is often ensuring data governance and privacy compliance. Regulatory and data privacy considerations are often uncertain and require careful navigation, particularly with the use of client data."

– Private wealth management firm

"There has been a lot of discussion around client facing robo advisory, but the reality is, we have seen minimal adoption in private wealth management due to two factors: the first being regulatory risks and the second, the pivotal role that human touch plays in private wealth management. As a result, rather than fully automated systems, the focus in the industry has been on leveraging AI to enhance workforce productivity."

– Technology vendor



[19] The Office of the Privacy Commissioner for Personal Data: https://www.pcpd.org.hk/english/news_events/media_statements/press_20240611.html
[20] KPMG: https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2023/07/hong-kong-regulator-reminds-industry-to-ensure-generative-al-is-used-responsibly.pdf
[21] Hong Kong Monetary Authority: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2024/GenAI_research_paper.pdf

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Concerns about 'explainability' necessitate gradual approach towards Gen AI roll out

Several senior executives highlighted 'explainability' – the ability to transparently and understandably describe how an AI system makes decisions or arrives at conclusions – as an ongoing concern. In particular, they note a tension between the desire of firms to appear innovative and competitive through AI adoption and their private concerns about governance and accountability, especially regarding potential mishaps in AI-driven decision-making.

Our technology focus groups revealed that providing understandable and interpretable explanations for Gen AI outputs to establish trust and accountability in decision-making is crucial. One interviewee noted that all outputs currently require human vetting.

In August 2024, the HKMA issued guidance on Gen AI that took these concerns into account. They have advised firms to ensure proper validation of Gen AI models, particularly recommending a 'human-in-the-loop' approach during the early stages of deploying customer-facing Gen AI applications to guarantee accuracy and prevent misleading outputs. Additionally, the HKMA advises that end customers should have the option to opt out of using Gen AI and request human intervention at their discretion.

While the 'human-in-the-loop' approach has already become the consensus within the PWM industry, several technology leaders continue to caution against developing overly complex Gen AI use cases because of the ongoing explainability risks associated with the technology.

While external technology vendors are regularly approaching PWM firms with sophisticated solutions that can, for example, help construct financial portfolios, the essential lesson is that firms should not rush to adopt technology where risks are not fully understood. Instead, firms should derive value from AI's capabilities responsibly by thoroughly comprehending the technology and its outputs, and ensuring robust internal governance to scale AI applications appropriately.

Fragmented and cross-border data challenges need to be addressed to avoid negative impacts on AI scalability and ROI

Interviewees also noted that the private wealth management industry is likely to lag behind the retail segment in terms of AI adoption due to the larger data set in the retail segment that can be used to develop better AI models that are cost-efficient and produce a better return on investment.

In addition, while Hong Kong's role as an international finance hub gives it numerous advantages, it also faces significant data challenges, given that many of its clients are based in overseas jurisdictions. Different jurisdictions have different laws around data privacy and cross-border data transfer. Navigating these different regulations and dealing with fragmented data increases complexity and costs.

Concerns were also raised that Hong Kong's domestic market does not have the same volume of client data compared to larger markets like the EU or the US. Despite these concerns, interviewees noted that Hong Kong has a strategic advantage due to its proximity to the Chinese Mainland, which brings additional potential for data access. Positive steps have already been taken in this direction through Greater Bay Area data transfer initiatives including the GBA Standard Contract[22] for the cross-boundary flow of personal information, which facilitates data transfers between nine Guangdong cities and Hong Kong.

Selected qualitative comments from interviewees:

"While Hong Kong may seem small compared to markets like the EU or the US, it benefits significantly from its proximity to the Chinese Mainland and its position as an international financial centre. This unique position and the Wealth Management Connect pathway, provides access to a broader data pool. The challenge lies in navigating cross-boundary data transfer processes. It's clear that it will take time to find optimal solutions. However, the continuous efforts from both the Hong Kong SAR and Mainland governments are encouraging."

