ASIA-PACIFIC WEALTH REPORT

2014

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Preface

Capgemini and **RBC Wealth Management** are pleased to present the *2014 Asia-Pacific Wealth Report* (APWR) from our Wealth Report series, which also includes our *2014 World Wealth Report* and *2014 United States Wealth Report*. Together, they examine trends related to the population and wealth of high net worth individuals (HNWIs[1]).

The APWR charts the impressive growth in the wealth and population of Asia-Pacific HNWIs, and the drivers behind this trend. Asia-Pacific continued to lead all other regions in HNWI expansion, helped by strong growth in both Japan and China. The region's fast-paced economy, particularly within its more mature markets, helped push the rise in HNWI wealth, as did strong real estate prices.

Our 2014 APWR includes an exploration of HNWI behaviors and preferences, initiated last year with our Global HNW Insights Survey, created in collaboration with Scorpio Partnership. In-depth queries of HNWIs across the globe provide unparalleled insights into the issues that matter most to HNWIs when it comes to managing their wealth.

We found that Asia-Pacific HNWIs have numerous characteristics that present opportunities for wealth management firms. They have the highest levels of trust and confidence in all aspects of the wealth management industry. They also are more likely to seek professional advice, have more complex wealth needs, and are more willing to pay for customized services. Despite these wide openings for firms to provide high-end services, the performance scores for wealth managers and firms remained flat throughout the region, pointing to a need for wealth management providers to become better attuned to HNWI preferences.

High on the list of preferences is a desire by Asia-Pacific HNWIs to use their personal resources to positively influence society. Driving social impact was found to be very or extremely important to a higher proportion of HNWIs in Asia-Pacific (excl. Japan) than in the rest of the world.[2] The outsized interest Asia-Pacific HNWIs have in generating social impact underscores the rich environment that exists for firms to guide, educate, and support HNWIs in areas such as socially responsible investing and impact investing.

Also high on the list of Asia-Pacific HNWI preferences is a strong desire to form digital connections with wealth management providers. The demand for digital relationships is far higher among Asia-Pacific (excl. Japan) HNWIs than among those in the rest of the world, and persists even across age and wealth segments. Though numerous challenges exist to developing a pan-Asia-Pacific digital strategy, digital technology offers one of the greatest opportunities for meeting the high expectations HNWIs have of their wealth managers and firms.

Although several forces are already creating positive momentum in the Asia-Pacific wealth management industry, firms can further the momentum through targeted services that appeal to the specific desires and demands of the region's HNWIs. Our APWR provides the data necessary to gain insight into these preferences and behaviors, offering in-depth research, on a country-by-country basis. We hope it sets you along the right track as you formulate your ongoing strategies for improved performance in Asia-Pacific.

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[1] HNWIs are defined as those having investable assets of US$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables

[2] Rest of the World refers to all countries covered in the Global HNW Insights Survey 2014 except those in Asia-Pacific

Executive Summary

ASIA-PACIFIC CONTINUES TO LEAD THE WAY IN GLOBAL HNWI POPULATION AND WEALTH GROWTH IN 2013

- Asia-Pacific's HNWI population grew by 17.3%, compared to 13.5% in the rest of the world, while wealth expanded 18.2%, compared to only 12.3% for the rest of the world; Growth in 2013 was mainly driven by mature markets, while emerging markets clocked a lower than usual growth rate.
- The strong growth resulted in a record of 4.3 million HNWIs and US$14.2 trillion of assets.
- The small segment of Asia-Pacific ultra-HNWIs increased their ranks and their wealth more than all other HNWIs in the world, both in 2013 and over the five years from 2008 to 2013.
- Higher GDP growth is expected to help Asia-Pacific surpass North America as the region with the highest HNWI population by 2014 and HNWI wealth by 2015.

HIGH TRUST LEVELS LEND SUPPORT TO HNWI EMBRACING OF WEALTH MANAGEMENT INDUSTRY

- HNWIs in Asia-Pacific (excl. Japan) have the greatest amount of trust and confidence in the wealth management industry, with trust levels reaching 85.5% for wealth managers and 86.6% for wealth management (WM) firms.
- High trust levels are helping to support a greater focus on growth (40.7%) over preservation (31.1%) by Asia-Pacific (excl. Japan) HNWIs, driving significantly increased allocations to investments outside their home markets.
- Compared to HNWIs in the rest of the world, those in Asia-Pacific are much more likely to want to seek professional advice, work with a single firm, and pay for customized services.

HNWIs HAVE HIGH DEMANDS, EXPECTATIONS FOR DIGITAL CONTACT

- HNWIs in Asia-Pacific (excl. Japan) exhibit the greatest demand globally for digital contact, with 82.3% expecting digital interaction over the next five years, compared to 61.1% of HNWIs in the rest of the world.
- The expectations for digital contact are high, requiring firms to support integration across all types of channels, including direct, traditional digital, and emerging digital channels.
- By taking steps to meet the digital imperative, wealth management firms can meet HNWI needs for real-time information, more engaging and interactive tools, and highly personalized advice, while also mitigating some of the region's challenge.

GLOBAL LEADERS IN DRIVING SOCIAL IMPACT

- Asia-Pacific (excl. Japan) HNWIs are the global leaders in driving social impact, with 80.9% describing it as important, compared to 58.6% in the rest of the world.
- Compared to HNWIs in the rest of the world, those in Asia-Pacific (excl. Japan) are more driven by a responsibility to give back and more focused on food security.
- HNWIs in Asia-Pacific (excl. Japan) have higher expectations regarding the level of support they require from their wealth management firms to drive social impact, and also believe their firms are doing a much better job.

Asia-Pacific Achieves Record HNWI Growth

- **Asia-Pacific continued to lead the way in global HNWI population and wealth expansion, as Japan greatly accelerated its growth and China maintained a fast pace.** Asia-Pacific's HNWI population grew by 17.3%, compared to 13.5% in the rest of the world, while wealth expanded 18.2%, compared to 12.3% for the rest of the world. The brisk growth resulted in a new regional high of 4.3 million HNWIs with a record US$14.2 trillion of assets. Asia-Pacific is expected to surpass North America as the region with the highest HNWI population by the end of this year and HNWI wealth by 2015.
- **The strong performance of Japan and China coincided with a slowdown in other major markets, including India and Australia.** Although Hong Kong experienced a sharp deceleration in HNWI population growth in 2013, it has the distinction, along with China, of having grown the fastest since 2008. Over the past five years, a significant proportion of Asia-Pacific HNWI population and wealth growth has come from emerging Asia markets (especially China), in addition to Hong Kong.
- **The small segment of Asia-Pacific ultra-HNWIs[3] increased their ranks and their wealth more than all other HNWIs in the world,** both in 2013 and over the five years from 2008 to 2013. Though ultra-HNWIs represent only 0.7% of HNWIs in the region, they hold 26.0% of Asia-Pacific HNWI wealth.
- **Asia-Pacific is expected to continue to lead global HNWI growth through 2016.** Both the Emerging and the Mature[4] Asia markets are expected to contribute to the ongoing growth.

JAPAN, CHINA DROVE BULK OF HNWI POPULATION AND WEALTH GROWTH

The population and wealth of Asia-Pacific HNWIs expanded to record levels in 2013, helped by strong growth in Japan and China. HNWI population grew 17.3% to reach a new high of 4.3 million individuals (see Figure 1), while investable wealth expanded 18.2% to reach a record US$14.2 trillion (see Figure 2). Both percentage gains were considerably larger than the five-year compound annual growth averages of 12.4% (for population) and 14.0% (for wealth), indicating the region is building upon its already impressive performance over the past five years. Since 2008, Asia-Pacific has been instrumental in driving global HNWI population and wealth growth of 9.9%.

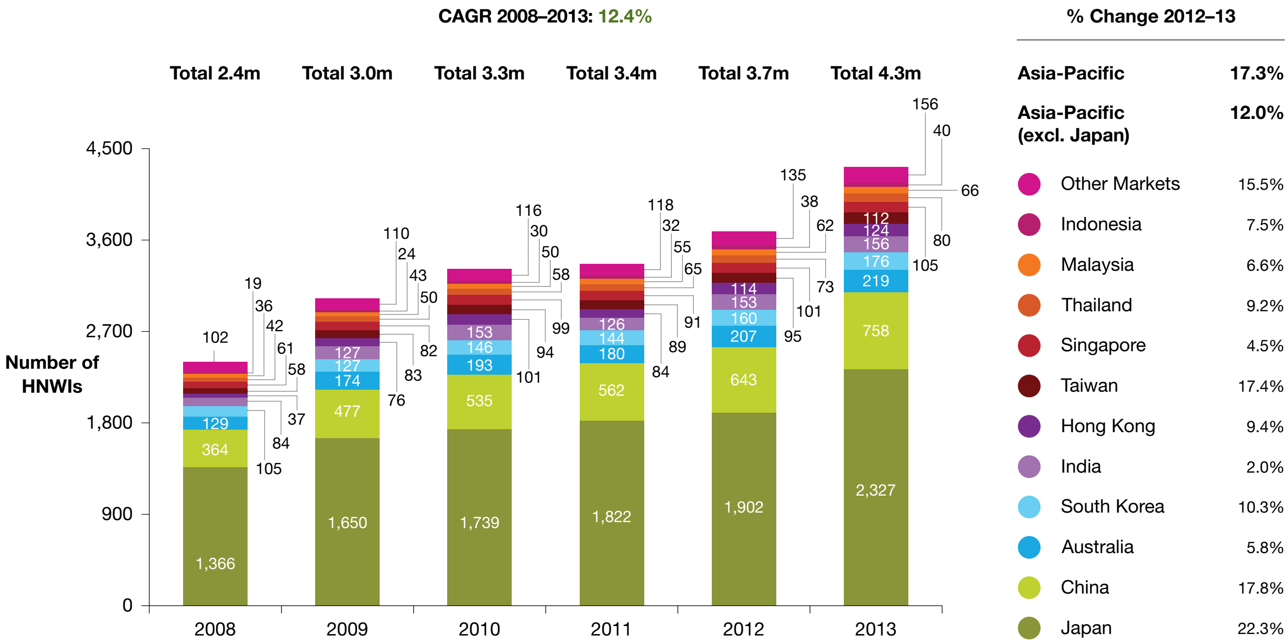
Asia-Pacific HNWI population grew the fastest in Japan, where more than 50% of the region's HNWIs already reside. Japan's 22.3% increase in HNWI population to 2.3 million in 2013 significantly exceeded its 4.4% rate of growth in 2012 and its 11.2% compound annual growth rate since 2008. Superior returns in the Japanese equity markets—the Nikkei grew by 56.7%, its highest rate since 1972, and the Japan MSCI index by 24.9%—helped push Japanese HNWI population growth. At 17.8%, China had the region's second-highest growth in HNWI population to reach 758k individuals. Together, Japan and China, which already accounted for approximately 70% of the Asia-Pacific HNWI population, drove nearly 85% of the growth.

[3] Ultra-HNWIs are defined as those having investable assets of US$30 million or more, excluding primary residence, collectibles, consumables, and consumer durables

[4] Emerging Asia includes China, India, Indonesia, and Thailand; Mature Asia includes Japan, Australia, New Zealand, Singapore, Hong Kong, Taiwan, Malaysia, and South Korea; the remaining markets of Kazakhstan, Myanmar, Pakistan, Philippines, Sri Lanka, and Vietnam are classified as Rest of Asia

FIGURE 1. Asia-Pacific HNWI Population, 2008–2013 (by Market)

(000s)

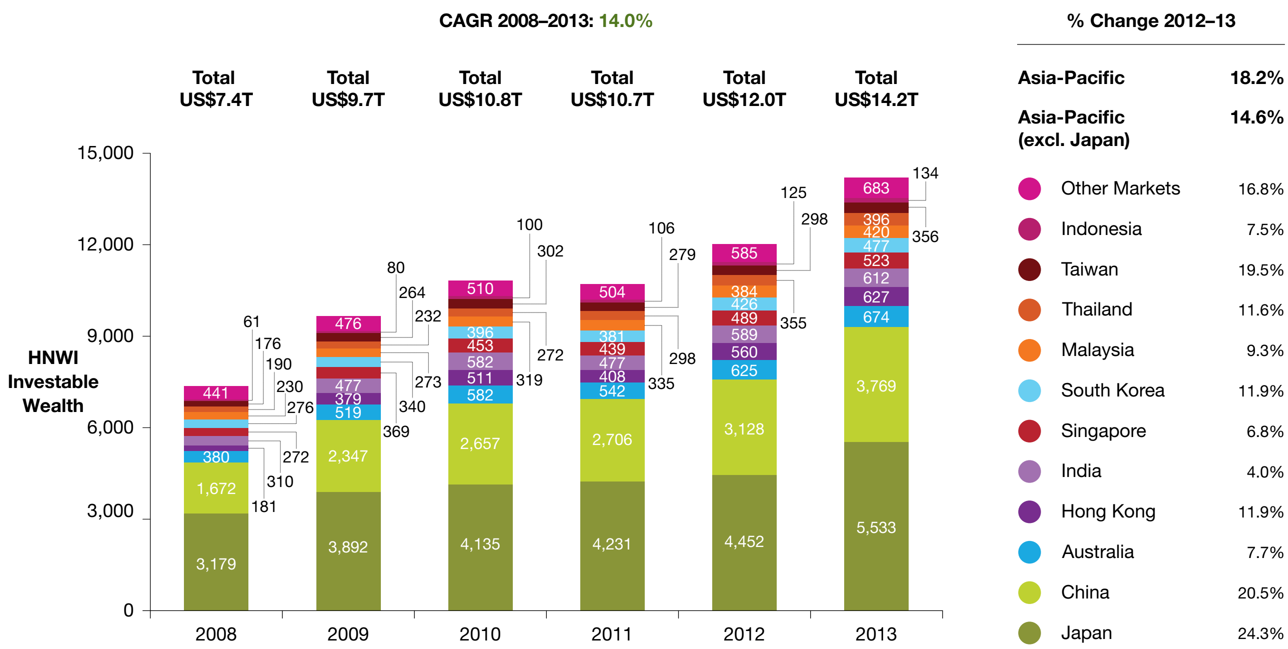


Note: The total for all years are expressed in millions and the 000s in the chart title do not apply to those numbers; Chart numbers and quoted percentages may not add up due to rounding; Other Markets include Kazakhstan, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka, and Vietnam

Source: Capgemini Financial Services Analysis, 2014

FIGURE 2. Asia-Pacific HNWI Wealth, 2008–2013 (by Market)

(US$ Billion)



Note: The total for all years are expressed in US$ trillion and the US$ billion in chart title does not apply to those numbers; Chart numbers may not add up due to rounding; Other Markets include Kazakhstan, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka, and Vietnam

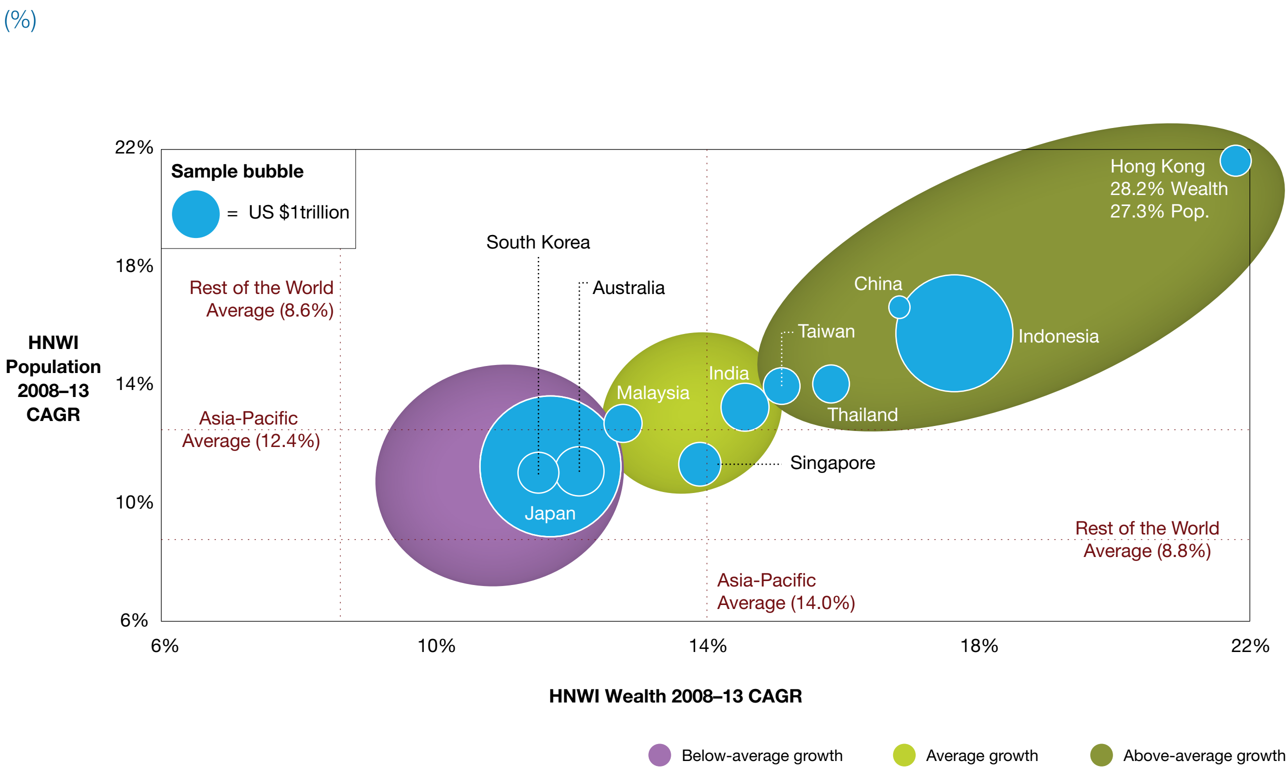
Source: Capgemini Financial Services Analysis, 2014

Taiwan was the only other key market to experience a higher rate of population growth in 2013 compared to a year earlier, as well as to the five-year compound annual rate. Hong Kong and India, which experienced very high HNWI population growth in 2012, did not fare well in 2013, decelerating sharply due to significantly weaker equity market performance. India experienced the lowest growth rate of the region (2.0%) largely driven by weak economic sentiment, but a turnaround is already underway, spurred by the election of a new government. Slower HNWI population growth in Australia and Singapore also constrained the region's overall performance in 2013. Despite the inconsistencies in HNWI population growth rates across different countries, Asia-Pacific as a whole outperformed the rest of the world by 3.8 percentage points in 2013, and by 3.7 points on an annualized basis from 2008 to 2013.

In terms of HNWI wealth, Japan and China again emerged as the region's biggest gainers. Japan's 24.3% increase in HNWI wealth to US$5.5 trillion was more than double its 11.7% compound rate over the previous five years. Meanwhile, China increased HNWI wealth by 20.5% to US$3.8 trillion. Taiwan posted the third-fastest rate of growth (19.5%), though at US$356 billion, its level of investable wealth remains far lower than that of the two leaders.

Examined over five years, significant HNWI population and wealth growth came from many Emerging Asia and some of the Mature Asia markets, with Indonesia, China, and especially Hong Kong, leading the way (see Figure 3). Hong Kong's 28.2% HNWI wealth growth and its 27.3% HNWI population growth over five years far exceeded the five-year averages of 14.0% and 12.4%, respectively, for wealth and population growth throughout all of Asia-Pacific. Lower growth in many Mature Asia markets, including South Korea and Australia, constrained overall HNWI growth in Asia-Pacific. And until its revival last year, Japan, the region's largest HNWI market, had held back the region's five-year HNWI growth average.

FIGURE 3. HNWI Population and Wealth Compounded Annual Growth Rates (CAGRs) for Select Asia-Pacific Markets, 2008–2013



Note: Hong Kong has not been placed to scale on the graph, as it is an outlier; Size of the bubble represents HNWI wealth in 2013
Source: Capgemini Financial Services Analysis, 2014

ULTRA-HNWI GROWTH OUTPACED OTHER REGIONS, SEGMENTS

Although ultra-HNWIs (those with more than US$30 million of investable assets) comprise 0.7% of the total population of Asia-Pacific HNWIs, they hold 26.0% of HNWI wealth in the region (see Figure 4). Though small in number, these HNWIs continue to have an outsized impact on wealth growth. In 2013, they grew their wealth faster than all other HNWIs in Asia-Pacific, as well as ultra-HNWIs in other parts of the world.

In terms of population, ultra-HNWIs in Asia-Pacific expanded their ranks by 18.7% in 2013 and by 15.6% over the last five years, compared to a growth of 14.7% in 2013 and a five-year expansion of only 9.2% for the rest of the world. In terms of wealth, Asia-Pacific ultra-HNWIs grew their assets by 19.8% in 2013, compared to 10.2% for the rest of the world. Over the last five years, their wealth expanded by 17.4%, compared to only 8.4% for the rest of the world.

The rates of growth for "mid-tier millionaires", with between US$5 million and US$30 million in assets, were just behind ultra-HNWIs at 18.2% for both population and wealth in 2013. Their rates of population and wealth growth over the last five years were also robust, at 13.9% and 14.1%, respectively. The "millionaires next door", representing 91.1% of Asia-Pacific's HNWI population and 50.1% of its wealth, experienced growth rates below the Asia-Pacific average. Taken together, all the HNWI segments of Asia-Pacific grew faster in population and wealth, compared to all those in the rest of the world.

FIGURE 4. Composition of Asia-Pacific HNWI Population (by Wealth Bands), 2013

	Number of Individuals – 2013	HNWI Population CAGR '08–13	HNWI Population Growth '12–13	HNWI Wealth CAGR '08–13	HNWI Wealth Growth '12–13	% of HNWI Wealth 2013
+ US$30m Ultra-HNWIs	29.7k (0.7% of total)	15.6%	18.7%	17.4%	19.8%	26.0%
Rest of the World average		9.2%	14.7%	8.4%	10.2%	37.8%
US$5m–US$30m Mid-Tier Millionaires	352.9k (8.2% of total)	13.9%	18.2%	14.1%	18.2%	23.9%
Rest of the World average						21.6%
US$1m–US$5m Millionaires Next Door	3,937.6k (91.1% of total)	12.3%	17.2%	12.5%	17.4%	50.1%
Rest of the World average						40.6%

Rest of the World average

Growth/CAGR figures with more than 5 percentage point difference from rest of the world average

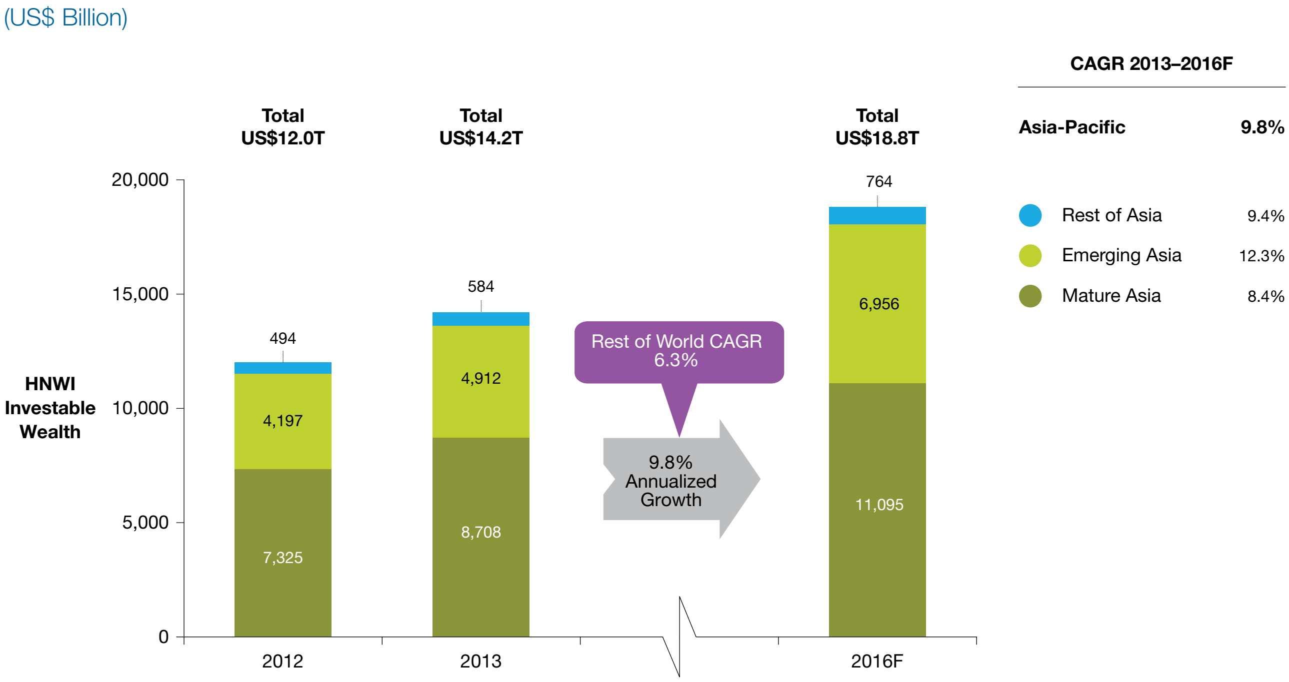
Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2014

EMERGING ASIA EXPECTED TO LEAD ASIA-PACIFIC WEALTH GROWTH

Building upon the momentum that has made it the driver of global HNWI population and wealth growth for the past several years, Asia-Pacific is expected to continue to lead global growth through 2016. Led by Emerging Asia, which is expected to expand HNWI wealth at a compound rate of 12.3% from 2013 to 2016, Asia-Pacific as a whole is expected to add US$4.6 trillion to investable wealth, taking it to US$18.8 trillion overall by 2016 (see Figure 5).

