Asia-Pacific Wealth Report 2016

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Preface

Asia-Pacific reached a milestone in 2015. Boosted by the engines of China and Japan, the region generated both the most high net worth individual (HNWI)[1] wealth and the highest number of HNWIs, a first in the more than 20 years Capgemini has been tracking global HNWI wealth. The achievement puts Asia-Pacific on a new, high-growth trajectory. If current trends hold, it will be on course to more than double HNWI wealth over the next ten years.

But there is no guarantee that HNWIs in the region will turn to traditional wealth management firms for help in overseeing their expanding assets. Despite rising trust in the industry, Asia-Pacific HNWIs show a strong preference for keeping their wealth in physical cash or in retail bank accounts. Overcoming the resistance toward working with wealth management firms may be the biggest challenge the industry faces.

Having a greater understanding of the investment philosophies and practices that motivate HNWIs is one way to break down the barriers that are preventing more of them from seeking assistance from wealth managers. Our Global HNW Insights Survey, with responses from thousands of HNWIs around the world, including 1,700 in Asia-Pacific, provides a starting point for discovering the aspects of wealth management that are most appealing to Asia-Pacific HNWIs.

One of the biggest factors that distinguishes Asia-Pacific (excl. Japan) HNWIs is the high value they place on investment management services. When it comes to investing, these HNWIs stand apart from others in terms of the philosophies that guide them, their use of credit, their preferred asset classes, and how much they invest overseas. In addition, more so than HNWIs elsewhere in the world, those in Asia-Pacific (excl. Japan) prefer to couple investment management with financial planning. A deep interest in accomplishing social goals through investing is another trademark of Asia-Pacific (excl. Japan) HNWIs.

Perhaps most important, Asia-Pacific (excl. Japan) HNWIs appreciate the very best that digital technology can offer. Not only do they place the highest value of all HNWIs on digital capabilities, they are almost twice as likely to leave a firm whose digital services are lacking.

However, wealth management firms in the region are struggling to manage the investments required for future success with the demands of business-as-usual. Those firms able to balance current operating demands with the investments needed to differentiate in the future, will be best placed to attract and serve the world's largest region for HNWI wealth.

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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

Executive Summary

Asia-Pacific Leads in Global HNWI Wealth and Overall Growth

- Asia-Pacific overtook North America in HNWI wealth for the first time in 2015, building upon its lead in HNWI population.
- Japan and China proved to be the engines of Asia-Pacific and global growth, together driving about 90% of Asia-Pacific HNWI wealth growth and 60% of global HNWI population growth in 2015.
- India and China represent nearly 10% of global HNWI wealth, and account for almost 19% of the global increase in new wealth since 2006, adding US$4.0 trillion during this time.
- Ultra-HNWIs[2] in Asia-Pacific expanded their ranks and wealth more quickly than all other wealth bands.
- Asia-Pacific HNWI wealth could surpass US$42 trillion by 2025, propelled by the Emerging Asia markets of China, India, Indonesia, and Thailand.

Significant Proportion of HNWI Assets Eludes Wealth Management Firms

- The wealth management industry has earned a greater amount of HNWI trust in Asia-Pacific (excl. Japan) compared to last year, but has not succeeded in capturing a majority of HNWI assets.
- Of all the wealth services, Asia-Pacific (excl. Japan) HNWIs place the highest value on investment management, presenting an opportunity for firms able to offer products that align with HNWI investment philosophies and practices.
- Firms must offer strong goals-based financial planning capabilities, as Asia-Pacific (excl. Japan) HNWIs place a higher value on financial planning and professional advice, compared to HNWIs in the rest of the world.[3]
- Asia-Pacific (excl. Japan) HNWIs are the most active social impact[4] investors in the world, allocating more than one-third of their portfolios toward social improvement.

Digital Maturity in Asia-Pacific Not Keeping Pace with HNWI Demand

- Asia-Pacific HNWIs hold less than one-third of their record wealth with wealth managers, though they are open to consolidating more of it, with digital maturity being a key lever for increasing (or decreasing) assets.
- Digital capabilities are more important to Asia-Pacific HNWIs than to those anywhere else in the world, and wealth managers, especially younger ones, are also highly attuned to the need for digital services.
- Low levels of digital maturity, combined with a lack of vision with respect to automated advice and peer-to-peer networks, present numerous challenges to wealth management firms in Asia-Pacific.
- Despite a coming wave of disruptive forces, wealth management firms in Asia-Pacific remain bogged down by keeping up with day-to-day concerns.

