

Preparing for Growth in the GBA: Wealth Management

The Greater Bay Area Opportunities Series

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Strategy • **Analytics** • **Execution**



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Observations and notes: 30th Oct 2021 (1/2)

The original paper was published based on news up until February 2021. The following are observations and notes as of end of October 2021:

1. GBA Summit hosted by The British Chamber of Commerce Hong Kong was held on 17th June 2021.
2. Coinbase has been listed since 14th April 2021.
3. Tesla accepted Bitcoin as a payment method for a brief 2 months before stopping due to concerns about the environmental impact of mining activities.
4. Business leaders have evolved their views on Crypto: BlackRock CEO Larry Fink was quoted saying:” I don’t believe we should think about Crypto as a substitute for currencies, I am fascinated by it as an asset class” in April 2021 while JP Morgan Chase’s chairman Jamie Dimon continued to be sceptical about Bitcoin when interviewed in October the same year.
5. “Marcus Invest by Goldman Sachs” has been successfully launched in the US market in March 2021.
6. Vanguard has decided to withdraw its application for a mutual fund license in Shanghai, but retained its JV with Ant Group.
7. Ant Group has been asked by PBOC in April to be set up as a financial holding company, along with other regulatory adjustments.
8. HSBC confirmed in April that four senior bankers would relocate to Hong Kong from London.
9. Wealth Management Connect welcomed its launch ceremony in September and its first transaction in October 2021.

Observations and notes: 30th Oct 2021 (2/2)

11. In September 2021, Central bank of China (People's Bank of China) clearly stated that all financial institutions are barred from participating in any activities related to cryptocurrencies in mainland China. Those that are offering any cryptocurrency related services being offered to mainland residents from outside of the mainland are also deemed illegal financial activities.
12. The first Bitcoin futures ETF (exchange traded fund) was launched on 18th October 2021, with the approval of the US Securities and Exchange Commission (SEC).
13. By the end of October 2021, 7600 people participated in the Wealth Management Connect, with cross border investments totalling CNY 130 million. The investment flows were almost at 50/50 split between Southbound and Northbound directions. The successful launch of the long-awaited scheme is likely to have a positive impact on future financial connect schemes, including the insurance connect scheme which has been talked about in the market for a while.
14. Page 82 & 83 in the Appendix are newly added as an update to the Wealth Management Connect scheme. This is because we have more information on the scheme compare to when we released the original paper in February.

Introduction (1/2)

Having seen significant policy progress for the Greater Bay Area (GBA) during 2020 despite the ongoing global pandemic and amidst geopolitical tensions, this consulting paper is the second in BTT's "*Greater Bay Area Opportunities Series*". The first paper, released in July 2020, was focused on opportunities for insurance companies. In this iteration, we shine the spotlight on the Wealth Management industry in light of the much welcomed news of Wealth Management Connect (WMC) scheme further opening China's capital markets to the World. Seeing the Stock Connect scheme being successfully launched, managed and expanded, there are reasons to be optimistic about the WMC scheme, introduced as a part of the financial policy support for the Greater Bay Area (GBA).

Wealth Management is often perceived as the management of investable assets for those with a greater amount of wealth, such as (Ultra-)High Net Worth Individuals, but with the introduction of digital platforms and the acclimation to the use of mobile banking by a broader audience, the target market for wealth management is actually much wider. As such, this paper was written to cover this broader target audience, inclusive of the mass affluents, and our quantitative projections look at wealth in terms of investable assets for each GBA region through analysis and projection of city-level macro-economic data.

This paper will give a good profile of the selected participants (supply) and consumers (demand) in the wealth management market, as well as how technology could bring that modern X-factor to this traditional industry. Also included are a selection of large and small market participants as case studies to analyse their strategies for 1) Wealth Management in general, and/or 2) approaching the opportunities afforded by the GBA.

Introduction (2/2)

Furthermore, a significant portion of the paper is dedicated to the regulatory landscape for the Financial Services sector within the GBA. Particularly in light of the freshly released “*Memorandum of Understanding*” for WMC, jointly signed by the seven regulators involved across the three GBA jurisdictions, we also share our views on how WMC could work according to the latest information available.

During the drafting process of this paper, we have spoken to nearly twenty different stakeholders in the wealth management ecosystem via interviews, webinars and meetings. It is our understanding that there is genuine and large business appetite towards the GBA. The Hong Kong General Chamber of Commerce recently hosted a series of events and webinars to discuss GBA opportunities and the British Chamber of Commerce in Hong Kong is organising a GBA Summit in June 2021.

The more sceptical views tend to be centred around the complexity of regulation encompassing the three jurisdictions as well as data protection compliance, however policy markers so far appear to have not let this become an impediment to the development plan for the financial sector in the GBA given the progress that has been made in 2020 alone. As a result, we positively look forward to seeing how the GBA plan will unfold over the coming months and years.

This paper is suitable for corporate C-suite level, Heads of Strategy, investors and others that are interested in understanding China’s Greater Bay Area and some of the new trends and strategies in the wealth management industry.

We welcome prospective clients and the wider business community to get in touch should you be interested in discussing the content of the paper or engaging us to further delve into certain areas to form a GBA strategy and execution plan for your company.

WEALTH MANAGEMENT AND A BIRD'S- EYE VIEW OF THE GREATER BAY AREA

Wealth management is traditionally defined as products and related services provided for High-Net-Worth-Individuals or Ultra-High-Net-Worth-Individuals; typically this defined as non-institutional customers who have net investable assets of US\$1 million or more.

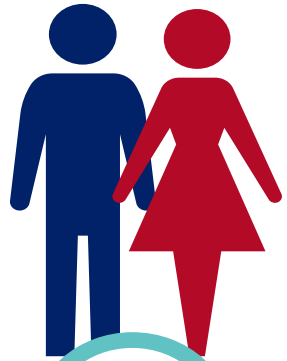
However, in a modern society with enhanced technology, the target audience is not as narrowly defined anymore. Globally, traditional wealth management providers are lowering their entrance thresholds for investors to participate in wealth management products and services.

In mainland China, the concept of wealth management could be different as it is often referred to as the products and services provided to mass affluent market and above.

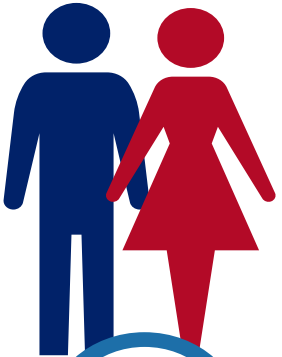
In order to more accurately reflect the addressable market size of wealth management in the GBA, in this paper we define the target market as those who have net investable assets of US\$100k or above.

This section aims to give an understanding of what wealth management in the Greater Bay Area entails and its policy development so far.

Wealth Management was traditionally defined for a more exclusive target audience market



US\$1 million+
investable assets



US\$30 million+
investable assets



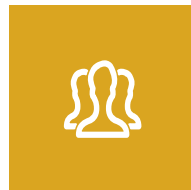
Traditionally, wealth management is a range of services and products tailored for the following customer segments to protect and grow their wealth:

- **High net worth individuals (HNWIs)** – with more than USD 1 million in investable assets
- **Ultra high net worth individuals (UHNWIs)** – with more than USD 30 million in investable assets



Range of **services provided** for these customer segments include:

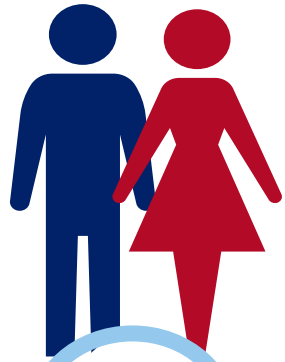
- Investment management
- Estate and tax planning
- Accounting
- Retirement planning
- Legal guidance
- Non-financial advisory (e.g. philanthropy)



Wealth management **professionals**:

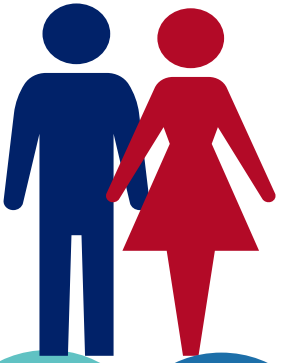
Typically requiring a team of talent (e.g. relationship managers, compliance, product specialists, IT specialists, risk controllers) to maintain a Wealth Management business given its relationship-driven nature and stringent regulatory requirements

In this paper, Wealth Management is defined with a wider scope, including those that are in Mass Affluent



Mass affluent

US\$0.1-1 million+ investable assets



US\$1 million+ investable assets

US\$30 million+ investable assets

HNWIs UHNWIs



In this paper, we define 'wealth management' as services and products provided to:

- **Mass affluent**, individuals with US\$100,000 to US\$1,000,000 of net investable assets and ...
- **HNWIs** and **UHNWIs** as defined previously



This broader definition of 'wealth management' will allow us to better shed light on the opportunity in the Greater Bay Area for two main reasons:

- The rising middle-class; GBA is home for 4 out of the top 10 cities with the most "affluent family" that have more than 6 million RMB investible assets
- A new Wealth Management Connect (WMC) scheme that allows a quota of 1 million yuan per person for individual cross-border investments. Only simple investment products with medium to low-risk profiles can be sold through the new scheme. Mass affluent is the likely customer base of WMC at least for the pilot stage given the quota imposed

The Greater Bay Area sits in the south of China, with a total GDP of US\$ 1.7 Trillion as of 2019

City	GDP (US\$ bn)	Population (mn)	Utilised Foreign Direct Investment (US\$ bn)
Hong Kong	365.7	7.5	104.23
Macau	53.86	0.68	3.333
Guangzhou	342.52	15.31	7.143
Shenzhen	390.33	13.44	7.809
Foshan	155.85	8.16	0.741
Dongguan	137.46	8.46	1.276
Huizhou	60.56	4.88	0.931
Zhongshan	44.95	3.38	0.552
Jiangmen	45.61	4.63	0.823
Zhuhai	49.81	2.02	2.424
Zhaoqing	32.6	4.19	0.136
Greater Bay Area	1,679.26	72.65	129.36

The multiple regulatory, legal and financial systems are some of its distinct differences to other established bay areas

Macroeconomic indicators

Bay Area (2019)	GDP (US\$ bn)	Population (mn)	Real GDP growth
Greater Bay Area	1,679.30	72.65	4.4
San Francisco Bay Area	946.63	7.75	6.83
New York Metropolitan Area	1,772.33	19.3	1.63
Tokyo Bay Area	1,976.84	44.28	2.74

Business environment

Bay Area	Legal system	Financial system
Greater Bay Area	Hong Kong, Macau and the 9 cities in mainland China are within 3 legal jurisdictions	Under the “one country-two systems” principle, Macau and Hong Kong are both under capitalism systems.
San Francisco Bay Area	Federal law and respective state law	Regulated at federal and state level
New York Metropolitan Area	Federal law and respective state law	Regulated at federal and state level
Tokyo Bay Area	A hybrid of civilian and common law structures	Predominantly regulated by the Financial Services Agency

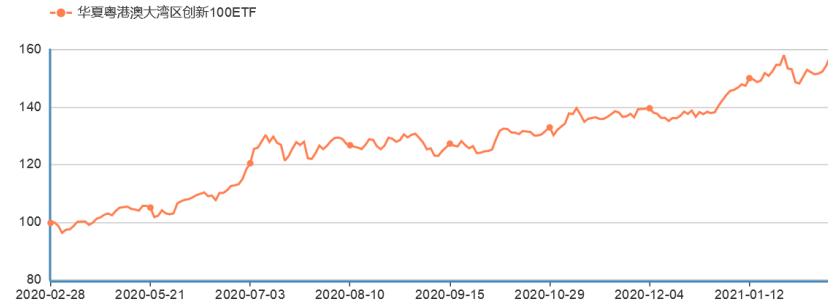
A few established indices and research that give indications on GBA business appetite and performance



As of 22 Feb 2021
Data has been rebased at 100. All information for an index prior to its launch date is back-tested, back-tested performance reflects hypothetical historical performance.

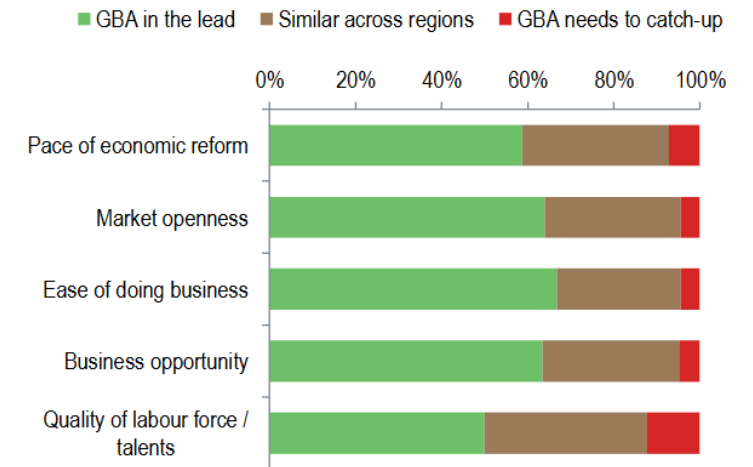
Hang Seng Stock Connect Greater Bay Area Index Series (Market Indexes), launched since October 2018
- By Hang Seng Indexes

每百元净值波动 基金累计净值走势



Hua Xia Greater Bay Area Innovative 100 ETF, established in February 2020
- By China Asset Management

Figure 10: How do you compare the GBA's prospects with other economic zones* in China? (% of responses)

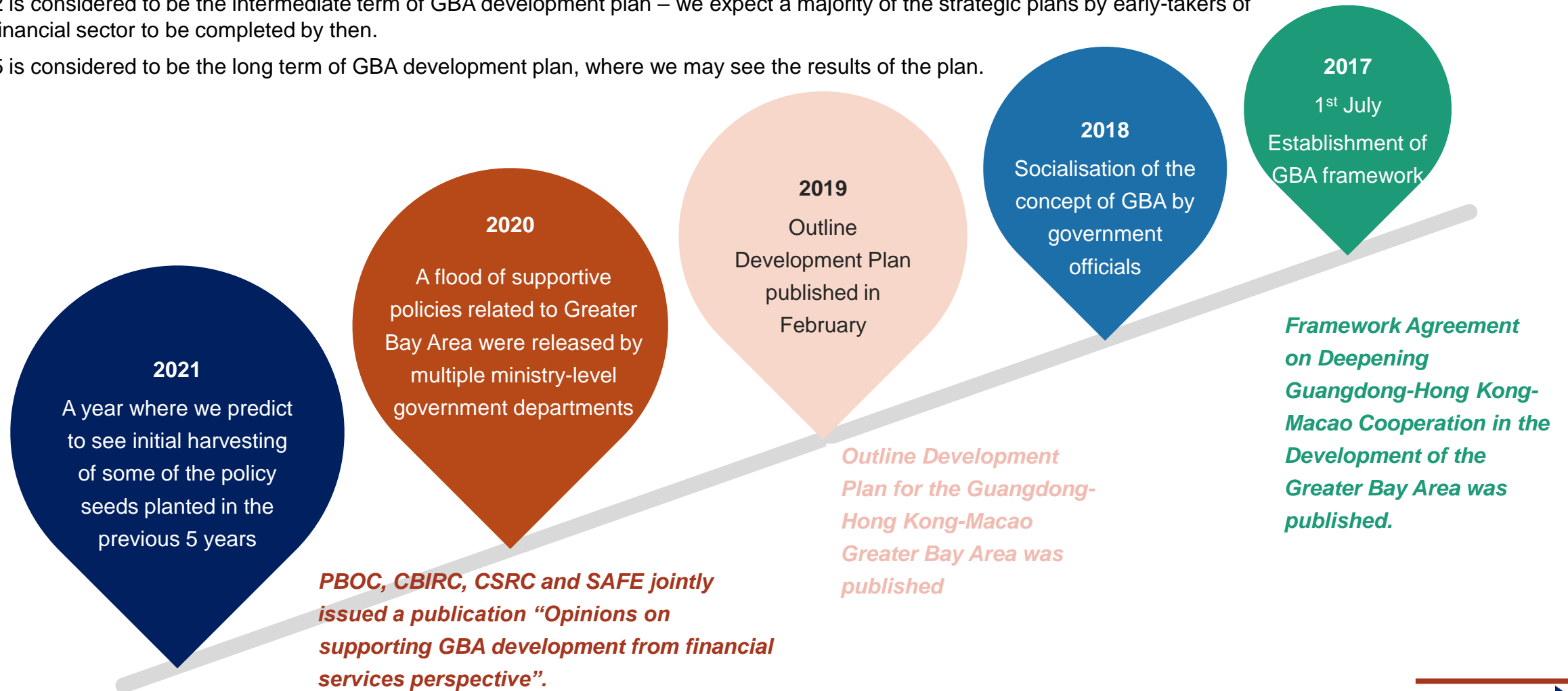


* Yangtze River Delta, Beijing-Tianjin-Hebei, Chengdu-Chongqing; Source: HKTDC, Standard Chartered Research

Standard Chartered GBA Business Confidence Index, published since July 2020
- By Standard Chartered Bank in cooperation with Hong Kong Trade Development Council

The most prominent progress in GBA so far was in Year 2020, despite being impacted by a global pandemic

- We believe that in 2020, good seeds have been planted for the financial services sector with some early take-up of the opportunities by the private market are expected throughout 2021 as more about Wealth Management Connect and Insurance Connect become understood by the market.
- 2022 is considered to be the intermediate term of GBA development plan – we expect a majority of the strategic plans by early-takers of the financial sector to be completed by then.
- 2035 is considered to be the long term of GBA development plan, where we may see the results of the plan.



Five areas worth watching out for in 2021 regarding GBA from a policy and regulatory perspective

Wealth Management Connect

Wealth Management Connect enables cross-border distributions of products within GBA. It is widely expected by the market to be launched in Q1 2021, starting with low-risk products under a quota system.

Insurance Connect (Service Centre)

Insurance Connect is hoped to ultimately offer something similar to the other cross-border connect schemes, with a phased approach. To date, officials have yet to assign any timetable to the plan.

Family Office

First licensing guidelines were issued by the regulator SFC in January 2020, by November there were nearly 50 family offices established in Hong Kong. This is a topic that senior financial officials in the city covered multiple times and we expect this to continue in 2021.

Digital Yuan

Mainland China has concluded two digital currency pilots in Shenzhen and Suzhou in 2020 which involved RMB 30 million and 100,000 people in total. Together with HK's no. 1 position as a global RMB offshore centre, there is a bright future for GBA in terms of digital currency.

Green Finance

A policy focus that has been announced during the Hong Kong policy address 2020 by the Chief Executive Carrie Lam. This also aligns with China targeting to achieve carbon neutrality in 2060 by President Xi at the UN General Assembly.

PROFILE OF TYPICAL MARKET PARTICIPANTS

Whilst Wealth Management often refers to products and services that are provided to individual clients, the market participants themselves represent a wide spectrum of financial companies, including those that focus on serving institutional clients.

In this section, we identify 7 types of financial institutions that we believe have a role in the development of the wealth management industry. Each of these players have different methods of client interface, provide a different range of wealth management products/services and set different entrance criteria for customers.

Their distribution models and fee structures also differ. Fees across the industry are traditionally relatively opaque, but the introduction of robo-advisors and mobile wealth management have resulted in a trend towards more transparent fee structures.