– Private wealth management firm

"Leading banks with a global presence are implementing and testing new AI processes and technologies in other jurisdictions before expanding these innovations into the Hong Kong market. This approach is giving them a significant advantage over regional players."

– Technology vendor

[22] https://www.digitalpolicy.gov.hk/en/our_work/digital_infrastructure/mainland/cross-boundary_data_flow/#:~:text=What%20is%20the%20GBA%20Standard,personal%20information%20within%20the%20GBA.

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Misalignment between management expectations, AI capabilities, and training

Given the pace of technological advancement and regulatory changes, one of the most significant challenges noted by interviewees was that senior management often lack a full picture of what AI can deliver and sometimes have expectations outside of what AI is capable of. Additionally, the differences between Artificial Intelligence and Gen AI are often not well understood, including knowledge of how these technologies should be effectively implemented.

Technology leaders noted that a broad cultural shift is necessary. Adopting AI in an organisation is not merely about applying new tools - it mandates a parallel transformation in thinking and working that transcends mere expectations of automation.

When asked if their firm had made sufficient efforts in developing AI-based skillsets over the past one to two years, only 31% of survey respondents agreed (Figure 33). Despite many firms already possessing substantial IT departments that explore AI, major AI skill gaps remain, particularly among smaller players. Among these, the top two gaps are "domain expertise in PWM" and "explainable AI model and model interpretability techniques" (Figure 34).

To fully reap the benefits of AI transformation, firms will need to invest in educating the full range of stakeholders. This includes relationship managers and other internal users on what Gen AI is, how it works at a high level, and what its benefits and limitations are.

Key skills and knowledge RMs will need to develop

Understanding of Gen AI: Familiarity with core machine learning concepts for analysing client data, personalising investment advice, and managing risks.

Prompt design: Ability to tailor prompts to leverage Gen AI's full potential, ensuring that the generated outputs are aligned with client goals and wealth management strategies.

Output interpretation: Ability to act as a 'human in the loop' with the skill to refine AI prompts and identify gaps and errors in its output.

Client Relationship Skills: Ability to explain AI-driven decisions and processes transparently and in a way that builds trust with clients.

Ethics in AI: Understanding of ethical considerations, including biases and privacy concerns in AI algorithms.

Awareness of regulatory compliance: Keeping abreast of AI-related regulations to ensure compliance and protect client interests.



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More broadly, the process of AI implementation should be viewed as a transformation journey that demands ongoing effort, investment, and above all, an eagerness to accept a change in mindset at all levels of the organisation. Firms setting out on this journey must ensure they have the appropriate AI governance framework in place, along with the requisite depth and quality of talent to drive change forward.

Many PWM firms are already taking positive steps in this direction. In addition to their Hong Kong-based AI talent, they are initiating moves to establish the necessary technology and talent infrastructure in the Chinese Mainland to capitalise on both cost efficiencies and the extensive talent pool available.

Figure 33 Do you think your firm has made sufficient effort at upskilling AI-based skillsets over the past one to two years?

