Disruption and Reshaping of Traditional Wealth Management Intermediary Models by Decentralized Finance (DeFi): A Case Study of the Hong Kong Market

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Abstract. The paper explores how the traditional wealth management intermediary model is disrupted and restructured by Decentralized Finance (DeFi) and how it can apply to the highly regulated Hong Kong market in particular. Centralized counterparties have long been used in wealth management, which leads to the high transaction costs and settlement delays. On the one hand, the technical efficiency of pure DeFi is achieved due to smart contracts; on the other hand, it is not as strictly regulated as traditional financial institutions. In order to solve this issue, the current paper explores the emergence of Centralized-Decentralized Finance (CeDeFi) and tokenization of Real-World Assets (RWA). The research provides the impact of decentralized architecture on the market using a multi-case study, including internal trans-formation (e.g., CPIC), infrastructural disruption (e.g., HashKey Group), and demand-side pull (e.g., VMS Group). The results highlight that the obvious regulatory framework in Hong Kong helps to reduce the underlying risks of DeFi to the prospects of organized innovation. In turn, this paper hypothesizes that a synergistic CeDeFi model can be the future of wealth management in regulated jurisdictions. Such a model requires active change on the part of the traditional institutions and strict adherence to DeFi innovators. The study provides important strategic implications to industry stakeholders interested in realizing the potential of decentralization without sacrificing its stability and trust by mapping this journey of practical transition.

Keywords: Decentralized Finance, Wealth Management, Real-World Assets, Tokenization, Hong Kong Market

1 Introduction

1.1 Research Background

Traditional wealth management systems long used a centralized model of intermediary, be it a financial institution. Their role is normally that of brokers, dealers and clearing-houses, making the movement of money between the possessors and the possessors easy [1]. Economically, dependence on these financial institutions has caused friction and inefficiency in the global financial system which has led to low capital efficiency

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[2]. As an example, when a customer uses the conventional financial system to send money across a country or trade stocks, it can take days to complete the transaction because most financial institutions have to verify and re-verify their databases.

Nevertheless, the development and introduction of the so-called Decentralized Finance (DeFi), which is facilitated by distributed ledger technologies (DLTs) like blockchain, have become a major threat to the conventional financial system. It recreates the main functions of the traditional financial system, including lending, borrowing, and trading, but it is run automatically with the help of smart contracts and requires minimum human involvement [3]. To a great extent, it exists in the gray area of regulation or beyond the current frameworks. This has resulted in distinctive risks, including high leverage, liquidity and Anti-Money Laundering (AML) and Know-Your-Customer (KYC) risks [4].

The financial market seeks to address this issue by tokenizing Real-World Assets (RWA) and generate Centralized-Decentralized Finance (CeDeFi). Asset tokenization has been expanding at a high pace, and it is no longer a pilot project, but a developing financial system that is expected to facilitate more than 24 billion dollars in the total value locked around the world by 2026 [5]. This case has seen Hong Kong emerge as the most popular testing ground in terms of integration of digital assets by large institutions in the world. Hong Kong has been a world financial hub and a key linkage between mainland China and the world market. Through the progressive regulations, that are had by the forward-looking rules that are issued by the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA), Hong Kong offers a highly progressive but highly regulated environment on RWA tokenization [6]. Such a distinctive role Hong Kong is a perfect and important living laboratory to study how decentralized architectures can be practically implemented with the traditional wealth management with an explicit regulatory framework. This paper will center on the Hong Kong market to analyze how a decentralized architecture may be safely coupled with conventional wealth management. Exploring this intersection in Hong Kong, this paper provides not only theoretical understanding of the mechanisms of financial intermediation in the Web3 world but also practical advice to stakeholders who will operate in this changing environment.

1.2 Literature Review

The intersection of blockchain technology and traditional finance has been a subject of many academic papers and industry reports. The current research literature can be generalized into three streams: technical/conceptual research on DeFi and tokenization, industry research on how the business is applied, and regulatory research. First, the concept of tokenization was discovered by Aloshyna and Aleksandrov, according to which physical and financial resources (real estate and bonds) are turned into digital tokens. This serves as an intermediary between the conventional financial sector and the blockchain technology, making the financial market transparent and automative [7]. Second, Bakare et al. have singled out the idea of decentralization, according to which the wealth management of the traditional financial sector is democratized and devoid of intermediaries. Yet, with this, regulatory confusion and financial stability risks are also brought into the industry [8].

