IFPHK
Institute of Financial Planners of Hong Kong
香港財務策劃師學會

Institute of Financial Planners of Hong Kong

Financial Planning

Thought Leadership Survey on Industry Outlook

Contents

1. Executive Summary

To assist CFP^{CM} certificants glean a picture of the outlook for the financial planning industry in Hong Kong, the Institute of Financial Planners of Hong Kong (IFPHK) recently completed a thought leadership study amongst key industry leaders across the insurance, IFA and banking community and discussed their views on industry growth, industry skills and services offering for financial planning in the future.

In summary, industry leaders paint a picture of solid growth for CFP^{CM} certificants in Hong Kong. Key demographic trends identified by industry leaders point to a larger pool of mass affluent consumers in the future. Increased levels of consumer financial literacy also point towards an increasing demand by consumers for financial planners. Whilst leaders did express some reservation regarding the potential impact of current investment market uncertainty on industry growth in the coming 12 months, they remain optimistic over a 3 year period. Reflecting this long term optimism on industry growth in Hong Kong, all leaders participating in this research expressed a desire to continue to employ suitably qualified CFP^{CM} certificants who display both technical planning proficiency as well as strong business development and client communication skills in the near future.

2. Research Background

As seen in many professions, a clear picture of the industry's future not only helps professionals to identify market opportunities, but also assists individuals develop a picture of professional skills they will need to develop to exploit these opportunities in the future.

To assist CFP^{CM} certificants glean important insights about the future of the financial planning industry, the IFPHK recently conducted a qualitative research survey with the Chief Executives and Heads of Wealth Management. These industry leaders manage over 4,000 financial planners and 13,500 insurance agents in Hong Kong.

In conducting the survey, a total of 18 face-to-face interviews were conducted with IFPHK corporate members (representing 30% of IFPHK corporate members) from the IFA, Banking and Insurance industry sectors in Hong Kong. All respondents were asked a series of questions regarding their views on industry growth, industry skills and thoughts on the service offerings for financial planning in the future. Their opinions and insights are captured within this thought leadership research paper which provides IFPHK members with a unique insight into what industry leaders think lies ahead for financial planners and the industry.

This research was conducted throughout the months of June, July and August 2008. Key Investment Indicators from Bloomberg over this 3-month period include:

- Gold: Traded between US$999.40 and US$777.7
- Hang Seng Index: Traded between 24533 and 21261
- Shanghai Composite Index: Traded between 3483 and 2846
- CRB Commodity Price Index: Traded between 474 and 379

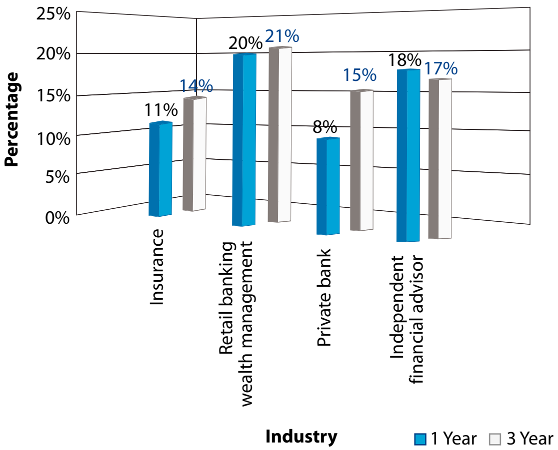
3. Key Research Findings

3a. Industry Growth

In summary, all survey respondents agreed that the Hong Kong financial planning industry will continue to grow. These industry leaders identified a series of robust business drivers behind the growth numbers and the outlook, in summary, remains strong despite current investment market volatility.

On average, survey respondents anticipated 14% growth in 2008 for the wealth management industry in Hong Kong and projected growth rates of 17% for the industry over a 3-year time frame. Growth predications appeared to be strongest amongst retail banking respondents, who on average anticipated a 20% growth rates in 2008 with a 3-year projection of 21% industry growth. Interestingly, private banking leaders appeared to hold a more subdued view of the industry growth over the next 12 months, projecting on average 8% growth for 2008 and 15% over a 3-year period.