2 For the purpose of our analysis, we separate HNWIs into three distinct wealth bands: Those with US$1 million to US$5 million in investable wealth (millionaires next door); those with US$5 million to US$30 million (mid-tier millionaires); and those with US$30 million or more (ultra-HNWIs)

3 Rest of the world refers to all countries covered in global market sizing (for the first section of the report) or the Global HNW Insights Survey 2016 (for all other sections of the report) except the markets in Asia-Pacific

4 Driving social impact refers to making a positive impact on society through thoughtful investments of time, money, or expertise that may or may not have a financial benefit to the HNWI

Asia-Pacific Leads in Global HNWI Growth

- **Asia-Pacific generated the most HNWI wealth of all the regions in 2015,** one year after recording the highest HNWI population, confirming its status as the world's most potent engine of HNWI wealth growth. Both HNWI wealth and population in Asia-Pacific increased by nearly 10%, despite curbed growth in many individual markets throughout the region.
- **China and Japan were the powerhouses behind Asia-Pacific's performance, driving more than 90% of its wealth growth.** The two markets fueled worldwide expansion as well, driving more than twice as much global HNWI wealth as all the other regions combined.
- **Unlike ultra-HNWIs in the rest of the world, those in Asia-Pacific grew their wealth at a brisk pace.** Wealth expanded by 10.8% for ultra-HNWIs in Asia-Pacific, compared to just 0.1% for those outside of Asia-Pacific.
- **Asia-Pacific HNWI wealth could surpass US$42 trillion by 2025, propelled by the Emerging Asia markets of China, India, Indonesia, and Thailand.** Even under a more conservative projection scenario, total Asia-Pacific HNWI wealth would nearly double through 2025 to nearly US$34 trillion. Key markets of China, India, and Hong Kong, and the financial services, high-tech, and healthcare sectors are expected to drive Asia-Pacific growth through 2025, according to the region's wealth managers.

Asia-Pacific Surpasses North America in HNWI Wealth

Asia-Pacific solidified its position as the world's HNWI growth engine, outperforming all other parts of the globe in population and wealth expansion, and definitively overtaking North America as the region with the greatest amount of HNWI wealth.

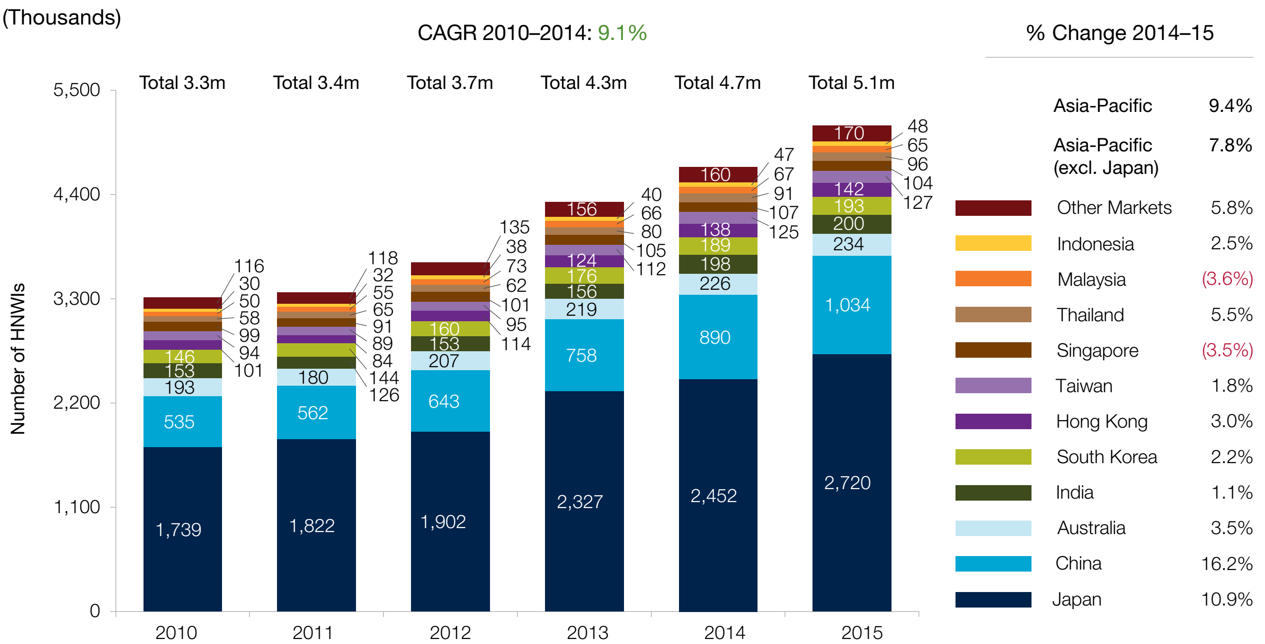
The number of HNWIs in the region surpassed five million for the first time, reflecting a 9.4% increase over 2014, well above an anemic 2.7% for the rest of the world (see Figure 1). In addition, its amount of HNWI wealth grew to US$17.4 trillion, an increase of 9.9%, compared to only 1.7% outside the region (see Figure 2).