The potential for rejuvenated wealth growth in Japan may also help propel the Mature Asian markets to stronger expansion. A forecasted compound annual growth rate of 8.4% for Mature Asia through 2016 will contribute to the region's expected 9.8% annualized growth overall, easily exceeding the expected 6.3% rate for the rest of the world. Bolstered by expansion in Emerging and Mature Asia, Asia-Pacific's ongoing wealth growth is on a solid foundation for the foreseeable future.

FIGURE 5. Asia-Pacific HNWI Wealth Forecast, 2011–2016F



Note: The total for all years are expressed in US$ trillion and the US$ billion in the chart title does not apply to those numbers; Chart numbers may not add up due to rounding; Mature Asia includes Japan, Australia, New Zealand, Singapore, Hong Kong, Taiwan, Malaysia, and South Korea; Emerging Asia Includes China, India, Indonesia, and Thailand; Rest of Asia includes Kazakhstan, Myanmar, Pakistan, Philippines, Sri Lanka, and Vietnam

Source: Capgemini Financial Services Analysis, 2014

Mature Asia Markets Help Drive Strong Asia-Pacific GDP[5] Growth

- **Asia-Pacific (excl. Japan) remained the fastest-growing region of the world in 2013, achieving a gross domestic product (GDP) growth rate of 5.5%.** While the rate was virtually unchanged compared to 2012 levels, it far surpassed the global rate of 2.2%. Japan's GDP accelerated by 1.7% in 2013, almost double its average growth over the last decade.
- **Many Mature Asia markets stepped up GDP growth in 2013, helping to compensate for lower-than-usual levels of growth among the Emerging Asia markets.** Traditionally the driving forces of the region, the Emerging Asia markets of China, India, Indonesia, and Thailand, experienced flat or declining growth rates. Meanwhile, the Mature Asia markets of Japan, Hong Kong, Singapore, South Korea, and Taiwan witnessed substantial improvement in GDP growth following an earlier lull.
- **Equity market performance across Asia-Pacific was mixed, while real estate prices mostly rose, helped by low and stable interest rates across major markets.** Japan's MSCI Index grew impressively, turning in the strongest performance of the region as its 24.9% growth rate edged out the global average of 24.1%. However, other key markets, including Hong Kong, Taiwan, and New Zealand, experienced more modest equity market gains, while Emerging Asia market equity markets largely declined. Real estate prices in the key markets of Taiwan and China witnessed a strong increase, rising by 14.5% and 10.1%, respectively. The mature economy of Australia also posted solid real estate performance, with prices rising by 6.5%, while Japanese real estate increased in value by 3.9%.
- **Asia-Pacific will continue to lead global GDP growth, but at a more modest pace compared to historical high rates.** While the region continues to have momentum, it remains vulnerable to a slowdown in credit growth and reduced capital inflows. With rising wages and decelerating global trade, the region already is experiencing generally declining competitiveness. Structural reforms, while coming, may not boost growth over the short run. At the same time, the economies in the rest of the world are recovering, likely leading to a narrowing between the GDP growth rates of Asia-Pacific and other regions.

EXPORTS AND DOMESTIC FACTORS INFLUENCED GDP GROWTH IN ASIA-PACIFIC

During the five years that the global economy suffered through the financial crisis and its aftermath, Asia-Pacific distinguished itself as the world's highest-growth region. By eluding the most adverse effects of the crisis, Asia-Pacific posted solid compound annual growth of 5.7% from 2008 to 2013, compared to a paltry 2.8% globally. During that time, the Emerging Asia markets of China, India, Indonesia, and Thailand were the primary engines, registering compound annual growth of 7.9% over the five years (see Figure 6). China benefited from a massive $586 billion fiscal stimulus program, launched in 2008.[6]

The Emerging Asia markets continued to post the fastest growth of the region in 2013, although the pace decelerated as decelerating credit growth, weaker productivity gains, and subdued global trade took a toll. The two largest markets remained stable, with China maintaining its 7.7% growth rate and India advancing 0.1 point to 4.8%. However, China's GDP growth rate has

[5] GDP refers in all cases to inflation-adjusted or real GDP

[6] "China's Economy: After the Stimulus", China Business Review, April 2010

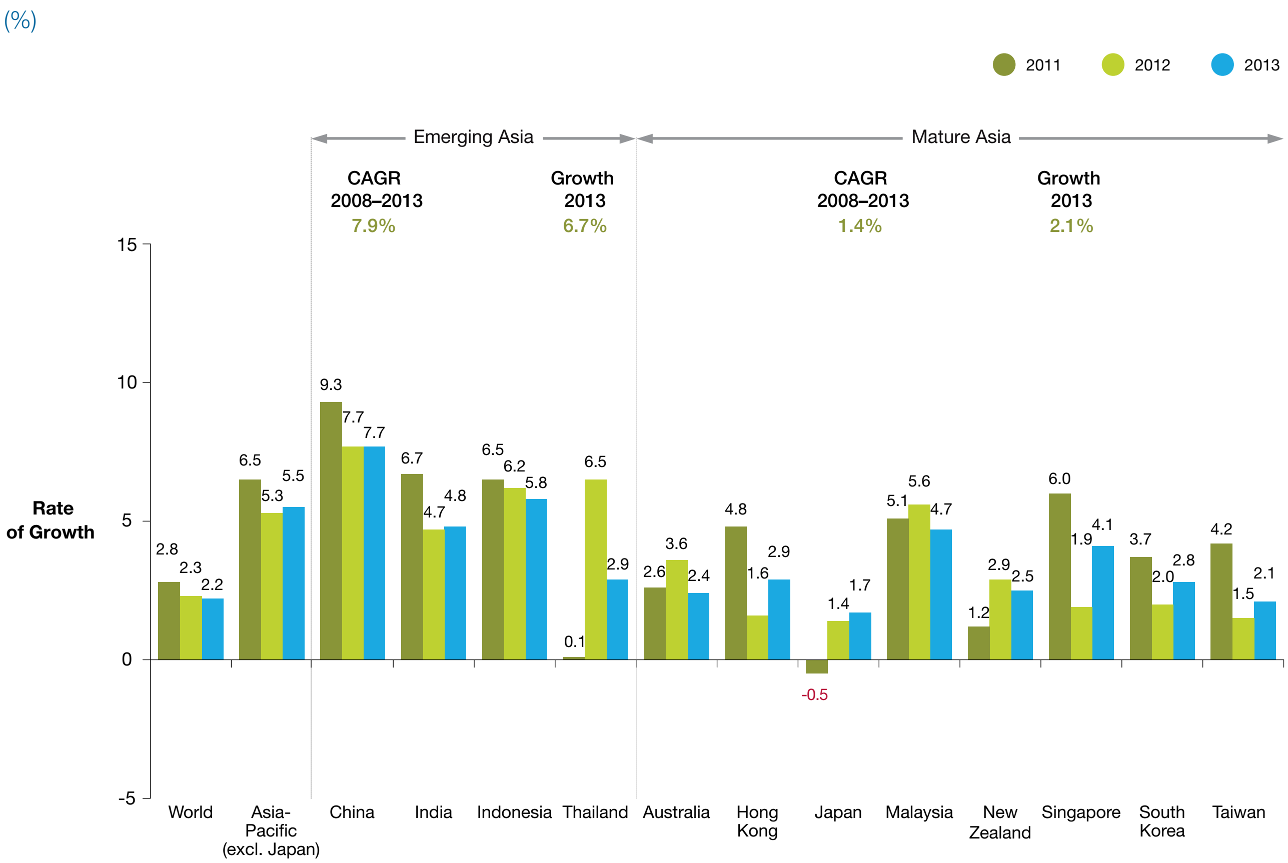
been losing momentum on a quarterly basis as industrial production and investment spending have dipped due to a clampdown on credit. Thailand, crippled by political unrest, saw GDP growth plummet to 2.9% from 6.5%. In Indonesia, Southeast Asia's largest economy, GDP growth slowed by 0.4 percentage points to 5.8%.

As growth abated in the Emerging Asia markets, other markets in the region helped pick up the slack. Hong Kong, Singapore, South Korea, and Taiwan grew at a faster rate in 2013, helped by their deep ties to the recovering North American and European economies. And Japan built upon the substantial GDP growth it recorded in 2012, pushing it up another 0.3 points to 1.7% thanks to the ongoing effects of Abenomics.[7] All in all, Asia-Pacific (excl. Japan) continued to stand out as the world's growth engine, edging GDP growth up 0.2 percentage points to 5.5%, compared to 2.2% globally. The difference in 2013 from previous years was that more markets throughout the region contributed to the overall growth.

Improved performance by the more mature nations coincided with a cool-down in the Chinese economy. The country's 7.7% GDP growth rate of the past two years represents its lowest in 14 years, although it surpassed the government's official target of 7.5%. While new credit grew in 2013, credit growth showed signs of slowdown in the second half of 2013 compared to a year earlier, as the country attempts to rein in shadow banking.[8]

While Japan's GDP growth of 1.7% was among the lowest in Asia-Pacific, it managed to build on its GDP performance of 1.4% in the previous year. Government moves aimed at depreciating the currency caused the yen to weaken by 21.4% against the U.S. dollar, resulting in an increase in exports and a rise in industrial production.[9] Further aid came from large amounts of monetary and fiscal stimulus. However, a sales tax hike that went into effect in April 2014 caused the economy's largest contraction since March 2011, as GDP fell by an annualized 6.8% in the second quarter of 2014, erasing growth of 6.1% in the first quarter.[10]

FIGURE 6. Real GDP Growth Rates, Select Asia-Pacific Economies, 2011–2013



Note: Aggregate real GDP growth rates are based on GDP weights as calculated by EIU
Source: Capgemini Financial Services Analysis, 2014; Economist Intelligence Unit, June 2014

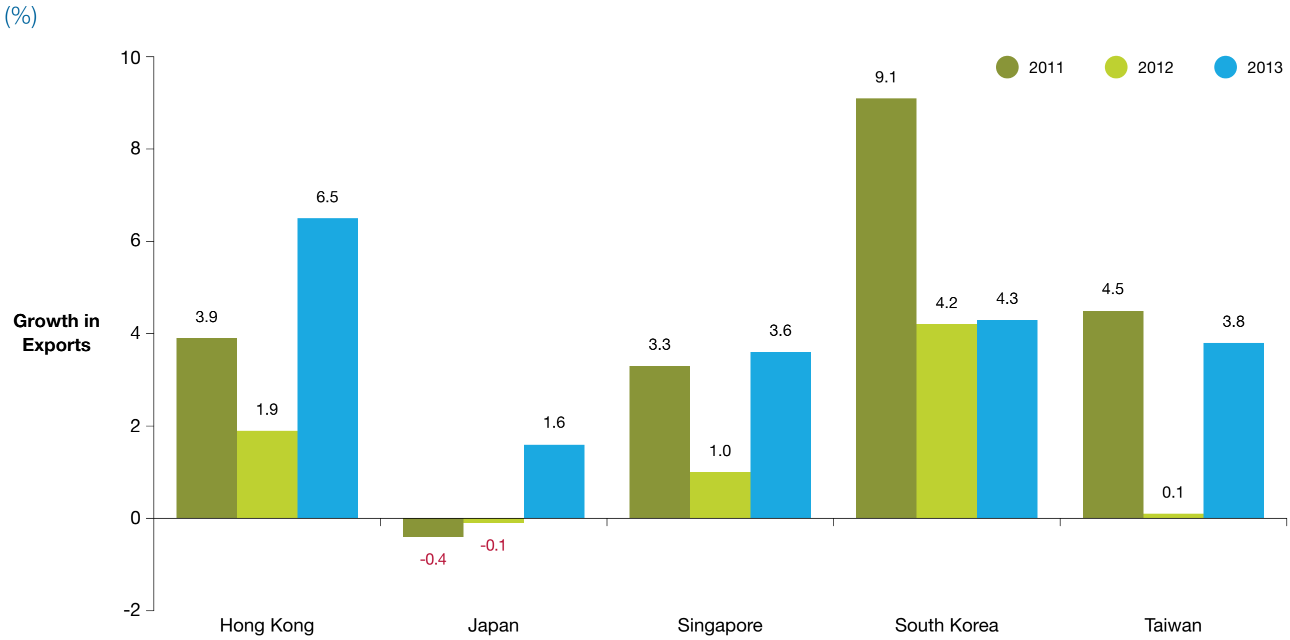
[7] Abenomics refers to the economic policies introduced by Japan's Prime Minister, Shinzo Abe, which incorporate a mix of fiscal stimulus, monetary easing, and structural reforms, to reinvigorate the economy

[8] "China slows pace of lending, but informal loans increase", The Wall Street Journal, January 2014

[9] www.investing.com/currencies/, Accessed April 2014

[10] "Japan's GDP falls by 6.8% in the second quarter on sales tax rise", Forbes, August 2014

FIGURE 7. Growth in Exports of Goods and Services of Select Mature Asian Economies, 2011–2013



Source: Capgemini Financial Services Analysis, 2014; Economist Intelligence Unit, April 2014

With China's growth threatening to fade, the performance of a handful of Mature Asian markets helped shore up GDP growth in the region. Hong Kong, Japan, Singapore, South Korea, and Taiwan all experienced marked GDP growth, as they underwent a natural rebound following a period of disproportionate weakness. An increase in exports, driven by the global recovery and steady domestic demand from Japan and China, also helped propel the GDP of these countries (see Figure 7).

KEY MARKETS TURN IN ROBUST EQUITY AND REAL ESTATE PERFORMANCE

Equity market performance in Japan was extremely strong as the Nikkei reached 16,000 for the first time in six years, pushing MSCI Index growth to 24.9%, slightly higher than the global average.[11] Significant growth occurred in other markets throughout the region, as well (see Figure 8). Within Mature Asia, the markets of Hong Kong, Taiwan, and New Zealand turned in solid performances. Though growth decelerated throughout much of the region when the U.S. Federal Reserve announced its intention to wind down its stimulus program, the markets recovered in the second half. In the more vulnerable countries of India and Indonesia, markets declined due to weaker currencies resulting from large current account deficits.

Property prices rose across most of Asia-Pacific as the region continued to benefit from stable, relatively lower interest rates as well as positive sentiment surrounding the gradual recovery of the global economy (see Figure 9). Some markets, including Hong Kong, Singapore, and Australia benefited from an inflow of real estate investment from mainland China in recent years.

In some markets, policymakers took measures to constrict the rate of the housing market's ascent. In China, for example, where housing prices rose 10.1%, policymakers raised minimum down payments for second-home buyers, increased scrutiny on non-local buyers, and made more land available. Prices accelerated the most in Taiwan (14.5%), causing the government to make amendments to its House Tax Act, increasing taxes on unoccupied residential houses and narrowing the gap between property prices and incomes.[12] The 2013 growth in housing prices was muted in Hong Kong after a strong 2012, as the government increased its stamp duty in early 2013 in a bid to rein in the overheated real estate market. As a result, sale and purchase agreements for all building units dropped by 39% from 2012 levels.[13]

Most government bond yields in the region rose (driving down bond prices), as they moved in tandem with the U.S. Federal Reserve's announcements about scaling back its stimulus. The exception was Japan, where yields fell modestly due to the Bank of Japan's buying up of government bonds. Indonesia witnessed the largest increase in bond yields, a result of rising concerns about inflation, bond disposals by foreign institutional investors, and a

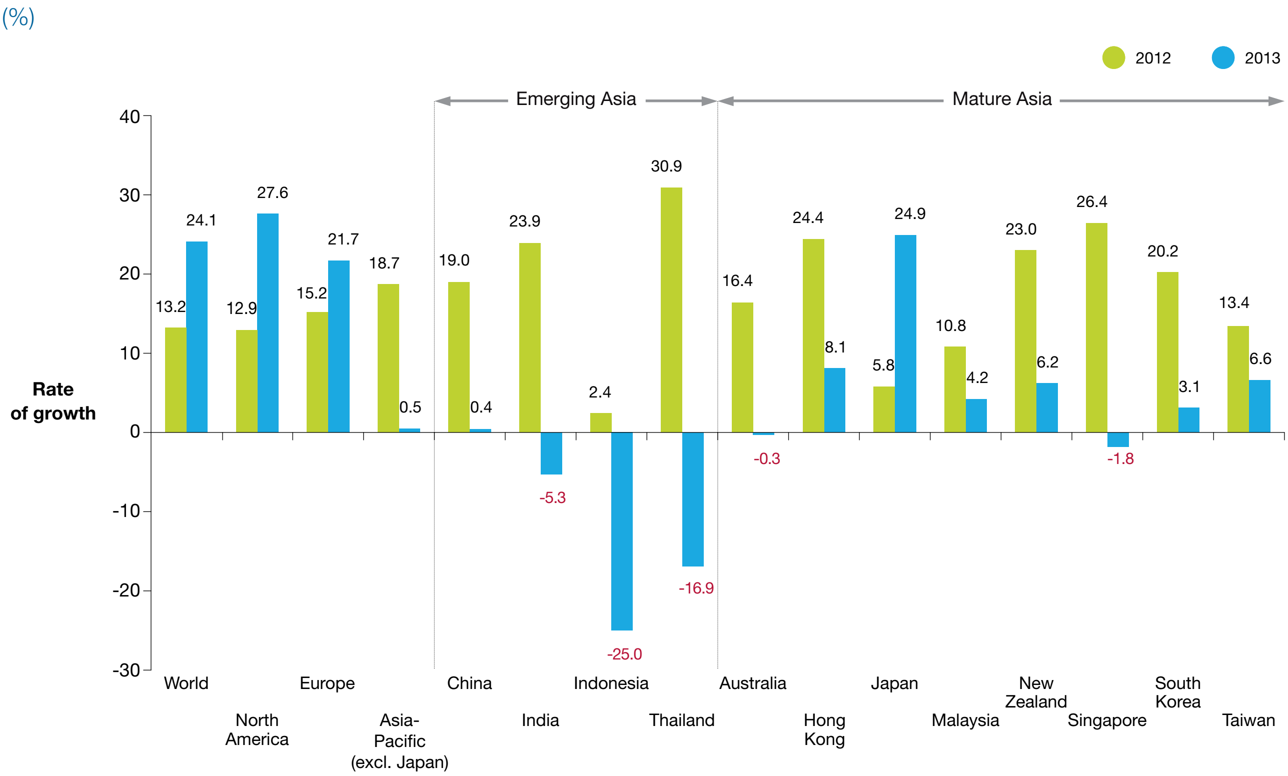
[11] "Japan's Nikkei stock index tops 16,000 for first time in 6 years", Los Angeles Times, December 2013

[12] "Taiwan to add tax to second homes", Tax-News, May 2014

[13] "Hong Kong stamp duty hikes cut property sales", Tax-News, January 2014

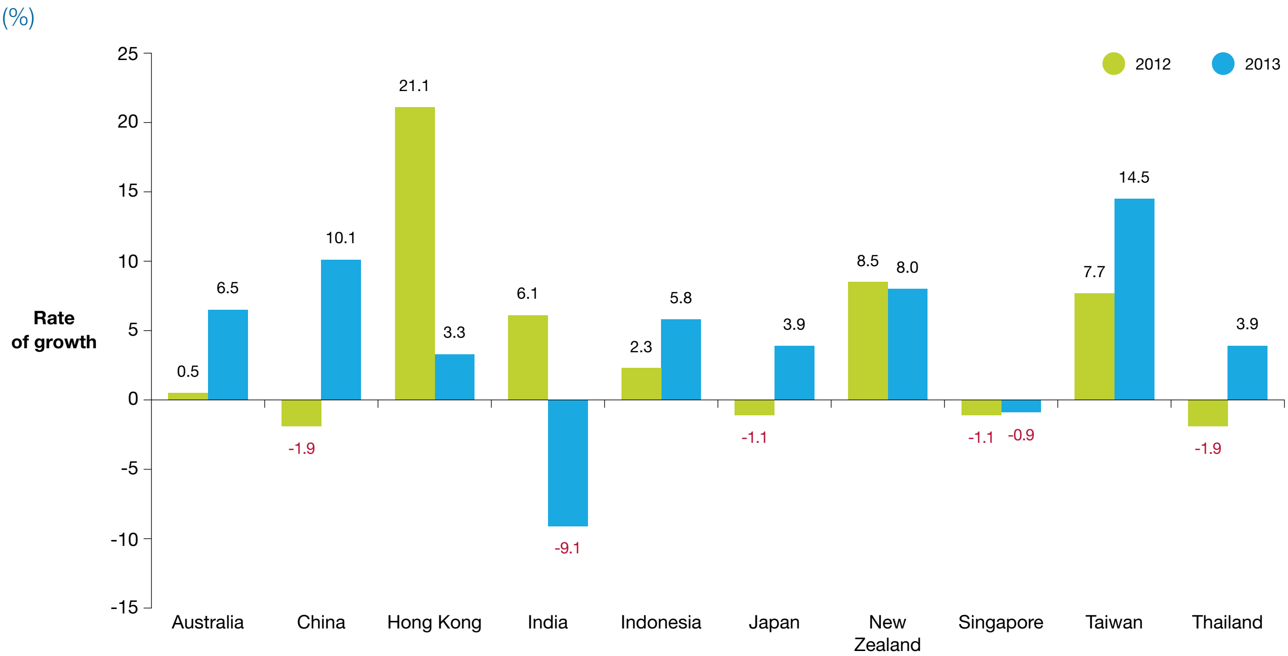
weak currency. Chinese bond yields rose due to weakened funding conditions and the expectation of tighter monetary policy as the country attempted to deleverage its economy. In the end, monetary policy stayed the same, raising expectations of reserve requirement rate cuts to lift the economy.

FIGURE 8. MSCI Asian Country Index Values, 2012–2013



Source: Capgemini Financial Services Analysis, 2014; MSCI Barra Indexes, April 2014

FIGURE 9. Inflation Adjusted House Price Change for Select Asia-Pacific Economies (%), 2012–2013



Source: Capgemini Financial Services Analysis, 2014; Global Property Guide House Price Index, March 2014

GEO-POLITICS PRESENTS RISKS TO ECONOMIC REFORM

Political stability—so crucial to the successful implementation of economic reforms—has become a reality in several large markets throughout Asia-Pacific, but remains elusive in others. Two of the region's largest markets, China and Japan, have clearly articulated government policies, with China outlining a set of reforms aimed at overhauling the economy over the next decade and Japan carrying out bold fiscal and monetary stimulus plans under a new prime minister. The welcome stability, however, is being challenged with continued tensions between the two countries over the disputed Diaoyu/ Senkaku islands.[14]

India and Indonesia are encountering a bumpier path along the road to reform. Both countries are starting to put the corruption scandals of previous governments behind them. But India has suffered from high-profile withdrawals of foreign direct investment, while Indonesia remains bogged down by structural barriers like fuel subsidies and an inflexible labor market. Recent elections may make a difference in both countries. A new prime minister in India is generating increased optimism that tough, pro-development economic reforms will be implemented. Similarly, Indonesia's election of a business-minded, economic reformist as president is likely to create greater confidence in that country's investment climate.