Industry Project Growth[1]



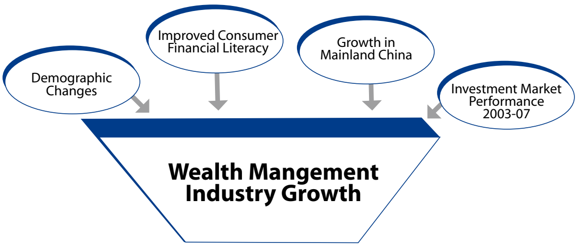
While the majority of industry leaders expressed concerns regarding the current instability of investment markets and their potential impact on 2008 growth projections, it was interesting to note that they appeared to remain optimistic over the 3-year time frame with average growth projections of 17%.

[1] Measurement of industry growth was not standardized across respondents. The majority of respondents measured industry growth in terms of revenue growth, whilst some respondents measured industry growth in terms of assets under management.

Industry Growth Drivers

Business leaders identified a number of key broad business drivers behind this growth. They believed these would open up significant market opportunities for financial planners in the future, despite negative investment market sentiment in the short term.

> "The bear market investment sentiment may slow down growth in the next few months but it will not change the overall trend for strong long-term growth in the industry." — Head of Wealth Management, Retail Banking



Amongst survey respondents, a number of common drivers for growth were identified.

1. Key demographic variables driving an increase in demand for financial planning and wealth management services

The most commonly cited driver of growth amongst survey respondents was the key demographic data on the rising number of high net worth and mass affluent consumers in Hong Kong. The Data Monitor 2007 Hong Kong Wealth Management Survey forecasted that the number of millionaires will rise from 51,000 in 2006 to 83,000 in 2011. They predicted that the assets of these individuals will also increase from US$150 billion to almost USD$250 billion- an average annual increase of nearly 11%. Their optimism on financial planning growth, in part, reflects the projected increase in market size resulting from the larger pool of high net worth and mass affluent consumers in the future.

Another key demographic factor identified by survey respondents was the increasing number of individuals in Hong Kong approaching retirement. The Hong Kong SAR Government recently reported that the proportion of people over 65 will double from one in eight in 2007 to one in four by 2033.[2]

[2] Hong Kong government Health Care Reform Consultation: March 2008

"We have a lot of people in Hong Kong approaching retirement who need the services of financial planners and that number is not going to change just because financial markets go up and down." — CEO, Insurance

2. *Growing consumer awareness regarding the importance of retirement planning and greater knowledge of investment products available*

According to the survey respondents, increased client knowledge regarding investment opportunities and retirement planning was another significant driver of growth. The respondents discussed the fundamental shift in peoples' investment behaviors and asset allocation strategies from the pre-1997 days to the current point in time.

"About 10 years ago, people in Hong Kong only invested in property and shares directly...after the Asian financial crisis, many people learnt the hard way that this was not the optimal assets for securing their financial future." — General Manager of Wealth Management, Retail Banking

Many survey respondents cited the government introduction of mandatory provident fund schemes (MPF) as playing a significant role in educating the public on the importance on planning for retirement. Respondents noted that the mass market media campaigns specifically on MPF benefited the financial planning industry by focusing consumer attention on the issue of establishing an adequate savings plan to ensure a comfortable retirement.

"People who did their MPF calculations have established that their current MPF savings will not be adequate to fund their retirement, forcing them to look at their financial plans and working out how much they need to top up to achieve their retirement goals." — CEO, IFA

While all survey respondents acknowledged the educational benefit of the introduction of MPF to consumers, most respondents suggested that financial planners have not generated significant income from MPF advice and planning over the last 3 years. Respondents suggested that existing average balances were still too low for consumers to take notice and saw no significant growth in financial planning advice on MPF balances until average holdings approached HK$250,000.