As China gradually opens its financial markets to the world, the Greater Bay Area could serve a key bridging role to the rest of the country. We believe all market participants have the potential to find a role in the GBA platform, achieved by defining a holistic and consistent business strategy with sound analytics, coupled with a precise and achievable execution plan.

A profile of market participants that could play critical roles to the wealth management industry in GBA (1/5)



1

Asset Managers

Designs and manages investment products across asset classes to provide various options for the distributors and ultimately WM customers.

Typically, they are not involved in the distribution of wealth management products directly.

2

Family Offices

Provides one-stop wealth management services for one or more UHNWI family.

3

Banks

In addition to traditional commercial and retail banking, this also includes private and investment banks.

Leverages existing client relationship to distribute WM products. For private banks, they provide a full-suite of services (including strategies) around tax, estate debt etc.

4

Insurance Companies

Includes wealth management products as part of the holistic product offerings for protection against health and wealth issues.

A profile of market participants that could play critical roles to the wealth management industry in GBA (2/5)



5

Independent Wealth Managers

Provides investment products and services under their portfolio, which is usually smaller in scope than that of complete wealth management providers like private banks.

6

Brokers

Distributes investment products under their portfolio. Typically, do not deep dive into the total financial goals of the clients.

7

Pension Funds

Institutional investors that invest into the capital markets to pay out pensions to employees when they retire.

A profile of market participants that could play critical roles to the wealth management industry in GBA (3/5)

	Key players	Example	Degree of client interface	Range of WM products & services	Entrance criteria for customers
1	Asset managers	<p><u>PIMCO</u></p> <p>Manages investments and develops solutions across the full spectrum of asset classes, strategies and vehicles</p>	<p><u>Low</u></p> <p>Typically not individual investor facing</p>	<p><u>Medium</u></p> <p>A wide range of investment products but no non-wealth related services (e.g. tax planning) provided</p>	<p><u>Low</u></p> <p>ETFs are purchasable on stock markets</p>
2	Family Offices	<p><u>Raffles Family Office</u></p> <p>Provide family governance, investment governance and operational governance services</p>	<p><u>High</u></p> <p>Require in-depth understanding of the family's goals and dynamics</p>	<p><u>High</u></p> <p>A full suite of products including alternative investments</p>	<p><u>High</u></p> <p>Typically for UHNWIs</p>

A profile of market participants that could play critical roles to the wealth management industry in GBA (4/5)

	Key players	Example	Degree of client interface	Range of WM products & services	Entrance criteria for customers
3	Banks	<p><u>DBS Bank</u></p> <p>Provides different tiers of wealth management services for individuals with investible assets of US\$130k, 1m and 3m</p>	<p><u>Low to medium</u></p> <p>Consumer Banks</p> <p><u>High</u></p> <p>Private Banks & Investment Banks</p>	<p><u>Low to medium</u></p> <p>Consumer Bank</p> <p><u>High</u></p> <p>Private bank & Investment Bank</p>	<p><u>Low to medium</u></p> <p>Consumer Bank</p> <p><u>High</u></p> <p>Private bank & Investment Bank</p>
4	Insurance Companies	<p><u>Chubb</u></p> <p>Provides savings product with lifelong protection, legacy planning and annuity features</p>	<p><u>High</u></p> <p>During the sales process; <u>Low</u> afterwards</p>	<p><u>Low</u></p> <p>Typically focuses on savings, wealth distribution & legacy planning</p>	<p><u>Low</u></p> <p>Protection threshold can be customized</p>
5	Independent Wealth Managers	<p><u>St James's Place Wealth Management</u></p> <p>Provides financial, investment and tax planning advice</p>	<p><u>High</u></p> <p>Advice is personalized</p>	<p><u>High</u></p> <p>From simpler products like mortgage and insurances to long term financial planning</p>	<p><u>Medium</u></p> <p>Typically targets HNWIs</p>

A profile of market participants that could play critical roles to the wealth management industry in GBA (5/5)

	Key players	Example	Degree of client interface	Range of WM products & services	Entrance criteria for customers
6	Brokers	<p><u>CITIC Securities Brokerage (HK)</u></p> <p>Provides securities and futures trading, margin financing, investment advisory, custodian and nominee services</p>	<p><u>Depends</u></p> <p>Some transactions can be administered online whereas some conducted via agents</p>	<p><u>Medium</u></p> <p>Typically includes securities trading, margin financing, custodian services etc.</p>	<p><u>Low</u></p> <p>Standard offerings available to any clients with an account</p>
7	Pension Funds	<p><u>Mandatory Provident Fund in Hong Kong</u></p> <p>Employment-based mandatory, privately managed, fully funded contribution scheme.</p>	<p><u>Low</u></p> <p>Typically administered by appointed institutions with employees' instructions</p>	<p><u>Low</u></p> <p>Designated schemes available per provider</p>	<p><u>Low</u></p> <p>Employment-based</p>

Amongst the 7 participants, Family Office is a relatively new area that Hong Kong is promoting

Driven by consumer needs

- In 2019 Hong Kong is top in the league table for its density of UHNW individuals, at 1,364 per million adults.
- 8.4% of the population in Hong Kong has net investable assets HK\$10 million or above, as of May 2020.
- The SFC¹ issued the first licensing Circular for family office in January 2020.
- By November 2020, there are some 50 family offices established in Hong Kong.

Growth of wealth and its management

 8.4%

Of HK population has net investable assets \geq HK\$10m as of May 2020

 c.50

Licensed family offices in HK by Nov. 2020

Connecting to the broader market

19,200+ >20%

UHNW families in the Greater Bay Area as of 2020 ...

... accounting for more than 20% of the entire Greater China

Evolving Technology

- Philanthropic ideas and initiatives
- Improved digital wealth management services
- Efficient access to different investment opportunities
- Potential inherent in the massive amount of AuM; Growing popularity of high-end, alternative investments

An overview of some key distribution models

	Direct-to-consumers	Via Partnership	White Label
Channel	<ul style="list-style-type: none"> ● Telecommunication ● Branch network ● Company digital platform ● Robo-advisor 	<ul style="list-style-type: none"> ● Social Media ● Tech companies 	<ul style="list-style-type: none"> ● Outsourced products
Example	<ul style="list-style-type: none"> ● Marcus by Goldman Sachs ● PlanAhead by Bank of China (Hong Kong) 	<ul style="list-style-type: none"> ● Vanguard's partnership with tech company ● Using WeChat to promote and communicate with clients 	<ul style="list-style-type: none"> ● "White Branding" feature on Interactive Brokers
Typical for	<ul style="list-style-type: none"> ● Banks (Retail, Private and Investment) ● Insurers 	<ul style="list-style-type: none"> ● Asset Managers ● Banks ● Insurers 	<ul style="list-style-type: none"> ● Asset Managers

Opportunities and risks present for the WM industry due to potential disruption

Over the past decade, the business models of numerous industries have been drastically disrupted as a result of increased global connectedness, rapid digitalisation and freer flow of information. It is therefore reasonable to expect that wealth management as an industry will be disrupted by new entrants that aim to get a foothold in this trillion-dollar market.

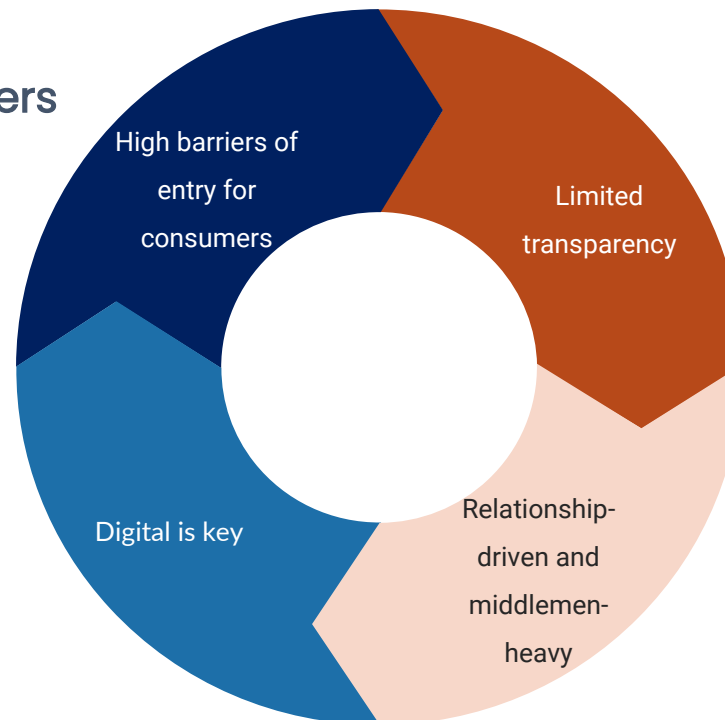
We believe that the following factors are key to why the traditional wealth management industry is prone to disruption:

High barriers of entry for consumers

Traditional wealth management services typically are only available to HNWIs who meet the minimum US\$1 million asset commitment to designated market players

Digital is key

Meeting regulatory requirements takes up significant resources for market players. Innovative digital solutions can help free up resources for delivering enhanced customer experiences.



Limited transparency

Challenging for potential consumers to compare fees, services and expected investment returns by different market players as this information is often for existing clients only.

Relationship driven and middlemen heavy

Wealth management relationship managers (RMs) require a varied skillset to succeed, additionally there is Middle and Back Office function talent needed to sustain a wealth management business.

Attributes of disruptive new market entrants of Wealth Management

Disruptive new market players have emerged in recent years to provide customer propositions and experiences that are different from traditional WM players. Their main differentiation can be put into three main categories:

- **Disintermediation:** Reducing the amount of talent and the associated cost required to maintain a WM business in order to reduce the advisory fees and pass on more investment returns to its consumers
- **WM as a value-add feature:** This is typically a new market entry by a company that has a platform with a readily available massive customer base. WM offering is only a value-add feature to the existing consumers who use the platforms habitually
- **Lowered barriers of entry:** A lower investment threshold imposed by the disruptors to open up investment product or service options to mass affluents otherwise available to HNWI and UHWIs only

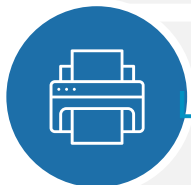
Example	Main value proposition	Customer segment
Agumon	Investment administered on a digital platform; portfolio managed by AI and algorithms to drastically reduce human cost required, therefore lowering the advisory fee	Mass affluent Who are digitally savvy with investible income
Ant Group	Easily accessible WM products for existing customers who live and breathe the platform already. Extreme ease of access and use given the platform use is already habitual for consumers	General public Who habitually rely on the existing ecosystem
Altive	Bringing down the minimum investment threshold of institutional investment products for HNWIs from traditionally 10,000,000 USD to 130,000 USD	HNWIs Who are keen for more investment options and lower fees



Disintermediation



WM as a value-add feature



Lowered barriers of entry

'Wealth Management as a feature' illustrated: How Amazon Prime Video as a feature of the Amazon ecosystem becomes a prominent player in entertainment

This example illustrates how a platform company with a readily available massive customer base (i.e. Amazon) can tap into a non-core business (i.e. entertainment) as a feature of their overall ecosystem. Other platform companies with established customer bases could potentially do the same and have Wealth Management as a feature to tap into the wealth management field.

Stage 4 – Prime video as prominent player in entertainment, despite being a feature only in the Amazon ecosystem

Amazon prime video is reported to have 150 million subscribers globally, second only to Netflix's 190 million, and much ahead of Disney+'s 73 million

Stage 3 – Prime video as a feature of Prime membership

Free Prime video as an entertainment feature for paid Prime members to further increase stickiness and increase customer understanding

Stage 2 – Push Prime membership to increase stickiness

Increased customer stickiness via speedy fulfillment and unlimited use once subscribed

Stage 1 – Secure core e-commerce business

Be the everything store for customers to search and buy goods at the lowest prices possible



THE WEALTH MANAGEMENT INDUSTRY IS AT AN INFLECTION POINT

Wealth management is an industry that cannot be independent of its broader ecosystem. In particular, the industry is facing significant disruption potential (and associated opportunities) from developments in the digital world.

In a forward-looking industry, progress is not achieved solely by leaders who sense the trends and opportunities from early on, but also the people who work with a good strategy team to articulate such ideas into concrete execution plans able to convince those leaders.

In this section, we share our views on 3 driving forces that we believe are contributing to the wealth management industry being at an inflection point:

1. The changing dynamics of the global financial markets, accelerated by the COVID pandemic.
2. The increasing trend towards digital currencies globally.
3. The acceleration of digitalisation brought by the COVID pandemic.

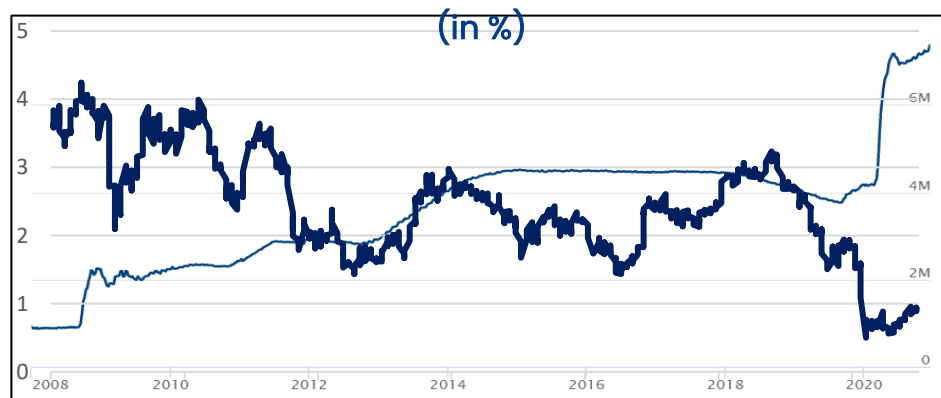
Wealth Management as a traditional industry is at an inflection point due to three driving forces observed (1/7)

1. The changing dynamics of the global financial markets, accelerated by the COVID-19 pandemic

During 2008 to 2020, the total assets of the Federal Reserve of the United States has increased over 8 times whereas treasury note yield has dropped in a reverse fashion to less than 1% at the end of 2020, compared to around 4% in 2008

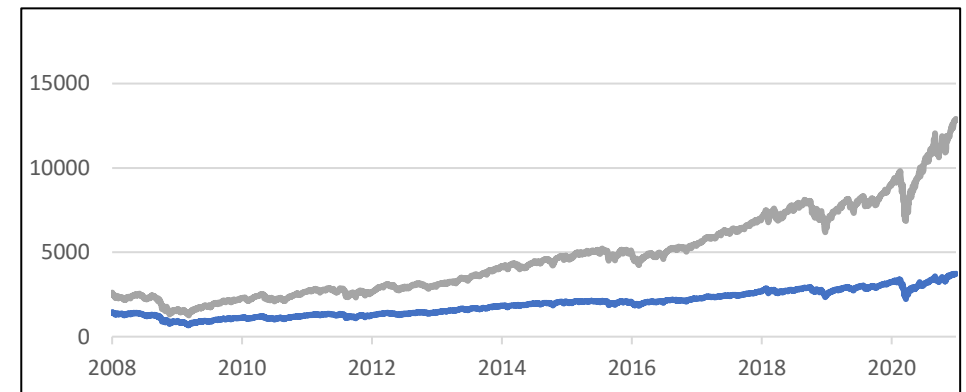
Meanwhile, with the abundance of capital, the equity market has reached new heights with S&P 500 & NASDAQ jumping nearly 3 times and 5 times during the same periods, respectively.

Total assets of the Federal Reserve of the U.S.' balance sheet (in USD million) mapped against 10-year treasury note yield



— Total assets of the Federal Reserve of the U.S.
— 10-year treasury note yield (in %)

S&P 500 Index and Nasdaq Composite

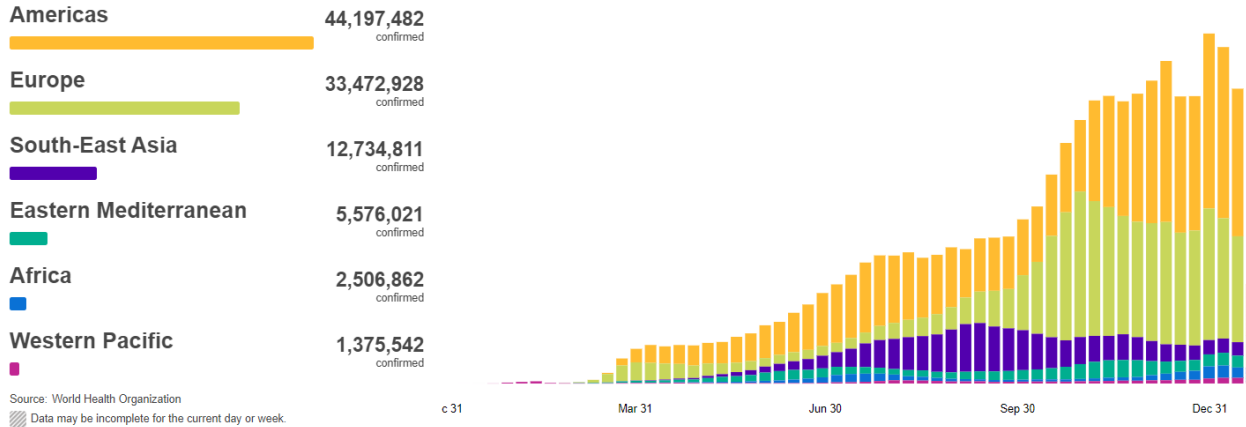


— S&P 500 Index
— Nasdaq Composite

Wealth Management as a traditional industry is at an inflection point due to three driving forces observed (2/7)

1. The changing dynamics of the global financial markets, accelerated by the COVID-19 pandemic

COVID-19 Pandemic Infection Count



These dynamics pose challenges to money managers in pursuit of steady income over time. Given the lower yield of fixed income and the surge of value of other asset classes like equities, asset managers need to look more broadly and gain expertise at different asset classes to seek better returns. On the other hand, the Covid-19 pandemic has brought economic shocks globally and impacted many industries in unprecedented ways. Certain industries thrived and others struggled due to more time spent at home for work and leisure.

Although vaccines have started to be deployed as of December 2020, the pace of recovery of the economy and impacted industries remains highly uncertain. This poses an extra layer of challenge for asset managers to place the right bets on the right geographies, industries and asset classes.

Implications for the Wealth Management industry:

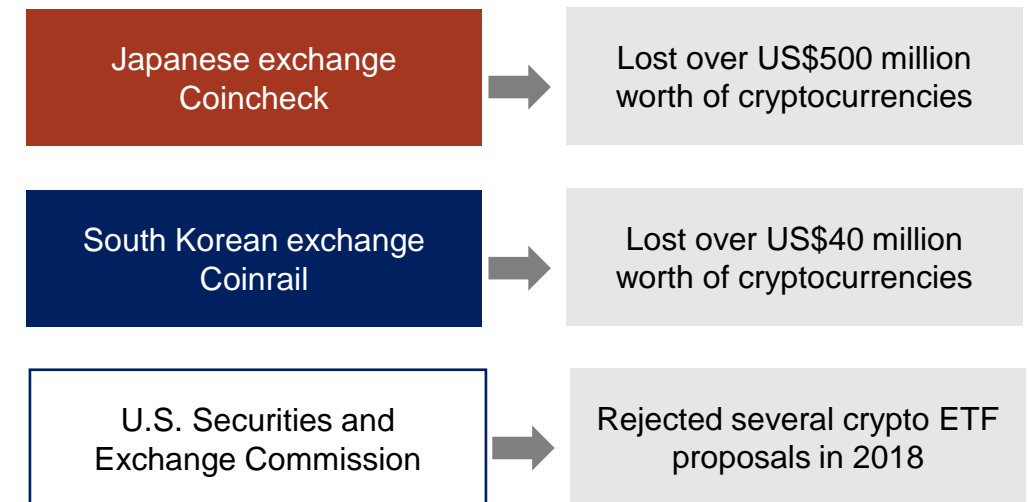
- Increased needs on expanding portfolio and expertise to cover more varied asset classes to pursue more favourable returns for clients.
- Unavoidable bets on post-COVID-19 winners in terms of geographies, industries and asset classes will significantly impact short-term return.
- As an example, the Hong Kong government Green Bonds issuance in January 2021 has attracted 5 times subscriptions for its 5-year and 10-year tranches and 7 times for its 30-year tranche.
- Cryptocurrencies such as Bitcoin may become an asset class that investment managers want to include in certain portfolios.