Further, industry research indicates the business aspect of this change. According to the Deloitte Center of Financial Services, asset tokenization is being pursued by wealth management companies. They desire to enhance their product distribution system and focus on the new generation of rich customers who will favor digital assets [5]. Regulatory perspective Jenkins and McSheaffrey studied the Hong Kong SFC regulations. They discovered the term of tokenized securities that mean traditional securities in a digital form. This implies that financial intermediaries continue to keep the right records on ownership and audit smart contracts to safeguard investors [9]. Lastly, McKinsey Financial Services Practice discovered that the market must have extensive secondary trading networks and clear regulations in the major countries to have high commercial success in tokenization [10].

1.3 Research Gap

An examination of the current literature shows that there is a gap. The majority of researchers and industry coverage are dedicated to the technical specifics of the DeFi protocols or explain the massive economic effect of asset tokenization in a general worldview [7,8]. Conversely, there is a dearth of literature on the analysis of individual local markets to observe the actual transformation of the daily business models of traditional wealth managers due to the new CeDeFi regulations. Namely, there is an evident gap in research in comparing the Hong Kong market under the new 2023 to 2026 SFC rules and the HKMA Project Ensemble [6,11]. This gap is especially in regard to empirical, case-based research on the micro-level strategic adjustments and business model changes of incumbent intermediaries in this new regulatory space. The paper will eliminate this gap by offering a particular, multi-case study of how middlemen are disturbed and reconfigured in the highly controlled Web3 setting of Hong Kong.

1.4 Research Structure and Framework

This research gap is covered by a clear and logical structure used in this study. Section 2 presents a detailed description of the case. It examines three actual business scenarios within the Hong Kong market: CPIC (a traditional institution in the process of reimagining itself), HashKey (a DeFi native platform disrupting the market), and VMS Group (indicating the client demand side). Second, Section 3 has a comprehensive SWOT analysis. It assesses the opportunities, threats, weaknesses, and the strengths of applying DeFi in the management of wealth in Hong Kong. Third, the Section 4 includes particular suggestions that regulators, traditional wealth managers, and DeFi service providers should have to resolve the existing problems and maximize the CeDeFi market. Lastly, Section 5 is the conclusion of the paper where the key findings are summarized and the importance of the research is pointed out.

2 Empirical Analysis: Three Pathways of CeDeFi Adoption in Hong Kong

2.1 Three Archetypes of Market Participants: A Comparative Overview

The wealth management industry in Hong Kong is undergoing a revolutionary shift with the rise of Centralized Decentralized Finance (CeDeFi). To see how traditional models are being disrupted and reshaped from different angles, this section presents a brief overview of three institutions operating under Hong Kong market regulations. As shown in Table 1, traditional institutions, new Web3 platforms, and client-side family offices differ. Collectively, these three archetypes represent the interdependent forces reshaping Hong Kong's wealth management landscape: internal optimization pressures from incumbents (CPIC), external competitive threats from licensed innovators (Hashey), and evolving client expectations from the demand side (VMS). Their interactions illustrate the micro-foundations of the macro shift to-wards CeDeFi.

Table 1. Comparison of Institutional CeDeFi Models in Hong Kong [12]

Assessment Dimension	China Pacific Insurance Company (CPIC)	HashKey Group	VMS Group
Market Role	Traditional Wealth Manager	Native Web3 / VATP	Family Office (Demand Side)
Strategic Model	Reshaping (Internal Upgrades)	Disruption (New Infrastructure)	Demand-Driven Change
Core CeDeFi Product	Tokenized Money Market Funds	Direct RWA Issuance & Exchange	DeFi Yield Farming & Stablecoins
Technological Network	Permissioned Ledger (HashKey Chain)	Public & Permissioned Ledgers	Public DeFi Protocols
Primary Market Impact	Reducing back-office clearing costs	Enabling 24/7 liquidity and trading	Forcing traditional banks to adapt

2.2 Pathway 1: Internal Transformation – The CPIC Case

The case of China Pacific Insurance Company (CPIC) is an example of how a traditional financial institution might modernize its daily functioning to suit the Web3 world. CPIC has ceased to sell investment products in the traditional and old-fashioned manner through its investment branches in Hong Kong to now selling tokenized USD money market funds, which represent the latest way of offering investment products [12]. Conventionally, when one buys or sells a mutual fund, it is a paperwork process that requires the services of agents and clearinghouses, and may require several days to accomplish.