Survey respondents suggested that financial planners would continue to derive growth from Hong Kong consumers shifting assets from historically large cash balances into managed funds and structured products. They acknowledged that over the past 3-5 years the industry has played a significant role in educating consumers in basic investment principles. As a result, there has been an increase in consumer comfort for shifting funds from cash holdings into other products such as managed funds. Respondents anticipated that this trend will continue, resulting in an on-going shift of fund flow from cash into managed funds and other structured product offerings in the future. They noted that even a small movement of funds from cash into more diversified assets would have a significant impact on growth numbers for the financial planning industry in Hong Kong.

Banking respondents added that typical Hong Kong customers have a high cash ratio compared to international standards, with 70% of their funds in cash and 30% in funds or structured products,

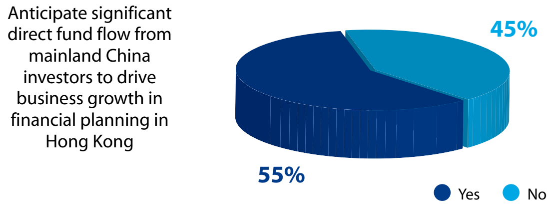
> "This represents a great potential for growth and an increase in opportunities for the financial planning industry as we continue to educate clients on the value of portfolio diversification and optimal asset allocation to help them achieve their long-term financial goals." — Head of Wealth Management, Retail Banking

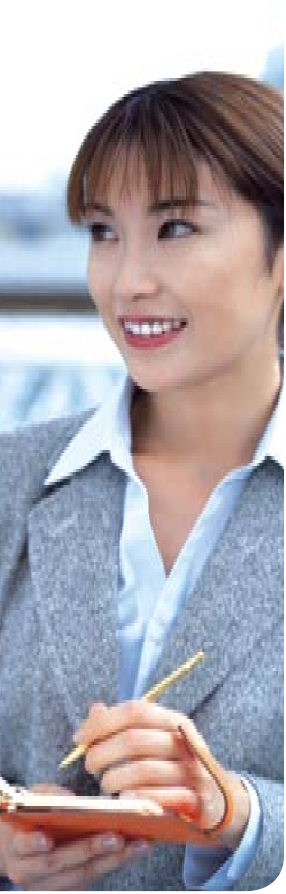
Survey respondents also made reference to societal changes that were driving interests in planning for retirement. They noted that in the past, older people were financially supported by younger family members, often living with their children during retirement. They added that this dependence on children to fund retirement was becoming a less accepted cultural norm and there appeared to be an increase in understanding from the baby boomer generation that they would have to support themselves financially.

3.Role of Mainland China

All survey respondents acknowledged that the local financial planning industry in Hong Kong directly benefited from the sustained period of growth in Mainland China, especially as a driver for the growth in the average wealth of Hong Kong consumers.

Funds fom Mainland China





It was interesting to note that survey respondents within the local financial planning industry appeared to hold mixed views regarding the potential for Mainland Chinese investors to establish a direct fund flow to the Hong Kong financial planning industry in the future. A total of 45% of the survey respondents commented that they saw potential for direct fund flows from Mainland Chinese investors coming to Hong Kong in the future, whilst 55% of respondents felt that regulatory constraints and local competition would limit this growth.

> "I think that this type of business will be short lived... they may come to Hong Kong for product diversity, but it won't be long before those investors will have access to the full range of Hong Kong financial products in their local centers....most of the large international banks and insurance companies are in the major Mainland centers and they will begin manufacturing those products locally as soon as they can." — CEO, Insurance

4. Historical performance of investment markets in past 3 years

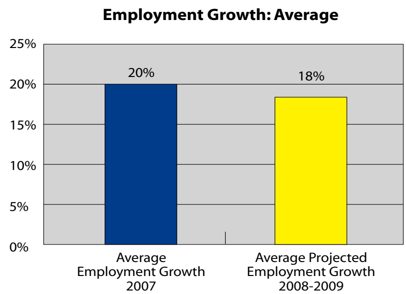
Survey respondents acknowledged that the local financial planning industry did benefit significantly from the 3-year bull market up until June 2007. They noted that when historical returns looked good, consumers had a greater capacity and incentive to allocate funds for investment purposes. This was obviously a double-edged sword for the industry, as conversely, in periods of market instability such as that experienced throughout 2008, consumers could reverse this behavior.

