

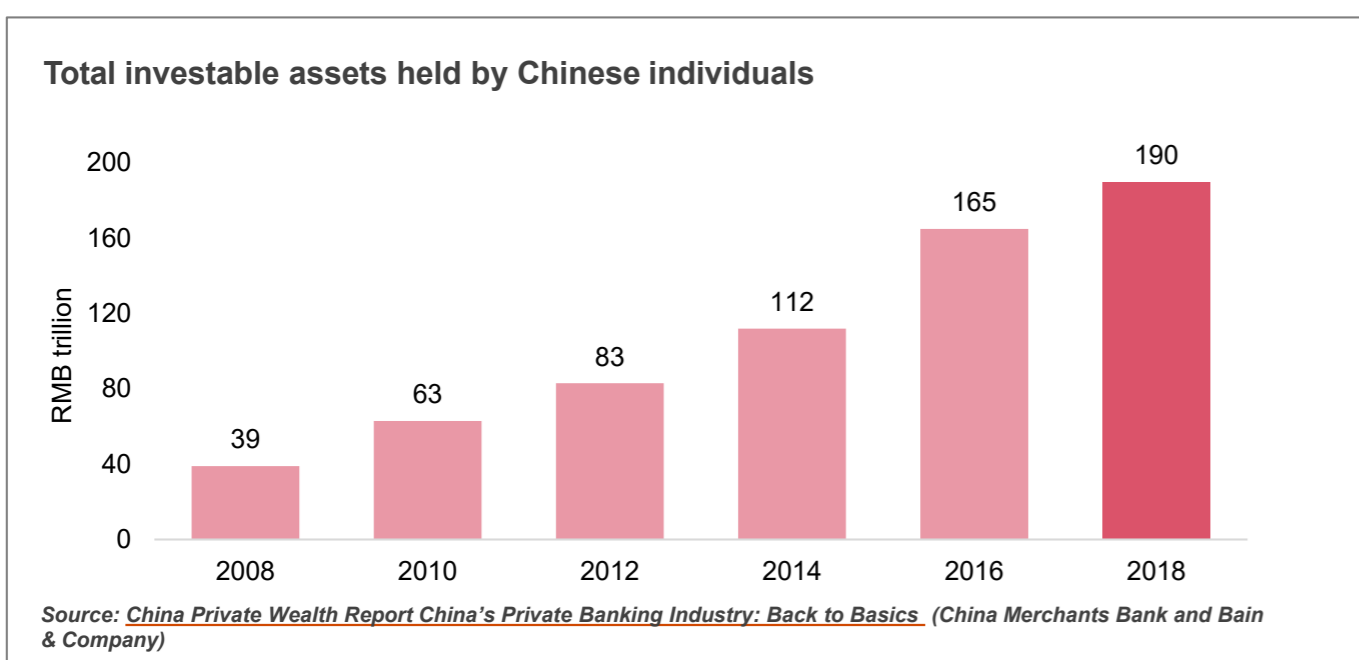
Wealth Management Connect

Considerations for the Asset and Wealth Management (AWM) industry

Compelling opportunities in the wealth management market

Global, regional and local asset and wealth managers have long viewed Mainland China as a hugely attractive market and key pillar to their organisational strategy. In recent times, many initiatives and reforms have been launched in Mainland China as part of the overall process to speed up Mainland China's capital market liberalisation, and this has enabled asset and wealth managers to penetrate Mainland China's 1.4 billion citizens who collectively hold investable financial assets of around 190 trillion yuan (just under US\$28 trillion).

Mainland China's consumers are only going to get richer and total investable assets will grow in tandem. The next chapter of the Mainland China story is still unwritten and there is still a fantastic success story to be told. The compelling opportunities which will arise will benefit asset and wealth managers, in particular, those which achieve differentiation in product and service, stay close to market and regulatory developments and have an innovative front-to-back office technology scalable solution.



Currently, various licenses, programs and quotas determine how to access each sub-segment in the AWM industry in Mainland China. Please refer to the matrix

'Various ways into (and out of) Mainland China' which illustrates inbound and outbound avenues asset and wealth managers can take to tap into Mainland China's AWM market – from an institutional and retail aspect. While it is evident that the current avenues are mainly catered to asset managers, the recent announcement by banking authorities in Mainland China, Hong Kong SAR and Macau SAR to launch a cross-boundary **Wealth Management Connect** further underscores the forward thinking market initiatives of stakeholders to build

an integrated infrastructure for wealth management to cater to the evolving Chinese consumer who are looking to manage their wealth in a professional manner, gain access to a wide-range of asset classes and be served with an omni-channel experience which fits their lifestyles and needs.



Various ways into (and out of) Mainland China

		Domestic Chinese investors		Global investors
		Qualified investors	All investors	
Asset location	Onshore	Private Fund Manager (PFM) License allows foreign funds to serve qualified investors onshore through private funds investing in onshore assets	Fund Management Company (FMC) Mutual funds sell to the general public	<ul style="list-style-type: none"> • Stock Connect • Bond Connect • Mutual Recognition of Funds • *QFII scheme • *RQFII scheme • QFLP scheme
	Hong Kong	Fund manager able to offer onshore clients access to: <ul style="list-style-type: none"> • HK-listed stocks through Stock Connect • HK-listed bonds through Bond Connect • HK-domiciled funds via Mutual Recognition of Funds 		*The inbound investment schemes of QFII and RQFII will be merged as of 1 November 2020.
	Global	QDLP program <ul style="list-style-type: none"> • Foreign fund managers' onshore Chinese subsidiaries invest in various offshore funds • QDIE is similar scope to QDLP but is only available in Shenzhen 	QDII program <ul style="list-style-type: none"> ▪ Allows mutual fund managers to invest offshore 	QFII - Qualified Foreign Institutional Investor RQFII - Renminbi Qualified Foreign Institutional Investor QFLP - Qualified Foreign Limited Partnership QDLP - Qualified Domestic Limited Partner QDIE - Qualified Domestic Investment Enterprise QDII - Qualified Domestic Institutional Investor

HKMA welcomes Wealth Management Connect

“ The two-way cross-boundary Wealth Management Connect marks another important milestone for the Mainland's capital account liberalisation after the Stock Connect and Bond Connect schemes. It represents a major breakthrough in Hong Kong's offshore renminbi business development, and a significant step to foster closer financial cooperation in the Guangdong – Hong Kong – Macau Greater Bay Area (GBA)...”