CPIC however relied on a particular blockchain (HashKey Chain) to issue and regulate the shares of the fund [12]. This technological revolution implies that the company does not need to use a long chain of traditional middlemen. It represents a squeeze of the post-trade value chain where the execution, clearance and settlement start to be consolidated into one and automated process. The reason is that the smart contract sys-

tem can enable the process to take place immediately [3]. It not only saves on the expensive background checks which may be necessary but also gives the investors a clear and transparent view of the funds being supported.

2.3 Pathway 2: External Disruption – The HashKey Group Case

Conversely, HashKey Group reveals how a more recent Web3 or DeFi-native firm is directly competing with and disrupting traditional brokers and banks. HashKey is a Virtual Asset Trading Platform (VATP) licensed by SFC. It implies that it is completely controlled by the Hong Kong government to provide crypto trading, secure asset storage, and token creation services [13].

The conventional wealth management is typically only active within regular business hours (e.g., 9 AM to 5 PM) and requires two entire days to clear a trade (T+2 settlement). The system at HashKey transcends these restrictions by enabling trade and transfer of assets round the clock and seven days a week [13]. Additionally, HashKey will be able to provide Real-World Asset (RWA) tokens to affluent and business customers. The activity directly exploits the opportunities identified in the SWOT analysis: it takes advantage of the well-defined licensing regime in Hong Kong (SFC VATP license) to offer a regulated means of tokenizing assets, and at the same time, it allows the 24/7 efficiency of a decentralized trading venue. This is effectively doing away with investment banks and brokers, which are usually necessary as providers of such services [13]. The fact that the whole wealth management process is moved to one digital platform means that HashKey is providing a far quicker and direct service, and old institutions must adapt to it to stay in business and lose clients.

2.4 Pathway 3: Demand Pull – The VMS Group and Family Offices Case

Lastly, the demand part of wealth management is to be mentioned. As stated, VMS Group is one of the leading multi-family offices in Hong Kong. Family offices are also in charge of the financial business of ultra-high-net-worth individuals. The family offices in Hong Kong have recently expressed a high interest in DeFi, including stablecoin yield farming and providing liquidity to decentralized exchanges [5].

Previously, family offices that served ultra-high-net-worth clients would purchase any traditional bond or stock that their personal banks had to offer. These family offices are highly motivated today, with the appearance of higher-yielding and more liquid assets in DeFi. Such family offices as the VMS Group are now actively pursuing wealth managers that will incorporate digital assets into the portfolios of their clients [5]. Such a changing need is a strong market driver of the industry. It shows that the transition to CeDeFi is not a mere technological trial by developers but a real market demand by high-net-worth investors. This means that the adaptation of wealth managers is not a choice anymore but rather a necessity, guided by the idea to maintain high-value clients in a competitive environment where other digital solutions can be easily found.

3 Strategic Diagnosis: A SWOT Analysis of the Hong Kong CeDeFi Wealth Management Ecosystem

To systematically evaluate the current situation of "Hong Kong DeFi Wealth Management", this section provides a comprehensive SWOT analysis matrix. By examining both the internal technology of blockchain and the external regulatory environment in Hong Kong, this analysis identifies the main conditions and problems of the ecosystem.

3.1 Internal Catalysts: Strengths of CeDeFi Technology

Technology-Driven Cost Reduction and Efficiency. A primary advantage of decentralized technology is that it uses smart contracts to automatically execute transactions without human intervention. In traditional financial systems, trading and settlement are separate processes. They need multiple databases and human workers from clearinghouses to check the numbers [1]. This usually results in high operational costs and delays. Decentralized networks replace these middlemen with automatic code [14]. When an asset is traded, the transfer happens instantly. This reduces operational costs massively. This strength is vividly demonstrated in the CPIC case, where the automation of fund share issuance and settlement via smart contracts directly targets back-office inefficiencies.