ASIA-PACIFIC WILL CONTINUE TO LEAD WITH STRONG GDP GROWTH, ALTHOUGH AT REDUCED PACE

Asia-Pacific (excl. Japan) is expected to continue to have a higher GDP growth rate than the rest of the world through 2015, though the gap between the two may narrow slightly as the rest of the world continues to recover. GDP in Asia-Pacific (excl. Japan) is expected to grow by 6.1% and 6.3% in 2014 and 2015, respectively, compared to a global rate of 3.0% and 3.3% (see Figure 10). The Emerging Asia markets, with the exception of Thailand, are expected to continue to drive GDP growth in the region, while China decelerates in the face of multiple challenges, including slowing investments, excessive debt, and an unregulated shadow banking system.

India's GDP performance, which remained weak due to the high costs of financing and a difficult business environment, is likely to improve as policy uncertainties and structural bottlenecks dissipate following the elections. Japan's growth rate is expected to remain flat as the positive impetus from earlier stimulus begins to fade and structural reforms take longer to implement than planned. To address weak public finances in Japan, the Abe administration committed to resuming fiscal discipline by increasing the sales tax to 8% from 5% starting in April 2014. However, the tax hike is triggering a squeeze on private consumption, which may result in further quantitative easing by the Bank of Japan.[15]

The unwinding of the Federal Reserve's stimulus program, which so negatively impacted equity valuations in some Asian markets in 2013, is likely to have ripple effects into the rest of 2014 and 2015, especially in countries with deeper financial markets and domestic imbalances. The tapering may result in reduced investment flows, particularly into the Emerging Asia markets, though it is not likely to erupt into a repeat of the 1997 – 1998 Asian financial crisis, thanks to much larger foreign exchange reserves, smaller public debt loads, less foreign-denominated borrowing, and an improved banking system.

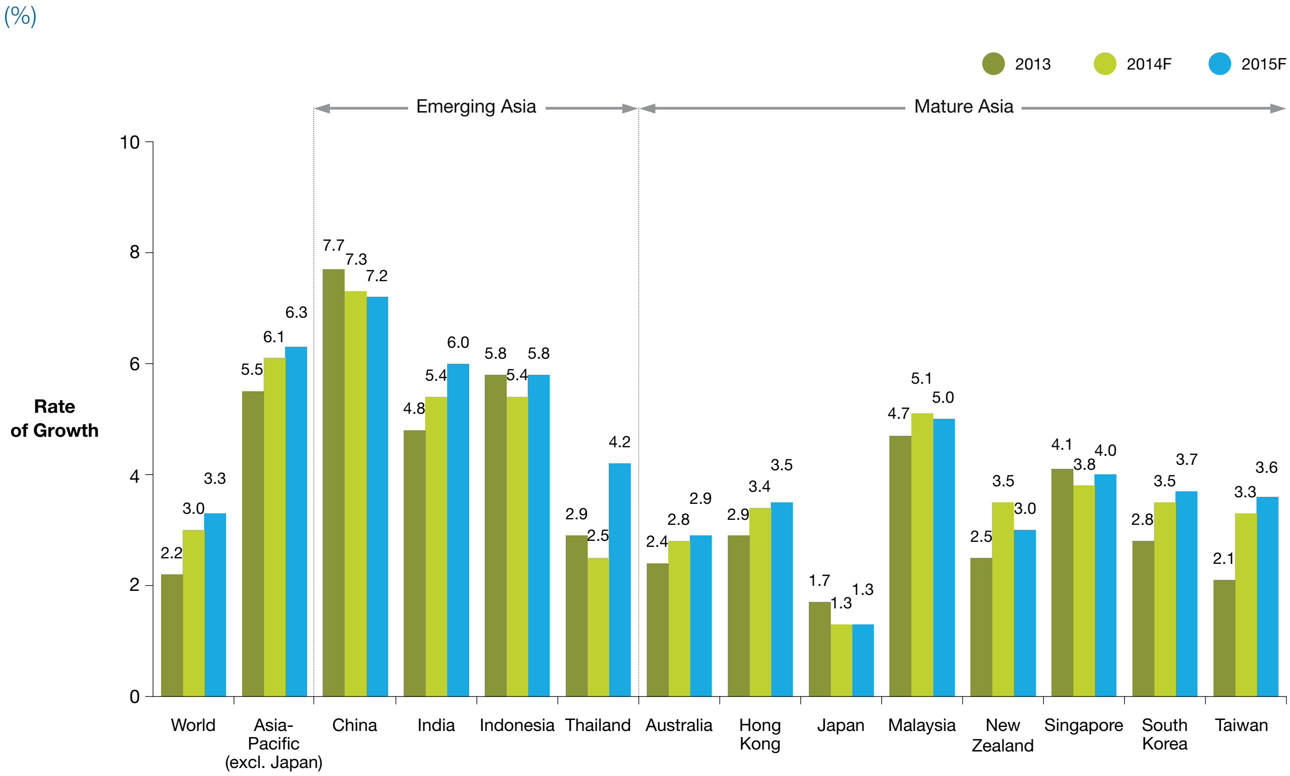
Tapering may also trigger higher interest-rate volatility and increased unpredictability in the financial markets. Over time, however, the effect of the tapering should be eminently absorbable, given the message of a stronger U.S. economy and increased demand for goods from export-oriented economies. As the advanced economies across the globe gain strength, interest rates and bond yields should rise. Real estate prices, meanwhile, could slow as governments impose cooling measures and interest rates rise in response to economic recovery in the region. Valuations for equities appear attractive, especially in the emerging markets due to aggressive selling in 2013 owing to capital flight.

Ongoing political risks took on a sharper edge in 2014. Thailand remains in political and economic limbo following its military coup. Only once the political turmoil there eases will the economy begin to gain traction from improved tourism and investment prospects, as well as greater external demand from its main regional trading partners, China and Japan. Adding to the region's level of political tension is the ongoing friction between China and Japan, the region's two largest economic powers. In India, investor confidence has risen significantly, as the newly elected National Democratic Alliance begins implementing decisive policy reforms aimed at promoting economic growth.

[14] "How uninhabited islands soured China-Japan ties", BBC, April 2014

[15] "The big squeeze", The Economist, March 2014

FIGURE 10. Outlook for Real GDP Growth Rates, Select Asia-Pacific Economies, 2013–2015F



Note: All 2013 data from Economic Intelligence Unit; All 2014 and 2015 data from Consensus Forecasts
Source: Capgemini Financial Services Analysis, 2014; Economist Intelligence Unit, June 2014; Consensus Forecasts, June 2014

HNWI Behaviors Open New Doors for Growth

- **Driven by China's leading trust levels, Asia-Pacific (excl. Japan) continued to have the highest levels of HNWI trust and confidence in all aspects of the wealth management industry across the globe.** Despite large leaps in trust by HNWIs in the rest of the world, China's consistently high rates of trust combined with large year-on-year gains in Australia, Japan, and Hong Kong keep the region's trust rating high. HNWIs over 60 years old recorded the highest increases in trust levels across all aspects of wealth management, except regulatory institutions.
- **HNWIs in Asia-Pacific (excl. Japan) were more focused on wealth growth than preservation, unlike those in the rest of the world where HNWIs were more focused on wealth preservation.** This focus on growth may have been the reason behind their markedly increased allocations to international markets, with Asia-Pacific (excl. Japan) HNWIs investing 43.4% outside their home region in 2014, compared to 35.2% by HNWIs in the rest of the world.
- **Real estate represented the largest investment allocation made by Asia-Pacific (excl. Japan) HNWIs, reflecting increased optimism and greater risk appetite in the region.** Improved investor sentiment was also likely behind a significant decrease in cash held by Japanese HNWIs.
- **The behaviors and preferences of Asia-Pacific (excl. Japan) HNWIs vary from those of their counterparts in the rest of the world, presenting considerable opportunities for wealth management firms to provide specialized services.** HNWIs in Asia-Pacific (excl. Japan) are more likely to seek professional advice with a particular focus on family wealth, are willing to pay more for customized services, and prefer to interact with multiple experts.
- **Performance scores for wealth managers and firms remained flat in Asia-Pacific, despite high trust levels and a desire for advice.** While Chinese, Indian, and Hong Kong HNWIs were most satisfied with their wealth managers and firms, lower scores in Singapore, Japan, and Australia signal opportunities for firms to address unmet needs.

TRUST IN WEALTH INDUSTRY HIGHEST IN ASIA-PACIFIC (EXCL. JAPAN)

Our Global HNW Insights Survey 2014 queried more than 4,500 HNWIs, including more than 1,400 from Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, and Singapore, to better understand the evolving nature of trust throughout the region (see Figure 11), among other elements.

We found that Asia-Pacific (excl. Japan) HNWIs added to their already high levels of trust, distinguishing themselves as having the highest trust in all aspects of the wealth management industry, compared to HNWIs in the rest of the world. Asia-Pacific (excl. Japan) HNWI trust in wealth managers increased by 7.6 percentage points to 85.5% (see Figure 12), compared to 79.4% for HNWIs in the rest of the world. Similarly, their trust in wealth management firms expanded by 7.8 percentage points to 86.6%, compared to 80.9% in the rest of the world. However, the rest of the world, with its significant increase in trust levels in primary relationships over the last year, has been closing the trust level gap with Asia-Pacific (excl. Japan).

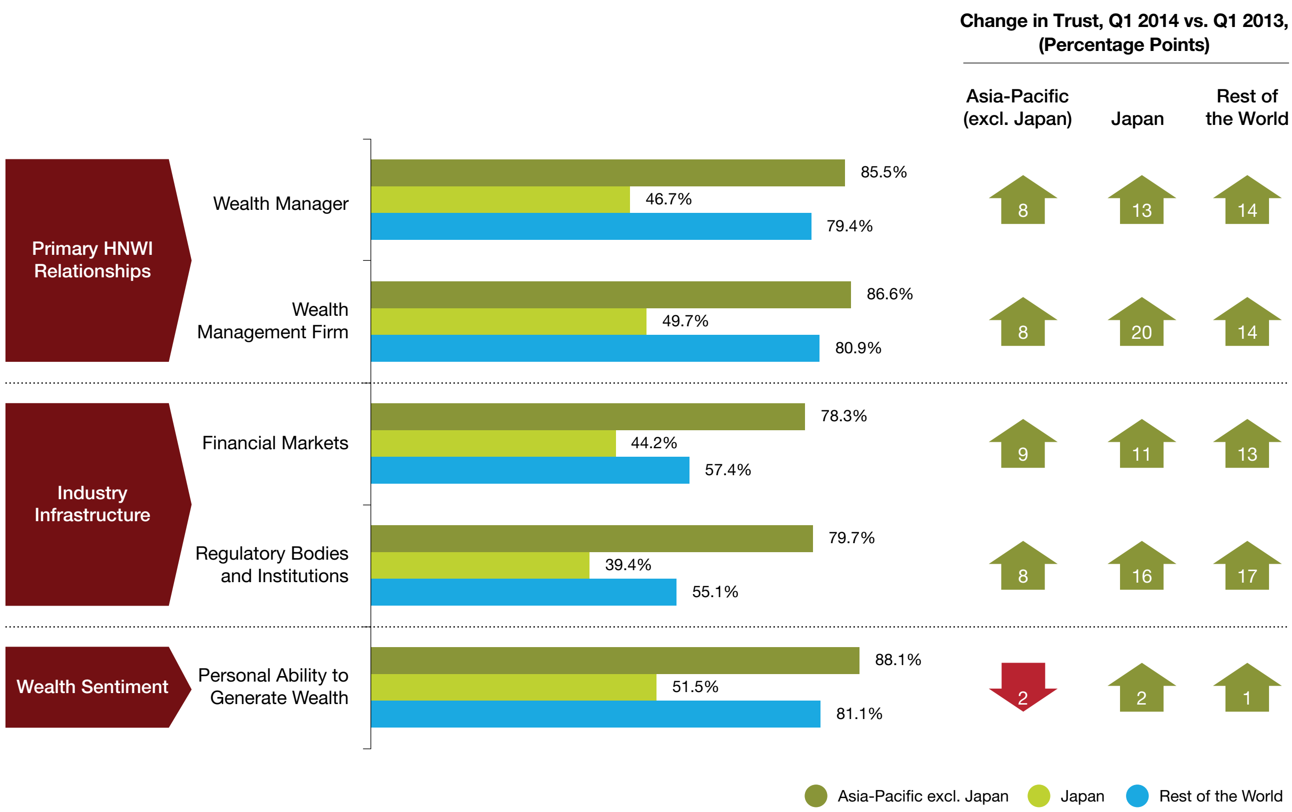
FIGURE 11. Geographic Scope of Global HNW Insights Survey, 2014

(%)

Note: Country boundaries on diagram are approximate and representative only
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

FIGURE 12. Trust and Confidence Levels in Key Stakeholders, Q1 2014

(%)



Note: Chart numbers may not add up to 100%, as only the high trust values (Somewhat High, High, and Very High) have been shown here; Chart numbers may not add up exactly to total figures due to rounding; The responses to the question asked ("Currently, to what extent do you agree or disagree with the following statements? – I have trust and confidence in the …") for various stakeholders listed above were analyzed based on agreement and disagreement to arrive at the percentages for HNWI trust and confidence
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

China played a large role in the high trust levels throughout the region. Globally, Chinese HNWIs have the greatest amount of trust in wealth managers and the second-highest in firms (behind South Africa), with both measures expanding modestly throughout 2013 to surpass 90% (see Figure 13) by the first quarter of 2014. Other markets in Asia-Pacific, with the exception of Singapore, experienced larger year-on-year boosts in trust for wealth managers and firms, helping to push the region's gains. These markets included Australia, with a 20.4 percentage point gain for managers and a 15.8 point gain for firms; Japan (13.3 and 19.7 point gains), and Hong Kong, (16.3 and 11.0 point gains).

Asia-Pacific (excl. Japan) HNWIs continue to have the highest levels of trust in financial markets and regulatory institutions, maintaining a more than 20 percentage-point difference between their trust levels and those of HNWIs in the rest of the world. Asia-Pacific (excl. Japan) HNWIs increased their trust in financial markets by 8.9 percentage points to 78.3%, compared to a trust level of 57.4% for HNWIs in the rest of the world. They also expanded their trust in regulatory institutions by 7.6 percentage points to 79.7%, vs. 55.1% for HNWIs in the rest of the world.

While China was a significant factor in the high levels of Asia-Pacific (excl. Japan) HNWI trust along these measures (84.9% for financial markets and 85.1% for regulatory bodies, likely as a result of the country's ongoing commitment and focus on improving its regulatory environment), Indonesia posted the highest levels of trust globally: 86.3% for financial markets and 86.3% for regulatory bodies. Indonesia's efforts to improve the regulatory environment for conducting business were recognized by The World Bank. After Indonesia and China, the next three countries with the greatest amount of trust in financial markets and regulatory bodies were all in Asia-Pacific (India, Malaysia, and Hong Kong).

As in the case of wealth managers and firms, Australia, Japan, and Hong Kong were the leading drivers of the region's trust gains related to financial markets and regulatory institutions. Australia recorded an 18.6 percentage-point gain for financial markets and a 13.9 point gain for regulators; while Hong Kong registered a 20.1 and a 14.8 point gain on these measures. Japan also recorded strong gains at 11.4 and 16.3 points. At the same time, India and Singapore were the only countries globally, along with United Arab Emirates, to experience a decrease in trust of regulatory bodies, though the levels remained

FIGURE 13. Trust and Confidence Levels in Asia-Pacific, Q1 2014

(%)

Region/Country	Wealth Manager		Wealth Management Firm		Financial Markets		Regulatory Bodies		Personal Ability to Generate Wealth	
	Q1 2014	Change from Q1 2013 (PP)	Q1 2014	Change from Q1 2013 (PP)	Q1 2014	Change from Q1 2013 (PP)	Q1 2014	Change from Q1 2013 (PP)	Q1 2014	Change from Q1 2013 (PP)
Rest of the World	79.4%	13.5	80.9%	14.2	57.4%	12.9	55.1%	16.8	81.1%	1.2
Asia-Pacific (excl. Japan)	85.5%	7.6	86.6%	7.8	78.3%	8.9	79.7%	7.6	88.1%	-2.4
Japan	46.7%	13.3	49.7%	19.7	44.2%	11.4	39.4%	16.3	51.5%	2.4
Australia	75.4%	20.4	75.4%	15.8	62.3%	18.6	62.3%	13.9	78.3%	-3.6
China	91.7%	2.0	92.3%	6.4	84.9%	5.7	85.1%	7.4	93.2%	-2.0
Hong Kong	81.3%	16.3	83.0%	11.0	74.1%	20.1	76.8%	14.8	80.4%	3.4
India	84.0%	10.0	89.5%	3.9	78.0%	1.6	82.0%	-2.6	90.5%	-5.2
Indonesia	82.4%	NA	87.3%	NA	86.3%	NA	86.3%	NA	93.1%	NA
Malaysia	83.0%	NA	86.8%	NA	77.4%	NA	82.1%	NA	84.9%	NA
Singapore	72.0%	2.6	68.2%	-2.2	66.4%	0.7	72.9%	-5.1	76.6%	-8.4

Highest Value in Trust Levels · Highest Increase in Trust Levels

Note: Trust levels include only the high trust values (Somewhat High, High, and Very High); The responses to the question asked ("Currently, to what extent do you agree or disagree with the following statements? – I have trust and confidence in the …") for various stakeholders listed above were analyzed based on agreement and disagreement to arrive at the percentages for HNWI trust and confidence

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

high: 82.0% for India, following a decrease of 2.6 percentage points, and 72.9% for Singapore, after a decrease of 5.1 points.

Although Japan had the lowest levels of trust in all facets of the wealth management industry, the increases compared to a year ago were very high, reaching double-digit rates. Japanese HNWI trust in wealth management firms, for example, expanded by 19.7 percentage points to 49.7%. In regulatory bodies, it expanded by 16.3 points to 39.4%.

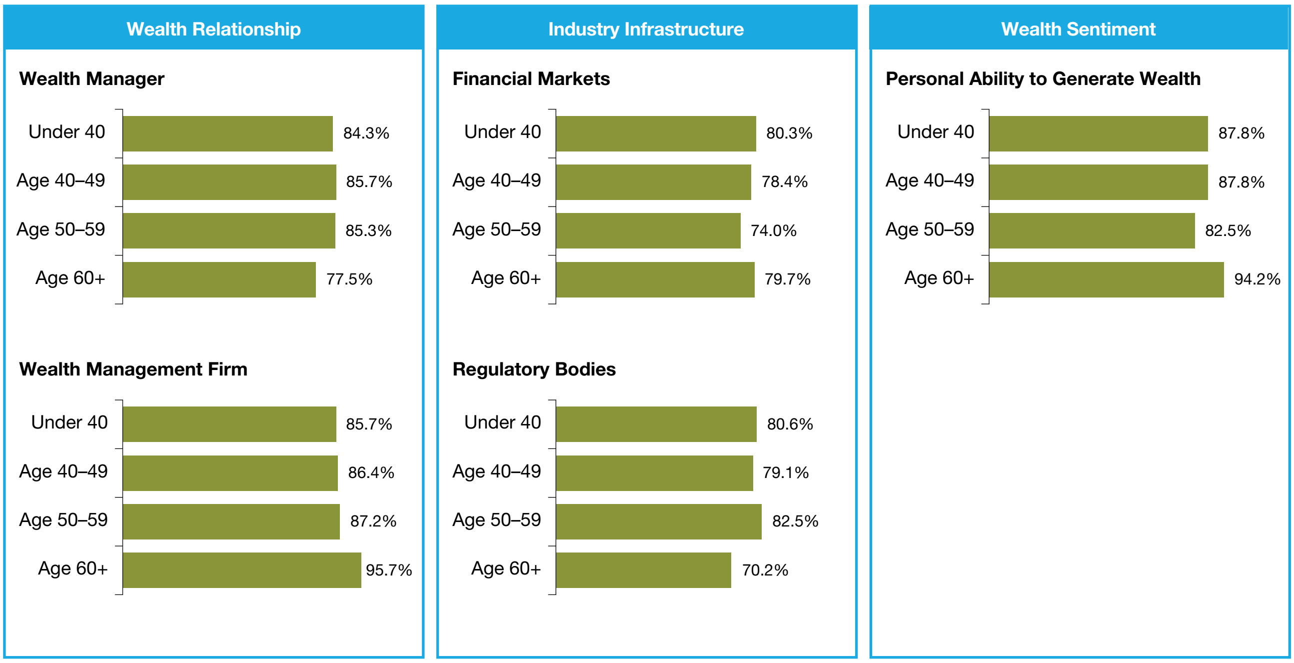
Asia-Pacific (excl. Japan) HNWIs over the age of 60 were the most likely to report increased trust in the wealth management industry. Older HNWIs experienced double-digit increases in all aspects of wealth management, except for regulatory bodies. Their trust in financial markets stood at 79.7% (see Figure 14). Of all the age groups, older HNWIs also had the highest confidence in wealth management firms (95.7%) and their personal ability to generate wealth (94.2%).

The measure of personal ability to generate wealth reflects HNWI attitudes toward the health of the economy, their own business prospects, and other important wealth-creating vehicles such as real estate and investment markets. Only along this measure did Asia-Pacific (excl. Japan) confidence levels decline (by 2.4 percentage points). Yet at 88.1%, HNWIs still had higher confidence in generating future wealth compared to the rest of the world. The Asia-Pacific countries of China (93.2%) and Indonesia (93.1%) ranked first and second globally in terms of their level of confidence in generating wealth.

By market, the largest decrease in confidence related to generating wealth came from Singapore, where an 8.4 percentage-point drop—perhaps a reflection of a drop in real estate prices, exacerbated by persistent inflation—led to confidence levels of 76.6%, below the rest of the world average of 81.1%. Other markets to experience a loss of confidence in generating wealth were India (-5.2 percentage points), Australia (-3.6 points), and China (-2.0 points). Confidence increased in Hong Kong (3.4 points) and Japan (2.4 points).

FIGURE 14. Trust and Confidence Levels of HNWIs in Key Stakeholders by Age Band, Asia-Pacific (excl. Japan), Q1 2014

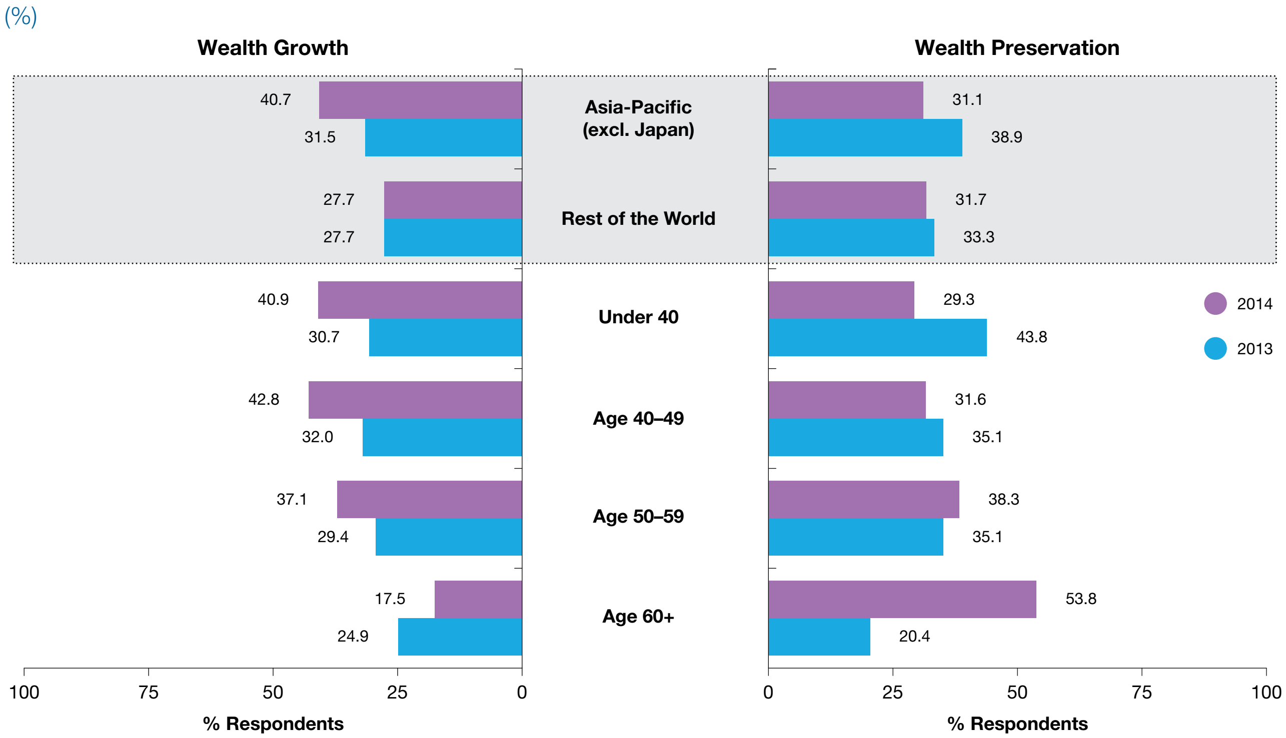
(%)



Note: Trust levels include only the high trust values (Somewhat High, High, and Very High); The responses to the question asked ("Currently, to what extent do you agree or disagree with the following statements? – I have trust and confidence in the …") for various stakeholders listed above were analyzed based on agreement and disagreement to arrive at the percentages for HNWI trust and confidence

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

FIGURE 15. HNWI Focus on Wealth Growth vs. Wealth Preservation



Note: Question asked on a 10-point spectrum: Please indicate your focus on growing your wealth vs. preserving your wealth?; As we asked for preferences across a 10-point spectrum containing two extreme points, the above numbers in the figure indicate the percentage of respondents providing the top three ratings at each extreme

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

ASIA-PACIFIC (EXCL. JAPAN) HNWIs FOCUS ON GROWTH, INTERNATIONAL INVESTMENTS

The higher levels of trust and confidence Asia-Pacific (excl. Japan) HNWIs had in the wealth management industry may have played a role in their greater focus on wealth growth (40.7%) over preservation (31.1%) (see Figure 15). In contrast, HNWIs in the rest of the world were more focused on preservation (31.7%) vs. growth (27.7%).

