

News release

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Get ready for Wealth Management Connect in the GBA

A new report by Deloitte and CPA Australia suggests that banks with a strong presence in the Greater Bay Area (GBA) and established retail wealth management capability are well-placed to support the Wealth Management Connect (WMC) scheme.

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Deloitte and CPA Australia have today published the *Get ready for Wealth Management Connect (WMC) in the Greater Bay Area* report. It explores the GBA wealth management market, including its key economic parameters, the market positioning of potential participating banks, arrangements for the WMC based on the policies already announced, and potential challenges and opportunities.

In a joint statement earlier this year, the People's Bank of China, Hong Kong Monetary Authority, and Monetary Authority of Macao called the GBA WMC pilot an important measure to support GBA development and closer financial cooperation between their jurisdictions. In the Hong Kong Chief Executive's Policy Address 2020 announced on 25 November, Mrs Carrie Lam has briefly updated that the implementation of WMC is being expedited.

"Financial institutions and investors are looking at opportunities in WMC and are eager to know more," says **Edward Au, Deloitte China southern region managing partner**. "This isn't surprising given Hong Kong, Shenzhen and Guangzhou are in the top 10 areas in the world for the density of billionaires."

Market surveys show there are more than 450,000 high-net-worth families with more than RMB 6 million in investable assets across Guangdong, Hong Kong and Macau. Their aggregate estimated investable assets are at least RMB 2.7 trillion, making the GBA the world's wealthiest region.

"As stipulated by the regulators, WMC requires participating banks to distribute wealth management products. In light of current market practice, these banks will also be investment advisers to WMC customers, essentially playing a gatekeeper role, while sourcing and selling eligible products, processing, recording and reporting investment transactions," Au adds.

There are more than 200 banks operating in Guangdong, nearly 200 fully licensed banks set up in Hong Kong and Macau (as of August 2020). Among these, 21 banking groups have a presence throughout the GBA, of which 16 run retail wealth management businesses in Hong Kong and/or Macau as well as the GBA mainland. Banks with such strong presences, sizeable bases of affluent depositors, and experience in wealth management product distribution, are in a strong position to seek approval from regulators to join the WMC and be ready to commence business once approved.

Anthony Lau, President of CPA Australia's Greater China Division 2020, says, "It is critical that participating banks build and enhance functions such as customer onboarding to enable cross-boundary transactions, and that they comply with additional regulatory requirements. The joint announcement says cross-boundary fund flows under the scheme will be conducted and managed in a closed-loop between the main bank account and designated WMC investment account of the same customer, ensuring related funds will only be used to invest in eligible products.

"This means that if there is no designated central platform for currency conversion, all potential participating banks would be required to perform RMB clearing and conversion in-house or via affiliated or third-party banks. Banks in Hong Kong and Macau involved in RMB clearing would need to ensure they have the required workflows and systems support in place," Lau said.

"Non-investment related transactions between WMC accounts and other accounts held by the same customer are likely to be prohibited, and related cross-boundary fund flows will be subject to aggregate and individual quota management."

"There has been no mention of whether customers can open WMC accounts with multiple participating banks. If they are allowed, quota monitoring could be complicated by the need to establish an information sharing platform among participating banks that collects and reports shared customers' transaction data."

"Furthermore, banks will need more guidance from regulators on WMC's operational details, including remote account opening, investment sales compliance requirements, settlement process and channels for dispute resolution."

In its conclusion, the report summarizes four key factors to the initial success of WMC:

- the wealth creation in the GBA following the recovery of the Chinese economy from COVID-19 and the relative performance of the cross-boundary investment products;
- a good number of banks with the right business capability and compliance experience in retail wealth management across GBA;
- more opportunities in cross-boundary financial cooperation to drive the transformation of Macau's financial market; and
- new personal tax incentives on investment income for northbound and southbound investors to promote new cross-boundary investment activities across the GBA.

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