

# 2021 Risk Radar: Wealth Management Sector

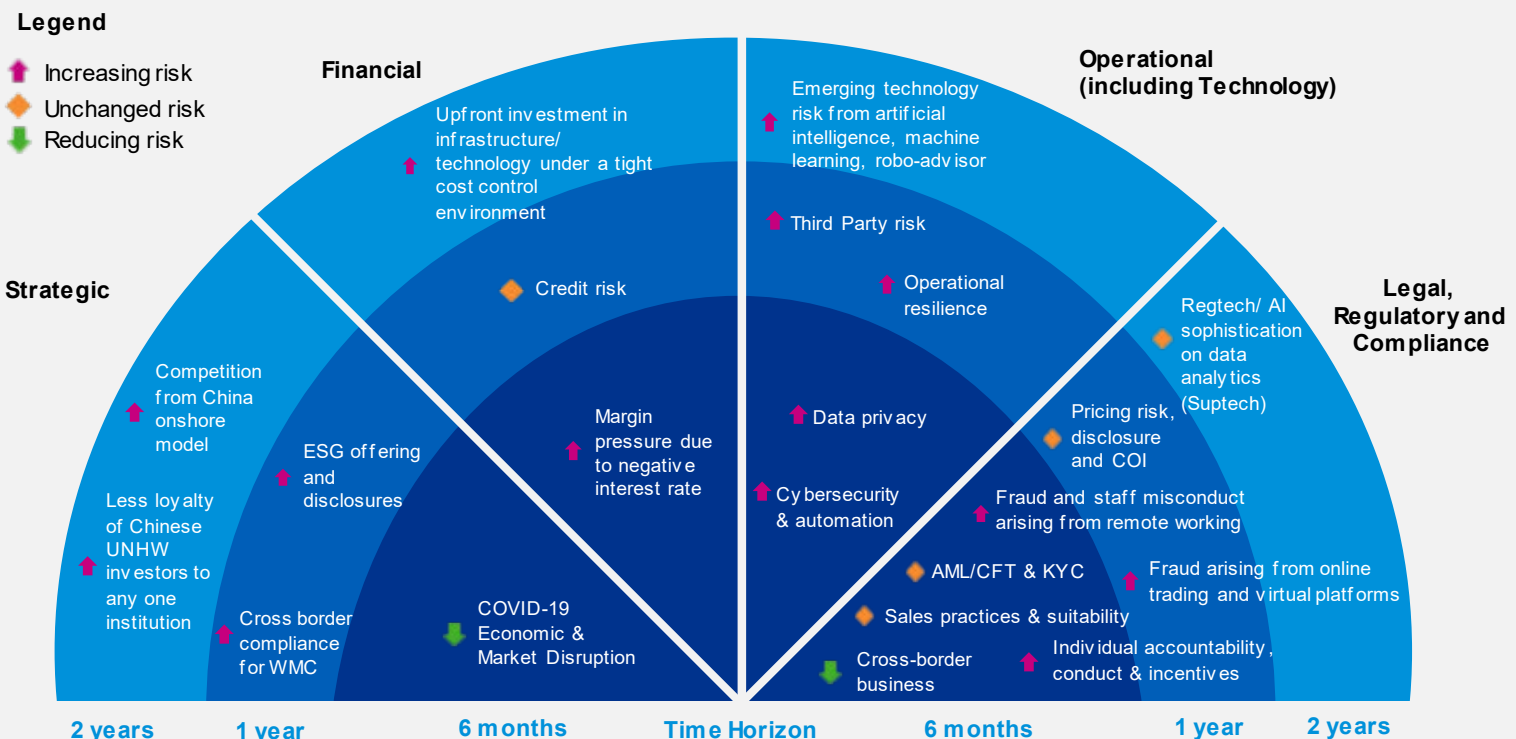
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Hong Kong's wealth management industry has remained resilient despite the ongoing COVID-19 pandemic and continued economic headwinds. With agile working becoming the norm, industry players must manage risks associated with digitalisation, including improving data standards, governing cloud and cyber-related risks, and conduct/conflict of interest ("COI") risks. Emerging trends such as sustainable investing and virtual asset products are also changing the traditional private banking model and associated clientele. Meanwhile, regulators are focused on ensuring the existence of sound financial risk management frameworks, fair and transparent sales practices, and oversight of digital platforms.

Key trends impacting the industry in the region include:

- The digitalisation of banking is requiring effective management of operational risks, cybersecurity threats, fraud and staff misconduct risks;
- Continuing regulatory focus on pricing, best execution, sales suitability, COI management, and risk management on credit risk and margin lending, given the recent and expected results of thematic review in Hong Kong and Singapore;
- Emergence of regulatory technology ("Regtech") and supervisory technology ("Suptech"), shifting the industry's internal control models – including the adoption of anti-money laundering and counter-financing of terrorism ("AML/CTF") regtech solutions and machine learning in transaction monitoring and screening;
- Effective incorporation of Environmental, Social, and Corporate Governance ("ESG") into the business strategy, given the rising interest in green and sustainable banking from regulators and investors;
- Virtual asset banking service providers must implement robust risk management frameworks for safe custody of assets, KYC, AML/CTF, accounting and auditing, market manipulation, and COI.
- Launch of Wealth Management Connect ("WMC") to promote RMB internationalisation. Qualified banks must ensure their WMC offerings adhere to risk ratings, licensing and regulatory requirements (including requirements in respect of sales and marketing activities), and are supported by adequate IT system infrastructure and controls.



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