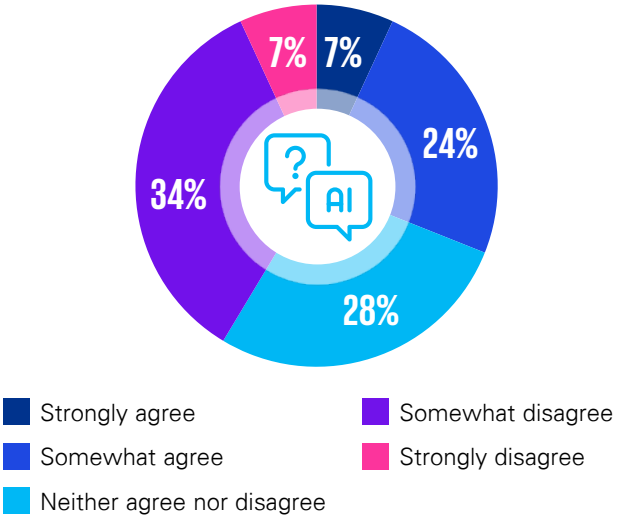
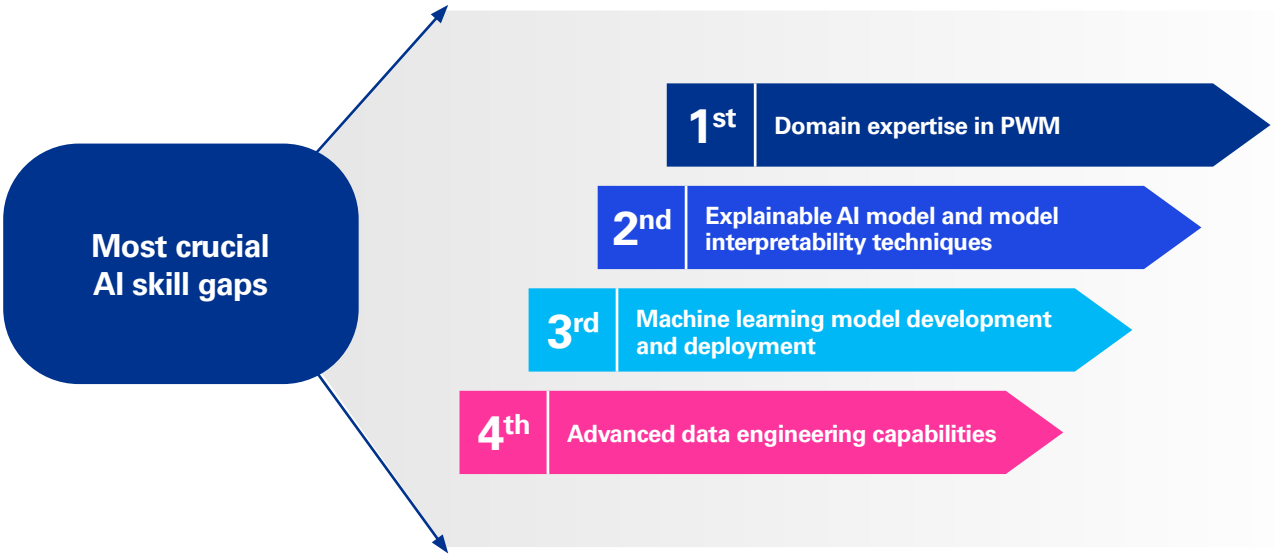


Figure 34 What are the most crucial AI skill gaps in the PWM industry that you have observed?



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3.4 The path forward

With Hong Kong regulators currently issuing new AI guidelines at an accelerated speed, it is crucial for firms and AI developers to take advantage of the increased guidance and support for AI adoption. This will help in the development of specific use cases and solutions for the PWM industry.

Existing regulatory guidelines and governance overview

A recurring challenge cited among interviewees is the fragmented regulatory regime around AI and its implications on AI governance. However, recent guidance issued by governmental bodies and regulators has addressed a number of these gaps and should be taken into account by PWM firms, including:

October 2024

The HKSAR's Financial Services and the Treasury Bureau (FSTB) issued a policy statement on "Responsible Application of Artificial Intelligence in the Financial Market"[23]. This statement suggests a number of methods for financial institutions to mitigate risks for the responsible adoption of AI.

September 2024

The HKMA published a research paper on "Generative Artificial Intelligence in the Financial Services Space"[24]. The paper included guidance on global regulatory guidelines, governance, Gen AI adoption considerations and suggested best practices.

The HKMA shared guidance on the use of AI in improving the effectiveness and efficiency of monitoring money laundering and terrorist financing (ML/TF) risks, and related initiatives to further accelerate the adoption of AI in suspicious activity monitoring[25].

August 2024

The HKMA issued a circular on guiding principles in respect to the use of Gen AI in customer-facing applications[26].