The results cap an extended run for Asia-Pacific, which recorded the highest HNWI population in 2014 and now adds the distinction of becoming the world's largest market for HNWI wealth, as well. In 2015, Asia-Pacific HNWI population grew at about 3.5 times the rate of the rest of the world, while HNWI wealth grew at 5.8 times the rate.

Asia-Pacific's rise was even more striking given paltry HNWI growth in many of the region's markets during 2015.

Slowing GDP growth in China and uneven recoveries in Europe and the United States wore down many of the region's export-dependent economies. India, the fastest-growing HNWI market globally in 2014, boasted the region's broadest GDP expansion in 2015, but declines in its equity and real estate markets (see Figure 6) hobbled HNWI population growth, which plummeted to 1.1%, down from a record-breaking 26.3% a year earlier. Singapore and Malaysia, which experienced some of the biggest declines in equity market capitalization (see Figure 6), both had negative HNWI population growth (of 3.5% and 3.6%, respectively). Many other markets, suffering from equity market setbacks, managed HNWI population increases of only a few percentage points. Despite these drags, the region's HNWI population growth for the year edged out the compounded annual growth rate from 2010 to 2014.

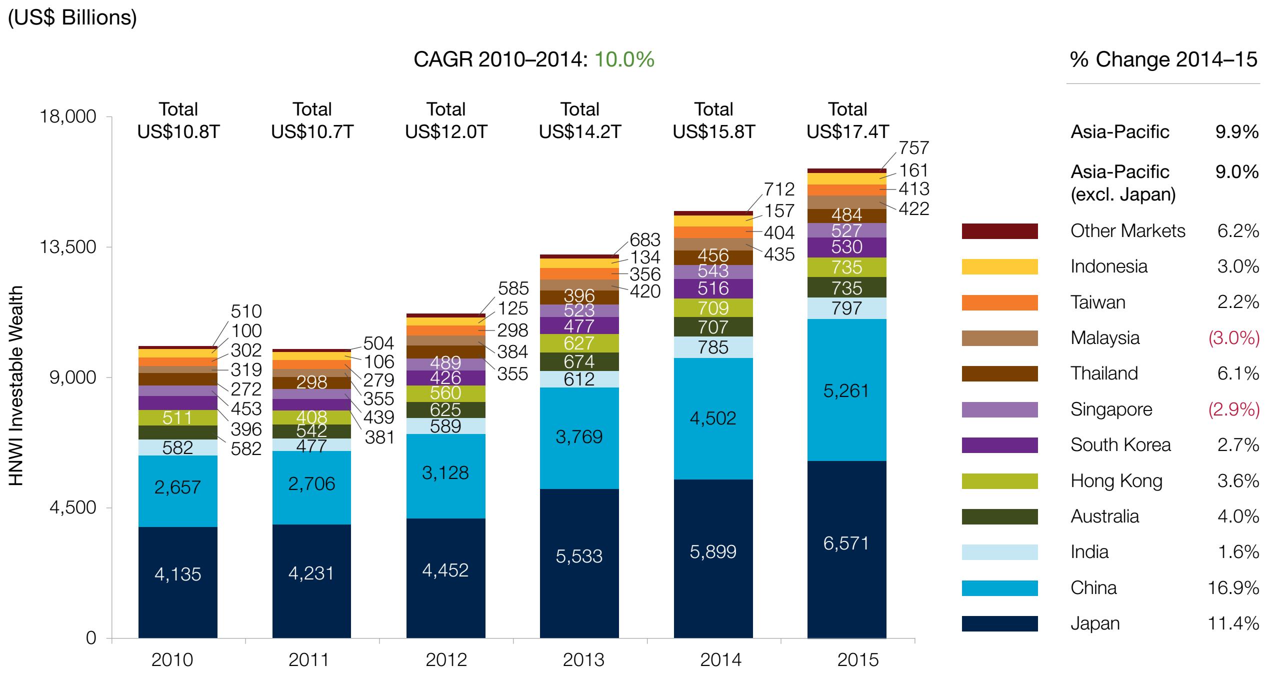
Figure 1. Asia-Pacific HNWI Population (by Market), 2010–2015