- Mr. Eddie Yue, Chief Executive of the HKMA



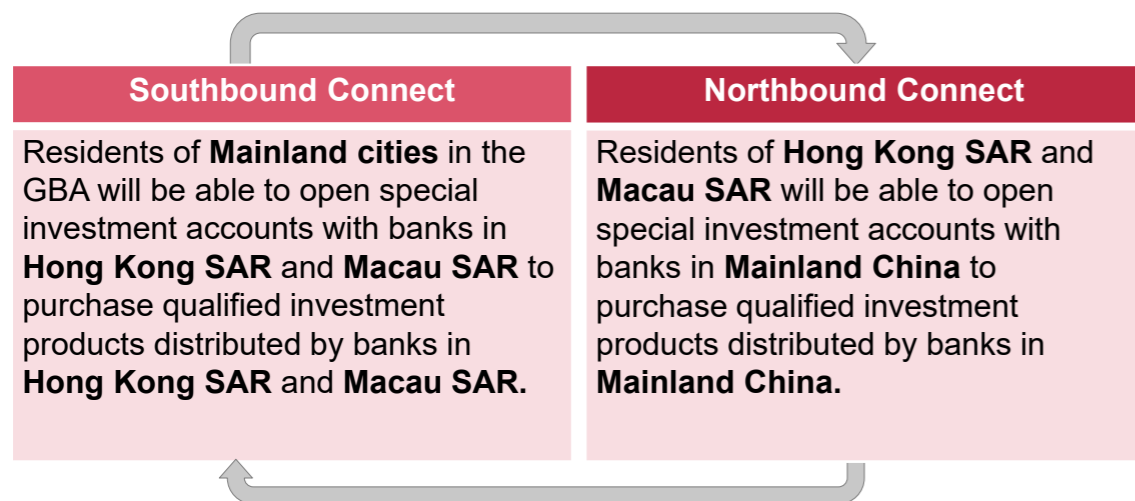
While the details of the Wealth Management Connect have yet to be formally announced, it is clear that asset and wealth managers will have a large role to play in the overall development. Ultimately, asset and wealth managers will serve the market by developing the appropriate products and making them available, but it is also the policymakers who will be responsible for facilitating this by creating a conducive market environment. In the last decade, Mainland China and Hong Kong SAR stock and bond exchanges have been connected successfully, enabling local and global investors to trade and settle seamlessly. Within the Financial Services space, certain policymakers and regulators have knowhow in operating complex connect schemes, so it will be paramount that their prior experience are taken into consideration when looking at how to design, implement and launch the Wealth Management Connect.

The sale of fund products and distribution in Mainland China and Hong Kong SAR is largely dominated by retail banks. However, for the former, the proliferation of online channels and e-platforms have created disruption to the traditional status quo, but for the latter, banks still have a stronghold. With the current set of distribution dynamics, it is anticipated that banks will have a crucial role to play as established platforms for the cross-border distribution of financial products initially. With a bank centric model (i.e. where investment accounts will be opened via banks) asset and wealth managers will need to consider how they develop or extend their partnerships with banks.



Scheme details and direction

Depending on the residence location of each investor, the Wealth Management Connect can be classified as “Southbound Connect” or “Northbound Connect”.



Remittance of funds will be handled in a **closed-loop environment** through the bundling of designated remittance and investment accounts.

Remittance of funds will be settled in RMB across borders, and exchange of currency will be settled in the offshore market.

For the cross-border flow of funds, the **aggregate and the individual investor quota** are managed in RMB.



Fundamentals for asset and wealth managers to consider in anticipation of the launch of the Wealth Management Connect

Client Experience

- How streamlined and user-friendly is your **account opening** process for retail investors?
- What infrastructure do you have in place to support **after fund sales service**?

Product & Strategy

- Do you have a clear understanding of the **mindsets and expectations** of retail investors across markets?
- What is the blueprint for **product innovation** that supports ever-changing investor preferences?
- How do you define your brand and set a **unique selling proposition** to remain competitive?

Distribution

- How will you build an effective **distribution strategy** and differentiate yourself from the competition?
- What is your strategy for **securing partnerships** with banks and service providers in the other markets?

Operations

- How will you ensure product risk categories are appropriately mapped to the **risk profile of investors**?
- How will you monitor controls over **cross-boundary fund remittance** under a closed-loop environment?

Tax, Risk & Regulations

- Are you able to compare **AML/KYC** regulation across multiple jurisdictions effectively?
- How will you make sure that you have the **proper risk controls** in place to satisfy the various regulators?
- Are you familiar with the **potential tax treatment** across multiple jurisdictions?

The AWM industry in China is currently undergoing a multi-year transformation journey where the entire value chain is likely to see disruption one way or another, from investment products, distribution regimes, fee pressure, shifts in policy and regulation, people skills and the use of technology. This creates both challenges and opportunities to today’s asset and wealth managers, whether they have a large presence in Mainland China already or only just starting to scratch the surface.

For further information and a deeper discussion, please feel free to contact us.

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