"The overall robust market performance last year saw general growth in investment and investment related insurance products...the volatility of the last 6 months has definitely softened that appetite." — CEO, Insurance

In summary, while the survey respondents expressed concern about the impact of current investment market uncertainty, they remained optimistic over the long term regarding overall industry growth due to the generally broad nature of the drivers identified above. While a continued period of subdued market returns may stop additional funds from flowing in during the short term, it appears that the key demographics of the Hong Kong market look strong- a larger number of mass affluent consumers in combination with a growing pool of individuals approaching retirement who are becoming increasingly financially literate and have developed a growing interest in seeking professional advice on financial planning will drive growth in the long term.

Demand for financial planners in Hong Kong[3]

The growth drivers identified by survey respondents above have resulted in an overall increase in demand for experienced financial planners in Hong Kong. In 2007, the respondents interviewed, increased their financial planning staff numbers by 20% on average. They remained optimistic on continued employment growth for the segment, anticipating a 18% increase in the total number of financial planners employed over the next 12 months. Interestingly the private banking sector appeared to be the most cautious in their hiring plans for the year ahead with the respondents from this sector citing an average increase of 9%, which was down from an average of 28% last year. This projection is however not surprising given the impact of market volatility on the private banking business model.



[3] When viewing these statistics, it should be noted that this survey was qualitative in nature and the numbers referred to above reflect the individual recruitment plans of the survey respondents interviewed. Therefore, these numbers should not be viewed as statistically significant industry projections for the overall Hong Kong market.

Potential barriers to growth for consideration

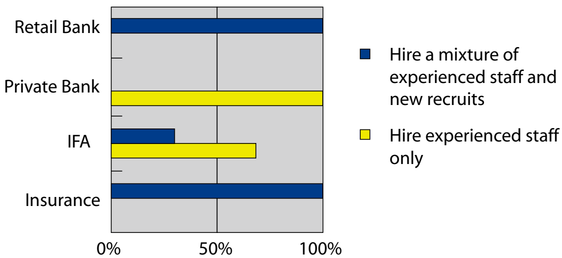
While the overwhelming view of industry leaders suggested a period of sustained growth for the financial planning industry, respondents did identify a number of potential issues that could dampen the growth projections identified.

1.Supply of suitably qualified professionals

In response to the growth identified above, all survey respondents anticipated a growth in demand for financial planners over the next 2 years. However, a large number of respondents identified the lack of supply of local experienced financial planning professionals as a potential significant barrier to future growth.

> "There are 3 barriers to the continued growth of the market in Hong Kong...access to quality advisers, access to quality advisers and access to quality advisers." — Chief Executive, IFA

Interestingly, this problem appeared to most acute in the IFA and the private banking sectors that rely heavily on the supply of experienced recruits to service customers.



> "Unfortunately there is very little choice but to recruit experienced staff, often from competitors. Our clients want to hear advice from an older experienced professional who has lived through both good and bad markets....they don't want a fresh graduate who may not have these insights." — Chief Executive, IFA

The retail banking and insurance survey respondents appeared to have a more diversified approach to recruitment and were willing to take a mixture of graduates, those who are new to the industry and experienced professionals.

2.Professional standards

The survey respondents across market segments made- reference made to the potential damage which could be done if poor financial planning standards lead to a large pool of mass affluent investors losing a significant proportion of their savings from investments in high risk products. References were made to the impact of the accumulator products on private banking clients and the way in which this had led to a deterioration of the relationship of trust developed between clients and their professional advisers.

> "The over use of structured products by some advisers has resulted in the industry losing credibility with clients....I have heard of stories of some clients having 70% of their portfolio in structured products...industry standards need to be raised and the basics of portfolio management need to be adhered to." – Executive Vice President Country Head, Private Banking

Survey respondents expressed a certain degree of frustration regarding the complexity of the Hong Kong regulatory framework, which made the establishment of a series of uniform professional standards across the financial planning industry difficult. Respondents in general suggested that the industry and consumers would be well served by a uniform set of standards regarding the way in which financial advice is given and planning is done, regardless of whether the advice or the product is sold by an IFA, an insurance agent or a retail banker.