June 2024

The PCPD released its "Artificial Intelligence: Model Personal Data Protection Framework"[27]. This framework provides recommendations on personal data usage for organisations that purchase, implement, and utilise any form of AI system.



[23] The HKSAR Financial Services and the Treasury Bureau: https://www.info.gov.hk/gia/general/202410/28/P2024102800154.htm
[24] The Hong Kong Monetary Authority: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2024/20240927e1.pdf
[25] https://www.hkma.gov.hk/media/gb_chi/doc/key-information/guidelines-and-circular/2024/20240909c1.pdf
[26] Consumer Protection in respect of Use of Generative Artificial Intelligence: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2024/20240819e1.pdf
[27] The Office of the Privacy Commissioner for Personal Data: https://www.pcpd.org.hk/english/news_events/media_statements/press_20240611.html

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The PWM industry will only benefit from the new guidance and regulatory support for the use of AI if it participates fully in the initiatives designed to encourage adoption, and is equipped with the right skills and access to a broader supporting ecosystem. In particular, the following initiatives and recommendations should be a priority focus:

1. Greater PWM participation in the HKMA's Gen AI Sandbox

Infrastructure and data concerns were among the most significant challenges cited by interviewees in promoting AI adoption in this report. Many PWM firms are still in the early stages of learning how to effectively integrate Gen AI solutions in their business operations. The HKMA is aware of the potential difficulties and new risks brought about by this emerging era of AI and has emphasised the importance of a more interactive and supervisory process that can aid financial institutions as they embrace AI.

In September 2024, the HKMA and Cyberport[28] co-launched the Gen AI Sandbox[29] to facilitate collaboration between financial institutions and AI solution providers, allowing banks to develop, test and pilot AI and Gen AI applications within a controlled environment. The HKMA plans to gather insights from the sandbox to share best practices and ensure that its guidance remains relevant as AI technology evolves. This risk-managed environment will allow banks to directly engage with the HKMA to gain early supervisory feedback, ensuring alignment with future regulatory guidance.

While several interviewees confirmed their participation in the sandbox, they also noted that the initiative has a wide application across the entire financial services industry. This necessitates wider participation in the sandbox from PWM firms to allow the HKMA to develop more supervisory guidance aligned with the priority wish-list of the industry. This approach will enable PWM firms to clearly identify and focus on their specific challenges, allowing the regulator to issue more targeted guidelines beyond what has been provided so far.

2. Industry working group to develop a set of common business requirements for priority AI use cases

While the HKMA's AI sandbox will allow banks to trial their individual use cases, the industry will also benefit from working together at scale by agreeing on a priority list of AI use cases that will benefit the industry as a whole.

To put this into action, the industry should consider establishing a working group to better facilitate cooperation among all stakeholders involved. The aim should be to (1) establish a priority list of AI use cases for the PWM industry and (2) agree on common business requirements useful for developing AI tools which will be fit for purpose. Some suggested areas of prioritisation are identity verification and detection of fraudulent documentation. This approach would benefit all industry participants as it would provide AI developers with better clarity to create solutions that meet industry needs.

A potential priority focus area is the "KYC processes", which has been identified as one of the most effective AI use cases by member firms. However, the further development of AI KYC solutions is currently hindered by the time, effort and financial investment required for individual PWM firms to work with AI developers to bring these solutions to market.

This is particularly challenging for smaller global and regional firms who may not have the scale or resources to develop their own set of requirements. It is also a challenge for global institutions who may be developing AI KYC solutions in other parts of the world which are not specifically tailored to address local requirements and market conditions.

[28] Note: Cyberport is an innovative digital community that hosts roughly 1,000 digital tech companies. It is managed by Hong Kong Cyberport Management Company Limited, which is wholly owned by the Hong Kong SAR Government.