Note: The total for all years are expressed in millions and the thousands 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, 2016

Figure 2. Asia-Pacific HNWI Wealth (by Market), 2010–2015



Note: The total for all years are expressed in US$ trillions and the US$ billions in the 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, 2016

China, Japan Fuel Region's Performance

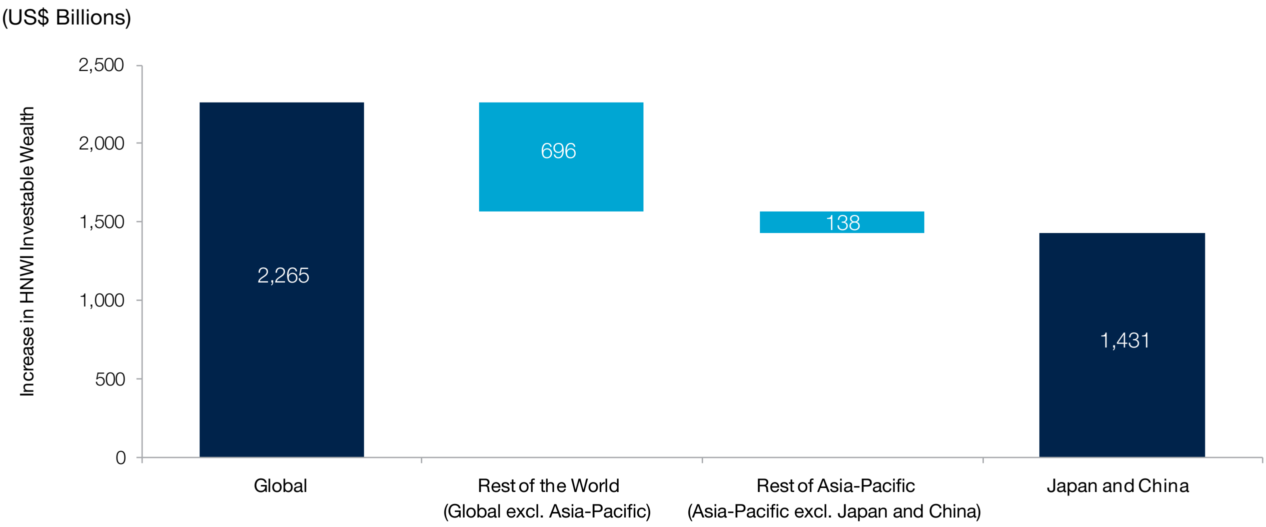
There were two big reasons for Asia-Pacific's overall strong performance in 2015, despite tepid growth in many markets: China and Japan. The two economies, which already represent more than two-thirds of Asia-Pacific's HNWI population and wealth, together drove more than 90% of the region's HNWI wealth growth in 2015.

Although Japan's economy has stagnated despite an aggressive set of monetary and fiscal policies aimed at rejuvenating it, strong equity and real estate market gains (see Figure 6) helped it increase HNWI population by 10.9% and HNWI wealth by 11.4%. China turned in the region's most impressive stock market performance by far (a gain of 36.4% in market capitalization) and above-average real estate growth (see Figure 6), helping it to boost HNWI population by 16.2% and wealth by 16.9%, despite its slowing (but still robust) economy. Though the gain in China's HNWI population was down slightly from a year earlier, it was still the biggest of all the markets by a large margin.