Improved **Transparency and Trust.** In traditional finance, clients must blindly trust that the bank is holding their assets safely. With blockchain technology, all transaction data is recorded on-chain and cannot be changed or deleted (immutability) [2]. Wealth management clients can consult a public ledger to see exactly where their assets are and verify a fund's reserves at any time. This extreme transparency increases investor trust.

Enhanced Liquidity and 24/7 Trading. Traditional stock markets and banks close on weekends and holidays. Tokenized assets, however, can be traded 24 hours a day, 7 days a week [3]. By using Automated Market Makers (AMMs) instead of human brokers, DeFi systems can provide permanent liquidity. This completely breaks the time limits of traditional wealth management.

Financial Inclusion and Lower Barriers. Traditional wealth management often involves premium assets, such as private credit or expensive commercial real estate. These assets usually require a huge minimum investment (like millions of dollars), so only very rich people can buy them [5]. This fractionalization capability does not merely lower investment thresholds; it fundamentally alters the product design and distribution model for alternative assets. Tokenization solves this problem by dividing expensive assets into small digital parts. This allows more normal retail investors to participate in high-end wealth management products.

3.2 Internal Constraints: Weaknesses and Inherent Risks

Regulatory Uncertainty and Ambiguity. Even though CeDeFi is trying to follow the rules, the legal status of many pure DeFi protocols remains very unclear [8]. If a wealth manager uses a decentralized lending protocol to earn yield for a client, it is not clear who is legally responsible if something goes wrong. This regulatory uncertainty makes many large traditional banks wary of entering the market.

Technical Risks and Smart Contract Bugs. DeFi relies completely on computer code. If a programmer leaves a bug in the code, hackers can exploit it to steal all the digital assets [14]. In traditional banks, there are laws and insurance to reverse fake transactions. However, blockchain transactions are permanent and cannot be reversed. This technical risk is a major weakness for safely managing client wealth. It fundamentally underpins the regulatory imperative for stringent smart contract audits and the licensing of service providers, a core differentiator of the Hong Kong CeDeFi approach compared to pure DeFi.

Market Volatility and Wealth Preservation Conflicts. The native cryptocurrency market is characterized by extreme volatility and high price fluctuations. The value of digital tokens can drop by 50% in a single day [4]. However, the main goal of traditional wealth management clients is usually to preserve their wealth safely and get steady growth. The highly volatile nature of crypto assets directly conflicts with the safe, steady needs of wealth management.

High Barriers to User Education. Using DeFi is still very difficult for the average person. Users need to understand complex concepts such as private keys, digital wallets, and gas fees. If a user loses their private key, their funds are lost forever [3]. This high education barrier makes it very difficult for traditional wealth managers to explain these new products to older clients.

3.3 External Enablers: Opportunities in the Hong Kong Context

Strong Policy Support from the Hong Kong Government. Hong Kong has a massive opportunity because the government actively supports Web3.0. The Hong Kong government published the "Policy Declaration on the Development of Virtual Assets," and the SFC provided clear guidelines for Virtual Asset Trading Platforms [6]. This active policy support provides a safe and legal "soil" for CeDeFi to grow, unlike in jurisdictions such as the United States, where the regulatory approach has been more fragmented and litigious.

The Massive "Blue Ocean" of RWA Tokenization. The tokenization of Real-World Assets (RWA) is a huge new market (a blue ocean). Industry reports estimate that the

global market for tokenized assets could reach $ 16 trillion by 2030 [10]. Because RWAs bring real-world value (such as government bonds) to the blockchain, they attract significant traditional capital that previously avoided the risky crypto space.