[29] The Hong Kong Monetary Authority Generative Artificial Intelligence Sandbox: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2024/20240920e1.pdf

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3. Funding for PWM-focused AI skills development

In addition to the above recommendations derived from interviewees, this year's survey highlights continuous learning programmes for existing PWM professionals as a crucial government focus, as shown in Figure 35.

Only 31% of respondents believe their firms have sufficiently invested in AI skill development over the past one to two years (See Figure 33 in the previous chapter). While a number of facilitation initiatives have been introduced in Hong Kong through public-private partnerships to nurture new talent in the field of AI, more programmes specifically aimed at advancing the skills of existing PWM professionals would be beneficial for the industry.

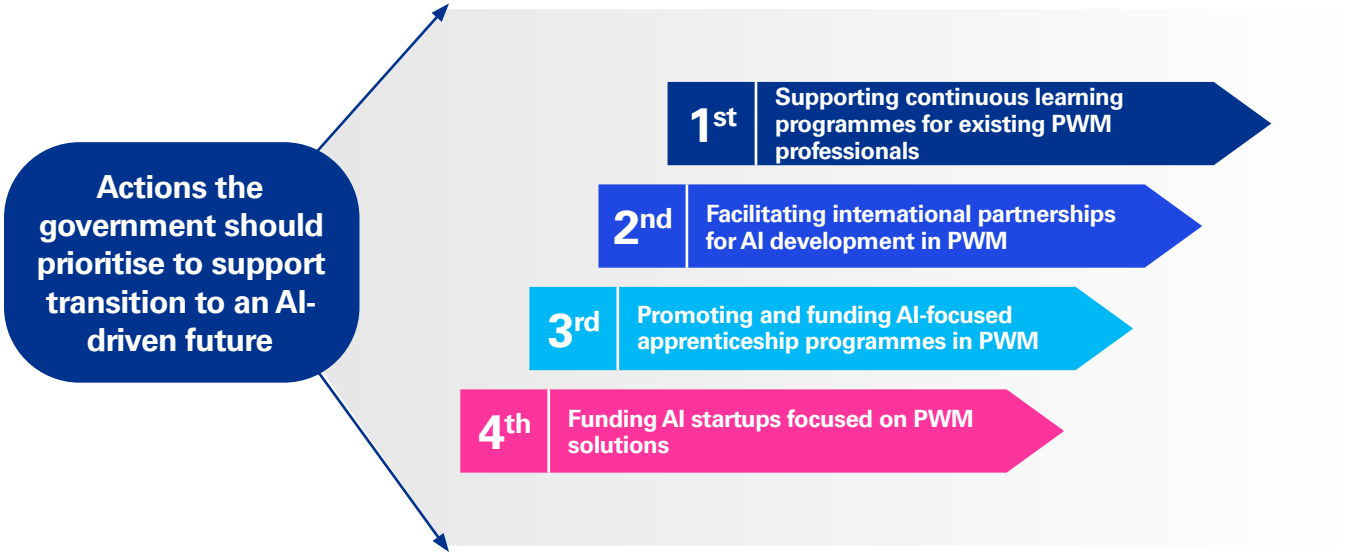
Talent retention has been a perennial challenge for the private wealth management industry. However, the industry is also eager to draw in new talent trained in AI with a high ranking given to "Promoting and funding AI-focused apprenticeship programmes", which was identified as the third priority recommendation for the government in this year's survey.

Existing government programmes could provide an avenue for this. As part of the HKMA's Fintech Career Accelerator Scheme[30], the Industry Project Masters Network (IPMN) aims to develop fintech talent by providing opportunities to postgraduate students to work on banks' fintech or industry projects and gain hands-on experience and skills.

Given the long-term perspective, it's not surprising that AI knowledge is becoming a fundamental requirement for entry-level positions in the industry. The next generation of talent must not only embrace AI but also drive innovation with it. To prepare for this shift, it will be increasingly important for PWM firms to redefine the roles and essential skills that apprentices, and entry level staff must master.