China and Japan were not only crucial pillars in Asia-Pacific's HNWI expansion, but also the world's, accounting for more than 60% of global HNWI wealth growth.

Together they added more than twice as much HNWI wealth (US$1.4 trillion) as all the other regions outside Asia-Pacific combined (see Figure 3) and they increased their number of HNWIs (413,000) by 1.5 times the amount as the rest of the world.

Figure 3. Total HNWI Wealth Added (by Region), 2015



Source: Capgemini Financial Services Analysis, 2016

Asia-Pacific Ultra-HNWIs Dominate Global Growth

In keeping with long-held patterns, ultra-HNWIs in Asia-Pacific (with US$30 million or more in investable assets) expanded their ranks and wealth more quickly than the mid-tier millionaires (with between US$5 million and US$30 million) and millionaires next door (with between US$1 million and US$5 million). This segment of 37,400 individuals grew its ranks by 10.2% and its wealth by 10.8%, just ahead of the other segments whose growth was in the 9% range (see Figure 4).

The energetic pace of ultra-HNWI expansion in Asia-Pacific stood in stark contrast to the experience of ultra-HNWIs in the rest of the world.

Outside of Asia-Pacific, ultra-HNWIs barely moved forward on the wealth scale, expanding their population by only 2.3% and their wealth by just 0.1%. Ultra-HNWIs in Asia-Pacific have been adding to their wealth more quickly than those in the rest of the world for some time. Over five years from 2010 to 2014, Asia-Pacific ultra-HNWIs boosted their wealth by 11.7% annually, compared to only 4.8% for ultra-HNWIs elsewhere.

The large leaps in Asia-Pacific ultra-HNWI wealth have occurred in spite of the small number of individuals in that group. Ultra-HNWIs make up just 0.7% of the region's HNWIs and control 27.4% of its HNWI wealth, more than the 23.9% held by mid-tier millionaires. The majority of the region's HNWIs (90.9% of the total) are millionaires next door, holding 48.6% of HNWI wealth.

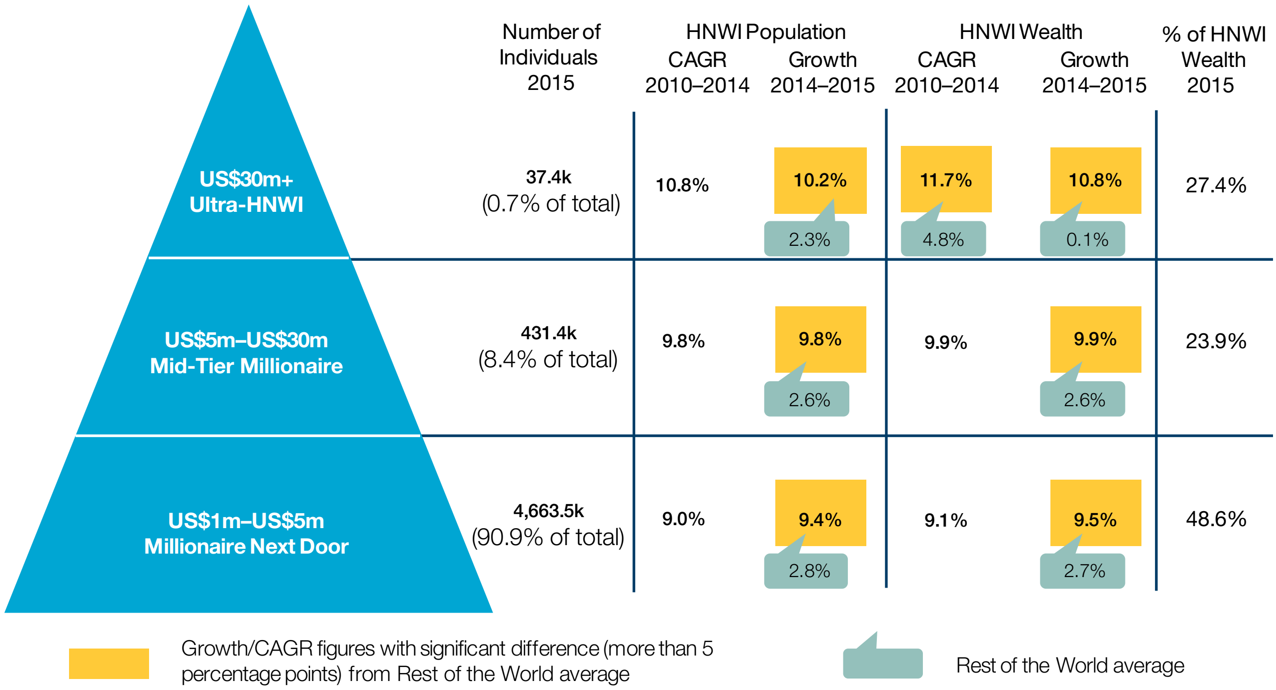
Emerging Asia to Spur Continued Expansion