Asia-Pacific (excl. Japan) HNWIs under 50 were a very strong driver of the focus on wealth growth in the region, with 42.0% of them declaring a focus on growth, compared to only 29.6% focused on preservation. In contrast, despite very strong confidence in their ability to generate future wealth (94.2%), 53.8% of Asia-Pacific (excl. Japan) HNWIs over 60 were focused on preservation and only 17.5% on growth.

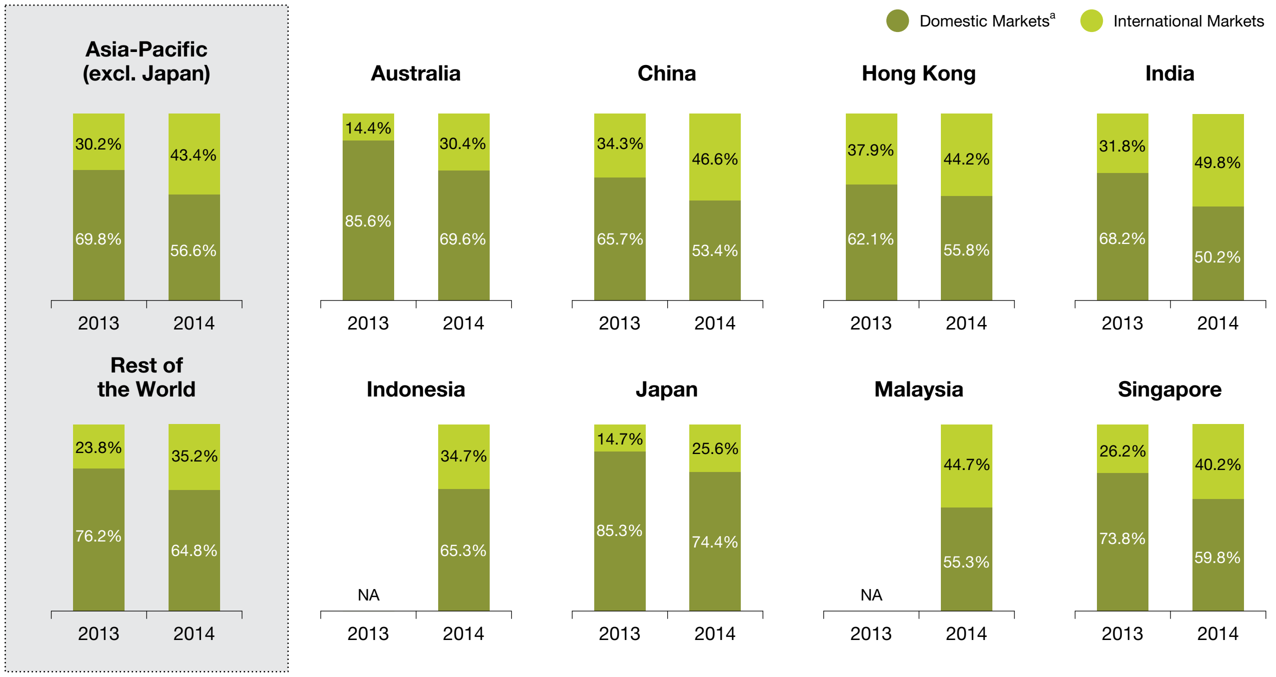
The focus on wealth growth over preservation differed across markets. At 48.4%, China had the highest focus on growth globally, followed by Indonesia (third highest at 44.1%) and Singapore (39.3%). India was an exception to the focus on growth, with 40.0% of HNWIs expressing a higher focus on wealth preservation, ranking second globally after France. At 34.0%, HNWIs in Malaysia also indicated a greater focus on preservation over growth.

The general growth focus of Asia-Pacific (excl. Japan) HNWIs appeared to be a driver of significantly increased allocations to investments outside the Asia-Pacific region. Asia-Pacific (excl. Japan) HNWIs were more aggressive in increasing their investments outside their home markets than HNWIs in the rest of the world. Allocations to international markets in 2014 stood high at 43.4% (see Figure 16) for Asia-Pacific (excl. Japan) HNWIs, compared to 35.2% for those in the rest of the world. Europe attracts the largest share of wealth from Asia-Pacific (excl. Japan) HNWIs at 15.0%, followed closely by North America at 14.2%.

HNWIs in some Asia-Pacific markets allocated more to international investments than others. Those in India, China, Hong Kong, Malaysia, and Singapore had more than 40% of their assets invested outside their home markets, while those in Australia and Indonesia limited their international allocation to 30.4% and 34.7%, respectively.

Across Asia-Pacific, HNWIs who invested the most in North America were from China, allocating 18.0% (see Figure 17) of their financial assets to this region, while those who had the highest allocation to Europe were from China and Hong Kong, investing 16.2% of their financial assets in this region. The highest allocations to the Middle East and Africa came from India, at 19.4%, while Singapore allocated the most to Latin America, at 7.0%.

FIGURE 16. HNWI Geographic Wealth Allocation, Q1 2013, Q1 2014

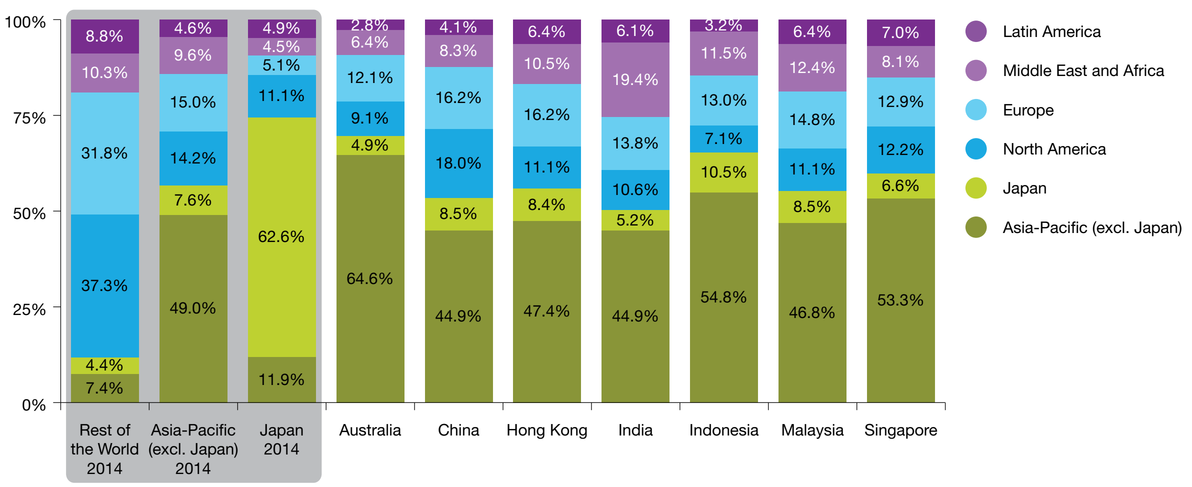


a. Japan has been considered as domestic market

Note: Chart numbers may not add up to 100% due to rounding; 2013 data for Indonesia and Malaysia are not available, as these countries were not part of the Global HNW Insights Survey, 2013

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

FIGURE 17. Breakdown of HNWI Geographical Allocation (%), Q1 2014



Note: Chart numbers may not add up to 100% due to rounding

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

REAL ESTATE REMAINS THE PREFERRED ASSET CLASS FOR ASIA-PACIFIC (EXCL. JAPAN)

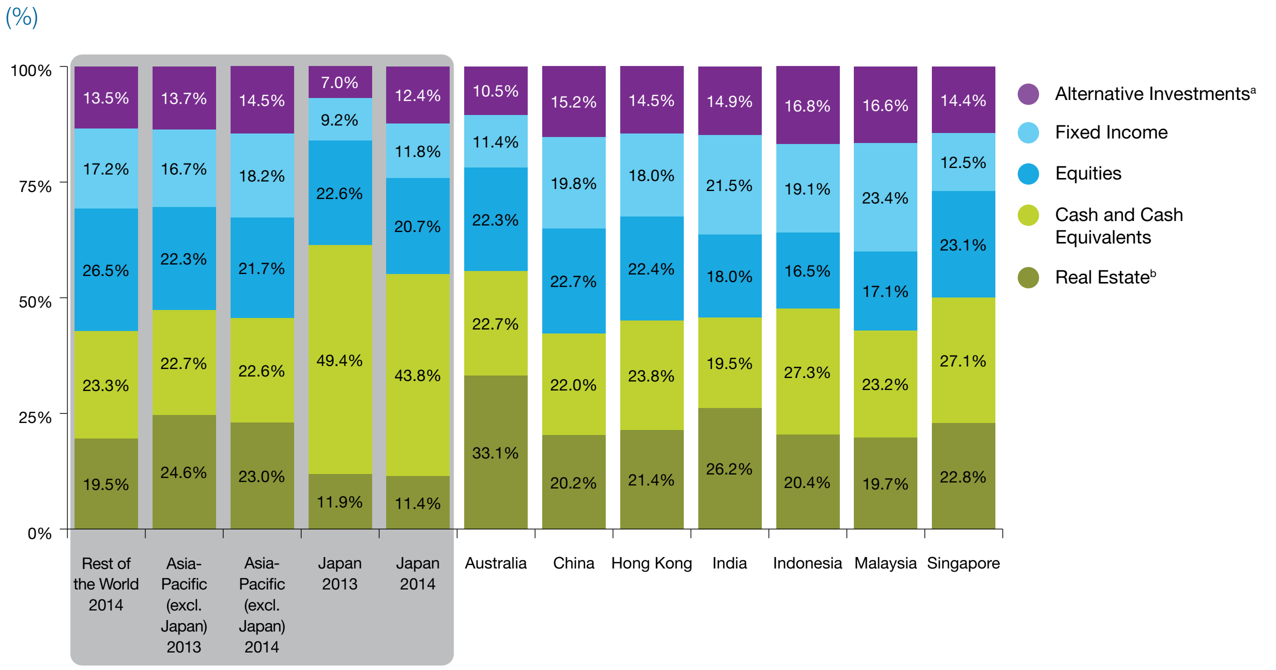
In contrast to HNWIs in the rest of the world, those in Asia-Pacific (excl. Japan) invested more in real estate than in equities. At 23.0% (see Figure 18), real estate represented the largest investment allocation made by Asia-Pacific (excl. Japan) HNWIs, and was above the allocation of 19.5% made by HNWIs in the rest of the world. While a continued optimistic outlook on the health of the regional and global economics may explain their higher allocation into real estate vis-à-vis the rest of world, cultural preferences may have also played a role, as Asians tend to be attracted to physical assets, such as properties, (especially when land is scarce or inflation is high) over those that are less tangible, such as stocks and bonds.

Greater optimism, however, likely played a main role in the declining allocations to cash by Japanese HNWIs. Though they allocated the most globally to cash at 43.8%, this amount represented a decline of 5.6 percentage points from the previous year, equivalent to more than US$200 billion, based on market sizing results revealed in the first section of this report. Allocation to riskier alternative investments by HNWIs in Japan increased by 5.4 percentage points to 12.4% from 7.0% in 2013. Strong GDP growth and the impact of Prime Minister Abe's structural reforms to promote the economy no doubt caused Japanese HNWIs to reassess the risk/return profiles of various investments. However, concerns about Abe's policies are also emerging as signs of weakness were seen in Japan's economy in Q2 2014, following a sales-tax increase and a decline in industrial production and exports.

At 33.1%, the allocation by Australian HNWIs to real estate was the highest in the world, though it represented a drop from 40.6% a year earlier. Record-low interest rates in the country could be sowing fear of a property bubble, explaining the drop. Correspondingly, high allocations to real estate resulted in lower allocations to other asset classes for Australian HNWIs, compared to HNWIs elsewhere.

In China, investment allocations remained virtually the same from 2013 to 2014. Compared to HNWIs in India, those in China had higher allocations to equities (22.7%

FIGURE 18. Breakdown of Financial Assets (%), Q1 2014



a. Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity
b. Excludes primary residence
Note: Chart numbers may not add up to 100% due to rounding
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

vs. 18.0% in India) and less to real estate (20.2% vs. 26.2% in India). On the other hand, India stood out for its third- highest allocation to fixed income globally at 21.5%, possibly a result of higher interest rates in the country that drove allocations away from cash (-3.2PP).

Asset allocation patterns also differed among Hong Kong and Singapore HNWIs. While HNWIs in Singapore had higher allocations to cash (27.1%) compared to their Hong Kong counterparts (23.8%), their allocations to fixed income at 12.5% were much lower than those in Hong Kong at 18.0%. Malaysia and Indonesia HNWIs also displayed different asset allocation profiles. Malaysia stood out for having the highest allocation globally to fixed income (23.4%), while its neighbor Indonesia stood out for its second-highest allocation globally to alternative investments (16.8%).

With respect to alternative investments, allocations to foreign exchange were notably higher among Asia-Pacific (excl. Japan) HNWIs, reaching 19.1%, compared to 14.5% in the rest of the world. Japan had the highest allocation to foreign exchange, at 33.6% of their total allocation to alternative investments (12.4%). With HNWIs in Asia-Pacific often being business owners, who have business interests spread across the region and globally in some instances, the region's HNWIs may be more comfortable with using multiple currencies for their wealth.

Asia-Pacific (excl. Japan) HNWIs were also more heavily invested in hedge funds (14.3%), compared to their rest-of-the-world counterparts (12.7%). Hedge fund allocations were highest in Japan (15.4%), China (15.1%) and Hong Kong (15.0%). The sizable inflows, particularly into Japanese hedge funds, combined with performance gains, helped the hedge fund industry in Asia reach a record US$112.3 billion in assets under management.

Australian HNWIs were by far the most aggressive in investing in structured products. Their allocation of 27.2% was well above the 19% range found in Singapore, China, and India. Private equity made a strong showing in India (20.8%) and Singapore (19.1%), while commodities were preferred in China (19.7%) and India (19.6%).

JEWELRY, GEMS, AND WATCHES REMAIN THE TOP INVESTMENT OF PASSION GLOBALLY AND IN ASIA-PACIFIC

- In line with the global trend, jewelry, gems, and watches were the most favored Investments of Passion among Asia-Pacific (excl. Japan) HNWIs, with the allocation reaching 32.5% (see Figure 19).
- After jewelry, gems, and watches, Asia-Pacific (excl. Japan) HNWIs were most interested in other collectibles such as wine, antiques, coins and memorabilia (20.9%, down from 23% in 2013). The decreased investment in the other collectibles category was attributable to HNWIs in Hong Kong, China, and Australia, who increased their investments in luxury collectibles, the third-most popular Investment of Passion (20.1%, up from 16.8% in 2013).
- Art was the next most popular Investment of Passion, though its allocation of 15.3% was down from 17.3% in 2013. HNWIs in China continued to have the region's highest allocation to art at 17.2% (see Figure 20), though that was down by one percentage point from a year earlier. The decrease may be the result of ongoing concerns about the origin, quality, and authenticity of auctioned art in China.

FIGURE 19. Breakdown of HNWI Investments of Passion, Global, Q1 2014

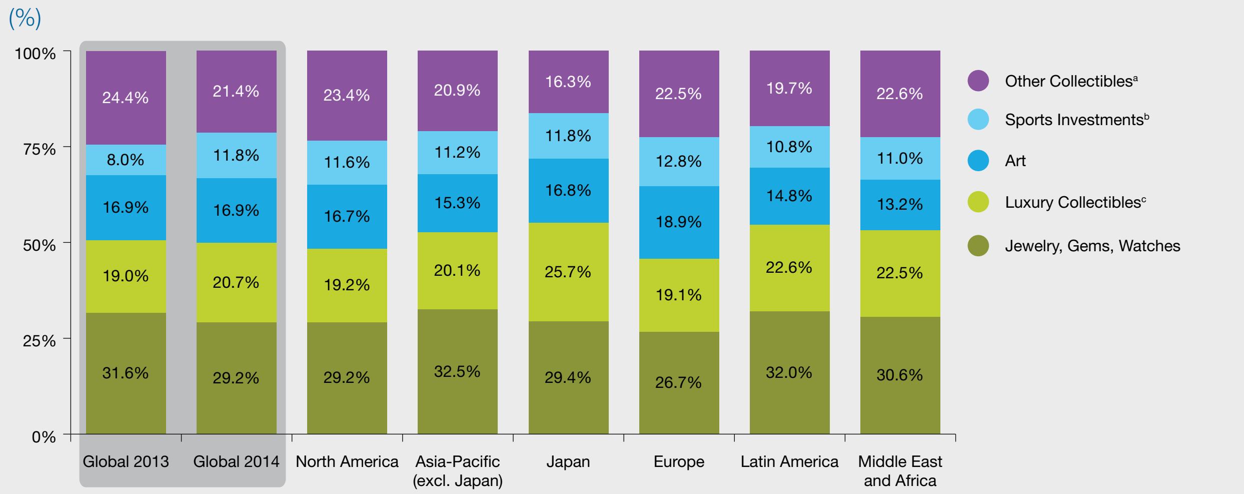
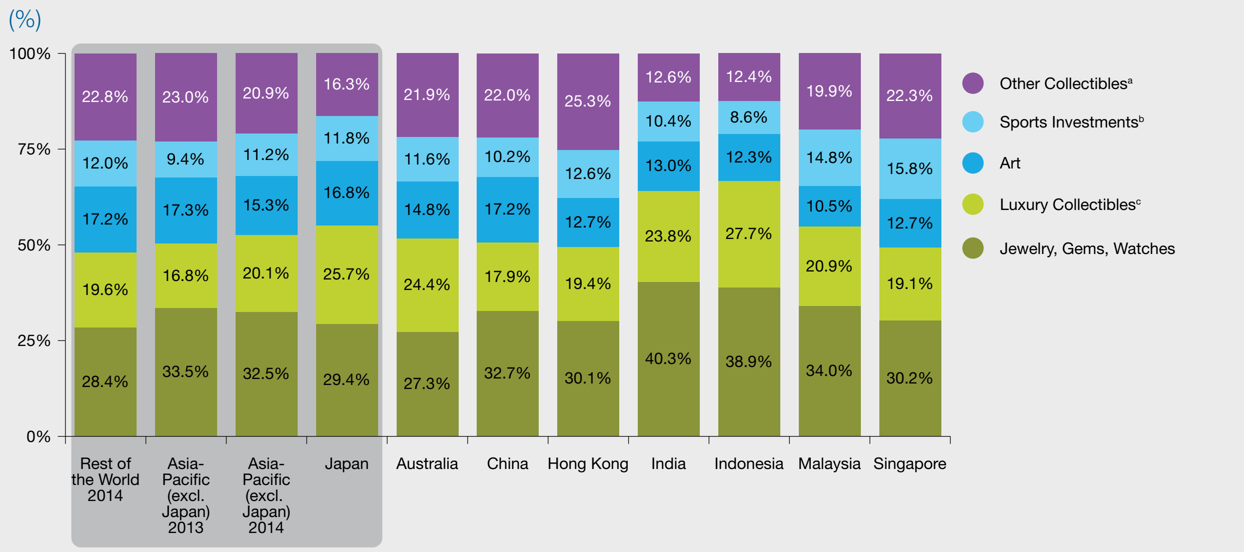
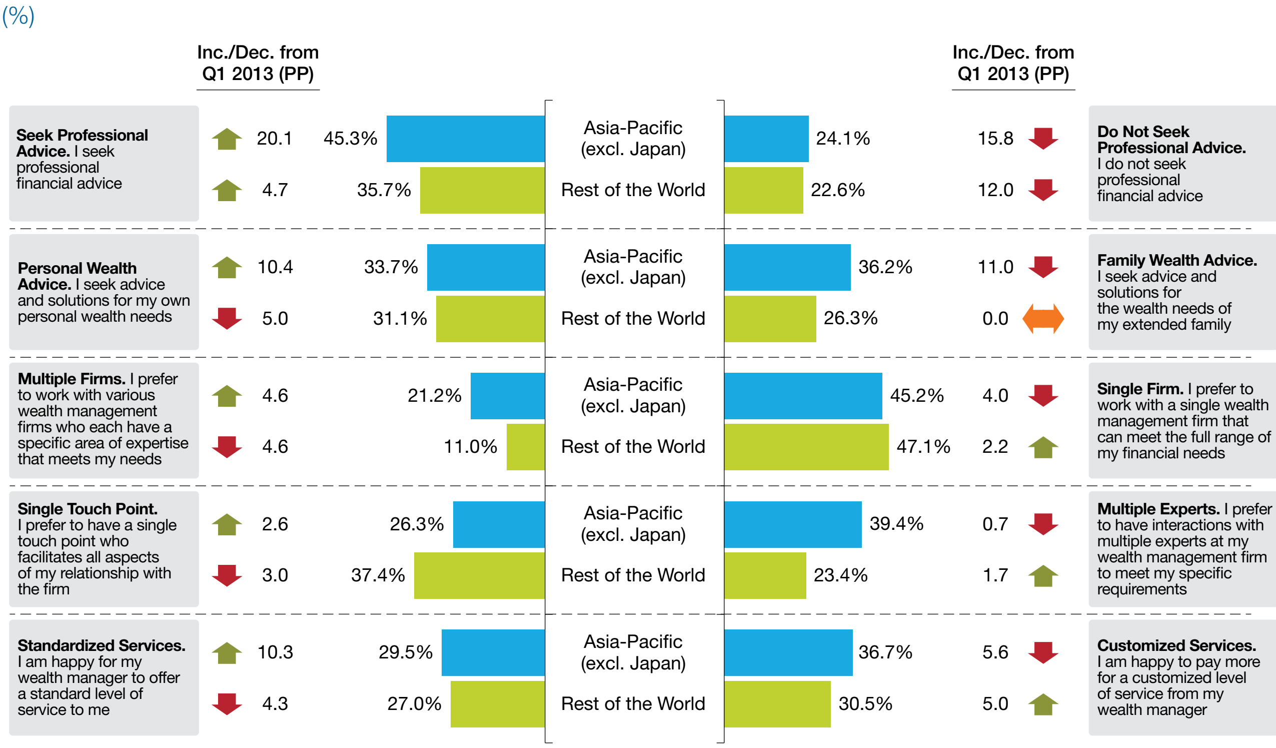


FIGURE 20. Breakdown of HNWI Investments of Passion, Asia-Pacific, Q1 2014



a. "Other Collectibles" represents coins, wine, antiques, etc.
b. "Sports Investments" represents sports teams, sailing, race horses, etc.
c. "Luxury Collectibles" represents automobiles, boats, jets, etc.
Note: Chart numbers may not add up to 100% due to rounding
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

FIGURE 21. Notable HNWI Behaviors, Q1 2014



Note: Question regarding HNWI preferences were asked on a 10-point spectrum; As we asked for preferences across a 10-point spectrum containing two extreme points, the numbers indicate the percentage of respondents providing the top three ratings at each extreme

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

ASIA-PACIFIC (EXCL. JAPAN) HNWIs HAVE UNIQUE NEEDS FOR ADVICE, ACCESS TO MULTIPLE EXPERTS, AND CUSTOMIZED SERVICES

Our research and analysis into the behaviors and preferences of Asia-Pacific HNWIs brought out stark differences from those exhibited by HNWIs in the rest of the world. Asia-Pacific (excl. Japan) HNWIs have an even stronger inclination toward seeking professional financial advice, greater willingness to pay more for customized services, and stronger preference to interact with multiple experts (see Figure 21).