Cross-Border Demand and Settlement Efficiency. Hong Kong is a major center for cross-border wealth management, especially connecting mainland China to the world. Traditional cross-border payments via the SWIFT system are slow and costly [1]. DeFi and stablecoins can make cross-border payments and settlements almost instant and very cheap, which is a huge opportunity for Hong Kong's financial industry. Specifically, Hong Kong is poised to leverage CeDeFi to enhance its role as a super-connector, facilitating more efficient capital flows between Mainland China's vast investor base and global investment opportunities, while navigating cross-border regulatory expectations through its own clear rules.

The New Generation of Digital Investors. The wealth management industry is currently witnessing a massive transfer of wealth from older to younger generations [5]. Younger investors are digital natives. They have a high acceptance of digital assets, mobile apps, and transparent investment products. Capturing this new incremental market is a huge opportunity for CeDeFi wealth managers.

3.4 External Challenges: Threats to Ecosystem Development

Global Regulatory Tightening. While Hong Kong is supportive, the global regulatory environment for DeFi is getting tighter. Major countries may pass strict laws that limit the trading or cross-border movement of digital assets [13]. Because finance is global, if other major markets ban certain DeFi activities, it will severely limit the growth space for Hong Kong companies.

Fierce Competition from Traditional Banks. Traditional banks and asset management companies are not just waiting to be disrupted. They are spending billions of dollars to accelerate their own digital transformation [8]. If large traditional banks can create their own private blockchains and offer similar fast services, it might dilute the early advantages that current DeFi startups have.

Systemic Risks and Risk Contagion. DeFi protocols are highly interconnected. They can be stacked on top of each other like building blocks [3]. While this improves capital efficiency, it means that if a single basic smart contract crashes, the risk can spread instantly to other protocols. This risk contagion could eventually threaten the stability of the traditional financial system if it is connected.

Reputation Risks from Early Industry Scams. The crypto and DeFi industry has suffered from many scams, hacks, and companies running away with user money in its

early years [15]. These negative events severely damaged the industry's overall reputation. It takes a long time for traditional, conservative wealth management clients to trust this new technology again.

4 Strategic Roadmap: Policy and Business Initiatives for a Mature CeDeFi Ecosystem

Based on the problems identified in the SWOT analysis, this section provides specific optimization strategies for the three main groups in the Hong Kong CeDeFi market.

4.1 Strategic Recommendations for Regulatory Bodies (SFC & HKMA)

To start with, the Hong Kong Securities and Futures Commission (SFC) should work on the legal framework of the tokenization of RWA further. The legal impact of smart contracts should be explicitly indicated by regulators [9]. As an illustration, when a tokenized real estate project is in a bankruptcy, the law should explicitly declare that the digital token owners are entitled to the lawful possession of the real property. In the absence of this legal assurance, the traditional managers will be too scared to invest heavily.

Second, regulators ought to broaden their regulation sandbox schemes, including Project Ensemble, spearheaded by the HKMA [11]. This is not to say that giant traditional banks should be restricted to the sandbox. It must also give smaller, innovative Web3 technology startups an opportunity to experiment. The government can also promote innovation by offering these startups a secure environment to test their new DeFi wealth management tools without full-scale launch before exposing them to the public and by regulating risk. All these actions are expected to change the regulatory clarity in Hong Kong not just as a passive benefit, but an active, trust-building platform that draws in foreign capital and talent.

Third, international regulatory dialogue and standard-setting should be actively undertaken by regulators. Considering the Risk of regulatory fragmentation in the world, the SFC and HKMA are advised to collaborate with other financial hubs (e.g., Singapore, EU) in order to agree on the main principles of tokenizing RWAs, settling across the borders, and protecting investors. It will also streamline compliance processes of companies that are operating abroad and ensure that Hong Kong becomes a responsible global player in digital finance.

4.2 Strategic Recommendations for Traditional Wealth Management Institutions

Conventional wealth management companies must cease dismissing outright decentralized technology. Rather, they need to proactively adopt the so-called CeDeFi (Centralized-Decentralized Finance) pattern. They are capable of applying blockchain technology to streamline their back-office processes, including clearing and settlement, which save them a lot of time and money [2].