Wealth Management as a traditional industry is at an inflection point due to three driving forces observed (3/7)

2. The increasing progress towards virtual currencies globally a) Cryptocurrencies prior to 2020 – the surge of value in 2018

Since Bitcoin, the earliest cryptocurrency, came into existence in 2009, cryptocurrencies as a value-holding asset had been non-mainstream for most investors and remained highly unregulated until recent years.

Bitcoin had a rapid surge of value in 2017 when its price jumped over 2000%. It dipped quickly in 2018 following hacks of cryptocurrency market players and lukewarm reception of mainstream financial market players (illustrated below). Bitcoin then fell by 80% from its peak by November 2018.



Wealth Management as a traditional industry is at an inflection point due to three driving forces observed (4/7)

2. The increasing progress towards virtual currencies globally b) Cryptocurrencies post 2020 – the increasing recognition and the second surge of value

Mainstream acceptance

Accommodate Bitcoin in their functionalities

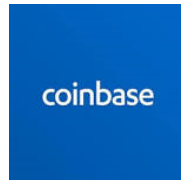


Regulations



Actively considering regulations regarding crypto versions of ETFs as of Nov 2020

Planning for IPO



The largest cryptocurrency exchange in the U.S.

Well-known names



Is adding Bitcoin futures as an eligible investment for two funds, according to Bloomberg.



Plan to accept Bitcoin as a payment for its products

In 2020, we have seen a resurgence of Bitcoin's price, which has been accompanied by stronger mainstream acceptance (illustrated on the left). The characteristics of cryptocurrencies (e.g. transparency, disintermediation, fixed supply) have led people to believe it is a viable, or even better, financial system compared to the mainstream financial systems based on fiat money run by central banks. This sentiment is especially strong following global central banks' market interventions amidst the Covid-19 pandemic in 2020. The staggering US\$520 billion total market value of Bitcoin is a powerful testament.

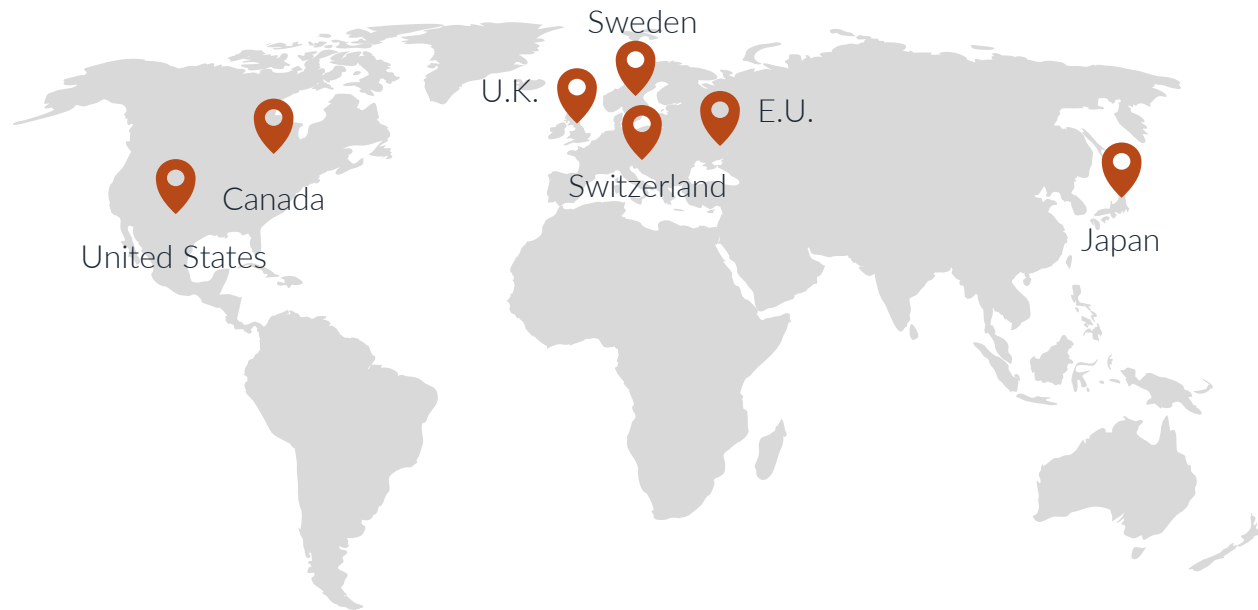
Implications for the Wealth Management industry:

- Inevitable need to make sense of cryptocurrencies both as an asset class and a financial system to advise clients accordingly
- The technologies that empower cryptocurrencies' success such as bringing heightened transparency to customers and breaking the geographical barrier of money markets would be highly welcomed by Wealth Management customers.

Wealth Management as a traditional industry is at an inflection point due to three driving forces observed (5/7)

2. The increasing progress towards virtual currencies globally c) The accelerated agenda of digital currencies globally

Jurisdictions with central banks working collaboratively with the Bank of International Settlements on 'Central Bank Digital Currency'



Digital currency is under continued development by central banks worldwide, with China at the forefront by launching a series of trials of its Digital Currency Electronic Payment (DCEP).

China has concluded two digital currency pilots in Shenzhen and Suzhou respectively in 2020 which involved RMB 30 million and 100,000 people in total. Globally, according to Bank for International Settlements, at least 17 governments are considering or testing out some form of digital currency.

Implications for the Wealth Management industry:

Wealth managers, especially those with broad international remits, need to keep track of how the digital currency and financial system are evolving in different jurisdictions and how it affects different currencies' stability and level of acceptance in the international market.

Wealth Management as a traditional industry is at an inflection point due to three driving forces observed (6/7)

3. The acceleration of digitalisation brought by the COVID-19 pandemic

Due to the overpowering disruption of physical business activities brought by the COVID-19 pandemic, global businesses have accelerated the digitalisation of their operations by years, with Asia ahead of the rest of the world. According to McKinsey's research, the digitalisation of Customer Interactions and Product Offerings has accelerated by 4 years and 10 years respectively in Asia.

Acceleration of digitalisation of Customer Interactions in Asia



Acceleration of creating digital or digitally enhanced Product Offerings in Asia



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A good example to illustrate the acceleration of digitalization in the wealth management space is Goldman Sachs' Marcus Invest scheduled rollout in 2021. It is a digital automated service with managed portfolios of ETFs and allocation models typically available only to Goldman Sachs' most affluent clients. With this new offering, Goldman Sachs can expand their customer base whereas the new clients can have digital access to Goldman

Sachs' investment prowess otherwise unavailable to the mass.

Wealth Management as a traditional industry is at an inflection point due to three driving forces observed (7/7)

3. The acceleration of digitalisation brought by the COVID-19 pandemic

Implications for the Wealth Management industry:

Challenge

It will be imperative to navigate through the digitalization journey while balancing the resources required to meet these requirements:

Regulatory

Compliance

Cyber-security

Opportunity

Wealth Management players can expect a shift in consumer behavior with these increased demands:

Digitalised touchpoints

Innovative products & service offerings

Utilise FinTech to integrate customer journey

CASE STUDIES OF MARKET PARTICIPANTS AND THEIR STRATEGIES

Through publicly available news and information up until 5th February 2021, we have selected 6 market players and analyse each of their strategies.

These players are of US, UK and China background. Most are large and well-established companies with a long track record, and one is a more recently-listed company which went through IPO in 2020.

Although not all of these companies necessarily have a GBA strategy yet, we believe their business models could be interesting to analyse from a strategic point of view and that they are well-g geared to connect the dots for a GBA long-term growth plan.

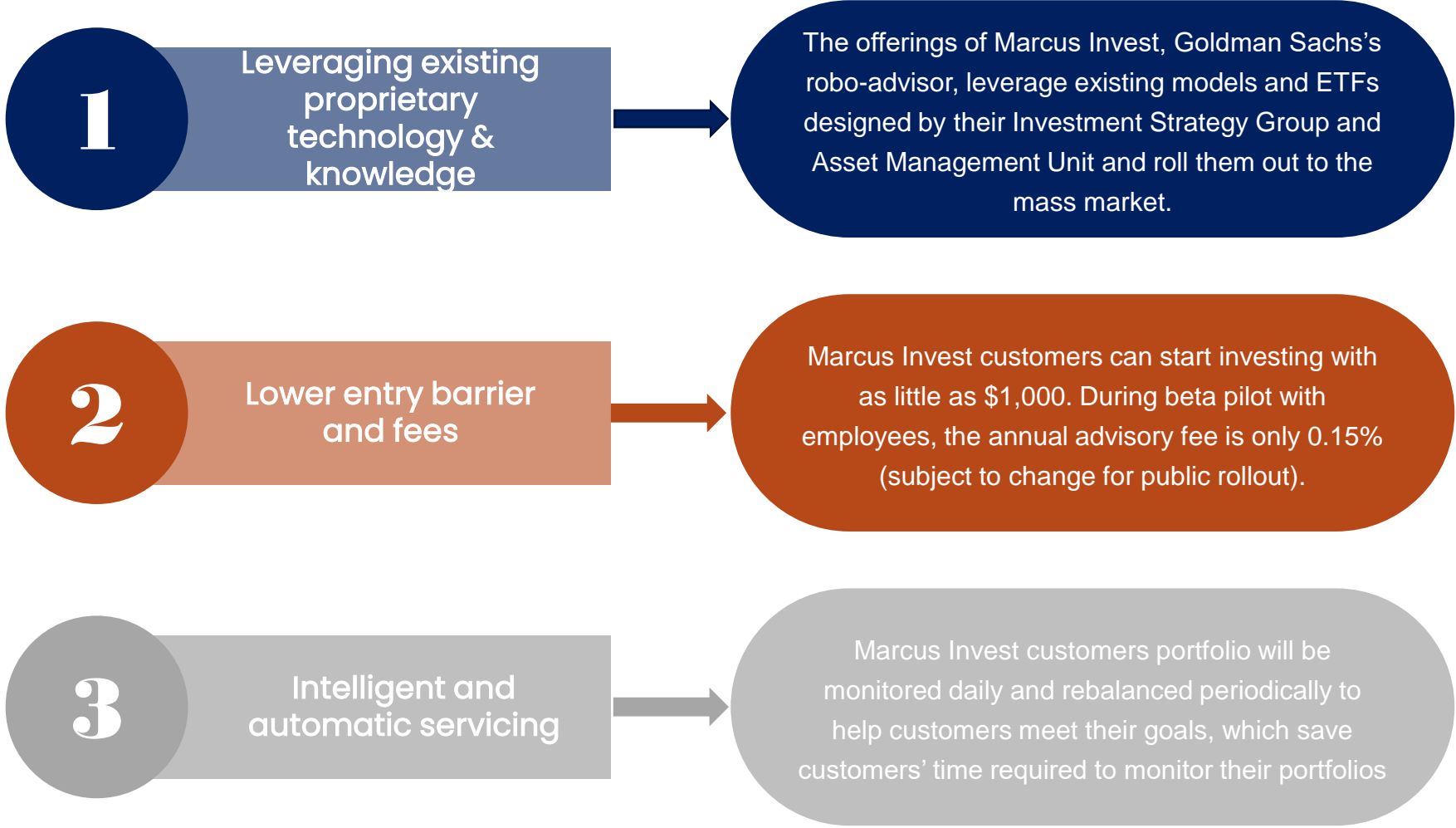
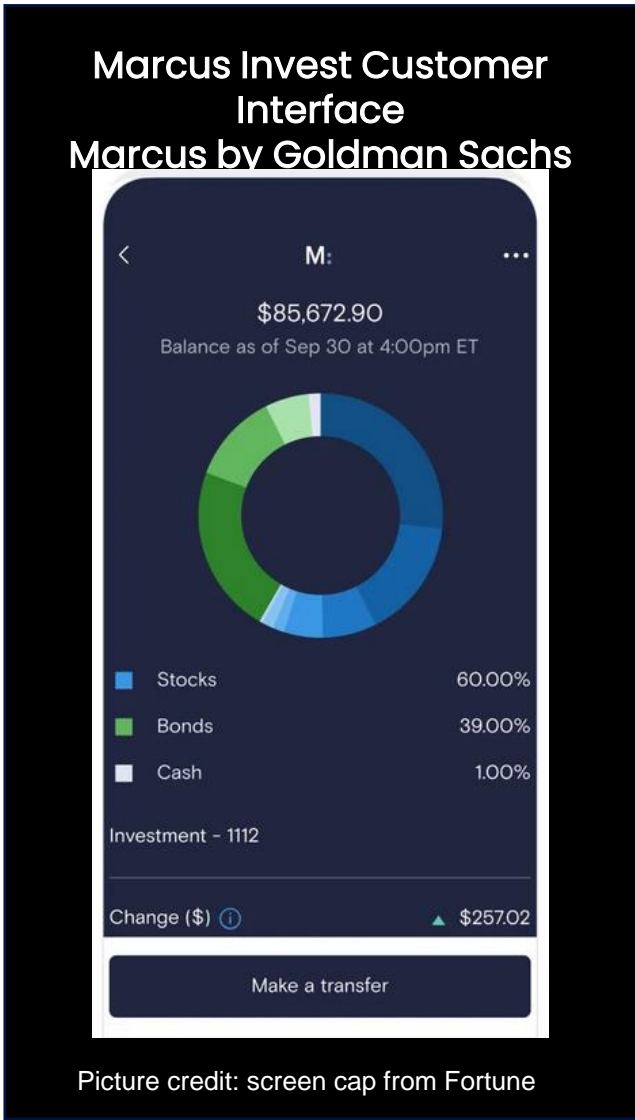
It is also worth pointing out that here in Hong Kong, the traditional retail and commercial banks have been the most noticeable for their holistic GBA approach:

Standard Chartered Bank: CEO for GBA was appointed in 2020, based in Hong Kong.

Bank of East Asia: Head of GBA Office was appointed in 2021, based in Hong Kong.

HSBC: Head of GBA Office was appointed in 2021, to be based in one of the nine cities of GBA mainland.

Marcus Invest by Goldman Sachs: tapping into mass affluent with robo-advisor to diversify revenue stream



Marcus Invest is expected to roll out to public during Q1 2021!

Vanguard's strategic move to be closer to target consumers and partnering with consumer tech company

Exit of ETF Business

In August 2020, the company announced to seek an orderly exit of its ETF business in Hong Kong

Partnership with Ant Financial

To develop a robot-adviser service for the fintech giant's more than 1 billion digital customers

Relocation

Its human and financial capitals to be channeled to Shanghai, where its new regional headquarters will be.

Forecast

Retail funds under management are predicted to grow to \$3.4 trillion by 2023

- Vanguard closed its operations in Singapore in 2018 so the move in 2020 was the second relocation within 2 years.
- According to Vanguard and market interpretations, the decision was a strategic realignment to focus on retail and individual customers in the long term, as the ETF business in Hong Kong was for institutional clients.
- The large population and aggregated wealth market of China presents a lucrative opportunity for retail funds: for example, light-weight wealth management solutions for mass consumers.
- The partnership with Ant Group sets an example of an asset manager partnering with consumer technology company with massive scale to tap into the latter's existing consumer base. However, this partnership model needs adapting to Ant Group's recent news of restructuring as of 5th Feb 2021.
- With the mass consumer targeting nature of the retail fund business, we foresee that robo-adviser would gradually gain popularity in playing a key role in wealth management, compared to the traditional talent-heavy model of wealth management business.

Lemonade Inc's shiny IPO debut signals the market's confidence in financial services industry disruptors

Higher transparency

It charges a fixed percentage of all premium received

Technology-driven

Lemonade Inc. uses chatbot to provide insurance policies and handle claims



Consumer-centric

The company's desire for profits does not conflict with paying claims to consumers as it takes a flat fee from premium and use the rest to pay claims

- Lemonade Inc. delivers renters, homeowners, and pet health policies. Its business model is differentiated from traditional insurance players in three aspects as illustrated on the left
- Insurance as an industry shares similar traits as the wealth management industry (e.g. desire for better transparency from consumers, laggard technology, middlemen-heavy) which makes it an industry prime for disruption
- The stock price of Lemonade Inc. since its IPO in July 2020 rose over fourfold (as of Jan 2021)
- Lemonade Inc's meteoric stock performance since the IPO signals the market's confidence in Lemonade as an industry disruptor

The initial success of Lemonade Inc indicates that there are opportunities for industries like insurance and wealth management to reform the business model and deliver enhanced customer value and experience

HSBC connecting its banking services in Hong Kong and Guangdong by the establishment of a GBA Office

Merging global private banking, retail banking and wealth management businesses into a single division and offering tailored services to customers.



Premier services

HSBC Premier is for customers with a total relationship balance of HK\$1million, roughly aligned with the Affluent market in this paper.