The high trust levels of Asia-Pacific (excl. Japan) HNWIs, combined with their focus on wealth growth, contributed to the region's increased desire to seek professional financial advice. Along with an appetite for more advice came a greater willingness to pay for customized services, compared to HNWIs in the rest of the world.

The desire to seek professional advice was the most distinguishing behavioral characteristic of Asia-Pacific (excl. Japan) HNWIs. More of these HNWIs (45.3%) (see Figure 22) than in any other region expressed a preference for seeking professional financial advice, up 20.1 percentage points over the past year. This very strong preference for advice was most prevalent in China (58.6%, the highest globally), India (36.5%), and Australia (34.9%).

The focus on wealth growth corresponded with the desire for seeking advice. Of Asia-Pacific (excl. Japan) HNWIs seeking advice, 68.8% were also focused on wealth growth. In addition, of those under 40, 42.4% sought professional advice, compared to 26.1% who did not. Of those between 40 and 49, 46.6% sought professional advice, vs. 23.6% who did not. HNWIs in Hong Kong and Malaysia were the only exceptions to the advice-seeking trend. In Hong Kong, 33.0% of HNWIs indicated they prefer to not seek professional advice, compared to 24.1% who did, and in Malaysia, 28.3% did not seek advice, compared to 21.7% who did.

The overall inclination toward advice dovetailed with a greater willingness to pay for customized services. Of Asia-Pacific (excl. Japan) HNWIs, 36.7% said they were willing to pay more for tailored service, compared to 30.5% of those in the rest of the world. The openness of Asia-Pacific (excl. Japan) HNWIs to seek professional financial advice and willingness to pay for customized services present a strong opportunity for wealth management firms to develop increasingly client-centric service models to enhance revenues.

The markets with the greatest appetite to pay for customized services include Indonesia (48.0%), India (45.0%), and China (39.6%). Younger Asia-Pacific (excl. Japan) HNWIs were also more willing to pay for customized services than their older counterparts (41.2% versus 35.3% for the over-60 segment).

At 36.2%, Asia-Pacific (excl. Japan) HNWIs indicated greater interest in seeking advice on family (rather than personal) wealth compared to their rest-of-the-world counterparts (26.3%), though this trend is softening, down from 47.2% a year earlier. This movement away from family advice also gained momentum among HNWIs under 40, whose preference for personal wealth advice increased to 30.3% from 19.7%.

Despite these trends, the overall preference by Asia-Pacific (excl. Japan) for family advice remained higher than their preference for personal wealth advice (33.7%). The region's HNWIs who sought family advice tended to be older, had more complex needs, encompassing business, extended family, and philanthropy, and were more willing to pay for customized services. Of those over 50, 41.1% wanted advice on family wealth, compared to 31.1% seeking advice on personal wealth. A majority (63.0%) of the respondents who seek advice on family wealth described their needs as complex. And most family-advice seekers (60.6%) were willing to pay more for customized services that addressed their specific needs.

FIGURE 22. HNWI Preference for Seeking Advice vs. Not Seeking Advice, Q1 2014

Note: Question asked on a 10-point spectrum: Please indicate your preference for seeking professional advice vs. not seeking professional advice?; As we asked for preferences across a 10-point spectrum containing two extreme points, the above numbers in the figure indicate the percentage of respondents providing the top three ratings at each extreme

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

Asia-Pacific (excl. Japan) HNWIs exhibited very specific tendencies in how they prefer to work with wealth management firms. HNWIs in Asia-Pacific (excl. Japan) and in the rest of the world both greatly preferred to work with a single firm, at 45.2% and 47.1%, respectively. Yet those in Asia-Pacific (excl. Japan) much preferred to work with multiple experts within the firm, at 39.4% vs. only 23.4% for rest-of-the-world HNWIs. For HNWIs in the rest of the world, having a single touch point (37.4%) was the preferred way of accessing the expertise and service of their chosen firm.

The inclination toward working with multiple experts was especially strong in the emerging markets of China (48.4%, highest globally), Indonesia (44.1%, third globally), and India (37.5%, fifth globally). Younger HNWIs and those with more complex needs also gravitated toward multiple experts. Of HNWIs under 40, 43.6% wanted multiple experts, rather than a single touch point (21.1%). Of those with complex needs, 66.6% sought interaction with multiple experts. Only HNWIs over 60 preferred having a single touch point (40.1%).

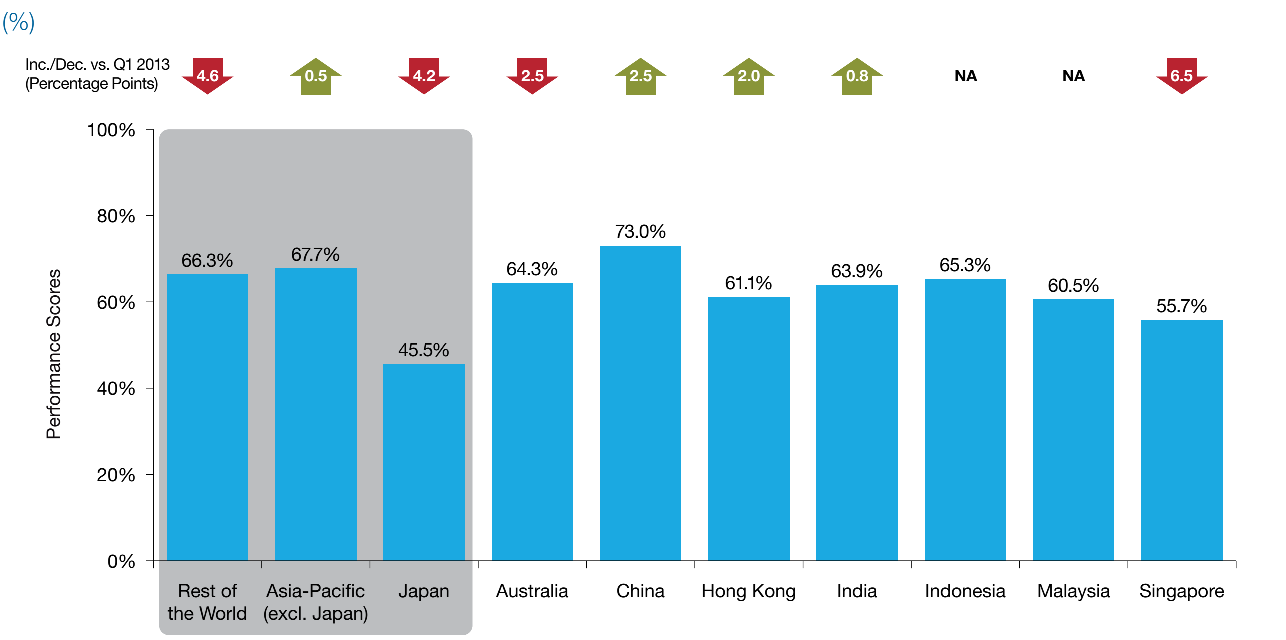
The clear preference of Asia-Pacific (excl. Japan) HNWIs to work with several experts points to specific actions firms can take to better serve their clients. Firms may, for example, want to move away from a model that emphasizes the services of generalist wealth managers. Building an organizational structure and developing and training a talent pool of specialists along with a clearly defined engagement and compensation model may support the delivery of the client experience HNWIs are looking for.

HNWI PREFERENCES POINT TO ATTRACTIVE OPPORTUNITIES FOR FIRMS, AS PERFORMANCE SCORES REMAIN FLAT

The high degree of trust Asia-Pacific (excl. Japan) HNWIs have in the wealth management industry appeared to drive their greater satisfaction levels with managers and firms. Further, the region's HNWIs—given their increased desire for advice, their willingness to pay for customized services, and their focus on growth—appear more prepared to take advantage of the full depth and breadth of services offered by wealth management firms. These factors suggest that it could be more difficult for firms to drive client satisfaction. However, HNWIs in Asia-Pacific (excl. Japan) gave their wealth managers slightly higher performance scores than HNWIs in the rest of the world.

Wealth manager performance scores in Asia-Pacific (excl. Japan) remained virtually unchanged from a year earlier, rising only 0.5 percentage point (see Figure 23), although a much better result than in the rest of the world, where

FIGURE 23. Wealth Manager Performance Scores, Q1 2014



Note: Question asked: On a scale of 0%–100%, thinking about your overall relationship with your main wealth manager, what performance score would you give them?
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

wealth manager performance scores dropped by 4.6 percentage points. China, Hong Kong, and India experienced marginal increases in performance scores. HNWIs in the more mature markets of the region expressed drops in performance scores—Singapore (6.5 percentage points), Japan (4.2 points), and Australia (2.5 points).

Chinese HNWIs, in line with their leading trust levels in wealth managers and firms, gave the highest performance score of Asia-Pacific (73.0%), which was also the third-highest score globally. At 45.5%, Japanese HNWIs gave the lowest performance score globally. While Asia-Pacific (excl. Japan) HNWIs over 60 expressed satisfaction with their wealth managers (71.3%), increasing their scores by 6.7 percentage points, those under 40 decreased their scores by 2.4 points to 67.0%.

As they seek to improve their performance scores in Asia-Pacific, wealth management firms can pursue several avenues of opportunity. Asia-Pacific (excl. Japan) HNWIs display a rich set of behavioral characteristics conducive to broadening relationships: They are especially open to receiving advice and are more likely to have the type of complex, family-based needs that demand it. They want to grow their wealth, and are more willing than HNWIs in the rest of the world to tap into various resources available to them, such as multiple experts and international investment strategies, to achieve their goals.

While the environment for establishing deeper relationships with Asia-Pacific HNWIs is ripe, wealth managers and firms will need to be aware of changing preferences in how Asia-Pacific HNWIs want to interact with them to ensure success. While direct contact is likely to prevail as the main means of interaction in the near future, firms need to prepare for a time when digital connections are increasingly popular and perhaps even standard. The firms that devise and execute a comprehensive digital strategy will be best positioned to take advantage of the benefits digitization offers in terms of lowering costs and improving service. As our spotlight section (see page 35) shows, digital contact is of particular importance to Asia-Pacific HNWIs. Firms should continue to seek insight into the digital trends and habits of Asia-Pacific HNWIs if they want to better meet changing preferences and move ahead in terms of improving their performance scores.

Driving Social Impact[16] Very Important for Asia-Pacific HNWIs

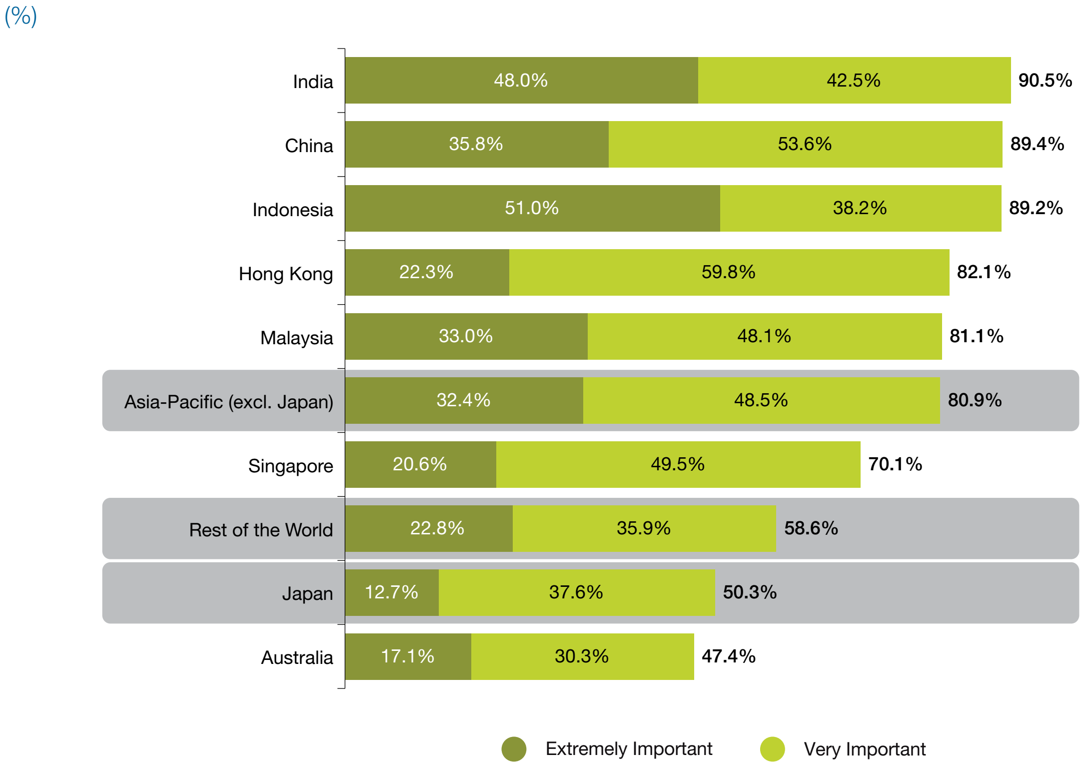
- **Generating positive social impact was more important to HNWIs in Asia-Pacific (excl. Japan) than to those in the rest of the world**. While 97% of Asia-Pacific (excl. Japan) HNWIs ascribe some level of importance to driving social impact, over 80% cite it as either extremely or very important. By age, younger Asia-Pacific HNWIs gave greatest importance to driving social impact, while by geography, those in India and China did.
- **Asia-Pacific (excl. Japan) HNWIs were more likely than those in the rest of the world to be motivated by a feeling of responsibility to give back.** Their pursuit of social impact goals was also driven by their strong interest in fulfilling and passing on personal values, as well as the need for estate and financial planning.
- **The preferred causes of Asia-Pacific (excl. Japan) HNWIs differed from those of HNWIs in the rest of the world.** While food security and climate change were deemed important causes for Asia-Pacific (excl. Japan) HNWIs, they did not surface as top considerations for HNWIs in the rest of the world.
- **HNWIs in Asia-Pacific (excl. Japan) were much more likely than those in the rest of the world to tie their social-impact endeavors to investment or business strategies.** Those in the rest of the world were more likely to make charitable contributions or engage in community activities. Japanese HNWIs stood out for their emphasis on volunteering their professional knowledge and expertise.
- **HNWIs in Asia-Pacific (excl. Japan) expected more support than they received from their wealth management firms, though the gap between expectations and actual service in Asia-Pacific (excl. Japan) was the lowest globally.** HNWIs in Australia and China had the lowest service gaps globally, while Singapore, Indonesia, and Hong Kong reported higher service gaps compared to HNWIs in the rest of the world.

ASIA-PACIFIC (EXCL. JAPAN) HNWIs LEAD WORLD IN PRIORITY GIVEN TO DRIVING SOCIAL IMPACT

HNWIs in Asia-Pacific (excl. Japan) stood out from those in the rest of the world for the high importance they placed on using their resources to positively influence society. Driving social impact was very or extremely important to 80.9% of HNWIs in Asia-Pacific (excl. Japan), compared to only 58.6% in the rest of the world (see Figure 24). The five countries with the highest percentage of HNWIs citing social impact as very or extremely important were all in Asia-Pacific, with India (90.5%) and China (89.4%) leading the way. Indonesia had the distinction of having 51.0% of HNWIs citing social impact as extremely important, the highest percentage globally and substantially greater than the rest of the world average of 22.8%. India followed just behind Indonesia on this measure, at 48%.

16 We define "driving social impact" as an investment of time, money and/or expertise with the goal of generating positive social impact

FIGURE 24. Importance of Social Impact for HNWIs, Q1 2014



Note: Question asked: "How important is it to you to give time, money and/or expertise with the goal of generating positive social impact"?
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

On a market-by-market basis, however, Asia-Pacific HNWIs exhibited large differences in their degree of interest in driving social impact, particularly in the more mature markets of Japan and Australia, where only 50.3% and 47.4% of HNWIs, respectively, cited social impact as very or extremely important, putting the two countries at 19th and 20th in the list of 23 countries globally. The lower social impact scores in Japan and Australia are in keeping with those of other developed markets, where the idea that the state has social policies already in place that cater to a large number of social causes is more commonly accepted. However, despite these low rankings, HNWIs in those markets are actively engaged in social impact activities. HNWIs in Japan also stood out for the very different profiles they exhibited from the rest of Asia-Pacific HNWIs in terms of the social-impact causes they supported, their motivations, and their mechanisms for driving social impact (see Figures 25, 26, and 27).

In some countries, gender variations were significant. While females across Asia-Pacific (excl. Japan) tended to be more interested in driving social change (83.0% for females vs. 78.8% for males), the distinction was especially acute in Australia. There, 58.2% of female HNWIs regarded social impact as extremely or very important compared to 38.5% of males. Similarly, male HNWIs gave more importance to driving social change than their female counterparts in Indonesia (91.1% vs. 82.6%), Hong Kong (86.0% vs. 79.0%), and Malaysia (82.4 vs. 78.1%).

In general, younger Asia-Pacific HNWIs gave more importance to driving social impact than older ones. Those under-40 years of age in Asia-Pacific (excl. Japan) gave more importance to generating social impact (85.5%) than those over-60 (75.7%). This pattern held true even in Japan, where 55.6% of HNWIs under-40 cited driving social impact as important, compared to only 37.5% of those over-60. Also of note in Japan, the importance of driving social impact increased as HNWI wealth increased.

DESIRE TO GIVE BACK MOTIVATED ASIA-PACIFIC HNWIs TO MAKE A DIFFERENCE

The greater importance Asia-Pacific (excl. Japan) HNWIs placed on social impact was not the only factor that separated them from HNWIs in the rest of the world. Their reasons for pursuing social impact, the causes they supported, and the methods they employed to drive change differed notably from HNWIs elsewhere.

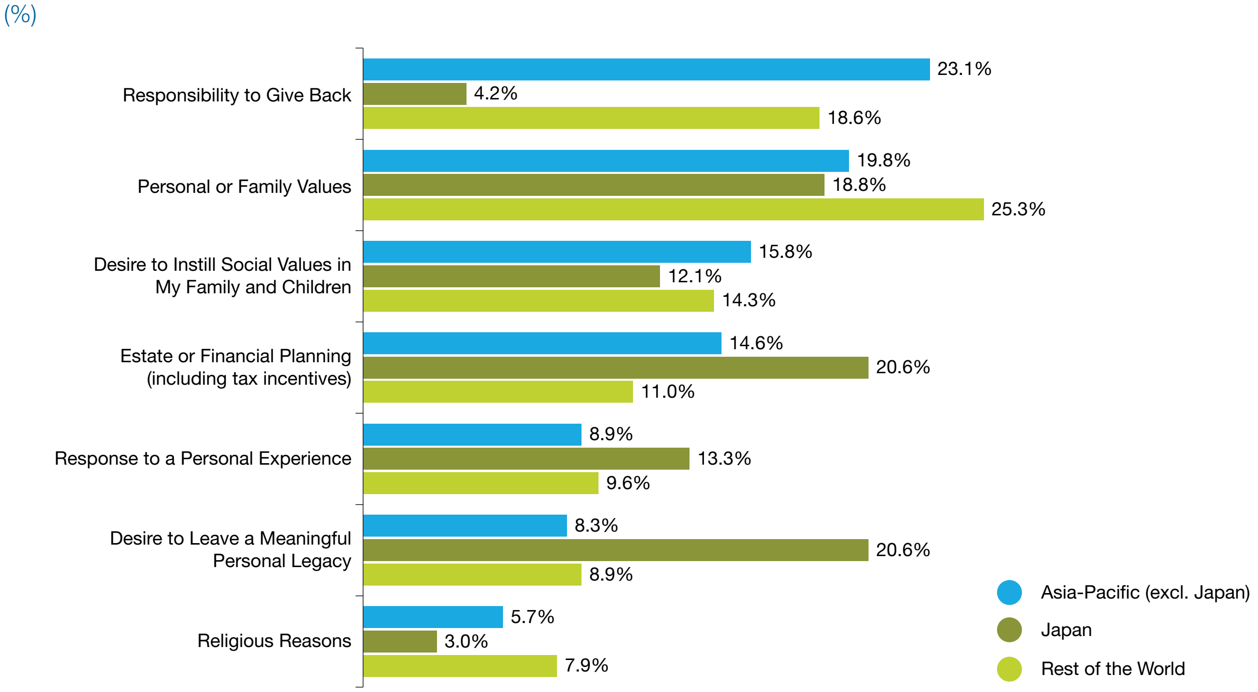
At 23.1%, a feeling of responsibility to give back was higher among Asia-Pacific (excl. Japan) HNWIs than among those in the rest of the world (18.6%) (see Figure 25). First-generation wealth creators may have played a role, as this motivation was considerably stronger (36.4%) for Asia-Pacific (excl. Japan) HNWIs over 60 than those under 40 (23.2%).

Japanese HNWIs were an exception to the general emphasis on a responsibility to give back. They did not rank this motivation as a top-five driver, instead giving greater importance to estate planning and a desire to leave a meaningful personal legacy. The desire to leave a personal legacy appeared to be driven by female HNWIs (26.1% vs. 18.5% for males) and older HNWIs (21.9% for HNWIs over 60 vs. 16.7% for those under 40).

Estate and financial planning also figured strongly as a driver of social impact. The top-five countries across the globe that cited estate planning as a key driver were all in Asia-Pacific: Japan led the list at 20.6%, followed by Hong Kong (19.6%), China (15.8%), Singapore (15.0%), and India (14.5%).

Other key drivers for achieving social impact for Asia-Pacific (excl. Japan) HNWIs, including the pursuit of personal or family values (19.8%) and instilling values in family and children (15.8%), were largely consistent with HNWIs in the rest of the world. Instilling values to family and children was of particular importance to HNWIs in Indonesia (34.3%), Singapore (16.8%), China (16.7%), and India (16.5%). Indonesia ascribed the highest importance to this driver globally, well ahead of second-ranked Brazil, at 21.7%.

FIGURE 25. Importance of Key Drivers of Social Impact for HNWIs, Q1 2014



Note: Question asked: "What most drives you to allocate a portion of your wealth, time or expertise to make a positive social impact"? The above percentages indicate the "This is most important" response of HNWIs

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

TOP CAUSES DIFFERED FOR ASIA-PACIFIC HNWIs COMPARED TO REST-OF-THE-WORLD PEERS

The causes that Asia-Pacific (excl. Japan) HNWIs preferred to support appeared to reflect some of the region's more pressing needs. For example, food security, a top priority in many of the region's emerging markets, was the most important cause among Asia-Pacific (excl. Japan) HNWIs, with 39.8% citing it as important (see Figure 26). This cause was especially important to HNWIs in China (50.2%), India (42.0%), and Hong Kong (40.2%). However, food security was ranked only 12th in the list of top 20 causes among HNWIs in the rest of the world.