In summary, survey respondents believed that loose regulation in some industry segments presented a potentially significant reputational risk to all financial planners. They pointed out that over the past 5 years a significant amount of educational resources have been allocated to developing a relationship of trust with consumers. These, they noted, could be put at risk if a large pool of mass affluent investors lost a substantial proportion of their wealth due to inappropriate financial advice.

3. Investment Climate Outlook

As noted earlier, survey respondents expressed concern about the current investment market outlook and the potential dampening effect this could have on industry growth numbers in 2008. Just as the investment climate was identified as an important driver for growth over the past 3 years, it was also identified as a potential barrier to short-term industry growth. Respondents acknowledged that consumer uncertainty about the investment market outlook has contributed to a reduction in cash allocation to managed funds and other investments products over the past six months. Not surprisingly survey respondents in the private banking sector appeared to be most concerned about a sustained period of investment market downturn, whilst insurance and retail banking respondents with a more diversified product offering were less concerned.

3b. Industry Skill Review

Strengths and weaknesses in the skill set of financial planners in Hong Kong

In general, industry leaders identified that the most successful financial planners had a combination of skill sets that made them valuable to both their employers and customers. Survey respondents were consistent in their view that good financial planners must have a range of skills including robust technical knowledge of asset allocation and portfolio management as well as strong business development and relationship management capability.

Insurance industry respondents suggested that financial planners in their industry were typically strong in business development skills, but might need to develop additional technical skills in the future to ensure that their clients receive quality advice in a market place where consumers are offered a larger variety of both investment and insurance products.

> "These products are complex and you are offered hundreds of funds; so you really need a strong technical base to be able to distinguish which funds are most appropriate for the needs of your client." — Chief Executive Officer, Insurance

Retail banking respondents also made reference to a need for financial planners in banks to develop a stronger technical skill base. These leaders appreciated that in the past retail bank financial planners have been criticized as "product pushers" and suggested that more work needs to be done on training relationship managers to develop the skills to distinguish what is the most appropriate product(s) for their clients' financial plan.

> "There is still a lot of product selling rather than client needs analyses in financial planning out there...India funds may be hot today but our planners need to develop the skills to understand how an Indian fund might suit the overall portfolio of the client." — Head of Wealth Management, Retail Banking

In summary, retail banking respondents acknowledged that bank-based financial planners needed to access a steady and varied product pipeline in the future. They suggested that the most successful planners within banks would be the ones that had the technical and clients needs analysis skills to establish which of these product offerings were most suitable to their client portfolio.

The **IFA survey respondents** in general supported the need for a continual upgrade of technical portfolio management skills of IFA financial planners in the future. Like the retail bankers, IFA respondents acknowledged that consumers in Hong Kong appeared to have an appetite for an array of foreign exchange products, structured notes and derivative products, alongside the traditional fund investments. They commented that some planners unfortunately lacked the solid understanding of portfolio management to ensure that these products worked effectively for their clients to help them achieve their financial goals.

In addition to technical skills, both IFA and private banking respondents highlighted the importance of strong client management and business development skills. They suggested that it was particularly important in Hong Kong where the retail banks had a strong distribution network. They noted that the most successful people in the business were typically those individuals who genuinely enjoyed developing new contacts and were comfortable with responsibility for establishing and nourishing new clients.

> "In our business you can't expect to be a CFP certificant, sit in an office and have clients delivered to you" — Chief Financial Officer, IFA

Importance of professional designation

When asked about the importance of professional designations, such as CFP certification, all industry leaders noted that it was an important attribute for consideration when recruiting new staff.