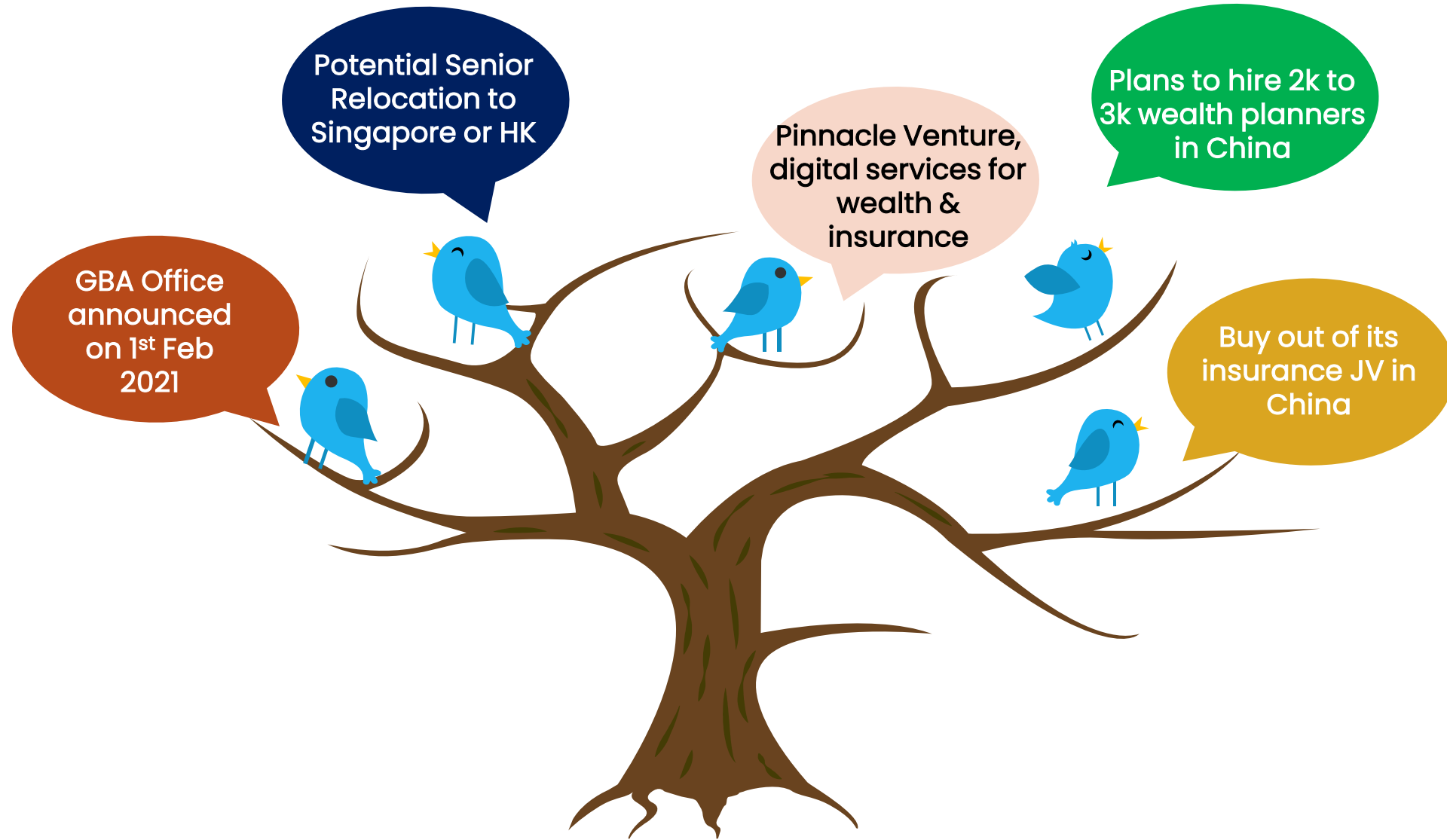
Personalised & Privileged

HSBC Jade is for customers with a total relationship balance of HK\$7.8million or above, aligned with HNWI and UHNWI market.

Holistic Wealth Offerings and Expanded Traditional Branch Network Reach

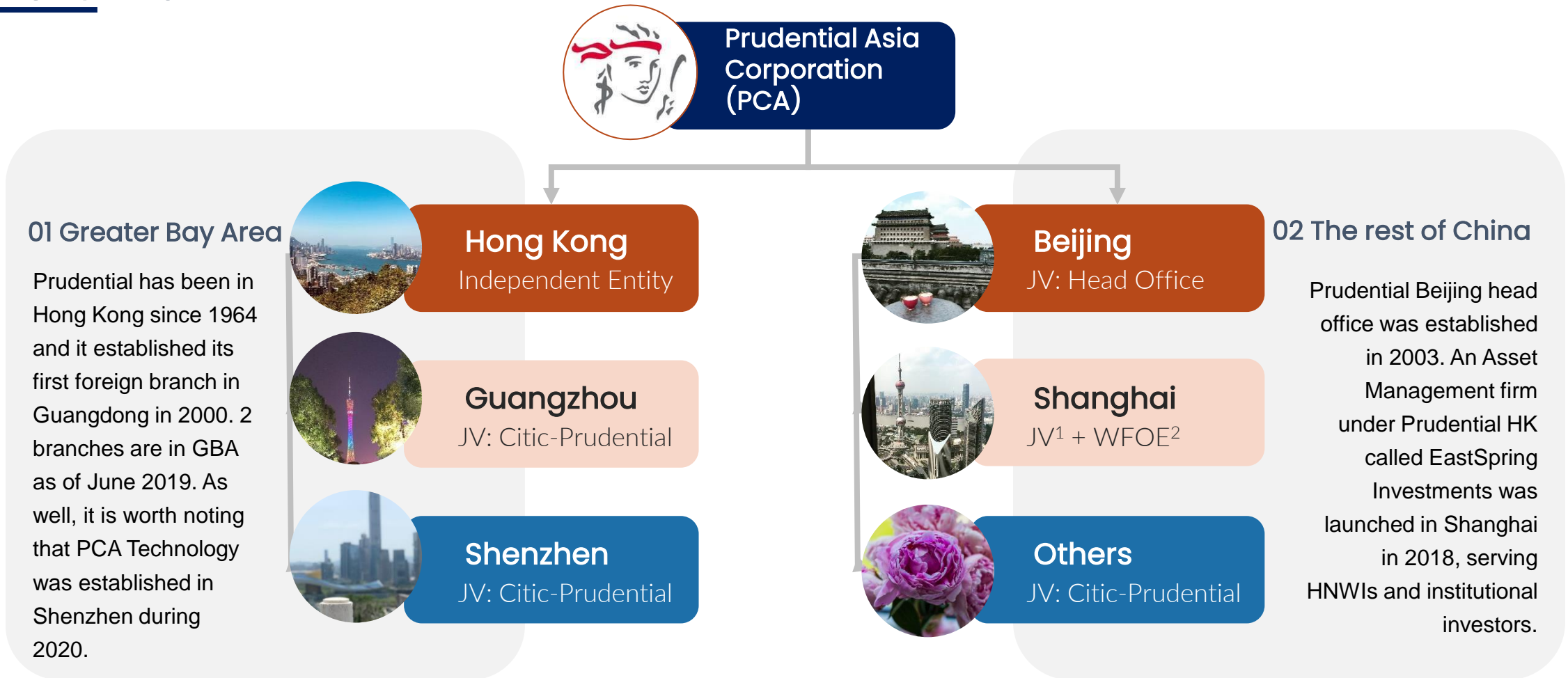
- ✓ HSBC's strong capital base and expertise to compete for customers in the Greater Bay Area offers first-mover advantage to participate in Wealth Management Connect.
- ✓ There were 12 branches in Guangzhou and 10 in Shenzhen as of 5th Feb 2021.
- ✓ HSBC Premier centres were seen in both Guangzhou (with 3 branches) and Shenzhen (with 2 branches).
- ✓ Head of GBA Office named, perceived as its strategic answer to the launch of the Wealth Management Connect scheme.

Strategic public movements in 2020 and 2021 suggested a focus lens in Asia and GBA by HSBC



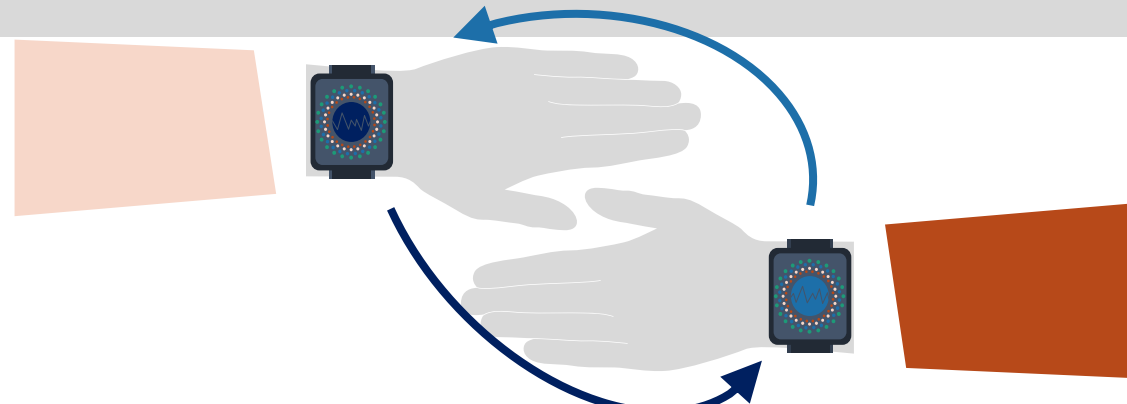
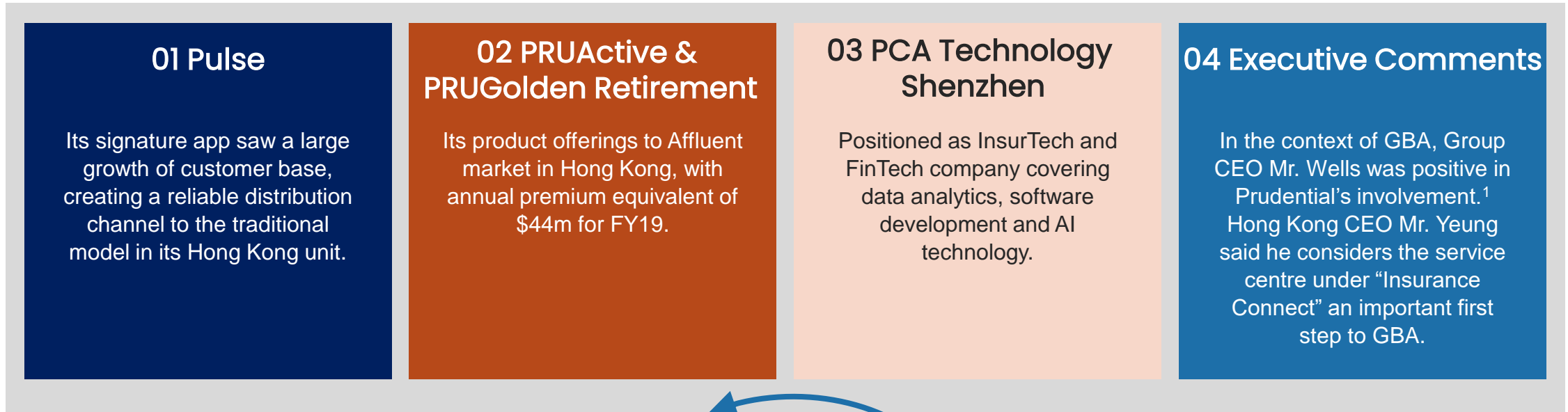
1. Although the news about the potential relocation of its senior investment bankers from London to Asia is not confirmed, HSBC so far appears to have a consistent strategy in its growth plan in GBA and the rest of China, with a focus on wealth management and life insurance services.
2. The bank has itself commented that talent development will be an important element of its GBA strategy, we believe that wealth management and commercial banking would also play key parts.
3. Pinnacle Venture appears to be its technology answer for wealth management and life insurance services.

Prudential Asia and Hong Kong are well-gearred to tap into the growth of GBA and the rest of China



A holistic strategy to connect the existing investments and network in GBA and the wider China

A sustainable traditional insurer with 173 years track record, adding a modern touch with technology

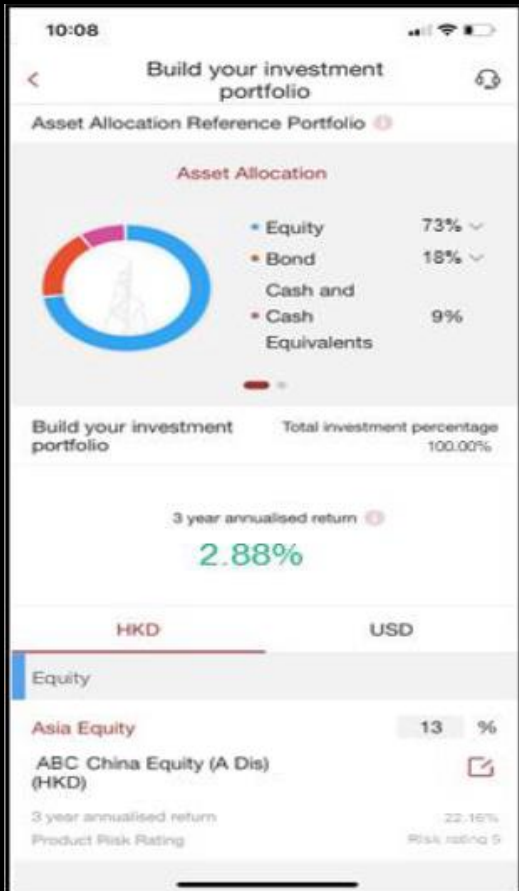


Consistent public messages from Group, Asia & HK offices, backed by actions in its strategy towards GBA and wider China

Sources: Company websites | PCA Investor Presentation June 2020 | South China Morning Post | BTT Analysis
Note: 1. Xinhua net quoting news from Xinhua London December 2020

Bank of China (HK) launched digital Wealth Management solutions to the Mass market

PlanAhead 智·未来



Picture credit: screen cap from BOC (HK) press release

Wealth Planning Service & Smart Invest (Fund portfolio management). Managing financial gaps via product solutions, such as "Smart Invest", monthly deposits plan, funds, securities and insurance.

Key Features

This is a digital extension of the branch-based "Asset Allocation Reference Portfolio", in partnership with the British multinational asset management company Schroders for its "Smart Invest".

Partner with Schroders

Target audience appear to be Mass market with entrance requirement starting from HK\$1000 in portfolio value.

Target Audience

Smart Invest are available via:
BOC (HK) branch network
Digital Banking platform- PlanAhead

Distribution Channel

Evolving with time and technology to reach its consumer market via different distribution channels; partner with a 100-year+ old investment product provider

QUALITATIVE AND QUANTITATIVE ANALYSES OF THE WEALTH MARKET IN THE GBA

A market is often driven by consumer needs and in the wealth management market, the demands are driven by individuals with different degrees of wealth.

In this section, we collect key statistical data that we believe are good indicators of the total wealth in society of the 3 different financial markets in the Greater Bay Area and apply our own analyses to give market size projections for the next 5 years (from 2021 to 2025).

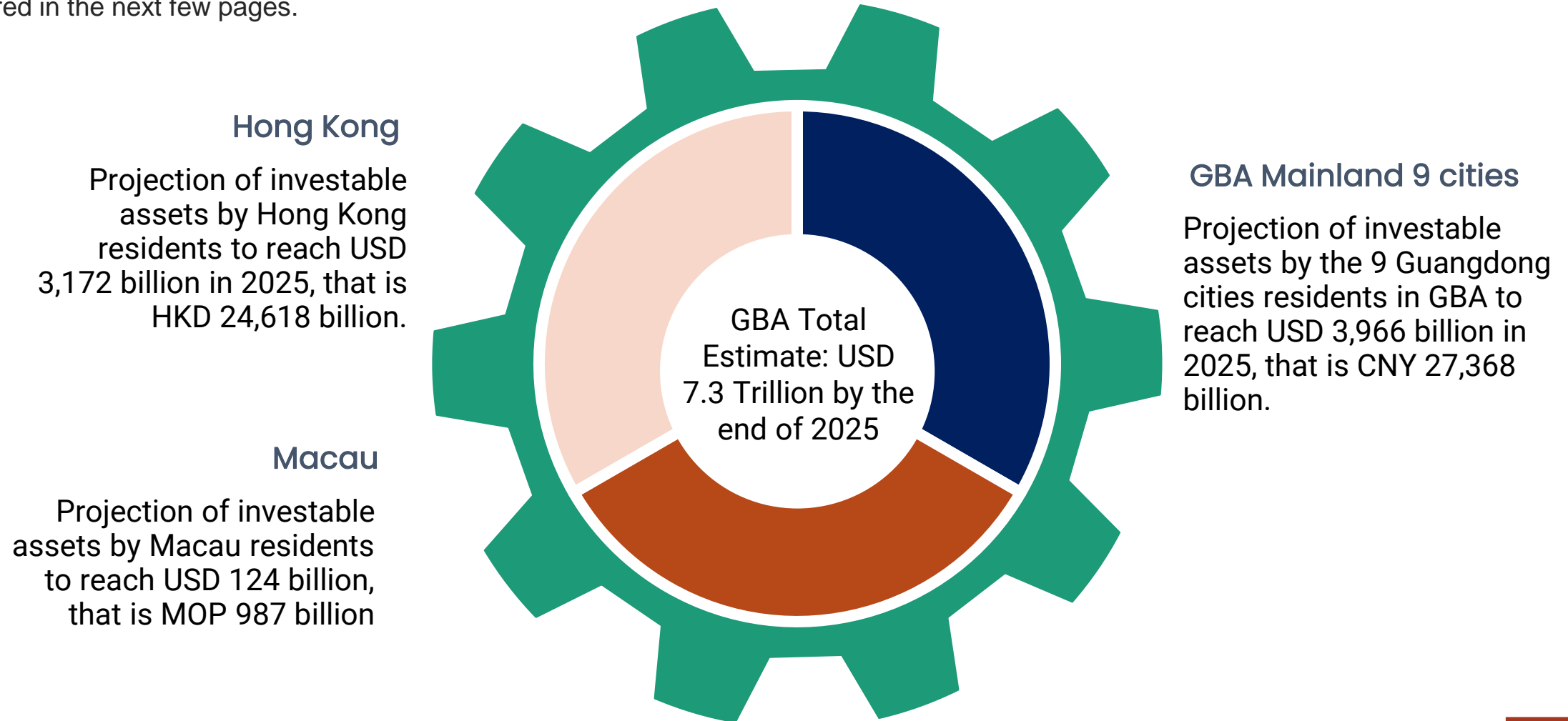
The addressable market is dependent on an individual market participant's strategic direction. Please reach out if you want to look at a more granular segmentation.

With the aging population in China, the growth of wealth, the awareness of wealth management, the need to plan for next generations and retirement, the addressable markets will only become larger and larger.

The above, coupled with the GBA policy benefits and the wider China's general strategic direction to open more of its financial markets, present significant growth and diversification opportunities for all market players.

A projection of investable assets¹ and its growth in the GBA until 2025

There is no doubt that the GBA is already an economic powerhouse globally, with its impressive GDP of nearly USD 1.7 trillion in 2019. GBA is often dubbed by the financial secretary of Hong Kong as the critical entrance to join the inner-circulation of China's dual-circulation economic strategy. We took a look at the projection of cumulative investable assets by all residents of the GBA. Deep dive analyses of each region are covered in the next few pages.