As detailed in this report, the ability to leverage AI will set apart future professionals and could be a key differentiator for Hong Kong's position as a leading wealth management centre.

Figure 35 Ranking of priority actions the government should take to support transition to an AI-driven future



[30] https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/fintech/talent-development/#:~:text=Piloted%20in%20September%202021%2C%20the,officially%20launched%20in%20September%202022.&text=The%20Fintech%20Career%20Accelerator%20Scheme,talent%20pool%20in%20Hong%20Kong.

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4. Government funding for AI ecosystem

To align with the government's vision of transforming Hong Kong into a leading wealth management hub, it will be important to allocate government funding for AI technology firms that offer solutions beneficial to the PWM industry.

The HKMA recognises the importance of fostering a strong AI ecosystem in Hong Kong and has already rolled out a number of initiatives to achieve this. Apart from the Fintech promotional roadmap[31] that it published in 2023 to focus on AI and DLT-enabled Fintech solutions, it also listed a number of initiatives in its recent "Generative Artificial Intelligence in the Financial Services Space"[32] report (Figure 36).

Figure 36 AI focused facilitation initiatives[33]

	Institution(s)	Facilitation Initiative
PRODUCT LAUNCH	• The Government of the Hong Kong Special Administrative Region of the People's Republic of China • Cyberport	**Three-year A.I. Subsidy Scheme for Computing Power (2024)** The Government allocated HKD 3 billion to Cyberport for a three-year A.I. Subsidy Scheme aimed at assisting local universities, research institutes, and businesses in utilising the computing power of the A.I. Supercomputing Centre.
	• Alibaba Hong Kong Entrepreneurs Fund • SenseTime • Hong Kong Science and Technology Park	**HKAI Lab Accelerator Programme (2018 - Present)** Funded by Alibaba Hong Kong Entrepreneurs Fund and SenseTime under the support of Hong Kong Science and Technology Park, the 12-month programme is dedicated to supporting the commercialisation of A.I. technologies developed in the lab.
	• Hong Kong University of Science and Technology • Alibaba Cloud	**MoU on Talent Development and Research Collaboration (2022)** Hong Kong University of Science and Technology and Alibaba Cloud will further their collaboration in nurturing local technology talent, collaborating on cutting-edge technology research, and facilitating the research works in the field of A.I., data analytics, and cloud.
	• Cyberport • Cisco	**MoU on Establishing an A.I. Lab (2024)** Under the Memorandum of Understanding, Cyberport and Cisco agree to jointly establish an A.I. lab at Cyberport, focusing on enhancing A.I. network technologies to improve performance, adaptability, and efficiency to drive innovation in Hong Kong.
	• Hong Kong Investment Corporation • SmartMore	**Planned Set-up of A.I. Research Institution and Talent Nurturing (2024)** Backed by funding from Hong Kong Investment Corporation Limited, SmartMore is dedicated to establishing Hong Kong's first A.I. Research Institute and partnering with local universities to nurture Hong Kong's young talents in the field of A.I.
	• Hong Kong University of Science and Technology • Alibaba Group	**MoU on Establishing Joint Lab for Big Data and A.I. (2024)** Hong Kong University of Science and Technology signed a Memorandum of Understanding with Alibaba Group to establish a joint lab on Big Data and A.I. in the next 3 years to foster forward-looking research in innovative applications, enabled by research resources sharing.
PRODUCT PROMOTION	• InvestHK • Financial Services and the Treasury Bureau • Hong Kong Monetary Authority • The Securities and Futures Commission • The Insurance Authority	**Hong Kong Fintech Week (2016 – Present)** Hong Kong Fintech Week is one of Asia's largest and most influential annual Fintech events. In 2024, it will have an A.I. and Advanced Tech Forum where experts will discuss how A.I. can be leveraged in the financial services sector.
	• Innovation, Technology, and Industry Bureau • Hong Kong Trade Development Council • InvestHK	**InnoEX (2023 – Present)** InnoEx is a large-scale annual event designed to showcase innovative solutions that empower businesses to capitalise on emerging global technology trends. The previous event featured a diverse array of GenA.I. projects and developments.
	• Hong Kong Monetary Authority • Cyberport	**FiNETech - Into the A.I.verse (2024)** The second FiNETech event showcased diverse, innovative A.I. technologies and explored the potential applications of the technologies in areas such as risk management, anti-fraud, customer service, and process transformation.