> "I would love to have all staff members with a CFP certification…but there are simply not enough of them in the market." — Chief Executive, Insurance

When recruiting new staff members, survey respondents noted that they did consider professional designations, such as CFP certification, as an indication of technical proficiency. They however commented that **technical proficiency** and theoretical financial planning knowledge **are only valuable assets in a candidate if they also had strong interpersonal and communication skills** and a general drive and enthusiasm to achieve success. Through out discussions with survey respondents, references were made to the importance of candidates' soft skills; their ability to communicate with clients their ability to network; and their ability develop a successful business track record.

It was worth noting that insurance companies and retail banks who actively recruited new graduates every year considered professional designations as well as securities licenses as positive attributes that distinguished candidates from others.

3c. Service Offering Outlook for the Future

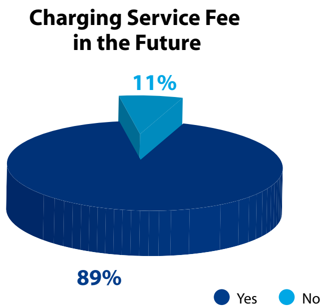
Fee income vs. commission based sales

In many international markets, as the financial planning industry matures and consumers developed a more comprehensive understanding about the importance of seeking professional financial advice, the industry remuneration methods changed from a commission based income to a fee based one.

It was interesting to note that the majority of Hong Kong based survey respondents did not anticipate any significant shift towards a fee for service offering in the near future. They commented that there appeared to be no pressure from consumers to change and noted that, in general, Hong Kong consumers typically did not like paying up front fees. The lack of regulatory pressure on the issue of fee disclosure was also considered significant.

Whilst industry leaders did not see a major shift towards charging a fee for service, IFA respondents did note that the introduction of quality platform providers have made it possible for charging annual fees for assets under management, rather than exclusive commission based remuneration over time.
The small number of respondents that did identify some potential for a fee for service offerings commented:

> "I'm sure consumers will begin to get comfortable with the concept of paying a fee for independent advice.... but I can't tell you whether or not it will be in 2008 or in 5 years' time." — Chief Executive, IFA



Increase in product complexity

As noted previously, industry leaders acknowledged that the average Hong Kong investor has a well-developed appetite for a range of structured insurance and investment products, mutual funds and foreign currency products. Industry leaders believed that in the future, this product complexity would increase and the type of products offered to mass affluent investors would be similar to those offered to private banking clients in the past. They suggested products such as hedge funds would become more mainstream.

Some respondents acknowledged investment bank product providers might slow their "product pipeline" down in the current year due to resource constraints resulting from the current credit crisis, but noted that this was likely to be a short-term issue. Respondents suggested that financial planners would need to ensure that they fully understood the risks and rewards of the range of products available to them in the 'investment supermarket' of the future. As noted earlier, strong technical skills would act as a foundation for planners in distinguishing those products most suitable to their individual client's portfolio.

Protection advice may increase in importance

A number of respondents noted the Hong Kong financial planning industry was still largely focused on investment and retirement planning, with relatively low levels of client servicing on protection advice and tax and estate planning. Whilst all respondents agreed that tax planning would remain a low priority for the local Hong Kong market segment, a number of respondents did note that any change to government policy in relation to the provision of medical services and potential introduction of mandatory health insurance could force consumers to review not only their medical protection levels, but other life incidence protection strategies.

Survey respondents referred to a similar scenario that occurred when the MPF was first introduced. According to them, people realized the importance of establishing appropriate retirement plans only when they were mandated to plan for their financial future. Similarly, they suggested that a mandatory medical planning might force consumers to understand the importance of putting in place appropriate life and medical protection plans.

Consumers will become more discerning regarding the quality of advice

As noted earlier, most survey respondents acknowledged that Hong Kong consumers have developed a more detailed understanding about fundamental investment principles. With this basic knowledge and easier access to a vast array of up-to-date financial information on the internet, respondents suggested that consumers will become increasingly interested in managing their investments and will more critically examine financial planners' recommendations. Financial planners will then need to embrace an environment of continual education to keep ahead of their competitors.