Note: 1. We chose investable assets as an indication of the wealth management market size as we believe it is the most relevant addressable market, for definition please refer to Appendix, "Key

Methodology " page | FX: USD: HKD = 7.76 | USD: CNY = 6.90 | USD: MOP= 7.98

GBA components at a glance: Hong Kong and its policy focus regarding GBA



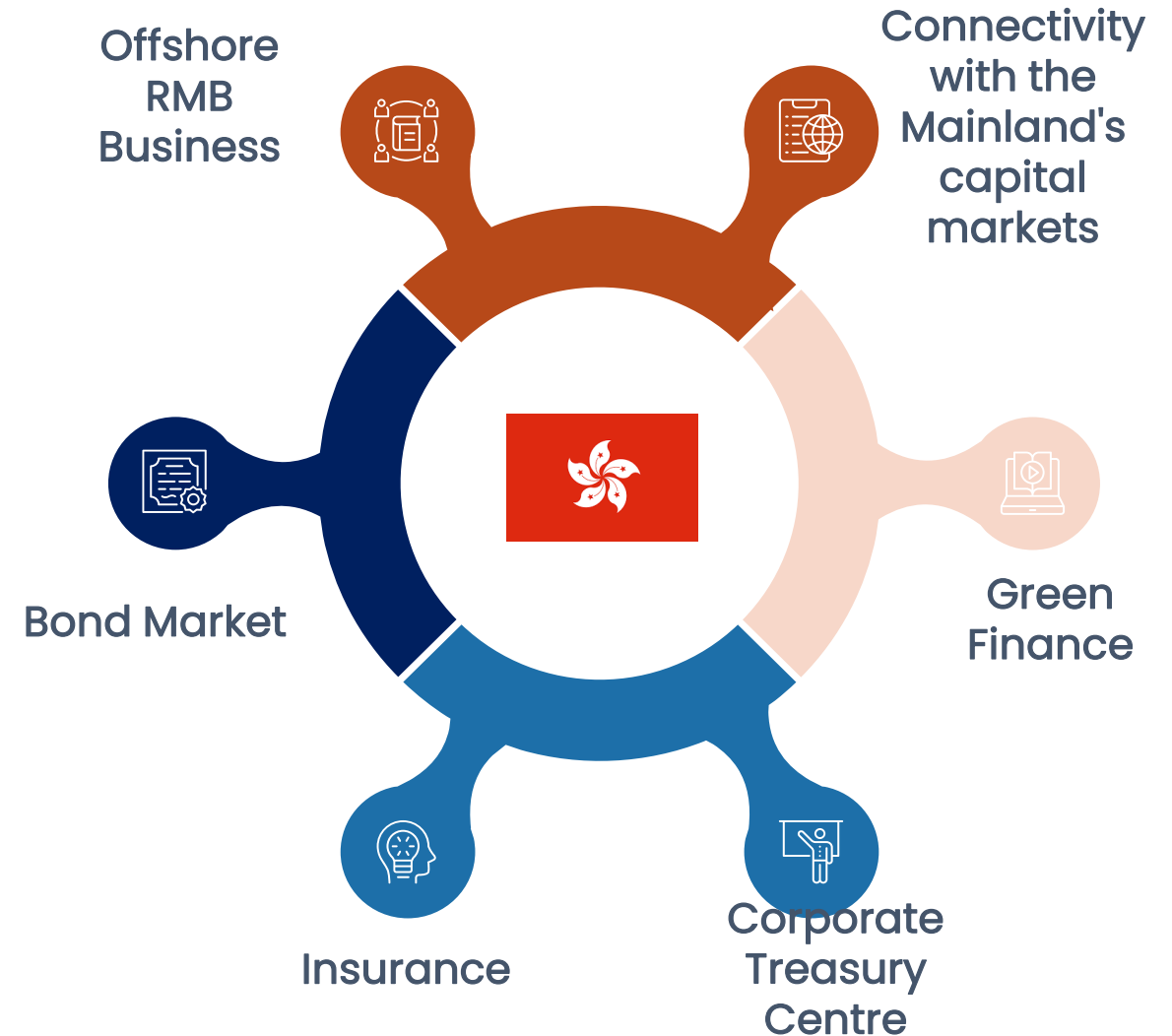
From a **macroeconomic** standpoint, being an open economy, Hong Kong has the highest utilized foreign direct investment out of all GBA cities at US\$104 bn in 2019, accounting for 84% of GBA's total. As the gateway between mainland China and the world, Hong Kong is poised to further strengthen its position as the international financial, transportation, trade and aviation hub.



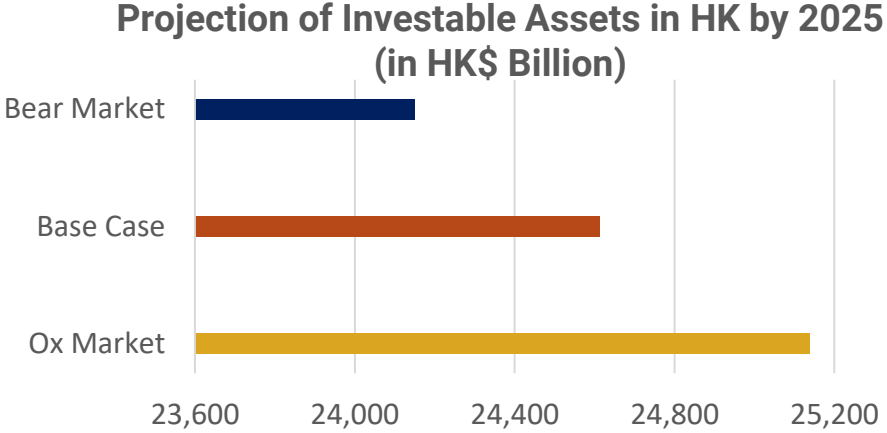
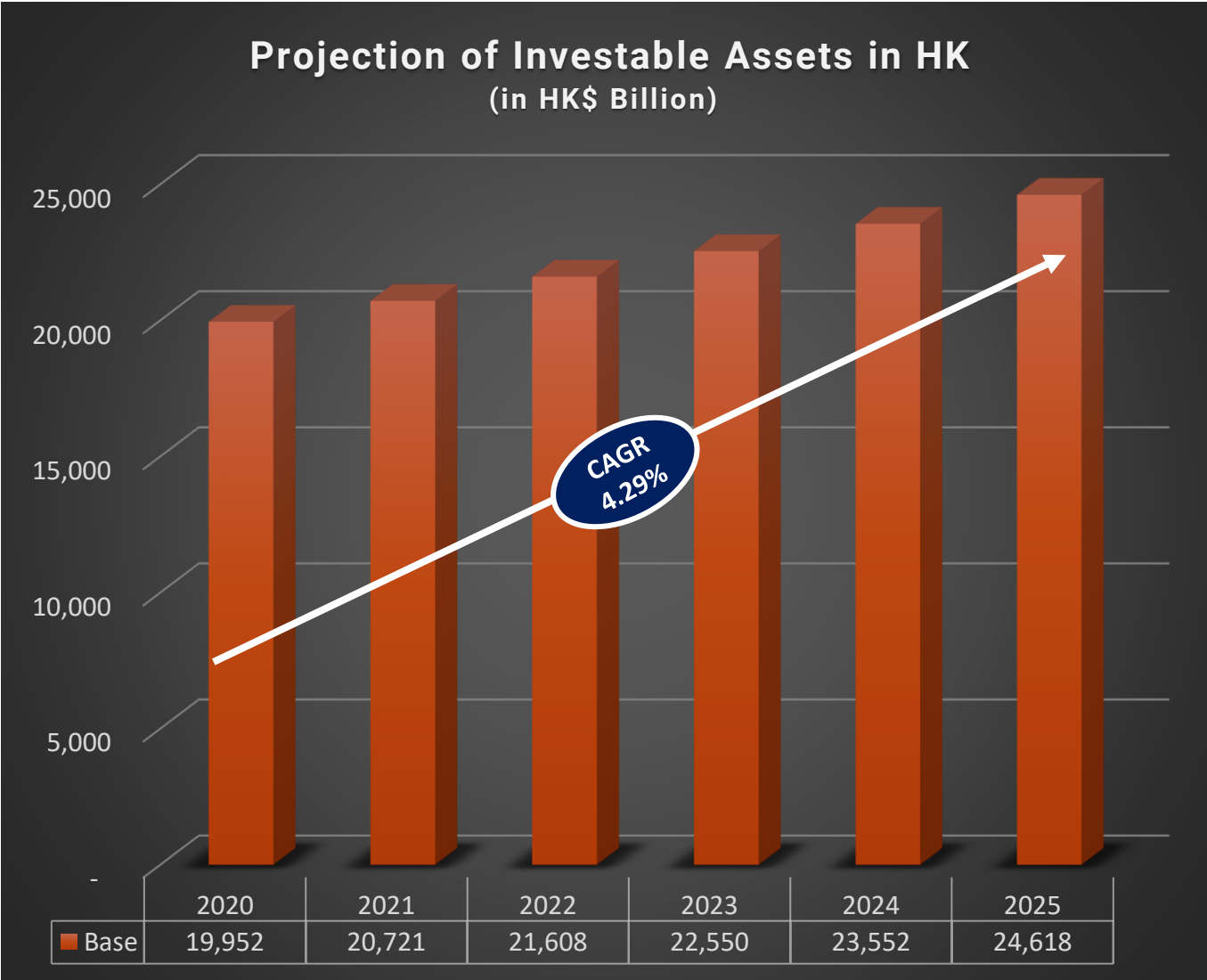
From a **financial market** standpoint, financial services accounts for a significant 19% of Hong Kong's GDP in 2019, contributed to by a large financial workforce of over 258,000. Since 2020, the Hong Kong government has been rolling out support for family offices to set up and operate in the city. This signifies the city's continued focus in being a global hub for wealth management while benefiting from the proximity of China's newly created wealth.



With respect to **Hong Kong's linkage with the broader GBA**, Hong Kong is expected to play a major role in furthering the development of financial services in the GBA in a few areas as illustrated on the right:



Quantitative analysis in GBA¹: Investable assets market size in Hong Kong



- Hong Kong has traditionally been one of the key financial centres for wealth management, in a 2020 report by Citi the number of multi-millionaires stood at 504K. The AuM for private wealth management reached HK\$ 9 trillion in 2019 according to the HK regulator for securities and futures (SFC²). This represents over 45% of the investable assets projected by us in the same year.
- With the policy support for the Greater Bay Area, on a base case scenario, we predict the investable assets in Hong Kong to increase HK\$ 4.7 trillion over the next 5 years, making the cumulative investable assets here reach HK\$ 24.6 trillion by the end of 2025.
- If you are more bullish towards the market, our Ox Market scenario predicts investable asset market size to be over HK\$25 trillion by the end of 2025.

Note: 1. Please refer to appendix “Key Methodology” page 2. Securities and Futures Commission
 Source: Asset and Wealth Management Activities Survey 2019 by SFC | Census and Statistics Department of Hong Kong | Multi-billionaires Survey by Citibank | Global Wealth Data Book 2019 by Credit Suisse | BTT Analysis

GBA components at a glance: 9 mainland cities (including 2 tier-1) and their policy focus regarding GBA



From a **macroeconomic** standpoint, despite being hit by the Covid-19 pandemic, China's economy recorded a positive full-year GDP growth at 2.3% in 2020, well ahead of its global peers which still struggle to restart their economies. The economy is forecasted to grow further by 7.9% in 2021 by the International Monetary Fund, but geopolitical tension will continue to add uncertainty to the growth trajectory. The healthy economic growth will be conducive to the continued wealth accumulation in China.



From a **financial market** standpoint, individuals in mainland habitually allocate assets into deposits. While total assets under management reached ~USD 16 trillion by the end of 2019 in China, there was still ~USD28 trillion of wealth held in the form of bank deposits. This is a significant potential market for wealth management players to tap into.

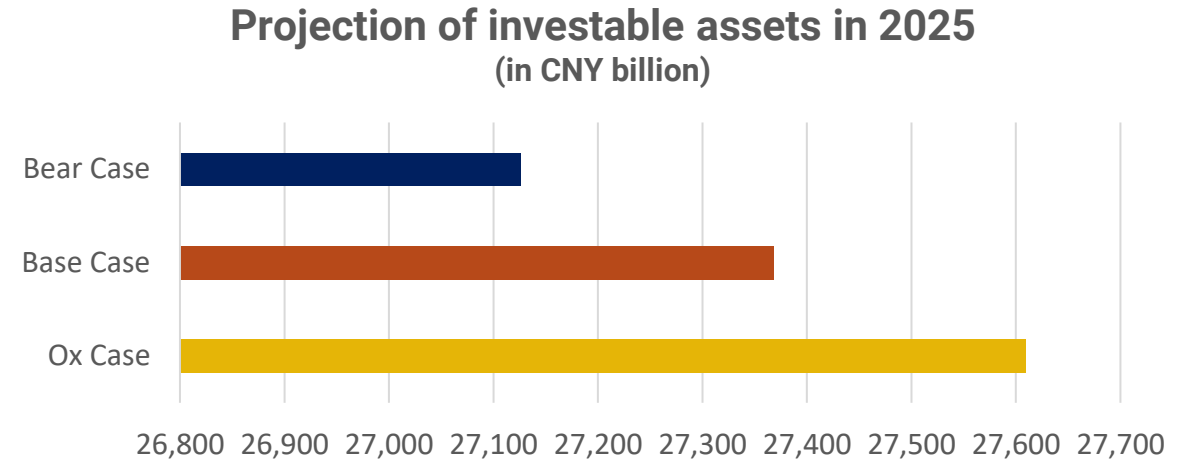
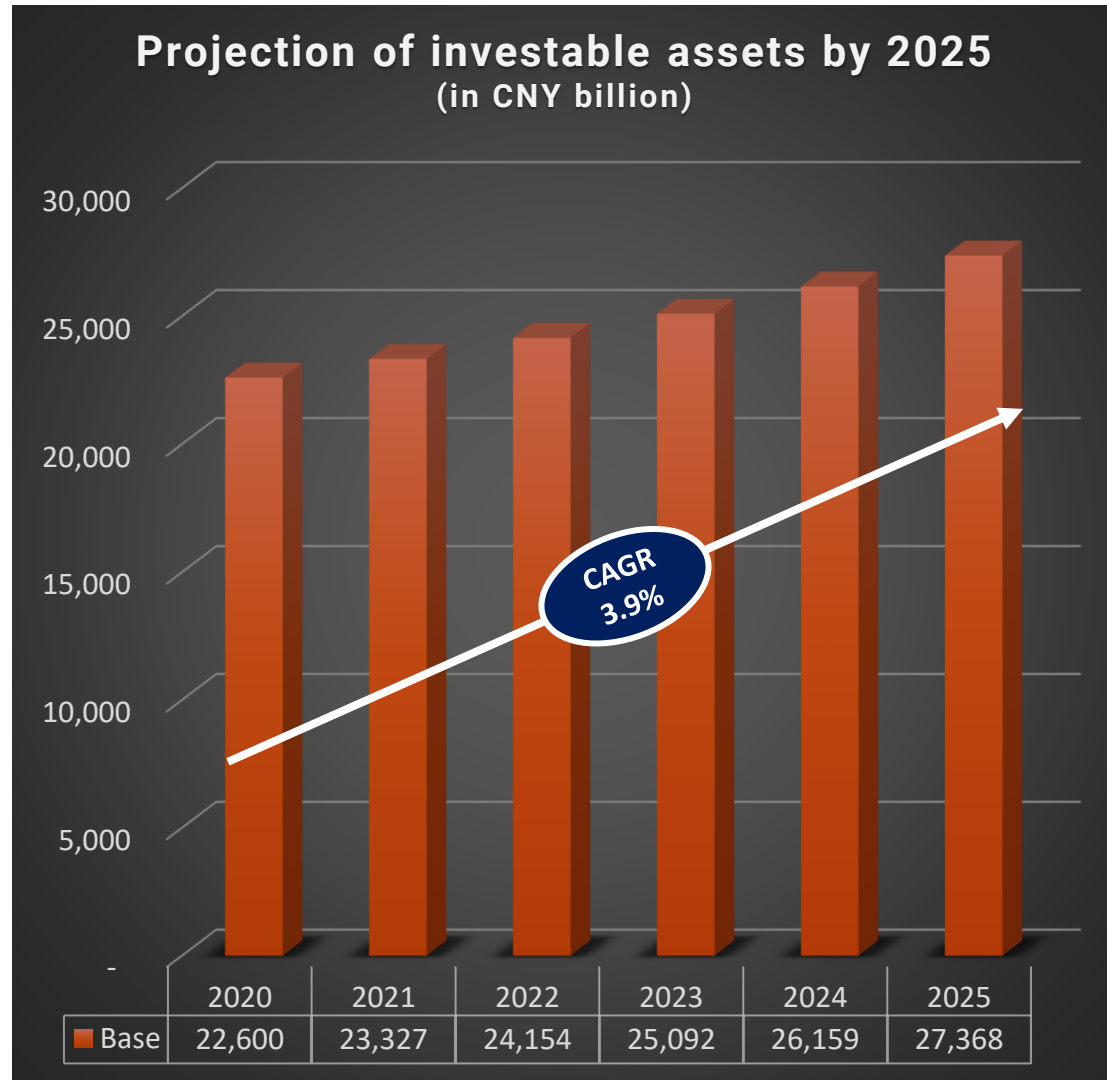


With respect to the 9 cities including Guangzhou and Shenzhen's **linkage with the broader GBA**, there has been vibrant economic and trade activities between the mainland GBA cities and Hong Kong/Macau.

For example, as of the end of 2019, the number of approved Hong Kong-invested enterprises in Guangzhou reached 25 932, accounting for 64.9% of the city's overall; the contracted direct investment from Hong Kong reached US\$163.58 billion, accounting for 74.1% of the city's overall.

There are additional measures to foster youth innovation and entrepreneurship for young talent in Hong Kong/Macau and Guangzhou. Numerous bases have been set up to offer free services on business incubation, company registration, legal advice, marketing and recruitment etc.

Quantitative analysis in GBA¹: Investable assets market size in GBA mainland cities



- A recent white paper² indicated that the AuM for private banking business in Guangdong, where all the 9 GBA cities belong, was CNY 1.8 trillion in 2019. This represents less than 10% of the investable assets projected by us in the same year.
- In a base case scenario, we project that the total investible assets will reach CNY 27 trillion in 2025 for the 9 GBA mainland cities, with Shenzhen being the biggest market. This implied a CAGR of 3.9% and an increase of CNY 4.8 trillion between 2020 to 2025 for this engine of growth region in mainland China.
- If you are bullish of the market, the investable asset market could reach c. CNY 27.6 trillion by 2025 in GBA mainland.

GBA components at a glance: Macau and its policy focus regarding GBA



From a **macroeconomic** standpoint, Macau has the highest GDP per capita out of all GBA cities at US\$79,977 in 2019. Given its development focus as a world-class tourism and leisure centre under the GBA planning, it has potential to have further economic growth despite the fluctuating GDP growth in the past 5 years



From a **financial market** standpoint, the financial services industry is not a dominant contributor of Macau's GDP given Macau's heavy focus on tourism and leisure. In 2018, less than 7% of Macau's GDP came from financial services. This is not surprising given Macau has no capital markets for securities of its own. However, it does not imply Macau's lack of potential for the wealth management industry as suggested by the US\$84.9 billion total resident deposit in November 2020.