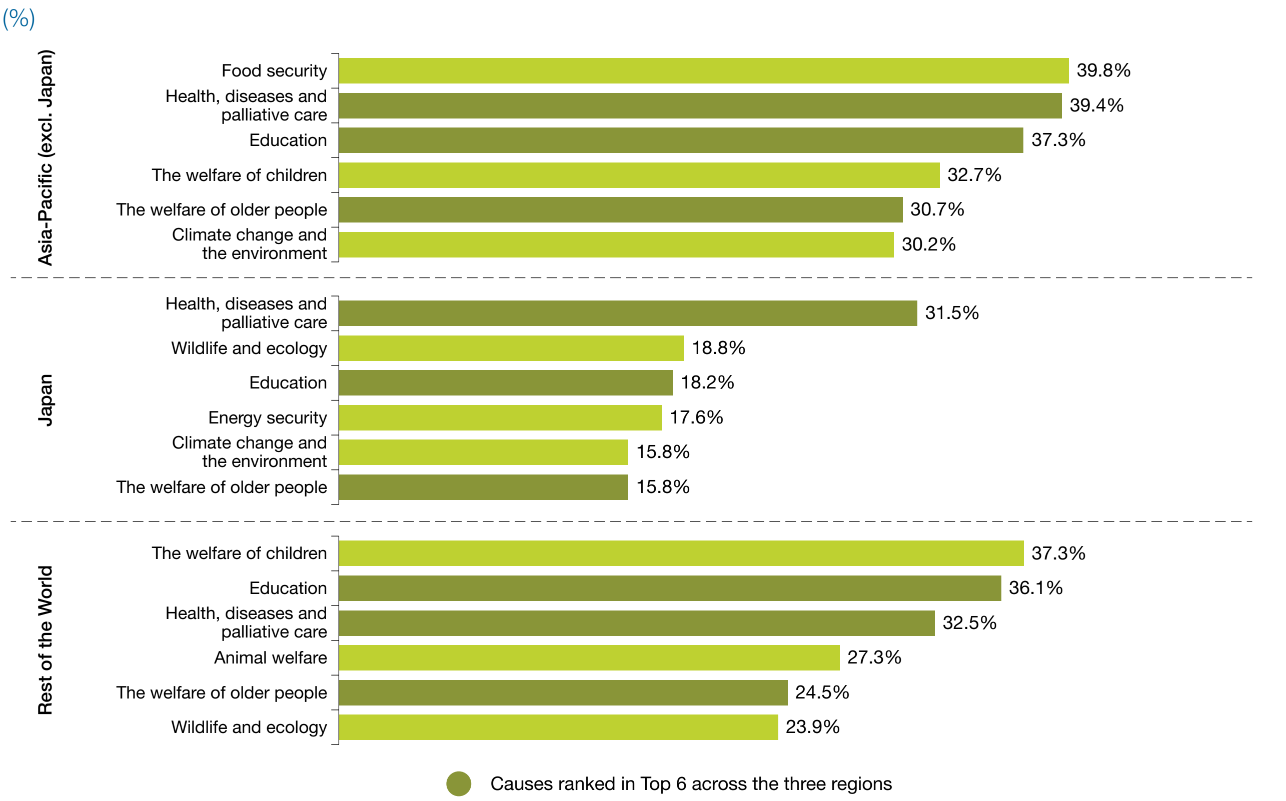
Similarly, climate change and the environment were high priorities for 30.2% of Asia-Pacific (excl. Japan) HNWIs, especially those in China (38.7%) and Indonesia (31.4%). However, these causes did not surface among the top six causes for HNWIs in the rest of the world.

Three causes—health, education, and the welfare of older people—were consistently important to HNWIs whether they resided in Japan, the rest of Asia-Pacific, or the rest of the world. Within Asia-Pacific, health, disease, and palliative care were most important to Malaysian (42.5%) and Chinese (41.4%) HNWIs. The welfare of children emerged as a top-four cause throughout the world, except in Japan.

In some countries, gender differences were again evident. Females gave greater importance to health issues in Hong Kong (38.7% vs. 34.0%) and Japan (34.8% vs. 30.3%), while males did so in Singapore (37.0% vs. 32.1%) and Malaysia (43.2% vs. 40.6%). Country-level differences throughout the region also surfaced. The countries with the most and least support for education globally were all in Asia-Pacific: Indonesia (58.8%), India (55.5%), and Malaysia (54.7%) had the greatest support, while Australia (26.3%) and Japan (18.2%) had the least.

Japanese HNWIs stood out as having lower interest in most causes. With the exception of health-related issues at 31.5%, all other causes were deemed important to less than 20% of Japanese HNWIs. The issues that did surface as higher priorities, including wildlife, energy, and the environment, tended to reflect the concerns of a more mature economy. Wildlife and ecology was especially important to female HNWIs (23.9% vs. 16.8% for males), while energy security was important to ultra-HNWIs (25.0% vs. 17.6% for HNWIs overall) and males (19.3% vs. 13.0% for females).

FIGURE 26. Social Causes of Importance for HNWIs, Q1 2014



Note: Question asked: "To which of the following issues are you currently allocating wealth, time or expertise"?
Percentage means: % of HNWIs are currently allocating their wealth, time or expertise to a particular social cause
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

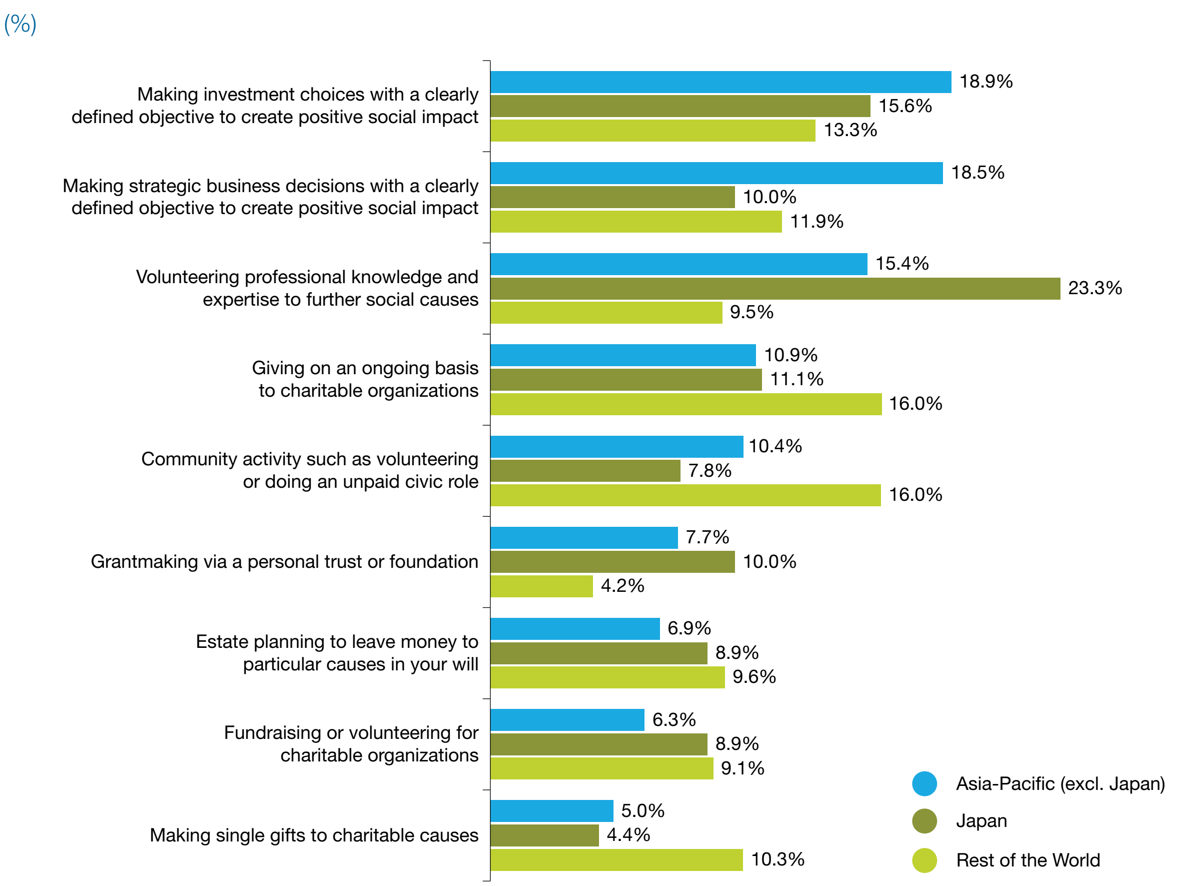
ASIA-PACIFIC HNWIs AIM TO ALIGN SOCIAL IMPACT GOALS WITH INVESTMENT, BUSINESS DECISIONS

HNWIs across the world employ a number of mechanisms to drive social impact, including charitable donations, estate planning, and aligning investment and business decisions with social impact objectives. Compared to HNWIs in the rest of the world, those in Asia-Pacific (excl. Japan) were much more likely to drive social-impact objectives through investments (18.9%) or business strategies (18.5%) (see Figure 27). Making investment choices with clear social impact objectives was of primary importance for HNWIs from Malaysia (21.4%), China (21.0%), and Indonesia (20.0%).

In contrast, only 13.3% of HNWIs in the rest of the world made investment choices and 11.9% made business decisions with social-impact goals in mind. HNWIs in the rest of the world were much more likely than their Asia-Pacific (excl. Japan) counterparts to strive toward their social-impact goals by making charitable contributions (16.0% vs. 10.9%) or engaging in community activity (16.0% vs. 10.4%).

Japanese HNWIs stood out from all others for the emphasis they placed on volunteering their professional knowledge and expertise (23.3%). This mechanism used to drive social impact was especially important for male Japanese HNWIs (27.7% vs. 12.0% for females).

FIGURE 27. Mechanisms Used by HNWIs to Make a Positive Social Impact, Q1 2014



Note: Question asked: "Which of the following activities is the most important to you with the goal of generating positive social impact"? Percentage means: % of HNWIs who are considering that particular mechanism as most appealing in generating positive social impact
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

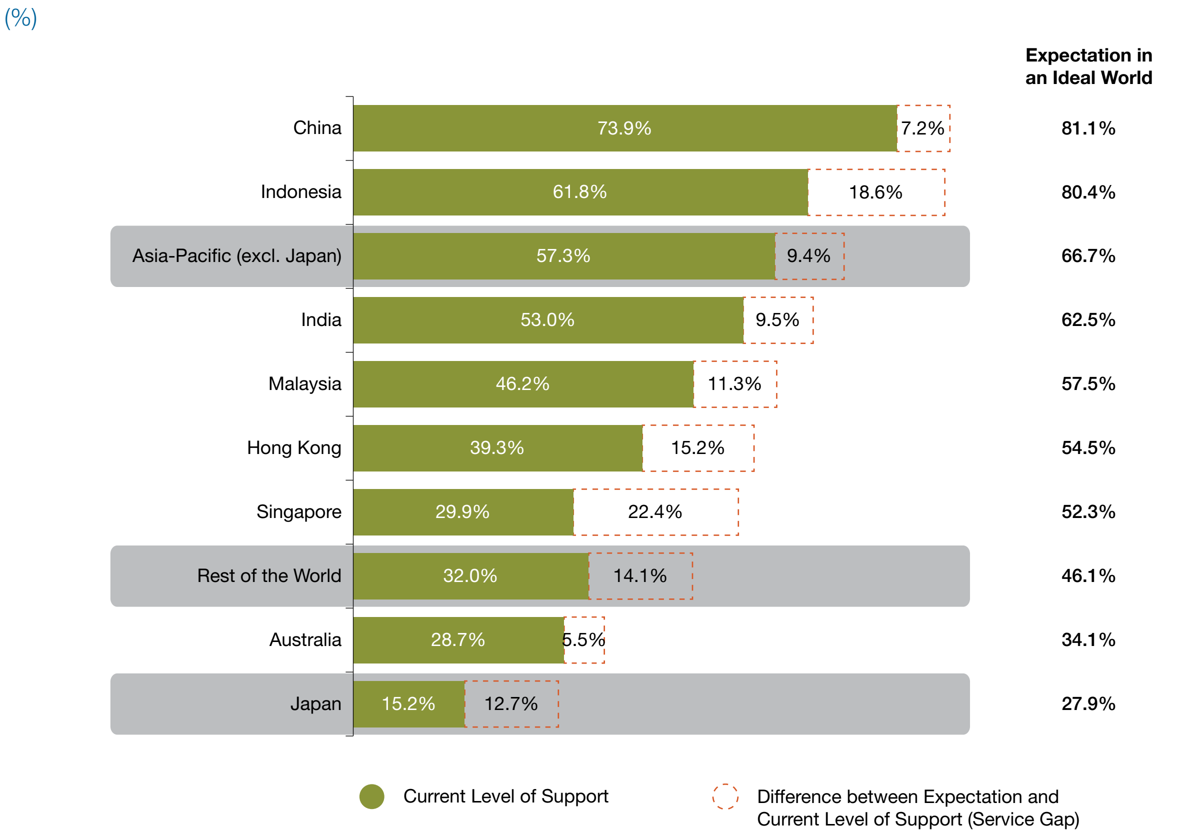
ASIA-PACIFIC HNWIs MOST SATISFIED GLOBALLY WITH LEVEL OF SOCIAL IMPACT SUPPORT FROM FIRMS

Asia-Pacific (excl. Japan) HNWIs had very high expectations of their wealth management firms in terms of the level of support they expect in helping them achieve their social impact goals. In China and Indonesia, for example, service-expectation levels were higher than 80%, contributing to a 66.7% service-expectation level for all of Asia-Pacific (excl. Japan) (see Figure 28). This well exceeds the expectation levels of 46.1% for HNWIs in the rest of the world, and only 27.9% for those in Japan.

Despite their high expectations, HNWIs in Asia-Pacific (excl. Japan) scored their firms much higher than HNWIs in the rest of the world in terms of how well the firms supported their social-impact goals. Asia-Pacific (excl. Japan) HNWIs put current support levels at 57.3%, compared to only 32.0% for HNWIs in the rest of the world, and 15.2% for those in Japan. This translated into a service gap of only 9.4 percentage points for HNWIs in Asia-Pacific (excl. Japan), compared to a 14.1 point gap in the rest of the world and a 12.7 point gap in Japan. The service gaps were smallest in Australia (5.5 percentage points) and China (7.2 percentage points).

Despite the relatively small service gap in Asia-Pacific (excl. Japan), wealth management firms still have ample opportunity to educate and guide HNWIs in strategies for using their resources to achieve their social-impact objectives. Clearly, tapping into the desire of Asia-Pacific HNWIs to make investment and business decisions based on social-impact goals can be an important service avenue for wealth management firms. In addition, HNWIs in some markets report being underserved in the area of social impact, including Singapore (a 22.4 point service gap), Indonesia (18.6 points), and Hong Kong (15.2 points), presenting opportunities for wealth management firms in those countries. Regardless of whether a social-impact service gap exists, firms can take advantage of the outsized interest in social impact exhibited by Asia-Pacific (excl. Japan) HNWIs. Ample opportunity exists to guide, educate, and support HNWIs in relatively new social impact endeavors such as socially responsible investing and impact investing (see the *2014 World Wealth Report* for more details).

FIGURE 28. Level of Support Received from Wealth Management Firms to Help HNWIs Fulfill their Social Impact Goals, Q1 2014



Note: Question asked: "What level of support do you currently receive, from wealth management firms to help you fulfill your social impact goals"? "In an ideal world what level of support would you like from wealth management firms to help you fulfill your social impact goals"? 0 = No support; 10 = High level of support; Low level includes rating from 0-4, Moderate level includes rating from 5-6, High level includes rating from 7-10; Chart numbers and quoted percentages may not add up due to rounding

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

Using Digital Technology to Augment HNWI Relationships

- **The demand and desire for digital relationships was far higher among Asia-Pacific (excl. Japan) HNWIs than among those in the rest of the world, and persisted even across age and wealth segments.** More HNWIs in the region expected their wealth management relationships to be digital in the next five years (82.3% versus 61.1% for HNWIs in the rest of the world) and gave greater importance to digital over direct contact with wealth managers (37.8% versus 25.7% for those in the rest of the world).
- **Unlike their counterparts in the rest of the world, HNWIs in Asia-Pacific (excl. Japan) cited digital contact as more important than direct for every type of capability area,** including gathering information, engaging with wealth managers, and executing transactions.[17] The demand for digital interaction was most acute among HNWIs in China and Indonesia.
- **In addition to high demand for digital capability, including through emerging digital channels, such as mobile applications, video and social media, Asia-Pacific (excl. Japan) HNWIs also placed high importance on direct channels.** A multi-channel experience spanning a wide range of direct and digital channels is critical to serving the region's HNWIs; 82.8% said they were far more likely to leave their firms for lack of an integrated channel experience, versus 62.2% of HNWIs in the rest of the world.
- **The Asia-Pacific region features large variations in the underlying digital infrastructures of each market, as well as uneven levels of demand for digital services.** These wide discrepancies present difficulties for firms interested in developing a pan-Asia-Pacific strategy for digital technology and a multi-channel experience.
- **Digital technology offers the region's wealth managers a significant opportunity to address key challenges in the region, as well as meet high HNWI expectations for an improved client experience.** Providing access to real-time information is a baseline service that must be amplified with high-quality interactive tools and personalized digital advice.

DIGITAL RELATIONSHIPS SET TO EXPAND IN ASIA-PACIFIC

Digital technology is changing the nature of wealth management relationships, allowing individuals to perform various activities such as checking the status of their accounts, getting information on investment products, and transferring funds, entirely through digital channels such as the website, mobile applications, video, and social media. While demand for digital relationships is growing throughout the world, it is especially strong in Asia-Pacific (excl. Japan). Over the next five years, 82.3% of Asia-Pacific (excl. Japan) HNWIs expect their wealth management relationship to be conducted entirely or mostly through digital channels, compared to only 61.1% of HNWIs in the rest of the world. Further, 72.5% of Asia-Pacific (excl. Japan) HNWIs considered their current wealth management relationships to already be digital, compared to only 54.5% of those in the rest of the world.

Asia-Pacific is also the only region in the world where HNWIs believe having digital contact with their wealth managers is more important than having direct contact. The 37.8% of Asia-Pacific (excl. Japan) HNWIs who

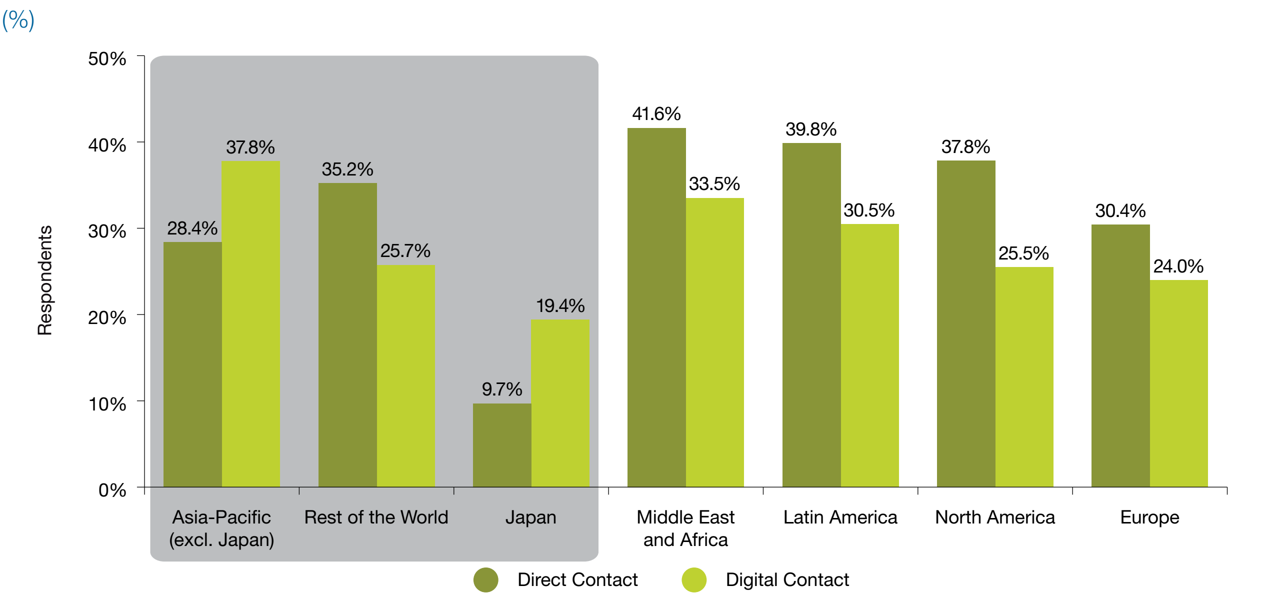
[17] Inform-type capabilities encompass researching the wealth management firm and its capabilities, downloading research and education, accessing news and content, searching for products, services, and investments, as well as evaluating portfolio information and performance. Engage-type capabilities include obtaining advice and service from the wealth manager, engaging with multiple experts at the same time, and conducting general communications with the wealth manager, including document exchange. Transaction-type capabilities include executing transactions and transferring funds between accounts.

placed greater importance on digital over direct was the highest percentage globally, well above the 25.7% in the rest of the world (see Figure 29). Another 33.9% of Asia-Pacific (excl. Japan) HNWIs did not have a strong preference for either digital or direct contact, underscoring the need to develop a client experience that fully supports both modes of interaction in an integrated fashion.

Only 28.4% of Asia-Pacific (excl. Japan) HNWIs thought direct contact was more important than digital interaction, compared to 35.2% of HNWIs in the rest of the world. Even Japanese HNWIs, who indicated less of a preference in either direction, still skewed toward digital connections, with 19.4% placing greater importance on digital, versus only 9.7% for direct. Elsewhere in Asia-Pacific (excl. Japan), Indian HNWIs expressed the greatest demand for digital interactions (43.0%), while those in Singapore expressed the least (20.6%).

Hand in hand with a preference for digital contact was a strong emphasis on real-time reporting. Among Asia-Pacific (excl. Japan) HNWIs, 45.4% (the highest percentage globally) expressed a preference for real-time reporting, compared to 26.3% who preferred to receive reports on a regular schedule. Chinese HNWIs had the highest preference in Asia-Pacific (excl. Japan) for real-time reporting at 50.7%, while those in Hong Kong were the only ones in the region to have a preference for scheduled reports. Such findings highlight that even during a period of relatively low financial market volatility,[18] HNWIs in the region want to be able to access their positions at any given moment.

FIGURE 29. HNWI Importance for Direct vs. Digital Contact, Q1 2014



Note: Question asked on a 10-point spectrum: "Please indicate whether direct and personal contact is more important to you than digital contact (Internet, mobile, email) vs. digital contact (Internet, mobile, email) more important to you than direct and personal contact"?; As we asked for preferences across a 10-point spectrum containing two extreme points, the above numbers in the figure indicate the percentage of respondents providing top three ratings at each extreme

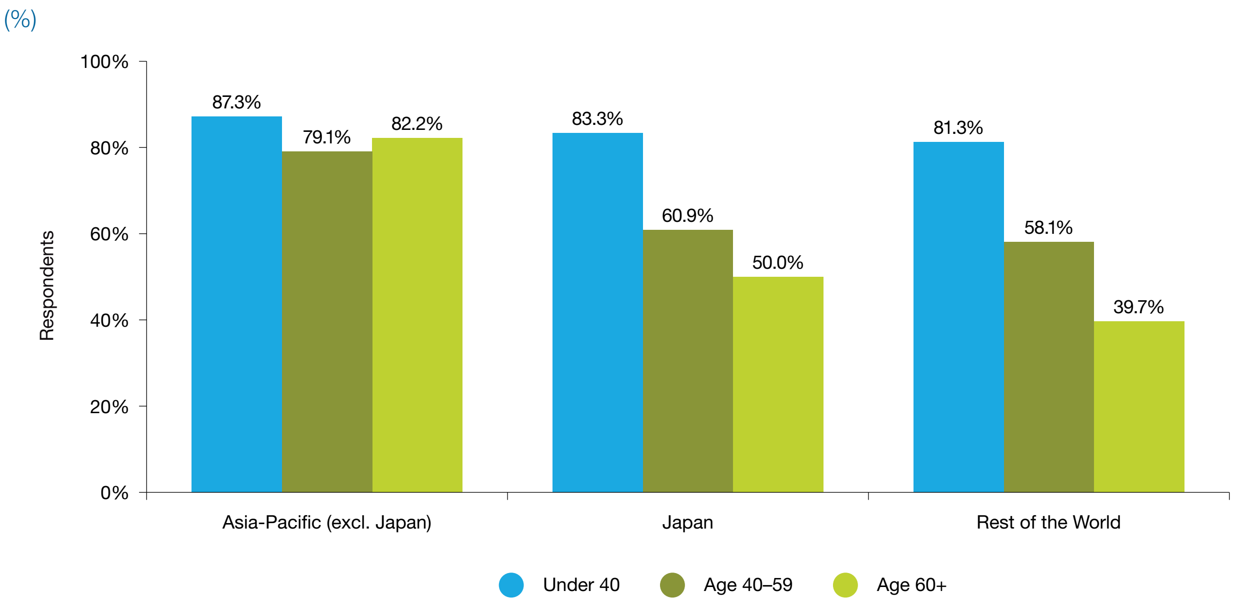
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

[18] "Market volatility plummets to multiyear lows", Financial Times, June 2014

In contrast to the rest of the world, demand for digital in Asia-Pacific (excl. Japan) remains high across all age segments. The percentage of HNWIs in Asia-Pacific (excl. Japan) who expect to have digital interactions with their wealth management firms, even with respect to emerging digital channels, such as mobile applications, social media, and video, exceeded 75% across all age segments (see Figure 30). In the rest of the world, however, the percentage of HNWIs expecting to have digital interactions dropped precipitously for HNWIs in older age groups (from 81.3% for those under 40, to only 39.7% for those over 60). While Japan exhibited a similar trend (digital demand drops from 83.3% of HNWIs under 40 to only 50% for those over 60), the 33.3% difference was not as severe as in the rest of the world (41.6%).