Asia-Pacific HNWI wealth is expected to continue to grow briskly over the next decade, propelled by the Emerging Asia markets of China, India, Indonesia, and Thailand.

The region's HNWI wealth could surpass US$40 trillion by 2015 if growth rates of the last ten years, including annualized growth of 12.6% among the Emerging Asia nations, hold up over the next ten.

Under this somewhat aggressive scenario, Emerging Asia is projected to overtake Mature Asia (which includes Japan, Australia, New Zealand, Singapore, Hong Kong, Taiwan, Malaysia, and South Korea) as the market with the most HNWI wealth in Asia-Pacific in the year 2023. The total amount of US$42.1 trillion in Asia-Pacific HNWI wealth would be five times the amount recorded in 2006 (see Figure 5).

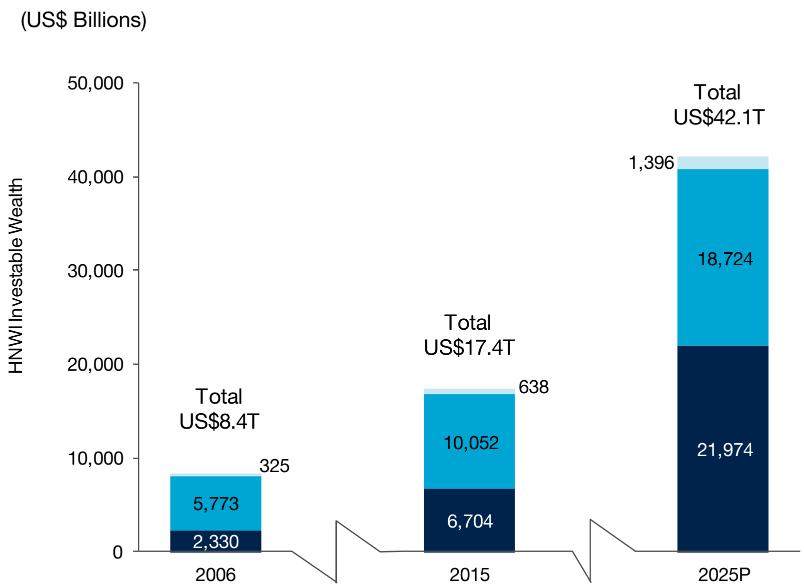
Figure 4. Composition of Asia-Pacific HNWI Population (by Wealth Bands), 2015



Note: Chart numbers and quoted percentages may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2016

Figure 5. Asia-Pacific HNWI Wealth Forecast, 2006–2025P



	HNWI Wealth Growth 2006–2015	HNWI Wealth Growth 2015–2025P
Asia-Pacific	106.4%	142.0%
Rest of Asia	96.3%	118.7%
Mature Asia (Industrialized + Newly Industrialized Asia)	74.1%	86.3%
Emerging Asia	187.7%	227.8%

Note: The total for all years are expressed in US$ trillions and the US$ billions in 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; 2025 data is calculated by applying the country-level annualized growth rate from 2006–2015 for the 2015–2025 period; Projected data is for illustrative purposes

Source: Capgemini Financial Services Analysis, 2016

A more conservative estimate takes into account the most recent economic projections for GDP in each market, which include a slight deceleration in China's GDP growth. This estimate reflects the thinking that Asia-Pacific economic expansion over the next ten years will not be as robust as in the previous ten. As one executive at a large private bank in the region explained, "The two drivers of wealth growth are facing very significant headwinds; economic growth is a lot lower and so are market returns." Under this scenario, which projects a lower annualized growth of 9.9% for Emerging Asia from 2015 to 2025, Asia-Pacific HNWI wealth would hit US$37.1 trillion by 2025, with Emerging Asia trailing Mature Asia by only US$1.2 trillion.