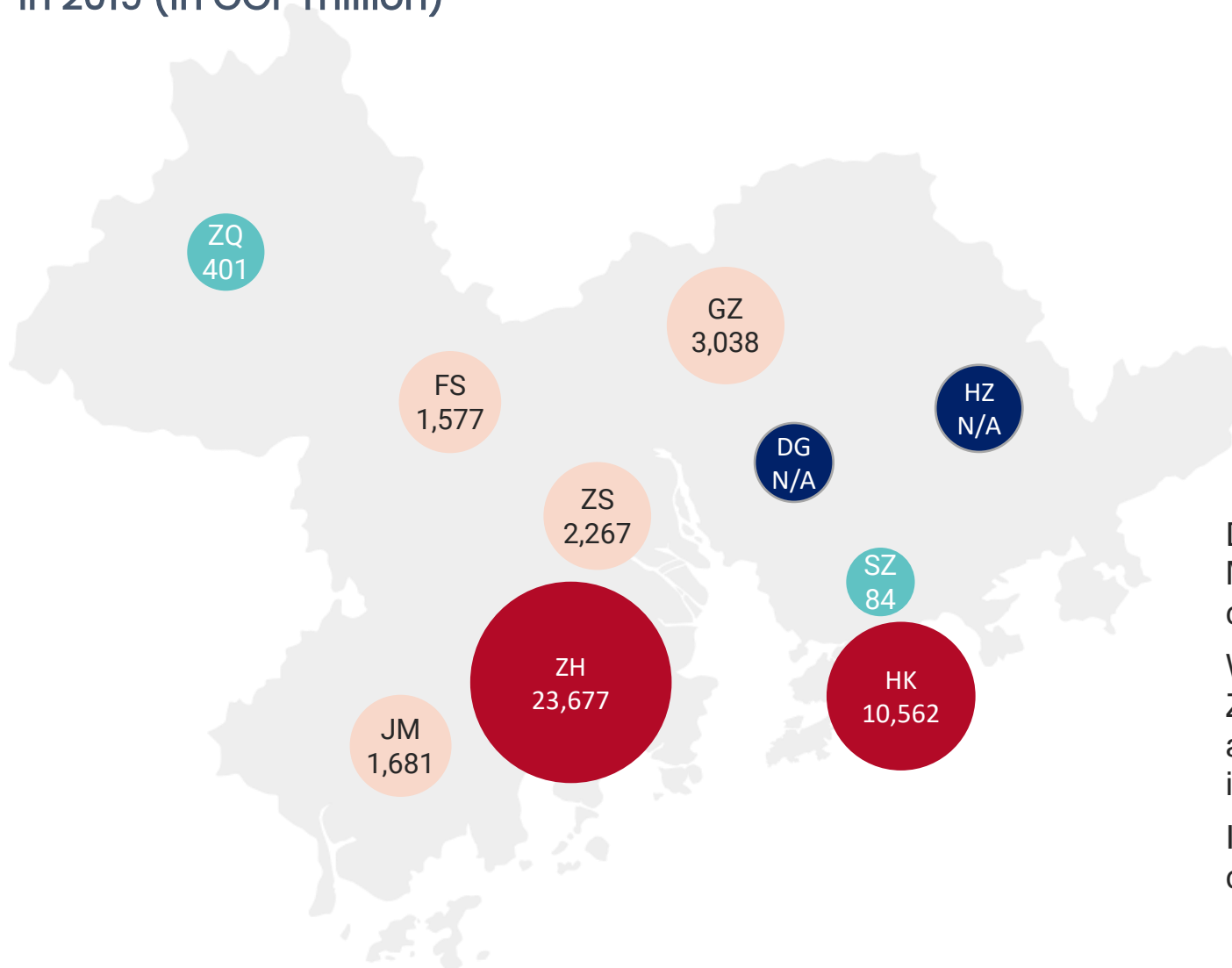


With respect to **Macau's linkage with the broader GBA**, there has been significant interest from Macau businesses to invest in other GBA cities as shown by the amount of outward direct investment by Macau enterprises in GBA cities.

In 2019 alone, 43 billion MOP was invested by Macao enterprises to other GBA cities in the form of outward direct investment. The top 3 destination cities, Zhuhai, Hong Kong and Guangzhou, accounted for 87% of the total i.e., 37 billion MOP. This indicates that on top of being the designated tourism and leisure center in the GBA, Macau will also contribute directly to the growth of other GBA cities through direct investments. For the complete illustration, please refer to the next page.

GBA components at a glance: Macau and its outward direct investment within other GBA cities

Outward Direct Investment by Macau Enterprises in the GBA cities in 2019 (in GOP million)



Abbreviation	City Full Name
ZH	ZhuHai 珠海
HK	Hong Kong 香港
GZ	GuangZhou 廣州
ZS	ZhongShan 中山
JM	JiangMen 江門
FS	FoShan 佛山
ZQ	ZhaoQing 肇慶
SZ	ShenZhen 深圳
DG	DongGuan 東莞
HZ	HuiZhou 惠州

During 2019, in terms of the value of outward direct investment, Macau enterprises have put most in ZhuHai, compared to other cities within the GBA.

Within 5 years from 2015 to 2019, the value of investment in ZhuHai by Macau enterprises have increased over 13 times, and the corresponding number of enterprises increased from 25 in 2015 to 433 in 2019.

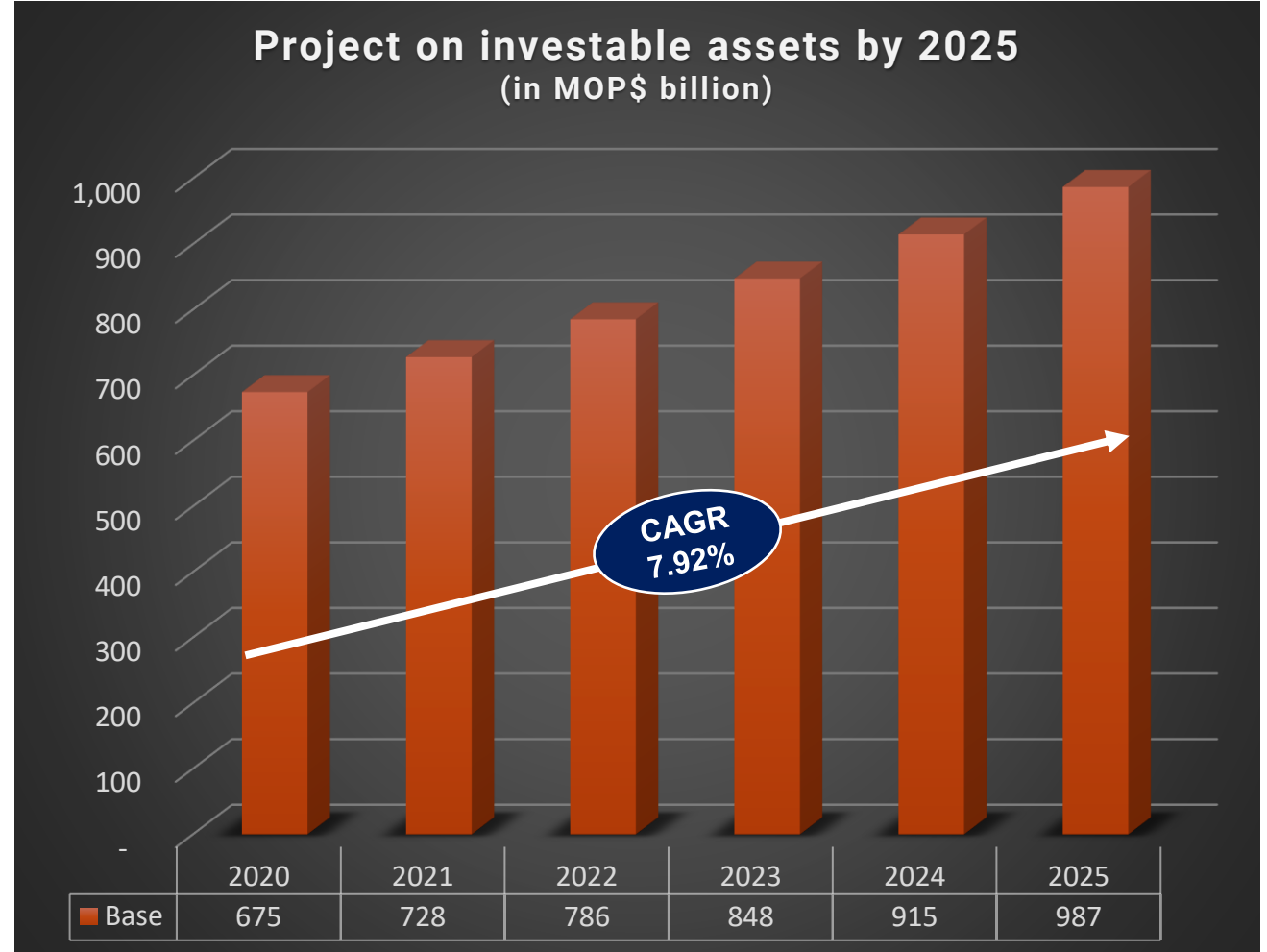
It is understandably so given that ZhuHai is geographically connected to Macau on two sides of the border.

Quantitative analysis in GBA¹: Investable assets market size in Macau

With respect to the market attractiveness for the wealth management industry, Macau is in a unique position given it does not have a securities market and its relatively new development of capacity in the precious metals and bond markets in the recent years. It could be regarded as a hidden gem market for the Wealth Management industry once the avenues are made easy for retail investors to dip their toes into Wealth Management products.

We project that the investable assets in Macau to reach MOP 786 billion in 2022 and reach MOP 987 billion in 2025.

It is worth noting that our projection for investable assets for Macau are mainly based on the cumulative growth of its deposits in its banking system. Given the significant deposits in the banks, we believe that growth potential for wealth management products and services is significant here, but the awareness and education of wealth management are key to start tapping into the market.



Note: 1. Please refer to appendix “Key methodology” page
Source: amcm.gov.mo | <https://www.dsec.gov.mo/>

PERSONAS OF TYPICAL WM CUSTOMERS FROM GLOBAL FINANCIAL CENTRES & KEY CITIES OF THE GBA

There are multiple publications covering the HNWIs in different parts of the world.

In China, one such report of particular note is the *Hurun Wealth Report*, which gives self-portraits of the younger HNWI generation, how they perceive themselves and what they consider important in wealth management. A noticeable trend was the general increase of awareness and demands for lifestyle and retirement, alongside the more traditional Chinese demand for planning a good education for their next generations.

In this section, we spend time interviewing 5 carefully selected individuals from our defined target audience group. These are individuals that work and live in Hong Kong, London, Shanghai, Shenzhen and Guangzhou. Four of them are under 40, and one is the case of a retired professional to give a window to how people in China plan their retirements in the modern era.

We share their views on what is important for them in terms of wealth management and what they consider a good wealth manager.

Please note that the interviewees' names have been anonymised.

We spoke to Ada about her wealth management style

Demographic

In her 30's

Based in London

A professional career in financial services

Investment goal & style

Self-reliant for asset allocation given strong knowledge of financial planning;

Balancing risk and growth is key.

Wealth origin

Main source being salary from day job;

Steady income from real estate rental with long-term value growth.

Lifestyle

Key to have a decent principal residence in terms of city and neighborhood;

Travelling is an integral part of lifestyle.

What makes a good 'wealth manager' for you?

In order to justify paying fees to a wealth manager, both strong investment track record over a long-time horizon and brand name are important.



We spoke to Josephine about how she manages her own portfolio

Demographic

In her 30's

Based in Shanghai

A professional career in Management Consulting

Investment goal & style

Heavily diversified in fixed income, equities and angel-investing;

Self-reliant given education background and knowledge from network.

Wealth origin

Primary and secondary sources being salary from day job and family inheritance.

Lifestyle

Balancing work and quality time with family members as a female is a major focus.

What makes a good 'wealth manager' for you?

Face-to-face communication could ensure the terms and services can be well understood. For online channels, chat records could be kept as evidence of communication, so it is also beneficial.



We spoke to Ben about how his views on investment management

Demographic

In his 30's

Based in Shenzhen

A professional career in financial services

Investment goal & style

Regards investment as important to protect wealth given that money will depreciate over time;

Investment is diversified in fund, insurance and fixed assets.

Wealth origin

Primary and secondary sources being salary from day job and bonus from company projects.

Lifestyle

Work is the priority, but balancing family life and wellness are also important;
Prefer to save up income to accumulate wealth.

What makes a good 'wealth manager' for you?

Digital and Face-to-face communication could benefit clients understanding towards wealth management, which in turn could help assessing and personalising financial goals and risk tolerance.



REGULATORY LANDSCAPE & A SPOTLIGHT ON THE WEALTH MANAGEMENT CONNECT SCHEME

In pre-deal due diligence work for Mergers & Acquisitions, regulatory study is a prerequisite. A solid understanding of the target market's regulatory ecosystem including the multiple regulators, policies, and legal & compliance frameworks are some of the fundamental elements to the success of an M&A deal.

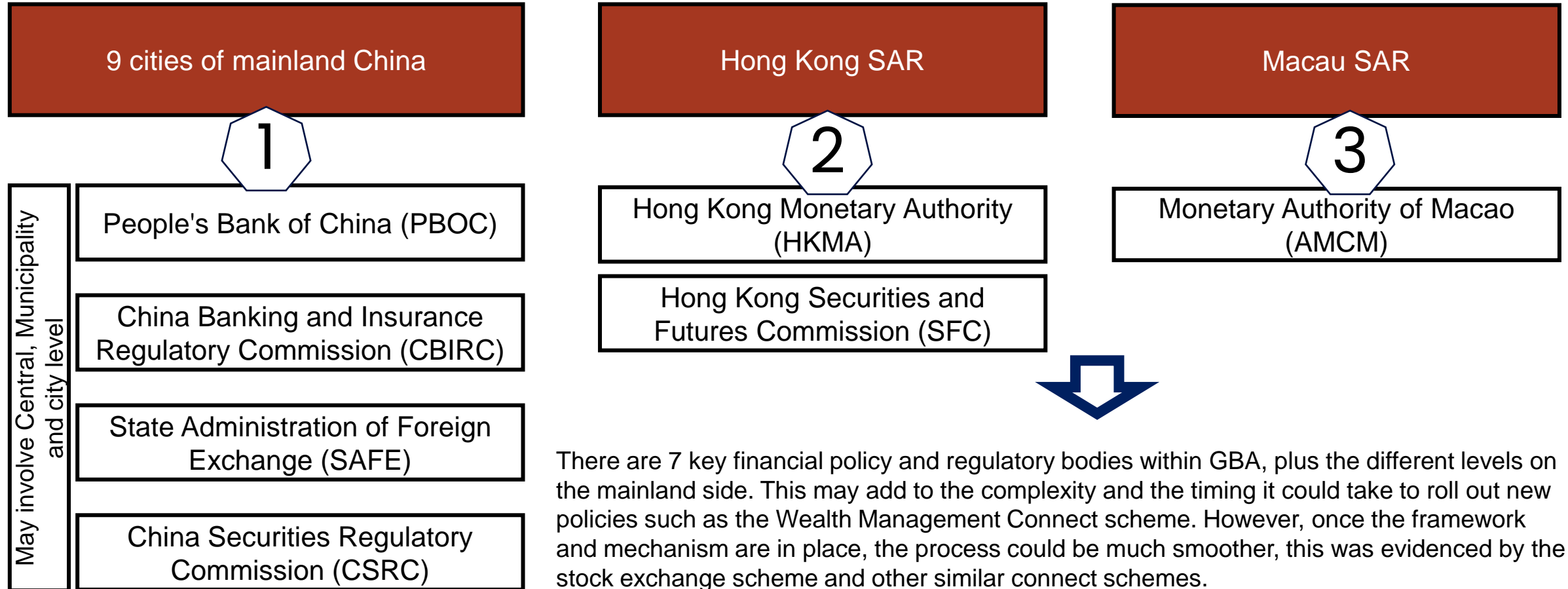
This is also applicable when we are looking at new market growth plans such as the growth plans in GBA.

The business prospects of the GBA are bright, but the complexity of the regulatory landscape should also be well-understood as it encompasses three jurisdictions within one bay area, different to the other well-established bay areas in the world. There is a Chinese phrase where we say “只要有恒心，铁柱磨成针” which means that persistence and perseverance can turn an iron pillar into the size of a needle: the recent announcement on 5th February 2021 of an MoU jointly signed by 7 financial market regulators within the GBA on the Wealth Management Connect scheme is just the start of that.

In this section, we share our analyses of the current regulatory landscape with examples of policies and new entity set up processes, a spotlight on Wealth Management Connect and views regarding the future of regulatory direction.

The GBA span across multiple jurisdictions and financial systems, therefore involving multiple regulators

The Greater Bay Area Regulatory landscape (For Wealth Management Industry)



There are 7 key financial policy and regulatory bodies within GBA, plus the different levels on the mainland side. This may add to the complexity and the timing it could take to roll out new policies such as the Wealth Management Connect scheme. However, once the framework and mechanism are in place, the process could be much smoother, this was evidenced by the stock exchange scheme and other similar connect schemes.

Table of information for each policy and regulatory body

	Name	DUTIES/REGULATORY TYPE	SENIORITY	LEVEL OF GOVERNANCE
1	PBOC	Central Bank of China. Executing monetary policy and regulating financial institutions in mainland China	Ministry Level	Often involving central, provincial and city levels
1	CBIRC	Supervising ongoing business activities in both the banking and insurance industries.	Ministry Level	Often involving central, provincial and city levels
1	CSRC	Regulating securities industry	Ministry Level	Often involving central, provincial and city levels
1	SAFE	Supervising foreign exchange market activities and managing foreign-exchange reserve.	Deputy-ministry Level	Often involving central, provincial and city levels
2	HKMA	Promoting the stability and integrity of the financial system, including the banking system	HKSAR Government	HK level only
2	SFC	Regulating the securities and futures markets in Hong Kong	HKSAR Government	HK level only
3	AMCM	Executing monetary policy and regulating financial institutions in Macau	Macau SAR Government	Macau level only

Two significant policy developments since Oct 2020 that are not to be missed for GBA growth plans



01

The relaxation of regulation regarding entity set up and executive appointment in 8 cities of GBA mainland by The Guangdong Banking and Insurance Regulatory Bureau (GBIRB) under the policy support of CBIRC – October 2020

Key Fact: Regarding branch entities set up and executive appointment of banking and insurance institutions in the region, the regulatory process has changed from “prior approval required” to “registration after completion”. This policy is applicable to the 8 mainland cities of the GBA, except for Shenzhen.

Why this is important: The relaxation will make it easier for banks and insurance companies to do strategic planning, especially relating to its network expansion and growth planning. This policy is a signal of continued commitment to optimise regulatory environment in order to support and facilitate the further development and integration of the GBA’s financial system.