As with HNWIs in the rest of the world, the demand for digital among Asia-Pacific (excl. Japan) HNWIs remained relatively high across all wealth segments, although slightly lower for those in the wealthiest segment. Of Asia-Pacific (excl. Japan) HNWIs with wealth between US$1 million and US$5 million, 82.0% exhibited strong demand for digital contact in the future, almost as much as those with between US$5 million and US$20 million (86.5%), and somewhat more than those with more than US$20 million (72.0%).

FIGURE 30. HNWIs Who Expect Entire or Most of Future Wealth Management Relationship to Be Digital, by Age (%), Q1 2014



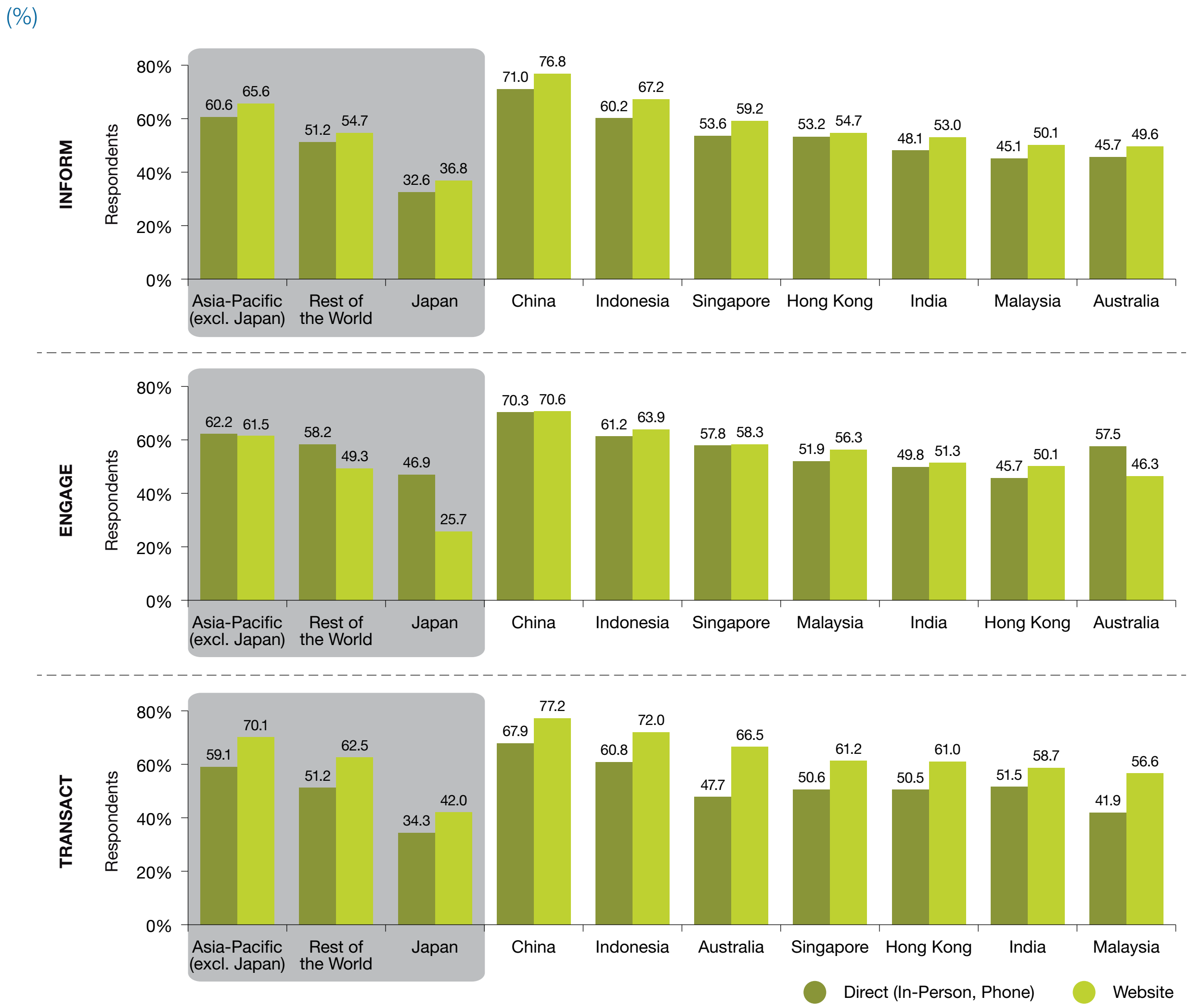
Note: Questions asked: "In FIVE YEARS, to what extent would you like your wealth management relationship to be conducted through digital channels"?
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

ASIA-PACIFIC (EXCL. JAPAN) HNWIs WANT DIGITAL SERVICES THAT INFORM, TRANSACT, AND ENGAGE

Wealth managers rely on both direct and digital connections to provide a full range of services designed to inform clients, engage them, and support their transaction activity. For inform-type capabilities, such as researching a wealth management firm and its capabilities, 65.6% of Asia-Pacific (excl. Japan) HNWIs placed importance on digital interaction, versus 54.7% of HNWIs in the rest of the world (see Figure 31). For the ability to engage, such as obtaining advice and service from the wealth manager, 61.5% of Asia-Pacific (excl. Japan) HNWIs cited digital contact as important, compared to 49.3% of HNWIs in the rest of the world. And for transaction capabilities, which include executing transactions and transferring funds between accounts, 70.1% of HNWIs in Asia-Pacific (excl. Japan) viewed digital contact as important, versus 62.5% of rest-of-the-world HNWIs.

The demand for digital interaction was most acute among HNWIs in China and Indonesia. Of the 23 countries profiled, these two consistently surfaced within the top five placing the greatest importance on digital interactions. Globally, Chinese HNWIs were the most likely in the region to indicate digital was important for engaging with wealth managers. Indonesian HNWIs, meanwhile, were second to the Chinese in placing importance on digital information and transaction services. The relative popularity of digital services in Indonesia may be due to

FIGURE 31. HNWI Channel Importance for Different Capabilities, by Country (%), Q1 2014



Note: Weighted average of respondents indicating importance level to different capabilities per channel
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

the growing prevalence of secure mobile applications, especially in light of the inherent transportation challenges that complicate the ability to make regular, direct contact in a country made up of thousands of islands.

Japanese HNWIs were among the least interested in digital capability. Only 25.7% of Japanese HNWIs demanded digital interaction for engage-type capabilities, compared to 61.5% for their counterparts in Asia-Pacific (excl. Japan). Australia was notable for having the lowest level of demand throughout Asia-Pacific (excl. Japan) for inform- and engage-type capabilities, but the third-highest level of demand for digital transaction services. Barring these examples, all the Asia-Pacific countries placed greater importance on digital than direct contact for all types of services.

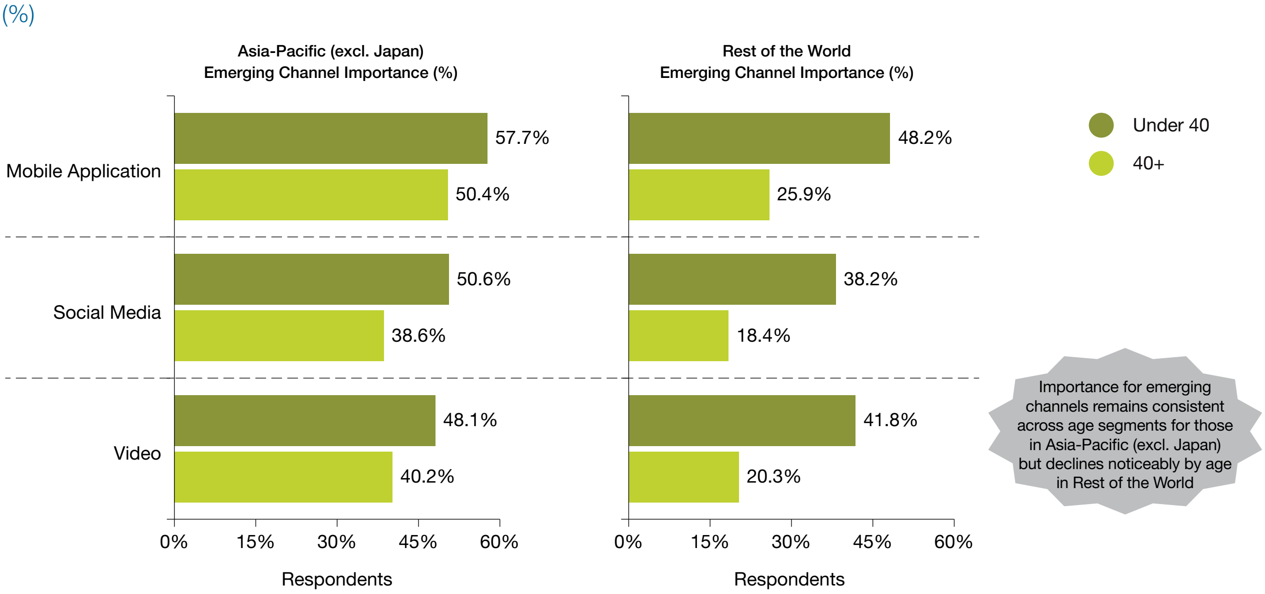
MULTI-CHANNEL EXPERIENCE CRITICAL TO ASIA-PACIFIC (EXCL. JAPAN) HNWIs

The importance of having both direct and digital contact is higher among Asia-Pacific (excl. Japan) HNWIs compared to those in the rest of the world. In China, for example, more than two-thirds of HNWIs said direct contact was important across all types of services. Despite the emphasis placed on direct contact, digital still holds the greatest importance, underscoring the higher overall service expectations of Asia-Pacific (excl. Japan) HNWIs and carrying deep implications for firms.

In addition to wanting to use direct channels, Asia-Pacific (excl. Japan) HNWIs exhibited above-average interest in using more emerging digital channels, such as mobile applications, social media, and video, in their interactions with wealth managers. For example, 57.7% of HNWIs below the age of 40 in Asia-Pacific (excl. Japan) said mobile applications were important to them, compared to 48.2% for under-40 HNWIs in the rest of the world (see Figure 32). Similarly, 50.6% said social media was important, while only 38.2% of under-40 HNWIs in the rest of the world said so. With respect to video, 48.1% said it was important, compared to 41.8% of under-40 HNWIs in the rest of the world.

Emerging digital channels have particular resonance in Asia-Pacific. In many emerging markets such as India and Indonesia, for example, substandard broadband infrastructures have raised the profile of mobile applications. Within the region, 72% of HNWIs use mobile applications for finance, compared to 46% of Western HNWIs.[19] Social media also has added importance in Asia-Pacific, due to the region's heavy cultural emphasis on peer feedback and word of mouth. Video is also popular; by 2012, video consumption in Asia-Pacific had already surpassed that of Western markets.[20]

FIGURE 32. Importance of Emerging Channels to HNWIs, by Age (%), Q1 2014



Note: Weighted average of respondents indicating importance level to different capabilities per channel
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

[19] "Digital Media the Key to Engaging the World's Wealthiest", Standard Chartered and Scorpio Partnership, November 2012

[20] "The Asian media landscape is turning digital", Nielsen, 2012

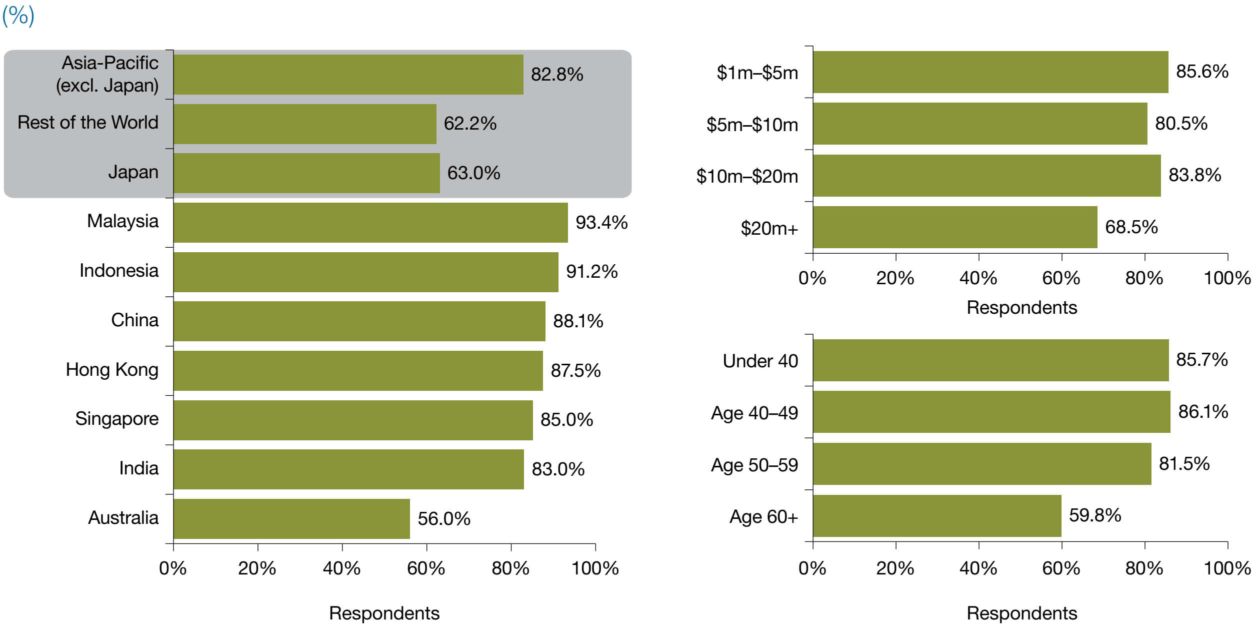
In Asia-Pacific (excl. Japan), unlike in the rest of the world, the demand for emerging digital channels was evident across all age groups, not just the under-40 segment. The distinction between regions was even more acute depending on the capability. For engagement capabilities via mobile applications and video, the demand gap between over-40 and under-40 HNWIs in Asia-Pacific (excl. Japan) was very small (3% to 4%), compared to an almost 21 percentage-point demand gap in the rest of the world. Also in Asia-Pacific (excl. Japan), 35.4% of over-40 HNWIs demanded social media for transaction services, compared to just 14.3% of those in the rest of the world.

The risk of failing to build an effective platform to support both direct and digital interactions is high. Almost 83% of Asia-Pacific (excl. Japan) HNWIs said they were far more likely to leave their firms for lack of an integrated channel experience, compared to 62.2% for HNWIs in the rest of the world (see Figure 33). This propensity was highest in Malaysia (93.4%) and Indonesia (91.2%), placing them first and second globally. With China, Hong Kong, Singapore, and India following close behind, the risk of attrition for lack of an effectively integrated platform is clear. At 56.0%, Australian HNWIs were the least likely to leave, though this propensity was still relatively high.

The attrition risk persisted throughout all wealth segments and age levels. Very wealthy HNWIs and older HNWIs were somewhat less compelled to move (though still more so than HNWIs in the rest of the world). Their reluctance may be due to a feeling that moving could be so inconvenient that it would not be worthwhile, even if their expectations were not being met.

By placing importance on direct, traditional digital, as well as emerging digital channels, Asia-Pacific (excl. Japan) HNWIs distinguished themselves as perhaps the most demanding group of HNWIs around the globe to serve. They have high expectations for an integrated client experience that lets them move seamlessly between direct and digital interactions. At the same time, they expect their wealth management providers to adapt as quickly as they do to more modern forms of communication, such as social media and video.

FIGURE 33. HNWI Propensity to Leave Wealth Management Firm Due to Lack of Integrated Channel Experience, by Country, Age, and Wealth (%), Q1 2014



Note: Question asked: “If your main wealth management provider could not offer this type of integrated wealth management experience, would it prompt you to consider moving to another firm”?

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

The implications for wealth management providers are enormous. Among a range of areas, firms must, for example, decide on the appropriate channel mix to offer, develop infrastructures that can track client interactions whether they occur digitally or directly, and ensure their platforms have the flexibility to support new types of connectivity technologies as they become viable. Advisors must be enabled and trained in leveraging digital channels for client communication, possessing the knowledge and facility to assist clients, no matter what channel is being employed. Finally, underlying digital infrastructures also need to be scalable to cost efficiently meet the needs of a diverse set of clients, ranging in age, wealth segment, gender, behavior, and preferences.

Despite the inroads being made by emerging digital channels, wealth managers need to approach the transition to digital servicing with care. Given the complexity of most wealth management products and the traditional importance of face-to-face contact, firms run the risk of not fully addressing client needs via pure digital servicing, underscoring the importance of devising an integrated approach that combines both direct and digital interaction. Firms also must navigate a bevy of still-developing (or non-existent) regulations in the region, varying from one market to the next, regarding interactions via mobile applications, social media, and video, and remain vigilant regarding ongoing security concerns.

DIGITAL READINESS AND DIGITAL DEMAND VARY BY MARKET

Financial firms across the world have recognized the importance of building service channels that support both physical and digital interactions. In Asia-Pacific, such multi-channel platforms are more than important; they are imperative if attrition is to be avoided. In developing effective multi-channel strategies, firms in the region have to be aware of significant variations in the digital infrastructures of each market, as well as uneven demands for digital interaction across markets.

One challenging but salient feature of the Asia-Pacific region is that the markets it encompasses span a wide range of digital readiness. The more mature markets of Japan, Australia, Singapore, and Hong Kong already enjoy the benefits of highly advanced digital infrastructures. However, in the developing markets of China, India, Malaysia, and Indonesia, digital infrastructures can be less developed. While HNWIs generally congregate in urban centers where connectivity is more robust, the reality of operating within a less-developed digital infrastructure presents increased complexity for firms serving HNWIs in the region.

While mobile subscription rates are uniformly high across the region (in six of eight markets, the rate of penetration is higher than 100%[21]), usage of smart phones (needed for mobile applications), social media, and the Internet varies widely. In Singapore, for example, penetration is high across the board: 72% for smart phones, 59% for social media, and 73% for the Internet. In India, penetration rates are far lower: 13% for smart phones, 7% for social media, and 17% for the Internet.

China and Japan both hold the highest percentages of HNWI wealth in the region, yet they illustrate opposite ends of the digital spectrum. Japan holds the most wealth of the region (39.0%) and its Internet penetration is also high at 79%. While China also has a relatively high level of wealth at 26.5%, its Internet penetration has reached only 44%.

The wide discrepancies in digital readiness present difficulties for firms interested in developing a pan-Asia-Pacific strategy for multi-channel integration. While a consistent and unified technology platform is ideal, in Asia-Pacific, platforms must be able to accommodate wide variances in each market's underlying infrastructures. Further, the economics of developing digital platforms, particularly in emerging markets, becomes more difficult when the costs of doing so can be spread out only among a smaller population of digital users.

Every market in the region had digital characteristics that distinguished them from others. For example, the propensity of HNWIs with between $1 million and $5 million to leave if an integrated channel experience is not provided varied, ranging from 92.9% in China, to 87.7% for Singapore, 87.0% for India, and 65.1% for Japan. That same wealth group also had different expectations regarding whether their wealth management relationships will become mostly digital. In Indonesia, 89.6% expected most or all of their relationship to be digital in the next five years, compared to 85.9% in Hong Kong, 80.2% in Malaysia, 66.0% in Japan, and 60.5% in Australia.

[21] "2014 Asia-Pacific Digital overview", Cimigo, February 2014

Complicating the picture even more, HNWIs in most of the region's more digitally mature markets tended to have less demand for digital wealth management relationships (see Figure 34). In effect, HNWIs living in environments best suited for pursuing digital relationships tended to prefer relationships based on direct contact. Meanwhile, with the exception of Hong Kong, the demand for digital relationships was highest in markets where digital infrastructure development lagged.

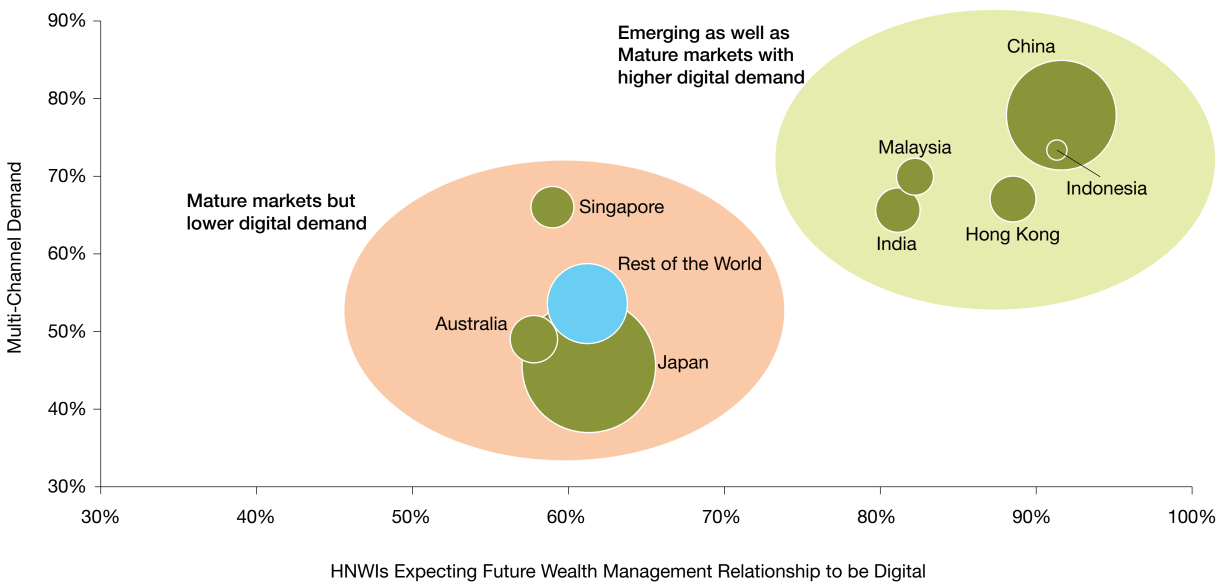
One way for firms to address the diverse levels of digital readiness and HNWI demand in Asia-Pacific is to understand the requirements for more complex markets, such as China, and tailor digital services for those markets accordingly. For example, more than two-thirds of Chinese HNWIs gave high importance to all types of channels, including direct (in-person and phone), traditional digital (website and email), and emerging digital (mobile applications, video, and social media). At the same time, digital penetration in China is relatively low, yet demand for digital relationships is high. Carrying out a strategy that meets the all-encompassing needs of this group could go a long way toward preparing firms for managing both digital and multi-channel relationships throughout the region.

Indonesia ranked just below China in terms of the importance ascribed by HNWIs to both emerging and traditional digital channels, making it another advantageous market for firms to consider (see Figure 35). An integrated channel experience is especially important for Indonesian HNWIs under 40. If one is not provided, 96.2% of them said they would consider leaving their firm.

Another high priority throughout the region is to offer transaction capabilities through digital channels. A high percentage of HNWIs in certain markets—75.0% in Hong Kong, 74.3% in Singapore, and 72.6% in Malaysia—would leave a firm if they couldn't execute transactions digitally, compared to 66.6% of HNWIs in the rest of the world.