[31] Hong Kong Monetary Authority - Fintech Talent Development: https//www.hkma.gov.hk/eng/key-functions/international-financial-centre/fintech/talent-development/

[32, 33] Generative Artificial Intelligence in the Financial Services Space: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2024/GenAI_research_paper.pdf

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In tandem with these initiatives, the government has demonstrated a willingness to provide continued support through an allocation of HKD 3 billion in the 2024-25 budget for a three-year AI Subsidy Scheme. This initiative supports local universities, research and development centres, government departments, and AI related enterprises in leveraging the AI Supercomputing Centre at Cyberport.

As a result of the initiative, major companies specialising in AI and big data technologies – ranging from robotics, AI-based healthcare, machine learning, and digital finance – are making significant investments and bringing more AI innovation to Hong Kong.

This influx is highly welcomed, but surveyed member firms would like the government to prioritise funding AI technology firms that focus specifically on the PWM industry. The Cyberport project is seen as an ideal example of a platform that could offer high visibility on the latest AI solutions being introduced to the market.

If Hong Kong can continue to explore public-private-partnerships and increase engagement between the industry and the regulators, it is well-positioned to grow into a regional hub for AI-driven innovation in the PWM industry.

One technology vendor suggested that Hong Kong and Singapore, are closely matched in terms of AI development, with their respective positions fluctuating based on whoever takes the lead in terms of regulations and government funding. Moving forward, a collective approach, involving close collaboration between regulators, private wealth management firms, and technology vendors will be important to further strengthen Hong Kong's position.

Key takeaways

Greater participation and active engagement in the HKMA's Gen AI sandbox will enable the PWM industry to specify and focus on challenges particular to the industry, allowing the regulator to issue more targeted guidelines beyond what has been provided so far

Establishing an industry-wide working group to develop a set of common business requirements for priority AI use cases is recommended to allow faster scaling of these solutions

Funding AI-focused talent programmes and apprenticeships specific to the PWM industry is needed to tackle skill gaps

To align with the government's vision of transforming Hong Kong into a leading wealth management hub, it will be important to prioritise government funding for AI technology firms that offer solutions beneficial to the PWM industry

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4 Appendix

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We look forward to the ongoing dialogue and joint efforts that will drive the industry forward.



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The Private Wealth Management Association (PWMA) was established in 2013 with a mission to foster the growth and development of the private wealth management industry in Hong Kong.

PWMA aims to position Hong Kong as the leading private wealth management hub in the region through its main objectives of:



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



Providing professional training and development opportunities to maintain the enhanced level of competence expected of relevant practitioners in the private wealth management industry;



Providing a forum for members to discuss and exchange views on trends, developments and areas of common concern, and work collaboratively to address industry-wide challenges;



Providing a unified industry voice and representation on PWM related matters, and a channel to maintain ongoing dialogue with government officials, regulators, trade bodies and other industry associations and stakeholders; and



Building the private wealth management community through industry events, forums and committees.

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Contact us

Private Wealth Management Association

Vivien Khoo
Chief Executive Officer & Managing Director
vivien.khoo@pwma.org.hk

Cilla Luke
Head of Education & Partnerships
cilla.luke@pwma.org.hk

KPMG China

Jianing Song
Head of Banking and
Capital Markets, Hong Kong
jianing.n.song@kpmg.com

Paul McSheaffrey
Senior Banking Partner
paul.mcsheaffrey@kpmg.com

Chee Hoong Tong
Partner,
Wealth and Asset Management
cheehoong.tong@kpmg.com

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