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## The driving factors, development status and prospects of Hong Kong as an International Wealth Management Center

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The rapid growth of demand for investment and financial management services in Hong Kong by mainland Chinese residents has further promoted the development of Hong Kong's wealth management industry and provided new support for the development of Hong Kong as an international financial center. This paper analyzes the major development status of Hong Kong's asset and wealth management in the Asia-Pacific region by studying the three driving factors of the Hong Kong International Wealth Management Center, namely Cross-boundary Wealth Management Connect Scheme, family office and limited partnership fund, and further analyzes four prospects for the future development of the Hong Kong International Wealth Management Center. It is suggested that Hong Kong International Wealth Management Center should grasp the opportunities of the mainland, adapt to the digital transformation, pay attention to investment diversification and offshore ecological construction.

### I. Driving factors for the development of Hong Kong International Wealth Management Center

The rapid growth of the demand for investment and financial management services in Hong Kong by Chinese mainland residents is a great opportunity for Hong Kong as an international financial center. The financial co-operation between the Mainland and Hong Kong will push Hong Kong's asset and wealth management industry into a new stage of development. As the second largest economy, China has maintained steady economic growth. As the affluent class in mainland China continues to expand, not only rich class, but also middle class has an increasing demand for financial services, hoping to achieve diversified asset allocation. The development of the Hong Kong International Wealth Management Center leads the new wave of cross-border investment.

From a policy perspective, there are three key factors driving this wave. Firstly, Cross-boundary Wealth Management Connect Scheme. As the entry threshold for southbound investors is much lower than that of traditional private banking services, the Cross-boundary Wealth Management Connect Scheme will expand the base of mainland customers from the current rich class to middle class, bringing more business opportunities to the asset

management industry in Hong Kong. Secondly, the family office industry has great potential. The Hong Kong SAR Government recently issued the Policy Declaration on the Development of Family Office Business in Hong Kong with an objective to enhance Hong Kong's international competitiveness in related fields. Hong Kong has launched eight initiatives related to capital and talent, and invested more than \$100 million to establish the Hong Kong Family Office International Hub and launch the Capital Investor Entry Scheme to attract global family offices to move their wealth to Hong Kong. Hong Kong has the geographical advantage of being close to the Mainland, which is a vast market with great growth potential; Moreover, as Hong Kong is a center for IPO financing, when these potential rich companies are listed, their wealth will also rise, naturally increasing the demand for related services. In order to accelerate the development of an offshore private wealth management center, Hong Kong has put forward many policy measures, which are very supportive. Thirdly, in order to continue to attract domestic offices to set up in Hong Kong, the Hong Kong Limited Partnership Fund System (LPF) has developed rapidly since its official launch in August 2020, with more than 600 LPF registered in Hong Kong by the end of 2022.

From the market side, mainland China has become one of the main sources and investment destinations of wealth management in Hong Kong. Domestic and foreign funds can be invested and managed in domestic and overseas assets through a variety of channels, which will help Hong Kong enhance its status as an international financial, shipping and trading center, and strengthen Hong Kong's position as a global offshore RMB hub, an international asset management center and a risk management center.

## **II. Development status of Hong Kong International Wealth Management Center**

In the past few decades, strong economic growth of Asia, driven by China, has attracted wide attention from the global capital market, which has also prompted the development of wealth management centers such as Hong Kong and Singapore. As a global financial center, Hong Kong's asset and wealth management industry has achieved remarkable development thanks to its deep connectivity with the mainland economy. Driven by China's economic development, the development of Hong Kong's wealth management industry has its own unique advantages, both in terms of client asset scale and service quality, as well as global competitiveness, and is in a leading position in the field of wealth management.

Hong Kong leads in asset and wealth management in the Asia Pacific region. According to the SFC's annual report Survey on Asset and Wealth Management Activities, the number of high net worth individuals, or billionaires, in Hong Kong ranked second in the world in 2019, after New York. As of 2022, Hong Kong had HK \$30.5 trillion (about US \$3.9 trillion) in assets under management and had net inflows of HK \$88 billion (about US \$11 billion). At the end of June 2023, the assets under management of funds incorporated in Hong Kong reached HK \$1.3 trillion (approximately US \$171 billion). The three quarters from the fourth quarter of 2022 to the first half of 2023 saw a total net inflow of HK \$69 billion (approximately US \$8.9 billion), an increase of more than 300% from the net inflow of HK \$17 billion (approximately US \$2.2 billion) in the first three quarters of 2022. Over the long term, assets under management in the asset and wealth management in Hong Kong have been growing steadily, registering a 143% growth over the past decade. In Hong Kong wealth management, the proportion of Chinese management and fund advisory business is large, while the proportion of assets held in trust is relatively small. From the source of investors, non-local investors brought the main net inflow of funds, accounting for more than 60%, of which European, American and mainland Chinese investors accounted for a relatively large proportion. In the 2021 ranking of global Asset management Centers, Hong Kong ranked fourth.