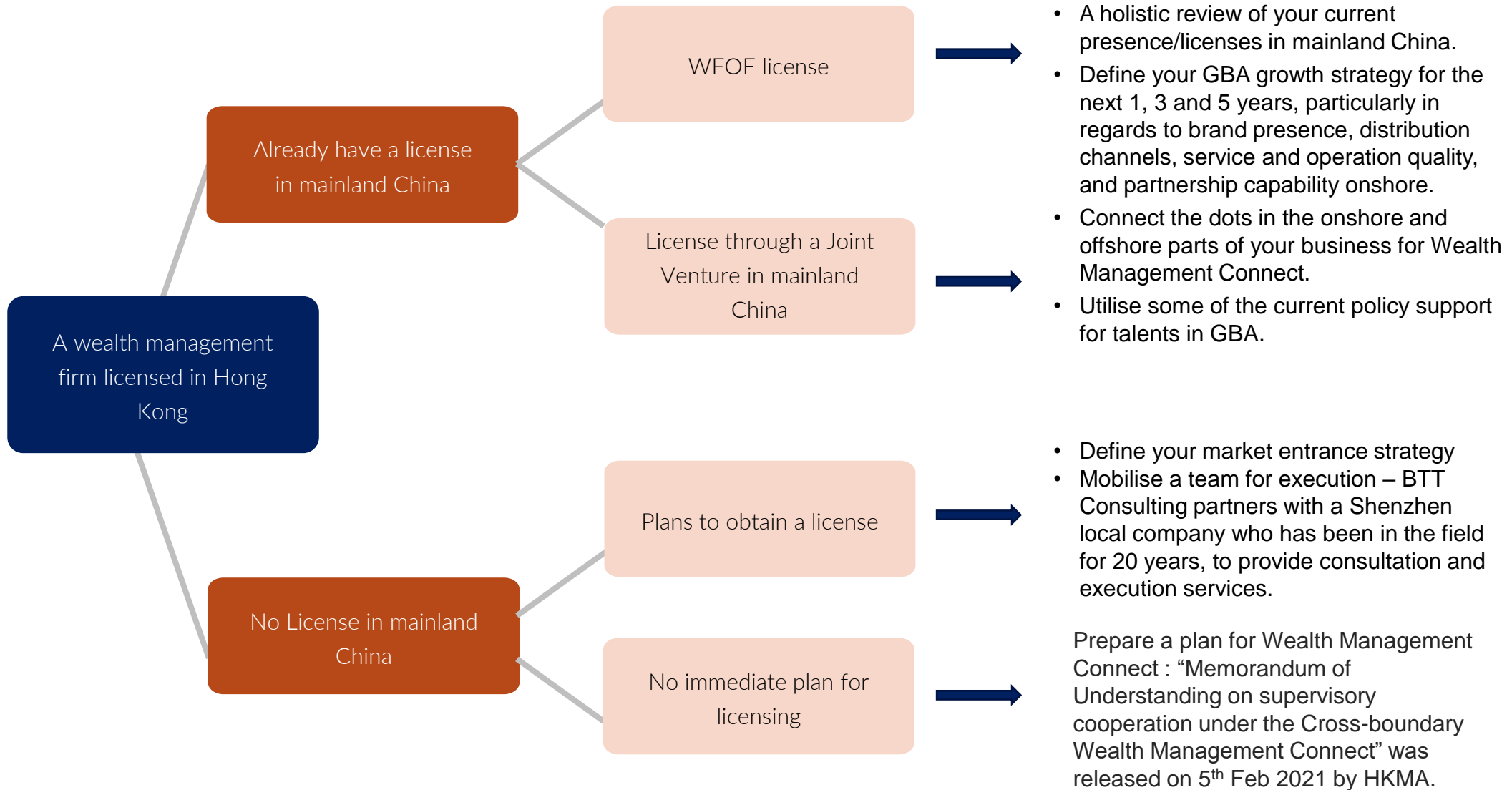
02

Memorandum of Understanding (MoU) on supervisory cooperation under the Cross-boundary Wealth Management Connect - jointly signed by 7 policy and regulatory bodies

Key Fact: The MoU is jointly signed by 7 policy and regulatory bodies that are supervising the financial services industry within the entire greater bay area. It lays out the basic principles of the scheme and the foundation of how the regulators across 3 jurisdictions cooperate under the connect scheme going forward.

Why this is important: The signing of the MoU is another milestone of the Wealth Management Connect scheme, since its announcement on 29th June 2020. Whilst there is no mention of the launch timeline, public news from both HKMA¹ and PBOC² Guangzhou suggested that the scheme is ready from a technicality perspective.

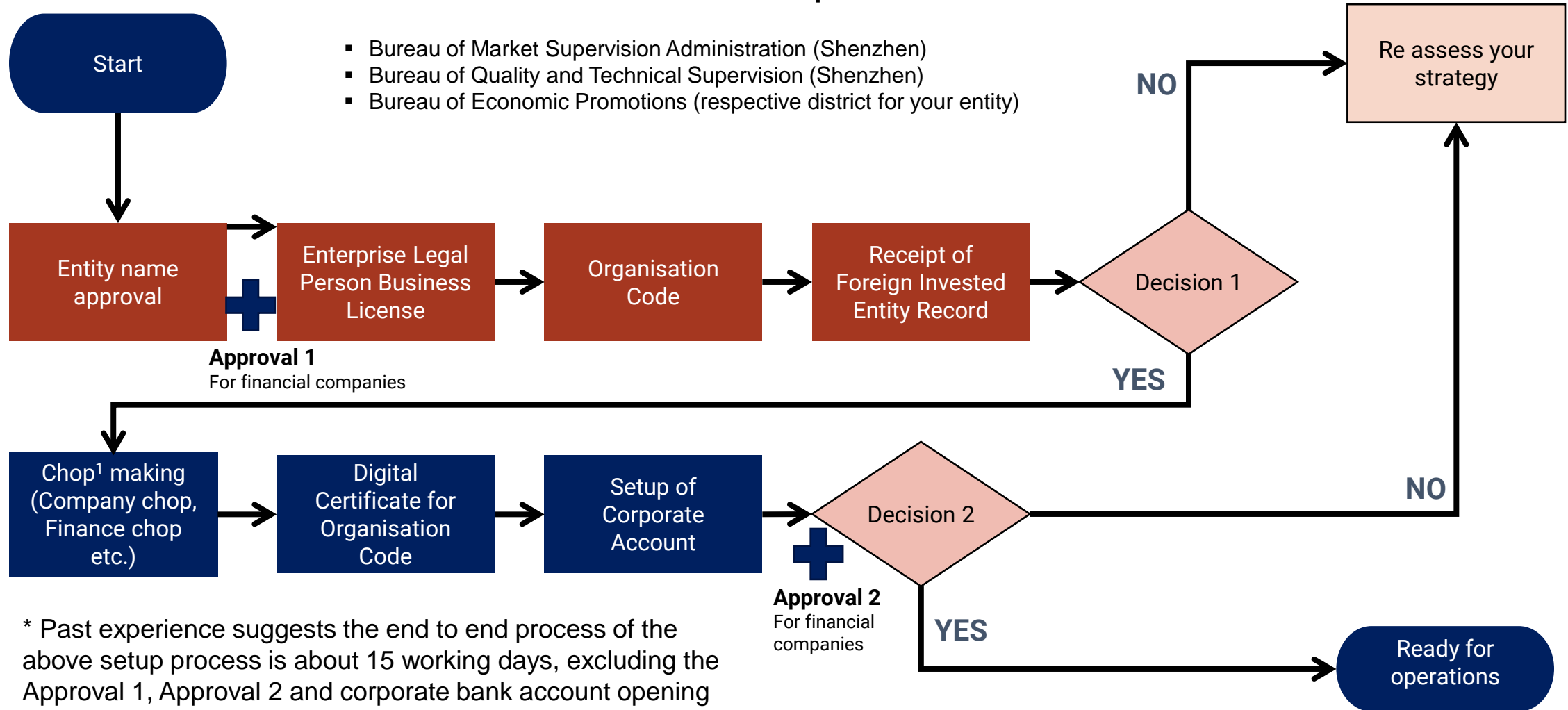
A high-level strategy plan to expand in GBA for a wealth management company in Hong Kong



Process of setting up a WFOE in a GBA mainland city (Shenzhen as an example; assume no current presence)

Authorities involved in the process

- Bureau of Market Supervision Administration (Shenzhen)
- Bureau of Quality and Technical Supervision (Shenzhen)
- Bureau of Economic Promotions (respective district for your entity)



* Past experience suggests the end to end process of the above setup process is about 15 working days, excluding the Approval 1, Approval 2 and corporate bank account opening process

Note: 1. refer to physical seals held by authorised company representatives that can be used to sign documents on behalf of the company

Source: Advice from subject matter experts and BTT interpretation of policy document

The spotlight of the wealth management industry in GBA – The Wealth Management Connect (WMC) scheme

November 2019

WMC for the GBA proposed by the Central Government of the People's Republic of China

May 2020

The PBOC, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange issued a joint opinion in support of WMC

June 2020

Joint Announcement of the People's Bank of China, the Hong Kong Monetary Authority, and the Monetary Authority of Macao on the Launch of the Cross-boundary WMC Pilot Scheme

Oct 2020

Individual cross-border investments capped at 1 million yuan per person. Incremental approach with only simple investment products with medium to low risk profiles can be sold

Feb 2021

Memorandum of Understanding (MoU) on supervisory cooperation under the Cross-boundary Wealth Management Connect - jointly signed by 7 policy and regulatory bodies. Launch time is yet to be announced.

We identified 6 key elements of the Wealth Management Connect scheme (see update from Appendix page 82 & 83)

Eligible Audience

Individual residents within the Greater Bay Area.

1

Distribution

Via banks only at this stage, but news reported that HKMA official commented the possibility of including insurance products in the long term .

2

Product & Risk

Wealth management products that are mainly simple and relatively low risk (low to medium risk). This could mean some fixed income funds and low risk multi-asset funds but may exclude most equity funds

3

Wealth Management Connect

4

Remittance

The cross-boarder remittance will be in CNY; currency conversion will be in offshore markets (e.g. HK and Macau) only.

5

Quota system

Initially, fund flows under Northbound and Southbound schemes are subject to aggregate quota of CNY150 billion per direction and individual quota of CNY1 million.

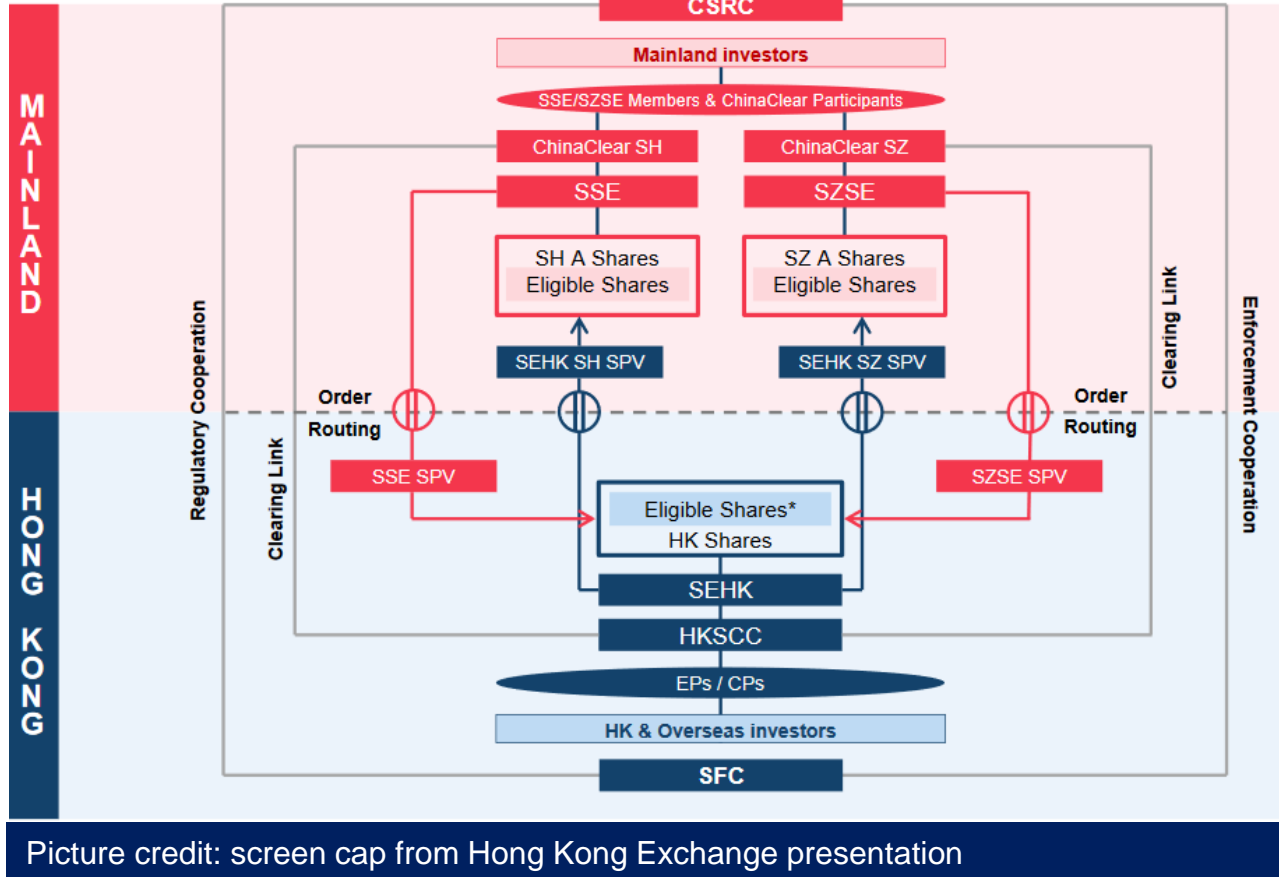
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Closed loop fund flows

The remittance will be in a closed loop through the bundling of designated investment and remittance accounts.

The Stock Connect scheme is generally perceived as a successful scheme by the market, launched in 2014

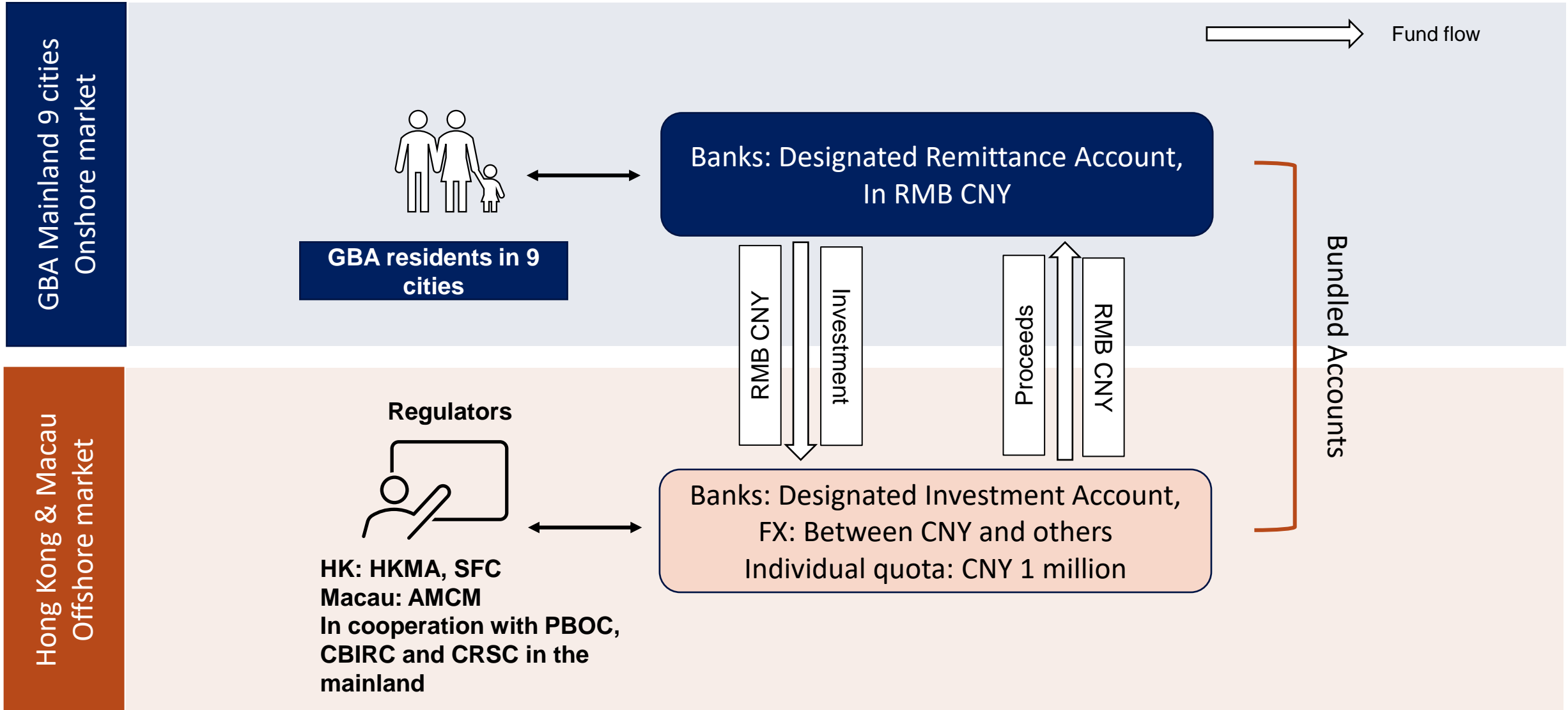
Connect with Shanghai and Shenzhen



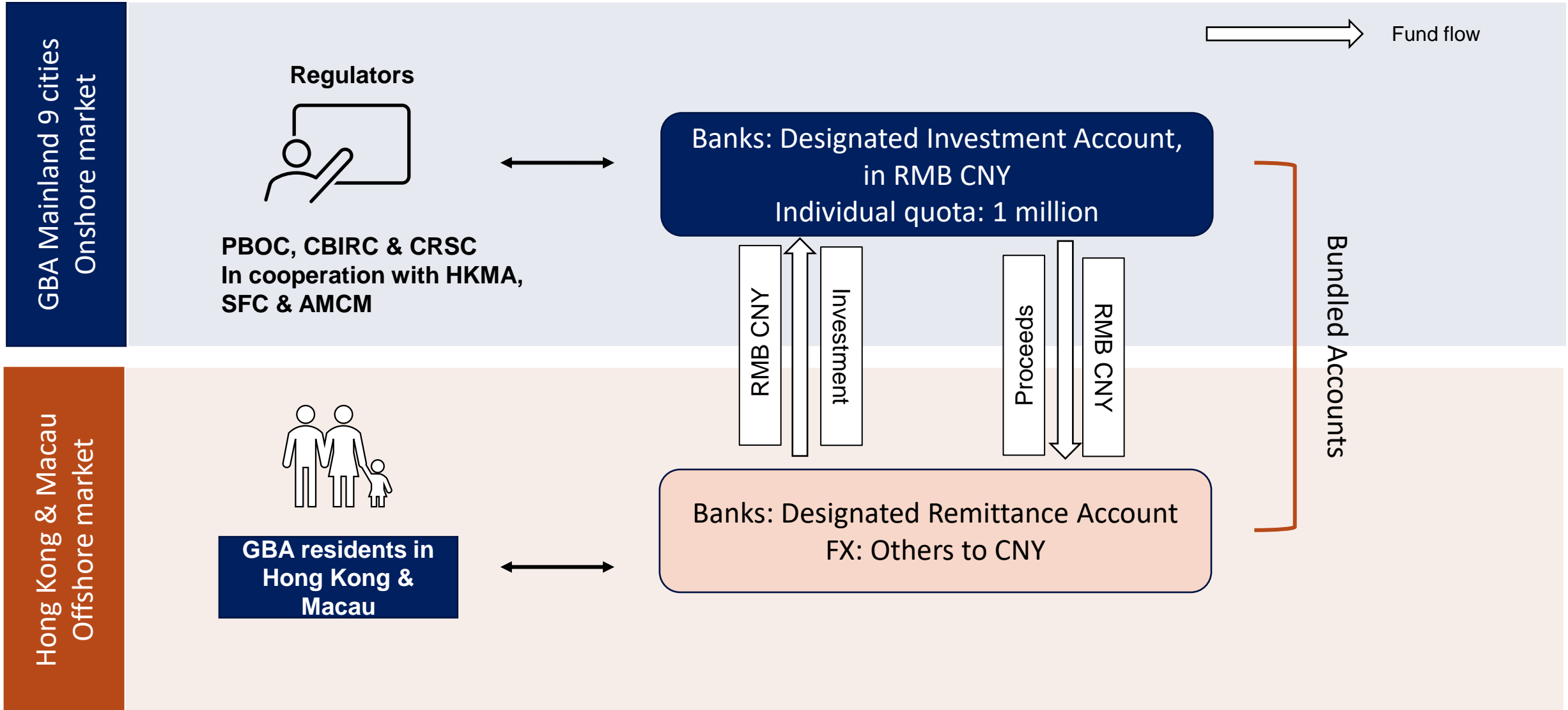
- **The scheme:** It links between China's mainland markets and the Hong Kong Stock Exchange by allowing equities trading amongst the stock exchanges in Shanghai, Shenzhen and Hong Kong.
- **Launched time:** 2014
- **Regulators:** Regulated by PBOC, CCDCC, HKMA, SFC.
- **Daily quota:** Northbound: CNY 52 billion; Southbound: CNY 42 billion, as of May 2018, significantly increased since its original quota upon launch of the scheme.
- **Trading platform:** HKEX, Shanghai Stock Exchange, Shenzhen Stock Exchange.
- **Going forward:** Scalable in Size, Scope and Market. For example, the quota limit has increased 4 times both directions between 2014 and 2018. Shenzhen Stock Exchange was added to the scheme in 2016. ETFs was agreed to be added in 2016, increasing the product scope.