4.Key Recommendations

Practitioners

In summary, survey respondents viewed the growth prospects for the future of financial planning as strong. Over the coming 12 months, the respondents indicated that they will continue to recruit experienced staff with strong technical, communication and networking skills. In the future, insurance and retail banking respondents acknowledged that more work will need to be done to ensure that their financial planning staff has the requisite technical and customer needs analysis skills to identify appropriate products. Private bankers and IFAs commonly identified a lack of strong business developing skills in existing staff and acknowledged that more training may be required in this area.

In summary, the respondents said that they were actively looking to recruit financial planners with all round technical and business development skills. They noted that candidates must be prepared to continually upgrade skills and product knowledge to ensure that they are able to effectively service a more demanding and increasingly financially literate consumer base.

The respondents also appeared to value the importance of high professional industry standards and indicated that they will be looking for candidates who place importance on the issue of customer suitability when providing financial advice. Whilst sales track records would continue to be important, they strongly pointed out that candidates with an over-zealous sales approach to financial planning would be viewed with some caution as employers increasingly become concerned about the corporate reputational risk of "one bad apple" in their team.

Employers

As in any market experiencing sustained growth, respondents suggested that employers need to be mindful of the importance of having appropriate human resources strategies in place to both attract new employees and retain a pool of experienced staff members. Respondents commented that they saw significant salary escalation for experienced staff over the past 12 months and noted that this could continue if investment market stability returns and growth projections are revised upwards. Those firms that exclusively relied on 'buying' experienced talents were most at risk of suffering significant escalations in salary costs.

Business ethics and compliance training, particularly regarding suitability of investments, appear to be top-of-mind issues for the survey respondents. As product complexity comes to the forefront, employers will need to ensure that they create the appropriate compliance gateways and controls to ensure products are only sold to suitable clients.

5. Appendix

5a. Research Methodology

This "Financial Planning Industry Outlook Report" is the result of qualitative research conducted with 18 industry leaders across the IFA, retail and private banking and insurance industry in the months of June, July and August 2008.

Industry leaders were asked a series of common questions relating to their opinions on industry growth and the drivers behind this growth, industry skills existing in the planning community in Hong Kong and industry outlook regarding service offering of financial planning in the future. Respondents were given discussion guidelines relating to these questions prior to interview. Each interview lasted approximately 45 minutes.

It is important to note that the views expressed in this report reflect the personal insights of individual business leaders and the industry growth and employment projections related to their own corporations and cannot be projected as statistically valid across the industry. In summary these survey findings are intended to provide a general overview of thought leader's opinions on outlook for the industry, which may or may not be fully representative due to the sample size and diversified business nature of companies within the industry.

5b. Respondent Profile

Business Model	Title	Number of financial planners employed*
1.Independent Financial Advisor	Chief Executive Officer	1100
2.Independent Financial Advisor	Chief Executive Officer	14
3.Independent Financial Advisor	Chief Executive Officer	102
4.Independent Financial Advisor	Managing Director	300
5.Independent Financial Advisor	Director	120
6. Independent Financial Adviser	Chief Operating Officer	14
7. Retail Bank	Head of Wealth Management	1200
8. Retail Bank	First Vice President Wealth Management	70
9. Retail Bank	Director and Head Wealth Management	280
10.Retail Bank	General Manager Wealth Management	450
11.Private Bank	Executive Vice President Head of Hong Kong	100
12.Private Bank	Executive Director and Head of Private Bank	100
13.Private Bank	Managing Director and Head of Financial Advisory Services	150
14.Insurance	Vice President & Head of Financial Planning	4000 agents 300 planners
15.Insurance	Vice President & Head of Distribution	3600 agents (No of planners not stated)
16.Insurance	Executive Director and Head of Salaried Sales	300 planners (No of agents not stated)
17.Insurance	Chief Executive Officer	1900 agents 150 financial planners
18.Insurance	Chief Executive Officer	4000 (No of planners not stated)

The Institute of Financial Planners of Hong Kong Limited

2601, Bank of East Asia Harbour View Centre,
56 Gloucester Road, Wan Chai, Hong Kong

Tel : (852) 2982 7888
Fax : (852) 2982 7777
Website : http://www.ifphk.org