The Hong Kong Financial Services Development Council released a research report "Consolidating Hong Kong's position as Asia's Premier Private wealth management hub", predicting that by the end of 2023, Hong Kong's assets under management is expected to surpass Switzerland and become the world's largest cross-border wealth management center. This will be an important breakthrough for Hong Kong in the global wealth

management industry. At the same time, the report further pointed out that in the five-year period from 2020 to 2025, the compound annual growth rate of Hong Kong's wealth management business is expected to reach 9%, showing strong growth momentum and great potential of Hong Kong's wealth management market.

In the future, with the continuous development of the regional economy and the emergence of more rich people, the wealth management business in Hong Kong will face greater space for development. Especially with the growth of the wealth class in Mainland China, Hong Kong, as an important wealth management center, will continue to play its unique role in leading and driving further development of the wealth management industry.

### **III. Fours areas of Hong Kong International Wealth Management Center**

#### **(1) Private equity**

The SAR Government has introduced a series of policies to facilitate Hong Kong's development as an international asset and wealth management center. Hong Kong's Limited Partnership Fund (LPF) regime has developed rapidly since its official launch in 2020. According to the latest statistics of the Hong Kong Limited Partnership Fund Association, there have been about 600 LPF registered in Hong Kong since its inception to 2022, and the LPF system allows investment transactions such as private equity and venture capital to enjoy tax advantages. In addition, in 2022, the Hong Kong wealth management market and the mainland financial market continued to integrate, and the relevant regulatory agencies of the two places carried out all-round cooperation. In September 2022, the Government of the Hong Kong Special Administrative Region and the Qianhai Administration of Shenzhen jointly issued the "18 Measures on Supporting the Joint Development of Shenzhen-Hong Kong Venture Capital in Qianhai" ("18 Measures") which aimed to expand the scope of investment, simplify the application process, and enhance the flexibility of cross-border regulation funds to promote the connection of Hong Kong LPF and Qianhai Foreign Investment Equity Investment Management Enterprise (QFLP) pilot mechanism, and promote the joint development of the private equity investment market between Shenzhen and Hong Kong.

#### **(2) Private banks**

Private banks in Hong Kong have benefited from mainland investment. Between 2017 and 2021, the size of the business grew from about \$1 trillion to about \$1.35 trillion. Among all types of investment products, listed stocks accounted for the largest share in 2021, with more than 45% of assets under management. Other investment assets included private equity funds, public funds, bonds, cash and deposits.

#### **(3) Trust financing**

Hong Kong has a well-developed trust finance market and is an attractive trust center. By the end of 2021, the trust assets held in the Hong Kong market exceeded US \$600 billion, an increase of about 5.3% over 2020, and the assets of mainland China and Hong Kong accounted for more than half of the total. Hong Kong can continue to be a dynamic trust center because investors are more enthusiastic than ever about asset preservation and family inheritance, and the demand for the trust industry is increasing year by year, which promotes the growth of trust assets under management.

#### **(4) Fund consultant**

Hong Kong's fund advisory business is also on the rise. In 2021, the business scale will exceed US \$3 trillion, with a year-on-year growth rate of 7%. In addition, from the product type of asset management and fund advisory business in Hong Kong, public funds accounted for more than 35%, followed by 31% of managed accounts and 17% of private funds. The private equity business grew the fastest, growing 17% year on year.

## **IV. Development prospects of Hong Kong International Wealth Management Center**

The prospect of building an international wealth management center in Hong Kong is broad and will lead a new trend of cross-border investment. First, the Chinese economy is promising for a long time, and a great number of entrepreneurs and middle class have emerged. In the past 17 years, the total financial wealth of individuals in mainland China has increased nearly nine-fold (in dollar terms), accounting for nearly half of the total wealth pool in Asia. At the same time, a large new middle-income group has emerged, creating a growing demand for wealth management. Second, the growing middle and upper classes need investment and have a need for wealth management. HSBC estimates that by 2025, the mainland's middle class is expected to reach 500 million. Third, because the mainland has not fully liberalized the capital account, it is objectively an opportunity for Hong Kong to attract funds, and Hong Kong, as a super connector, has an important role of the dual circulation.