Moreover, rather than paying too much money to develop their own blockchains on their own, the traditional institutions are expected to establish strategic alliances with existing Virtual Asset Trading Platforms (VATPs), which are already licensed as SFCs [13]. Such alliances should not just be limited to technology acquisition, but also to co-branding of products, joint distribution, and joint client reporting, thus providing a smooth experience to the final investor. The traditional asset managers can easily provide tokenized real-life assets to their clients using these safe external platforms to satisfy the new demand. This would enable the old companies to maintain their customers and leave complicated cybersecurity and wallet-custody tasks to the specialized technology firms.

4.3 Strategic Recommendations for DeFi Service Providers

The native DeFi project teams and service providers need to prioritize compliance to survive in the Hong Kong market. They ought to drop the notion of being totally unregulated. To the contrary, they are advised to actively seek the relevant SFC licenses, in particular Type 9 (Asset Management) and Type 4 (Advising on Securities) [6]. The possession of such licenses makes traditional wealth customers believe that the DeFi provider is secure and reliable.

Also, the service providers of DeFi should put a strong emphasis on user education and risk warnings. Since the technology is not user-friendly, providers ought to produce easy-to-use interfaces which resemble normal banking applications [3]. They should also articulate the danger of smart contracts and market volatility to its users. Lastly, they must integrate Anti-Money Laundering (AML) and Know-Your-Customer (KYC) identity verifications into their smart contract code [6]. This will make sure that only the verified users trade and this will solve problems of regulations and allow the industry to develop healthily. This shift between the so-called permissionless and permissioned-and-compliant innovation is what the DeFi will need to drive the process of mainstream adoption into the institutional wealth management industry.

Also, to mitigate the Weakness of technical risks and restore trust, the most renowned DeFi companies ought to invest in technical-grade custody products, effective cybersecurity insurance and publicly verifiable proof-of-reserves audits. It is important to provide such protection to ensure that fiduciary obligations are met by both traditional wealth managers and by clients.

5 Conclusion

5.1 Key Findings

The shift towards decentralized technology poses a significant challenge to the traditional centralized intermediary model in wealth management. The SWOT analysis reveals that pure Decentralized Finance (DeFi) is highly efficient, reduces costs, and provides 24/7 liquidity. However, due to technical risks, regulatory ambiguity, and high volatility, it does not meet the strict compliance standards of traditional institutions. To solve this, the market is moving towards Centralized-Decentralized Fi-nance (CeDeFi)

and Real-World Asset (RWA) tokenization. The Hong Kong market presents several different strategies. Native Web3 companies like HashKey Group are disrupting the market with new infrastructure. Traditional institutions like CPIC are actively reshaping their operations by adopting blockchain technology to lower costs. Meanwhile, demand from family offices like VMS Group is forcing the industry to change faster. In essence, the path forward necessitates a triad of actions: regulators must furnish legal certainty, traditional institutions must pursue strategic alliances, and DeFi providers must institutionalize compliance.

5.2 Research Significance

This research has a practical and business value which is very important. With the increased size of the tokenized asset market, there is a great demand on wealth management institutions to modernize. This paper offers a clear strategic plan to the traditional asset managers, DeFi startups, and policymakers by examining the Hong Kong market, one of the most regulated markets, as a test market. The results support the paradigm shift: instead of opposing decentralized technology, the wealth management sector ought to actively coordinate its adoption via the CeDeFi model. Rather, they ought to apply the CeDeFi model to reduce their operational expenses, appeal to the new generation of digital-native customers and stay afloat in the long term international financial market.

5.3 Limitations and Future Study

Although this paper gives a detailed assessment of the Hong Kong CeDeFi market, it is not without limitations. It is rather based on secondary data, industry reports, and the qualitative description of the cases rather than primary data. Due to this the precise numerical effect of tokenization on profit margins is rather misty. This issue could be corrected by future researchers through direct survey or inter-views with portfolio managers and compliance officers within Hong Kong wealth management companies. Primary data collected directly by these professionals would be a far more precise and comprehensive economic indicator of this technological change. The comparative case study between Hong Kong and other potential digital asset hubs (e.g. Singapore, the EU) could also be used in future research to condense context-specific success factors. Moreover, longitudinal researches on the per-performance and risk profile of tokenized RWA portfolios throughout a complete market cycle would be invaluable in terms of understanding the long-term sustainability.

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