FIGURE 34. HNWI Future Digital Demand vs. Channel Demand Complexity, Q1 2014

(%)



Note: Bubble size represents HNWIs' wealth in the specific country; For rest of the world bubble size does not represent the wealth
Channel complexity is the weighted average of importance for direct channels (In-Person, Phone), traditional digital channels (Website, Email), emerging digital channels (Mobile Applications, Social Media, and Video), and % of HNWIs leaving firm if integrated channel experience not provided

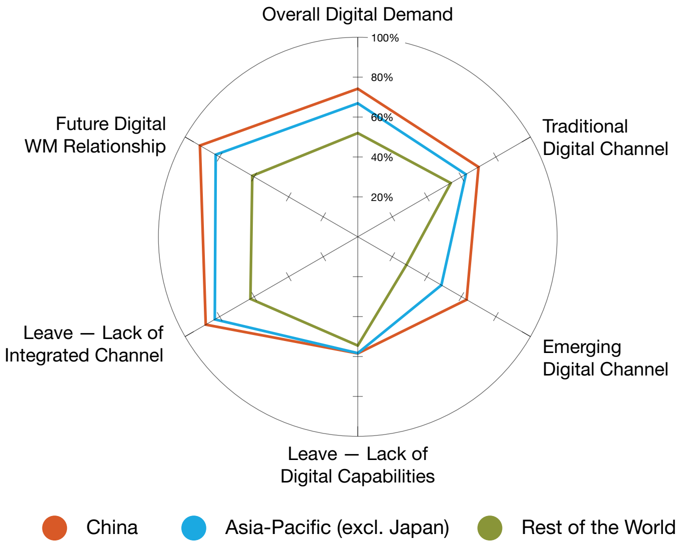
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

FIGURE 35. HNWIs Digital Profile–Ranking, Q1 2014

Snapshot of Digital Demand

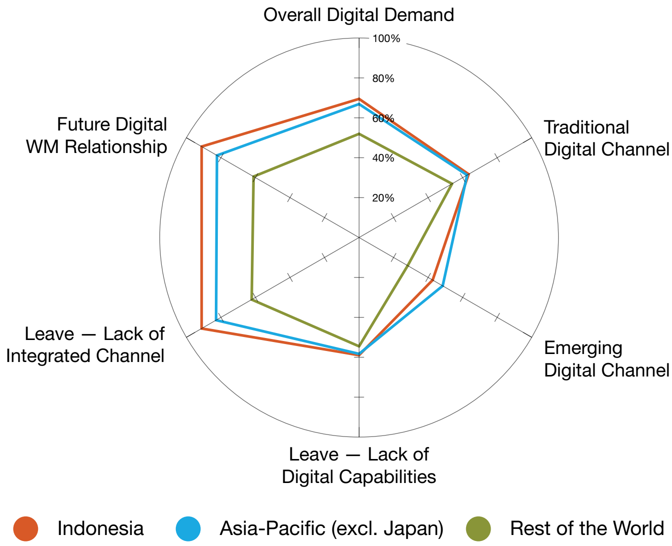
China (Rank 1 of 8)

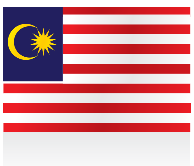
- Highest on both the importance of emerging digital and traditional digital channels
- 92.9% of HNWIs with wealth between $1m–$5m might leave the firm if integrated channel experience is not provided
- 98.0% of HNWIs with wealth between $10m–$20m expect most or all of the WM relationship to be digital within next five years
- Importance for emerging digital channels is consistent across age bands with 64.0% for 40+ and 62.4% for under-40



Indonesia (Rank 2 of 8)

- Second highest on both the importance of emerging digital and traditional digital channels
- 96.2% of HNWIs with age under 40 might leave the firm if integrated channel experience is not provided
- 89.6% of HNWIs with wealth between $1m–$5m expect most or all of the WM relationship to be digital within next five years
- Importance for traditional digital channels is consistent across age bands with 61.5% for 40+ and 65.3% for under-40





Malaysia (Rank 3 of 8)

- Highest proportion of HNWIs who might leave the firm due to lack of integrated channel experience
- 93.2% of HNWIs with age under 40 might leave the firm if integrated channel experience is not provided
- 80.2% of HNWIs with wealth between $1m–$5m expect most or all of the WM relationship to be digital within next five years
- 72.6% of HNWIs in Malaysia would leave if the firm lacks transact digital capability

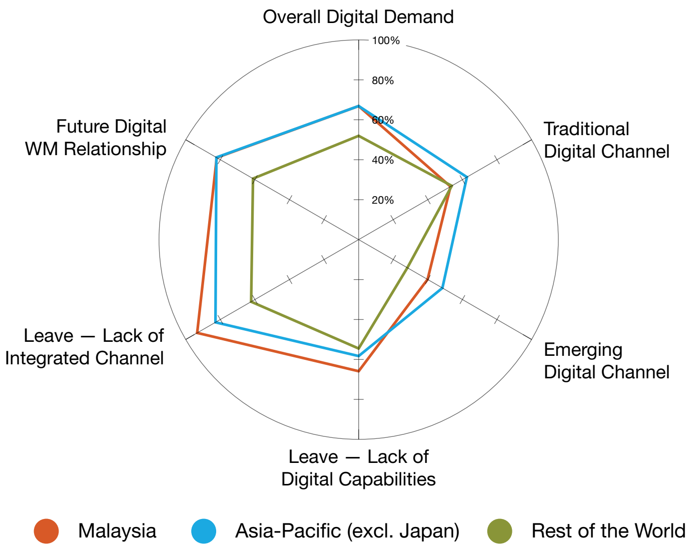
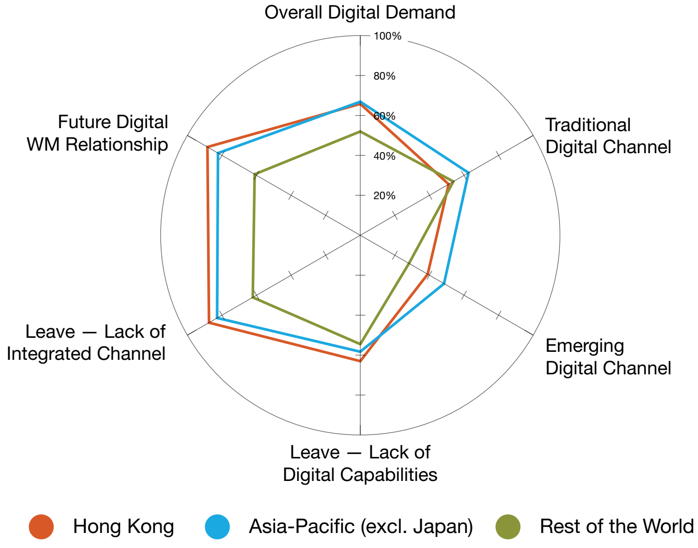


FIGURE 35. HNWIs Digital Profile–Ranking, Q1 2014 (Cont...)

Snapshot of Digital Demand

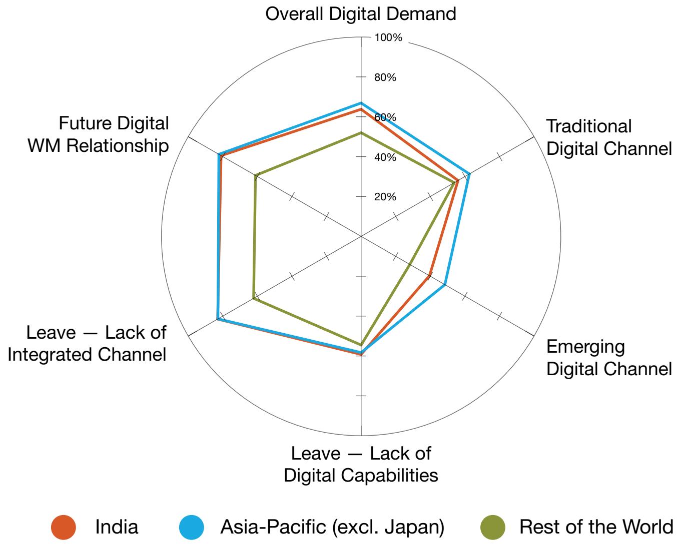
Hong Kong (Rank 4 of 8)

- Highest proportion of HNWIs who might leave the firm due to lack of transact digital capabilities
- 85.5% of HNWIs with age under 40 might leave the firm if integrated channel experience is not provided
- 85.9% of HNWIs with wealth between $1m–$5m expect most or all of the WM relationship to be digital within next five years
- 75.0% of HNWIs in Hong Kong would leave if the firm lacks transact digital capability



India (Rank 5 of 8)

- Very high on importance of emerging digital channels
- 87.0% of HNWIs with wealth between $1m–$5m might leave the firm if integrated channel experience is not provided
- 86.8% of HNWIs with age under 40 expect most or all of the WM relationship to be digital within next five years
- Importance for traditional digital channels is consistent across age band with 56.5% for 40+ and 55.7% for under-40
- 65.8% of HNWIs in India would leave if the firm lacks transact digital capability



Singapore (Rank 6 of 8)

- Second highest on both the proportion of HNWIs who might leave the firm due to lack of transact and engage digital capabilities
- 87.7% of HNWIs with wealth between $1m–$5m might leave the firm if integrated channel experience is not provided
- 66.7% of HNWIs under 40 expect most or all of the WM relationship to be digital within next five years
- 74.3% of HNWIs in Singapore would leave if the firm lacks transact digital capability

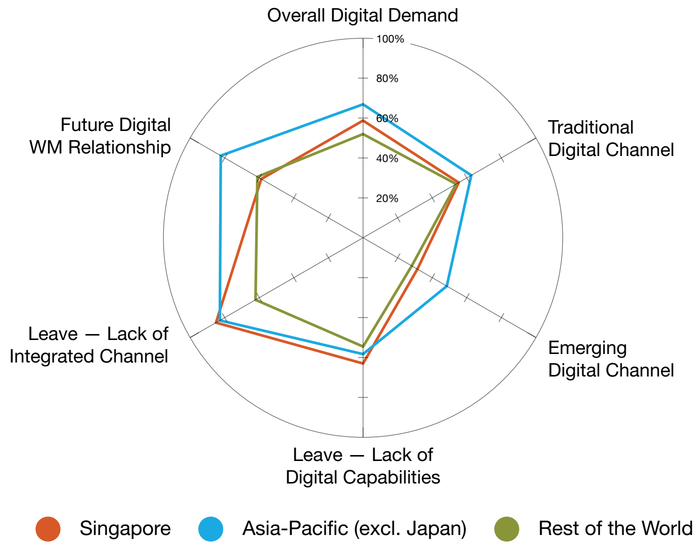
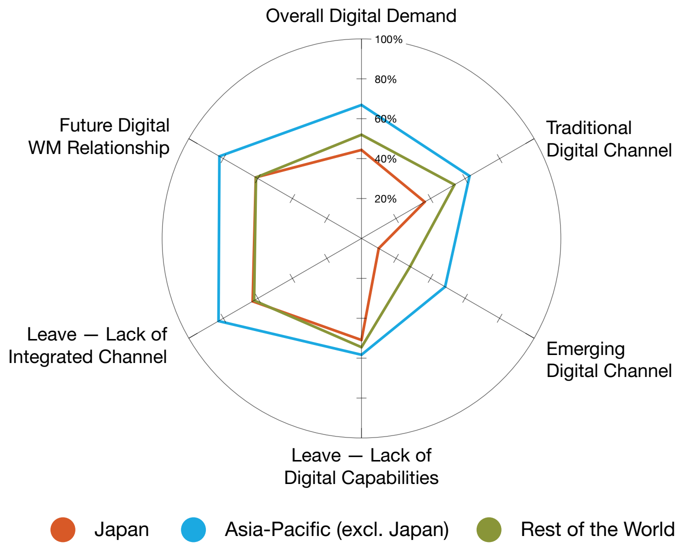


FIGURE 35. HNWIs Digital Profile–Ranking, Q1 2014 (Cont...)

Snapshot of Digital Demand

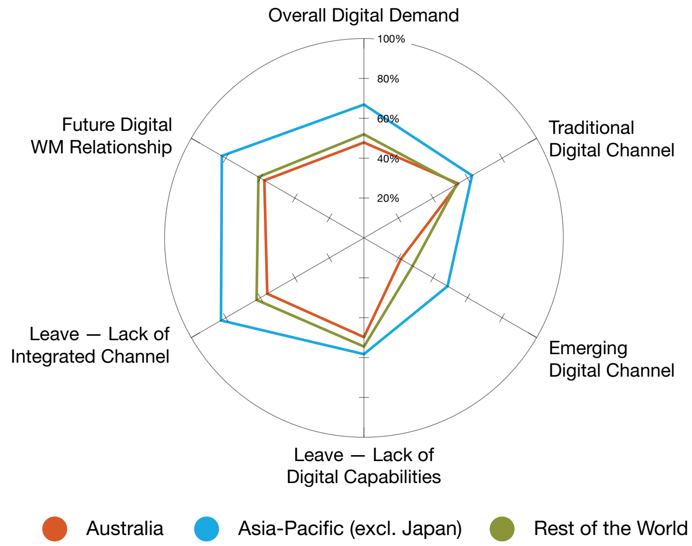
Japan (Rank 7 of 8)

- Lowest on both the importance of emerging digital and traditional digital channels
- 65.1% of HNWIs with wealth between \$1m–\$5m might leave the firm if integrated channel experience is not provided
- 66.0% of HNWIs with wealth between \$1m–\$5m expect most or all of the WM relationship to be digital within next five years
- Importance for emerging digital channels remains low across age band with 8.2% for 40+ and 24.3% for under-40



Australia (Rank 8 of 8)

- Lowest proportion of HNWIs who might leave the firm due to lack of integrated channel experience
- 80.4% of HNWIs under 40 might leave the firm if integrated channel experience is not provided
- 60.5% of HNWIs with wealth between \$1m–\$5m expect most or all of the WM relationship to be digital within next five years
- 61.1% of HNWIs in Australia would leave if the firm lacks transact digital capability



Note: Direct Channels include In-Person and Phone, Traditional Digital Channels include Website and Email, and Emerging Digital Channels include Mobile, Video, and Social Media; Ranking is done among the eight countries surveyed in Asia-Pacific based on the responses on digital parameters such as Digital Channel demand, Digital Capabilities, % of HNWIs leaving firm if digital capabilities and integrated channel not provided, and future digital demand for WM relationship

Note: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

DIGITAL TECHNOLOGY OFFERS KEY TO MEETING HIGH CLIENT EXPECTATIONS, ACHIEVING GROWTH POTENTIAL

More than HNWIs in any other region, those in Asia-Pacific fit the profile of avid digital users. They tend to have digital lifestyles, spending more time and money online, and having greater trust in online entities.[22] They are open to sharing information over social media, and making the Internet a focal point of the wealth management relationship.

Despite this favorable profile, divergent behavioral preferences in Asia-Pacific, combined with the different levels of digital readiness across markets within the region, are adding complexity to an already difficult wealth management business environment. Though many firms have made significant investments in building out their Asia-Pacific operations, profit margins remain low, largely due to a series of challenges that weigh more heavily on Asia-Pacific firms than those in other regions of the world (see Figure 36).

While wealth management firms everywhere face the burden of rising costs, firms operating in Asia-Pacific must also shoulder more severe constraints related to regulations, the scalability of operations, and the hiring of skilled professionals. Asia-Pacific, for example, does not operate under a uniform regulatory regime due to cultural, political, economic, and tax code differences. Such differences also make scalability a larger challenge, as the HNWI market in some countries has not yet reached the scale necessary for larger firms to operate profitably. Smaller firms, on the other hand, may lack an efficient banking platform that is scalable to address the needs of the region's diverse HNWI market. Finally, staffing issues are more acute in Asia-Pacific as higher-than-average HNWI population growth continues to outpace the availability of wealth manager talent.

Despite these constraints, the Asia-Pacific wealth management market is benefiting from the momentum of several positive developments. Acceptance of wealth

FIGURE 36. Severity of Key Challenges Facing Global and Asia-Pacific Wealth Management Industry, Q1 2014

Key Challenge	Severity for WM Firms Globally	Severity for WM Firms in Asia-Pacific	Key Comments
Rising Cost to Income Ratio	High	High	▪ Rising costs are equally severe to firms in Asia-Pacific and the Rest of the World
Increased Regulation	High	High	▪ Increased regulations are impacting firms globally ▪ Asia-Pacific grapples with the additional challenge of a non-homogeneous regulatory environment
Building Scalable Models	Medium	High	▪ Scalability is a key challenge to both large and small Asia-Pacific firms as larger firms may not be able to operate profitably in markets with a low HNWI population base; while smaller firms may lack an efficient banking platform that is scalable to meet the needs of the region's diverse HNWI market
Enhancing Client Experience	Medium	Medium	▪ Rising client expectations, coupled with complex needs, are placing higher digital demands on WM firms globally
Wealth Manager Talent Crunch	Low	Medium	▪ Scarcity of wealth managers is a bigger problem for Asia-Pacific, as higher than global average of HNWI population growth is far outpacing the wealth manager growth numbers

High Medium Low

Source: Capgemini Financial Services Analysis, 2014; "Empowering the relationship manager", Oracle; "Today's Boiling Frog"?, A.T. Kearney; "Small Asia private banks at crossroads - exit or acquire", Reuters, November 2013; "Shake-up looms in Singapore banking, wealth managers warn", Financial Times, August 2013; "Cost Pressures Intensify On Global Wealth Management – Scorpio", WealthBriefing, July 2011

[22] "Digital Media the Key to Engaging the World's Wealthiest", Standard Chartered and Scorpio Partnership, November 2012

management products and services is rising,[23] at the same time that HNWI wealth in the region is growing. Compared to 10.0% annual growth globally, HNWI wealth in Asia-Pacific grew by 14.0% annually between 2008 and 2013. Further, HNWIs in the region are increasingly open to more sophisticated types of investments. In Q1 2014, for example, Asia-Pacific (excl. Japan) HNWIs allocated 14.5% of their assets to alternate investments, compared to 13.7% in Q1 2013.

Digital technology can help firms capitalize on the growth potential of the Asia-Pacific wealth market. A top priority is meeting the very high expectations the region's HNWIs have for a digital experience. As a first step, providing access to real-time information should be considered a baseline requirement. Tech-savvy Asia-Pacific HNWIs—whether they are clients, prospects or centers of influence—will also need to be drawn in and engaged via innovative, even entertaining, interactive tools. HNWIs also expect to receive personalized, targeted advice based on profiles maintained and analyzed by their wealth management providers.

Digital technology can do more than help firms fit into the digital lifestyles of their HNWI clients. It can also help them address various underlying internal challenges. Automation, for example, can reduce operational costs on the back end and improve the productivity of wealth managers on the front end, addressing both profitability and human resources issues. In addition, technologies such as automated on-boarding and online documentation can help firms achieve much-needed scale, even in emerging markets (see *Asia-Pacific Wealth Report 2011* and *Asia-Pacific Wealth Report 2012*). Finally, compliance technology can help firms ensure they are up to date on changing regulations throughout the many markets of the region (see *Asia-Pacific Wealth Report 2013*).

Several firms in the region are already using digital technology to help them gain competitive advantages. A leading financial services company headquartered in Singapore has made a multi-million dollar investment in cognitive computing, a technology that analyzes large amounts of structured and unstructured data, to help the firm provide faster and more personalized advice to HNWIs. The initiative is expected to vastly improve the client experience. And by helping relationship managers be more productive in assessing complex data, including research reports, product information, and customer profiles, the technology will drive scalability, letting the company more easily serve larger volumes of clients.

A global wealth manager operating in Asia-Pacific is also seeking to boost relationship manager productivity through a suite of mobile office applications that let traveling relationship managers provide personalized investment information on the spot to clients. In addition to product information and research, the application provides access to video conferencing with in-house specialists.

A European wealth management provider with extensive operations in Asia-Pacific is seeking to improve the client experience through a new website and tablet application that dispenses information about technically advanced investment products in an interactive and enlightening way. The easy-to-use tool, which features simulators and product selectors, is intended to meet the needs of HNWIs seeking greater understanding of the products in which they invest, as well as more digital interaction in their wealth management relationships.

In another bid to conform to the more digital lifestyles of clients, a Japanese-based asset manager simultaneously launched a Facebook page, a Twitter account, and a YouTube channel, to showcase content from the firm or provide links to the website. The full-scale social media initiative is intended to promote a greater understanding of the asset management business, as well as expand the use of investment trusts by exposing a greater number of individuals to the firm and its activities.

For these and other wealth managers vying to expand in Asia-Pacific, digital technology should be viewed as an essential tool for strengthening HNWI relationships. HNWIs in Asia-Pacific have high expectations for receiving the full complement of digital and direct channels, as well as real-time reporting. Perhaps more than in any other region, digital technology has the potential in Asia-Pacific to lead to deeper, more meaningful connections with clients. In Asia-Pacific there are more HNWIs than anywhere else in the world who are open to having digital relationships with their wealth managers, through traditional and even advanced digital channels. Firms able to achieve digital success in Asia-Pacific, including addressing the nuances that come in the region's varying levels of digital infrastructure and digital readiness, will be well-positioned to expand the benefits of digital technology to their HNWI clients throughout the world.

[23] "Chinese Investors Flock to Wealth-Management Products", The Wall Street Journal, August 2014

Appendix

METHODOLOGY

MARKET SIZING

The *2014 Asia-Pacific Wealth Report* focuses on 11 core markets: Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Thailand, and Taiwan. The market-sizing model includes 18 countries and territories (including the 11 core markets and New Zealand, Kazakhstan, Myanmar, Pakistan, Philippines, Sri Lanka, and Vietnam) in its Asia-Pacific coverage.

We estimate the size and growth of wealth in various regions using the Capgemini Lorenz curve methodology, which was originally developed during consulting engagements in the 1980s. It is updated on an annual basis to calculate the value of HNWI investable wealth at a macro level.

The model is built in two stages: first, the estimation of total wealth by country, and second, the distribution of this wealth across the adult population in that country. Total wealth levels by country are estimated using national account statistics from recognized sources such as the International Monetary Fund and the World Bank to identify the total amount of national savings in each year. These are summed over time to arrive at total accumulated country wealth. As this captures financial assets at book value, the final figures are adjusted based on world stock indexes to reflect the market value of the equity portion of HNWI wealth.

Wealth distribution by country is based on formulized relationships between wealth and income. Data on income distribution is provided by the World Bank, the Economist Intelligence Unit and countries' national statistics. We then use the resulting Lorenz curves to distribute wealth across the adult population in each country. To arrive at investable wealth as a proportion of total wealth, we use statistics from countries with available data to calculate their investable wealth figures and extrapolate these findings to the rest of the world. Each year, we continue to enhance our macroeconomic model with increased analysis of domestic economic factors that influence wealth creation. We work with colleagues around the globe from several firms to best account for the impact of domestic, fiscal and monetary policies over time on HNWI wealth generation.

The investable asset figures we publish include the value of private equity holdings stated at book value as well as all forms of publicly quoted equities, bonds, funds and cash deposits. They exclude collectibles, consumables, consumer durables and real estate used for primary residences. Offshore investments are theoretically accounted for, but only insofar as countries are able to make accurate estimates of relative flows of property and investment in and out of their jurisdictions. We account for undeclared savings in the report.

Given exchange rate fluctuations over recent years, especially with respect to the U.S. dollar, we assess the impact of currency fluctuations on our results. From our analysis, we conclude that our methodology is robust and exchange rate fluctuations do not have a significant impact on the findings.

GLOBAL HIGH NET WORTH INSIGHTS SURVEY, 2014

The Capgemini, RBC Wealth Management, and Scorpio Partnership 2014 Global HNW Insights Survey queried more than 4,500 HNWIs across 23 major wealth markets in North America, Latin America, Europe, Asia-Pacific, the Middle East, and Africa. More than 1,400 HNWIs were surveyed in Asia-Pacific across eight major markets of Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, and Singapore.

The Global HNW Insights Survey, the largest global survey of HNWIs, was administered in January and February 2014 in collaboration with Scorpio Partnership, a firm with 16 years of experience in conducting private client and professional advisor interviews in the wealth management industry.

The 2014 survey was built on analysis conducted around three focus areas in 2013: HNWI trust and confidence, HNWI asset allocation, and HNWI behavior. The first focus area targeted HNWI levels of trust and confidence in key industry stakeholders, including wealth management firms, individual wealth managers/advisors, financial markets, and regulatory bodies and institutions. The second focus area, asset allocation, measured current asset allocation patterns of global HNWIs, as well as the geographic allocations of their investments. The third focus area, HNWI behavior, studied HNWI preferences and behaviors with respect to their objectives and approaches to wealth management, their relationships with wealth managers, and the type of services they expect.

In addition, the 2014 survey expanded its focus to include two new areas. The first, on driving social impact, addressed the importance of various drivers and causes that motivate HNWIs to give, the mechanisms they use to fulfill social impact goals, as well as the support they expect from their wealth management firms. The other new focus area, a spotlight on the rising importance of digital, surveyed HNWIs on their preference for digital interaction with firms for various wealth management activities and their expectations of firms to deliver an integrated digital client experience.

To arrive at the global and regional values, country and region-level weightings, based on the respective share of the global HNWI population, were used. This was done to ensure that the survey results are representative of the actual HNWI population. For more interactive and historical data at a regional and country level for market sizing and the Global High Net Worth Insights Survey, please visit www.worldwealthreport.com/apwr.

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