In Hong Kong, the scheme is generally considered a successful scheme and it is one of the important role models for the upcoming WMC and perhaps even the more far reaching Insurance Connect.






WMC¹ Scheme: how could the Southbound scheme work within GBA – a high level illustration



WMC Scheme: how could the Northbound scheme work within GBA – a high level illustration



Potential answers to the few questions we have collected through speaking to the market

	Category	Question	Our interpretation from the MoU for the WMC
	Account Opening	Where to open accounts?	Bundled investment and remittance accounts to be opened via banks.
	Data Privacy	How are investors' data protected?	On principle of "regulation by the jurisdiction where the business is conducted". mainland China: potentially protected by PIPL ¹ when it's in effect; Hong Kong: by PDPO ² ; Macau: by PDPA ³
	Complaints	What if there are complaints?	Complaints would be regulated by financial regulators where the banks conduct the relevant business. A complaint coordination and referral mechanism to be established with cross-boundary partnering banks within the 3 jurisdictions.
	Future Scope	Are the product scope and quota scalable?	The MoU did not mention this, but the chief executive of HKMA commented that an incremental approach was key to the enhancement of the existing Stock Connect scheme. It is therefore possible that the WMC is also scalable.
	Preparation	What do financial institutions do now?	A cooperation between business and legal and compliance team to fully understand the cross-jurisdiction risks and the KYC compliance needs. Design a mechanism to monitor quota and compliance reporting and the relevant operation process flows to handle the end-to-end process of the WMC.

Note: 1 Personal Information Protection Law 2. Personal Data (Privacy) Ordinance 3. Personal Data Protection Act

Source: HKMA press release and inSight | BTT Analysis

The Ant Group's recent IPO case as an example to understand future regulatory direction in FinTech companies

About Ant Group

It provides online payment, cross- and upper-selling higher value financial products and microlending services. Since its establishment in 2014, Ant has been rated one of the unicorn companies with the most growth potential across the globe, with rapid expansion to Southeast Asia.

Ant's IPO

Ant was due to be dual listed for IPO in Shanghai and Hong Kong Exchange on 4th November 2020. It was suspended just two days before its listing due to start. If gone ahead, it would have been the world's largest IPO with IPO value of US\$37 billion.

01

04

Analysis:
Ant Group's IPO Halted

02

03

Market opinions

Key reasons discussed by the market regarding the halting of the IPO: 1) complex company ownership structure in its IPO prospectus creating risk to the financial system; 2) concerns on it becoming monopoly; 3) the potential loophole of regulations for a tech company conducting financial activities.

Ant's actions

While the relaunch of IPO remains uncertain, Ant's CEO commented that it's in the process of developing a restructuring plan and going through regulatory procedures. Market news early this year also suggested it intends to set up as a proper financial holding company.

Regulations for FinTech or TechFin companies are likely to become more stringent to be brought closer to traditional financial companies regulations. A tightening regulation on micro-lending is also a future direction.

THE CONCLUSION: A SWOT ANALYSIS FOR THE INDUSTRY

We conclude this paper with a high level SWOT analysis for the wealth management industry, looking at some of the key strengths, weaknesses, opportunities and threats in the context of the Greater Bay Area.

The next steps for a market participant in their GBA journey are dependent on how they perceive the following:

- 1) The opportunities and risks brought by the wider industry globally and in GBA;
- 2) How to put visions into action and calculate their risk appetite according to how broad their strategy is and how much they are willing to invest.

We welcome different stakeholders in the wealth management industry to get in touch should you be interested in hearing more about our services and how we can help you formulate and achieve your plans in the GBA.

SWOT ANALYSIS: Strength and Weakness

- Traditional players accumulated a good client base and data for the old wealth, necessary for understanding their habits, preferences and behaviours.
- Proven business models through the ups and downs of the global financial markets.
- A reliable and consistent governance model for the more cautious regulators to trust that they have the abilities to deal with challenging situations.
- Established global networks and partnerships.
- Strong capital base to invest and roll out new transformational projects
- Successful and established image to attract new talents into the industry.

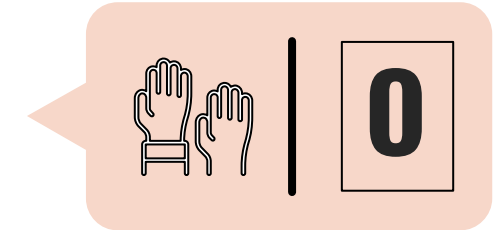


-
- More influenced by the customer behaviours of the traditional wealth individuals, which could cast shadow in understanding the future wealth individuals' behaviours.
 - Ability to maintain and promote good wealth management professionals is often hindered by the ability to address a good KPI on performance between building trust with clients for the longer term and being able to strike sales target quickly.
 - Lack of market penetration in mainland China especially by global wealth management firms. For example, the AUM in private banking business in Guangdong 2019 represents less than 10% of the estimated investable market size in the same year.
 - The millennials do not necessarily look at working in the industry as a “really cool thing” to do currently.



SWOT ANALYSIS: Opportunity and Threat

- The Greater Bay Area and the Wealth Management Connect brought a significant new channel and potential market, as a window to understand and address the needs of the enormous Chinese market.
- The X factor brought by modern technology (e.g., robo-advisor) to tackle a broader wealth base while keeping the costs manageable. The testing of success such as “Marcus Invest by Goldman Sachs” could set a role model in this field.
- The aging population and longer life expectancy mean that wealth management globally has never been more important: it is not just a mega-wealth thing anymore and the needs are going to last for a while.
- Our research projects the total investable assets of the GBA population to reach **US\$ 7.2 trillion** by 2025. However, survey data indicates only a small portion of this investable market is being managed by professional institutions. There is a massive gap in the market that such institutions can exploit over the next 5 years, particularly for competitors within the 7 segments we identify.



- The realisation and understanding of a wider and younger wealth market needs to be sped up.
- The transformation brought by WealthTech needs to be well understood and proof-of-concept projects need to be supported from senior management.
- Key players all seem to have a form of virtual assistant, how to make it last and profitable for the overall business over time needs to be managed and monitored.
- The understanding of digital and crypto currencies and its backbone, blockchain technology.
- The need to understand cryptocurrencies and how they could interact with different asset classes in a client’s portfolio over time.



APPENDIX

Key Methodology

Primary research: We conducted and participated in 20 interviews, meetings and webinars with different stakeholders/participants in the WM ecosystem through established professional network and contacts.

Secondary research: Desktop research on publicly available data, information and news. In terms of the breadth of data sources, our research covered news and opinions from traditional English-speaking countries as well as Chinese local media.

Quantitative Analysis:

Investable assets in our quantitative analysis pages exclude non financial assets and there are cumulative figures at the end of each year, aggregated using macro-economic data of each GBA city. The investable assets in our report have not been calibrated by a particular group of consumers, they are instead an estimation of the non-physical wealth of the overall area. This is aligned with our general view that wealth management is a topic for a wide spectrum of consumers.

Due to the availability of data from each of the different GBA domains, the calculation methods could differ. We have considered data including but not limited to historical GDP, forecast GDP growth by IMF, GNI, individual consumption, Net Worth as well as the ability to retain and accumulate wealth during our estimation process. We also made assumptions for our projections considering the impact of COVID and policy support, as well as historical track records.

Other References (other than the ones referenced on each slide)

#	Reference
1	Wealth Management Global – After the Storm, by Morgan Stanley and Oliver Wyman
2	Hong Kong Private Wealth Management Report 2020, by Securities and Futures Commission and KPMG
3	中国私人银行发展报告 2020 (China Private Banking Development Report 2020) – by China Banking Association and Tsinghua University PBC School of Finance
4	全球数字财富管理报告 2019-2020 (Digital Wealth Management Global Report, 2019-2020) – by BCG and 陆金所 (Lu.com)
5	Hong Kong – A Leading Hub for Family Office – by FSTB, FSDC, HKMA and InvestHK, 2021
6	Hurun Wealth Report 2019

Key Acronyms

Abbreviation Financial Regulators	Full Name
AMCM (Macao)	Monetary Authority of Macao
CBIRC (China Mainland)	China Banking and Insurance Regulatory Commission
CSRC (China Mainland)	China Securities Regulatory Commission
HKMA (Hong Kong)	Hong Kong Monetary Authority
PBOC (China Mainland)	People's Bank of China
SAFE (China Mainland)	State Administration for Foreign Exchange
SFC (Hong Kong)	Securities and Futures Commission

Abbreviation Others	Full Name
GBA	Greater Bay Area
WMC	Wealth Management Connect
WM	Wealth Management
HNWI	High-Net-Worth-Individual
UHNWI	Ultra-High-Net-Worth-Individual
ETFs	Exchange Traded Funds
AuM	Asset Under Management

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3. Our primary interviews are conducted through established professional networks and our secondary research is mainly based on desktop research from publicly available information.
4. Our financial models are based on a combination of raw data from reports and census and statistics of each city in GBA and we made assumptions we feel reasonable in the projections. Any forward-looking statements or projections involve known and unknown risks and uncertainties, which may cause an industry's or region's actual results or outlook in future periods to differ materially from those forecast.
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BTT Consulting officially launched and open for business in May 2020. We believe in traditional management consulting and solution consulting, with a modern touch to the way we engage with clients, prospective clients and the wider business community. We specialise in Financial Services consulting and currently devote a significant amount of our work to analysing Greater Bay Area initiative.

Strategy. Analytics. Execution.

ABOUT US

BTT Consulting is a management consulting company incorporated in Hong Kong, a strategic location to serve local and international clients in financial services.

We are a team of like-minded experienced management consultants and industry experts, located globally but forming a cohesive delivery team for clients.

We provide two major types of engagement: independent consultancy and project resource secondment to clients.

OUR VISION

BTT Consulting provides a one-stop management consulting solution, from strategy formulation to project implementation.

We pride ourselves in helping clients to handle their ad-hoc project initiatives, freeing up their resources to focus on their day-to-day responsibilities.

We are trustworthy, insightful, hands-on and independent in the service we provide to our clients.

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- *Market Entry and Growth Strategy*
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- *Target Operating Model Design*
- *Data Analysis Solutions*
- *Project Business Case Building*
- *Project Implementation*
- *Portfolio Management*

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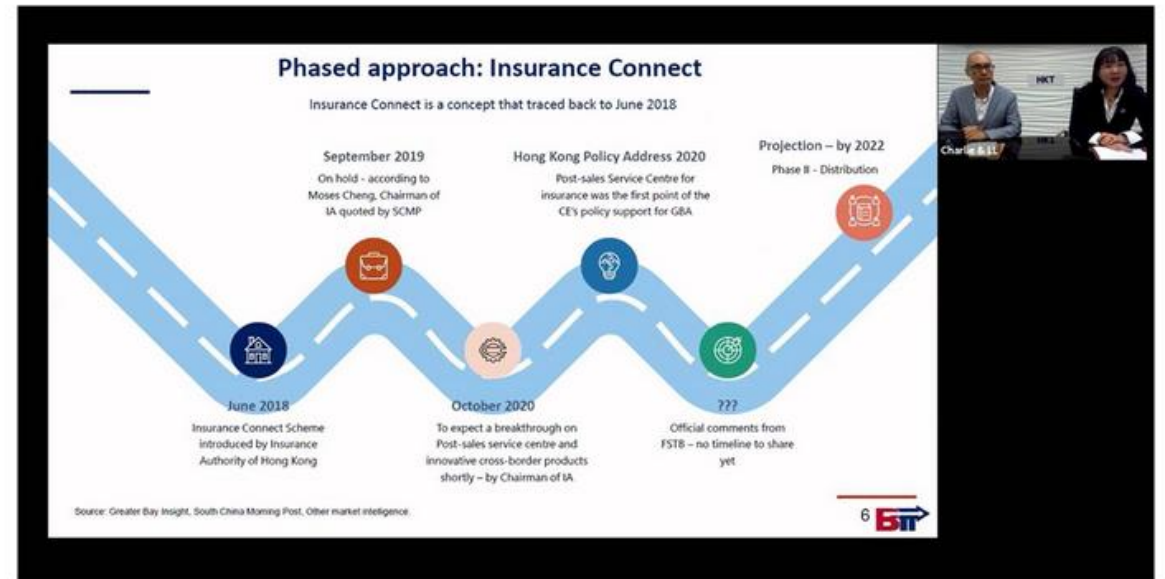
About Us (2/2)

We are one of the early consulting firm advocates for opportunities in the GBA for the financial sector. In July 2020, we published a consulting paper looking at the opportunities that GBA and broader mainland China could bring to offshore insurers. We have been proactively engaged in events, meetings and webinars related to the GBA topic in the financial sector.

We are currently members of both the Hong Kong General Chamber of Commerce (HKGCC) and the British Chamber of Commerce in Hong Kong. In 2020, we have been speakers at events hosted by HKGCC and Hong Kong Telecom Enterprise Solution in topics relating to financial services in the GBA and we intend to continually devote our time to related topics.



<https://www.hktchina.com/news-details.php?lang=En&id=265>



(Liangliang Graham, founder and partner of BTT Consulting, explains "Insurance Connect")

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GBA Wealth Management Connect: launched in Q3 2021 (1/2)

Concept 01

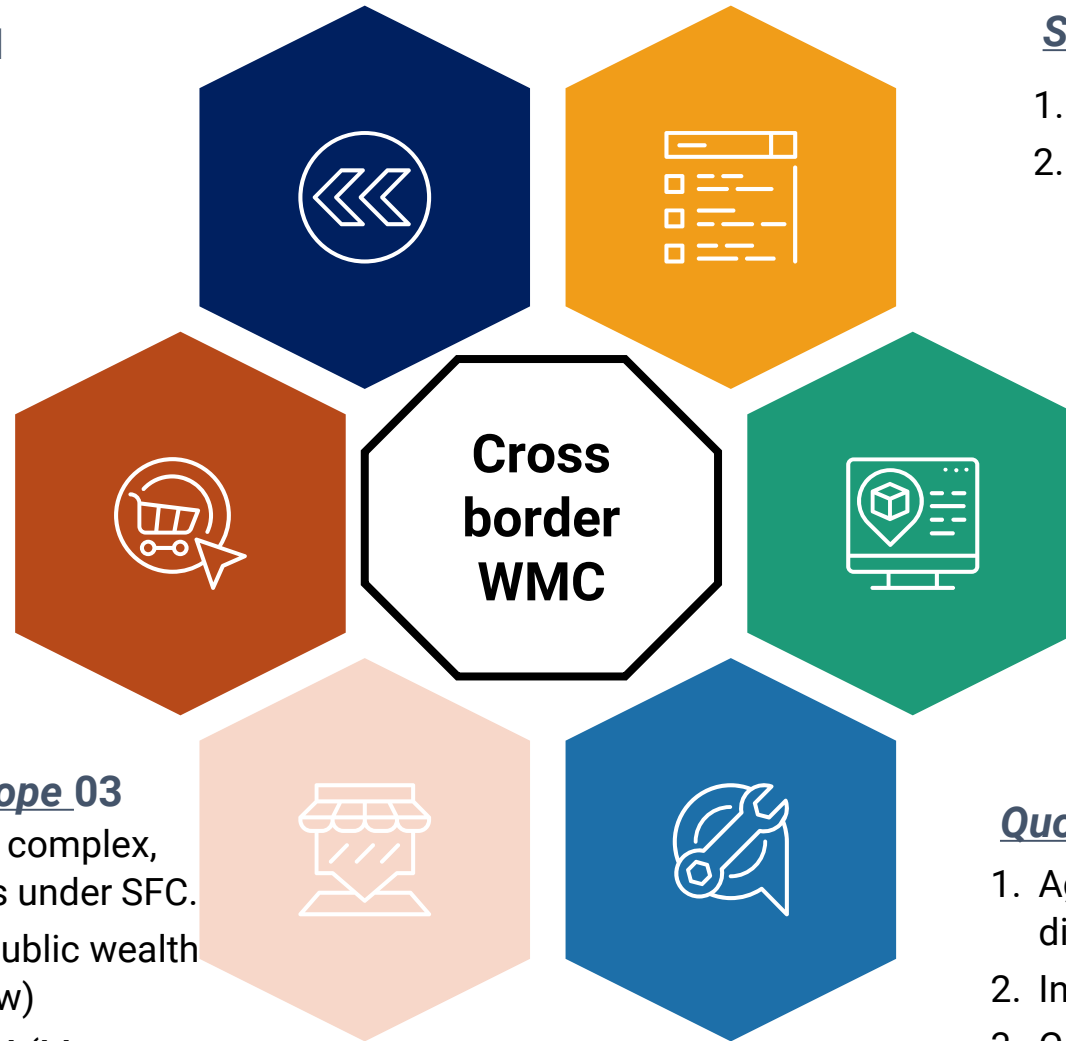
1. Southbound: GBA mainland 9-city investors buying from HK & Macau
2. Northbound: HK & Macau investors buying from GBA mainland 9 cities.

Distribution Channels 02

1. Qualified banks within GBA.
2. Attestation services are available for Southbound investors opening accounts; similar services are hopeful for Northbound investors via pilot locations.

Product Scope 03

1. HK products: Low to Medium risk; non complex, deposit, simple funds, registered funds under SFC.
2. Mainland products: public funds and public wealth management products. (R3/G3 & below)
3. Macau products: please refer to AMCM (Macau regulator)



Systems 06

1. Cross-border payments via CIPS
2. Individual quota can be validated via RCPMIS for mainland investors.

Legal and Compliance 05

1. AML, ATA, CRS, KYC, KYB and Due Diligence.
2. Northbound regulators will be CBIRC and CSRC depending on which investment product is involved.
3. Southbound regulators will be HKMA and SFC.

Quota and Calculation 04

1. Aggregate quota CNY 150 billion each direction (North and South).
2. Individual quota CNY 1 million.
3. Calculations are based on net amount of investment and remittance.

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Source: <粤港澳大湾区“跨境理财通”业务试点实施细则>, BTT Analysis; MingPao, RTHK News, HKMA press conference, 信報(Hkej), SCMP



Greater Bay Area WMC: launched in Q3 2021 (2/2)



1. Both the quotas and product scope are expected to be adaptable in the future should the scheme function smoothly.
2. The GBA is a pilot location for the Wealth Management Connect.

The current individual FX CNY limits (CNY 80k/person per day as of 20th Sep 2021) for Hong Kong and Macau residents will not be affected by the WMC quotas.

1. The official launch was on 10th September with an opening ceremony connecting senior officials from Beijing, Guangzhou, Hong Kong and Macau.
2. HKMA commented that the first batch of products (estimated 100 – 200) could be available as early as October 2021.
3. BOC HK, HSBC and SCB have all submitted their applications to HKMA shortly after the launch announcement.

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Source: <粤港澳大湾区“跨境理财通”业务试点实施细则>, BTT Analysis; MingPao, RTHK News, HKMA press conference, 信報(Hkej), public comments from Financial Secretary and Secretary of FSTB of Hong Kong





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