### **(a) The wealth management industry in Hong Kong needs to seize the development opportunities in the Mainland**

With the further expansion of the financial connectivity mechanism between Hong Kong and the Mainland, the scope of cross-border financial participation will continue to expand, and more residents and enterprises in the Greater Bay Area will participate. As an international financial center, Hong Kong will attract more highly wealthy individuals in the Greater Bay Area to allocate global assets and attract capital, while seizing the development dividends of the mainland and discovering opportunities such as private equity or venture capital. The proportion of mainland assets in Hong Kong's wealth management market will continue to grow.

### **(b) Hong Kong's wealth management industry will continue its digital transformation**

With the expansion of customer demand for fintech-related services, Hong Kong's financial industry will further develop fintech and consolidate advantages such as blockchain and virtual banking. Hong Kong's sound financial system and legal environment also provide a foundation for the development of fintech.

### **(c) Investment in Hong Kong's wealth management market will become more diversified and focus on alternative investments**

Hong Kong should seize the advantages of the active alternative investment market to provide global investors with more asset allocation options and reduce risks. Hong Kong is attracting a growing number of international investors as global investors seek to allocate more capital to alternative asset classes such as private equity, hedge funds, real estate, private credit, commodities, art, infrastructure and digital assets in order to diversify their investments and improve returns. Hong Kong is the leading art trading center and the most active green finance trading market in Asia Pacific, which will be an opportunity for Hong Kong to attract global capital.

### **(d) Hong Kong's wealth management industry can make good use of the opportunities brought about by the development of offshore RMB centers**

To build a wealth management center, Hong Kong needs to continue to build an "offshore ecosystem" of RMB, provide more investment channels and financial instruments denominated in RMB, promote the development of RMB products in the offshore market, and develop offshore RMB products to become a new engine for the development of the wealth management industry.

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# 主要經濟指標 (Key Economic Indicators)

	2021	2022	2023/Q1	2023/Q2
<b>一. 本地生產總值 GDP</b>				
總量 (億元) GDP(\$100 Million)	28,677	28,180	7,166	7,010
升幅 (%) Change(%)	6.4	-3.5	2.9	1.5
<b>二. 對外貿易 External Trade</b>			2023/07	2023/01-07
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	52,360	48,138	3,452	22,928
進口 Total imports	52,113	48,586	3,751	25,535
貿易差額 Trade balance	247	-448	-300	-2,608
年增長率 (%) YOY Growth(%)				
總出口 Total exports	18.7	-13.9	-9.1	-14.6
進口 Imports	17.2	-13.2	-7.9	-12.5
<b>三. 消費物價 Consumer Price</b>				
綜合消費物價升幅 (%) Change in Composite CPI(%)	1.6	1.9	1.8	2.0
<b>四. 樓宇買賣 Sale &amp; Purchase of Building Units</b>				
合約宗數 (宗) No. of agreements	96,133	59,619	4,426	39,248
年升幅 (%) Change(%)	31.1	-38.0	-11.4	3.8
<b>五. 勞動就業 Employment</b>			2023/04-2023/06	2023/05-2023/07
失業人數 (萬人) Unemployed(ten thousands)	20.3	16.3	11.4	11.2
失業率 (%) Unemployment rate(%)	5.2	4.3	2.9	2.8
就業不足率 (%) Underemployment rate(%)	2.6	2.3	1.1	1.1
<b>六. 零售市場 Retail Market</b>			2023/07	2023/01-07
零售額升幅 (%) Change in value of total sales(%)	8.1	-0.9	16.5	20.1
零售量升幅 (%) Change in volume of total sales(%)	6.5	-3.4	14.0	18.2
<b>七. 訪港遊客 Visitors</b>				
總人數 (萬人次) arrivals (ten thousands)	9.1	60.5	358.9	1,647.2
年升幅 (%) Change(%)	-97.4	561.5	7,368.6	13,178.6
<b>八. 金融市場 Financial Market</b>			2023/06	2023/07
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	779.8	780.8	783.6	780.2
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	8.0	-20.7	-21.0	-19.5
M2	4.3	1.6	1.5	0.3
M3	4.3	1.6	1.5	0.3
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	4.6	1.7	0.5	1.2
港元存款 In HK\$	1.4	0.7	0.2	-0.2
外幣存款 In foreign currency	7.9	2.6	0.8	2.7
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	3.8	-3.0	0.0	-1.0
當地放款 use in HK	4.7	-0.2	0.7	-1.1
海外放款 use outside HK	1.7	-10.0	-2.0	-0.6
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.6250	5.7500	5.8750
恒生指數 Hang Seng index	23,398	19,781	18,916	20,079