Even under the most conservative scenario, which pegs Emerging Asia growth at an annualized rate of 7.5%, total Asia-Pacific HNWI wealth would nearly double through 2025 to US$33.9 trillion, four times the amount recorded in 2006. Regardless of which projection takes hold, Asia-Pacific is expected to continue to be a vital force in global HNWI wealth creation well into the future, fueled by the Emerging Asia markets.

More than one-quarter of Asia-Pacific wealth managers (28.4%) indicate that China will be the leading driver of global growth through 2025, with the U.S. (17.2%), India (14.8%), U.K. (8.8%), and Hong Kong (8.0%) providing strong support. Three industries will dominate growth, according to Asia-Pacific wealth managers, including financial services (79.7%), high-tech (70.5%), and healthcare (66.5%).

Figure 6. Real GDP, Market Capitalization, and Real Estate Growth, Select Asia-Pacific Markets

(%)

India

	2014	'15	'16F	'17F
GDP	7.2	7.3	7.6	7.7
Market Cap	36.7	(2.5)	-	-
Real Estate	(7.8)	(10.4)	-	-

World

	2014	'15	'16F	'17F
GDP	2.5	2.4	2.6	2.9
Market Cap	4.7	(1.5)	-	-

Asia-Pacific (excl. Japan)

	2014	'15	'16F	'17F
GDP	5.7	5.4	5.6	5.6
Market Cap	19.5	9.7	-	-

China

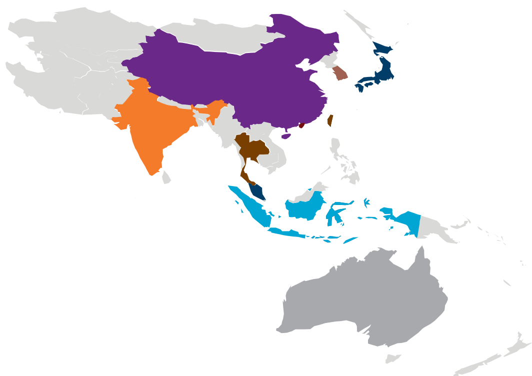
	2014	'15	'16F	'17F
GDP	7.3	6.9	6.5	6.3
Market Cap	52.1	36.4	-	-
Real Estate	(2.9)	9.1	-	-

Thailand

	2014	'15	'16F	'17F
GDP	0.9	2.7	2.9	3.3
Market Cap	21.5	(19.0)	-	-
Real Estate	5.3	2.0	-	-

Japan

	2014	'15	'16F	'17F
GDP	(0.1)	0.7	0.5	0.5
Market Cap	(3.6)	11.8	-	-
Real Estate	(6.7)	7.1	-	-



Malaysia

	2014	'15	'16F	'17F
GDP	5.9	4.8	4.2	4.4
Market Cap	(8.3)	(16.6)	-	-
Real Estate	5.2	2.7	-	-

South Korea

	2014	'15	'16F	'17F
GDP	3.3	2.6	2.6	2.8
Market Cap	(1.8)	1.5	-	-
Real Estate	0.8	2.2	-	-

Singapore

	2014	'15	'16F	'17F
GDP	2.9	2.1	1.7	2.2
Market Cap	1.1	(15.0)	-	-
Real Estate	(4.0)	(3.1)	-	-

Hong Kong

	2014	'15	'16F	'17F
GDP	2.5	2.6	1.7	1.9
Market Cap	4.3	(1.5)	-	-
Real Estate	8.3	0.0	-	-

Indonesia

	2014	'15	'16F	'17F
GDP	5.0	4.9	5.0	5.3
Market Cap	21.8	(16.3)	-	-
Real Estate	3.9	(0.2)	-	-

Australia

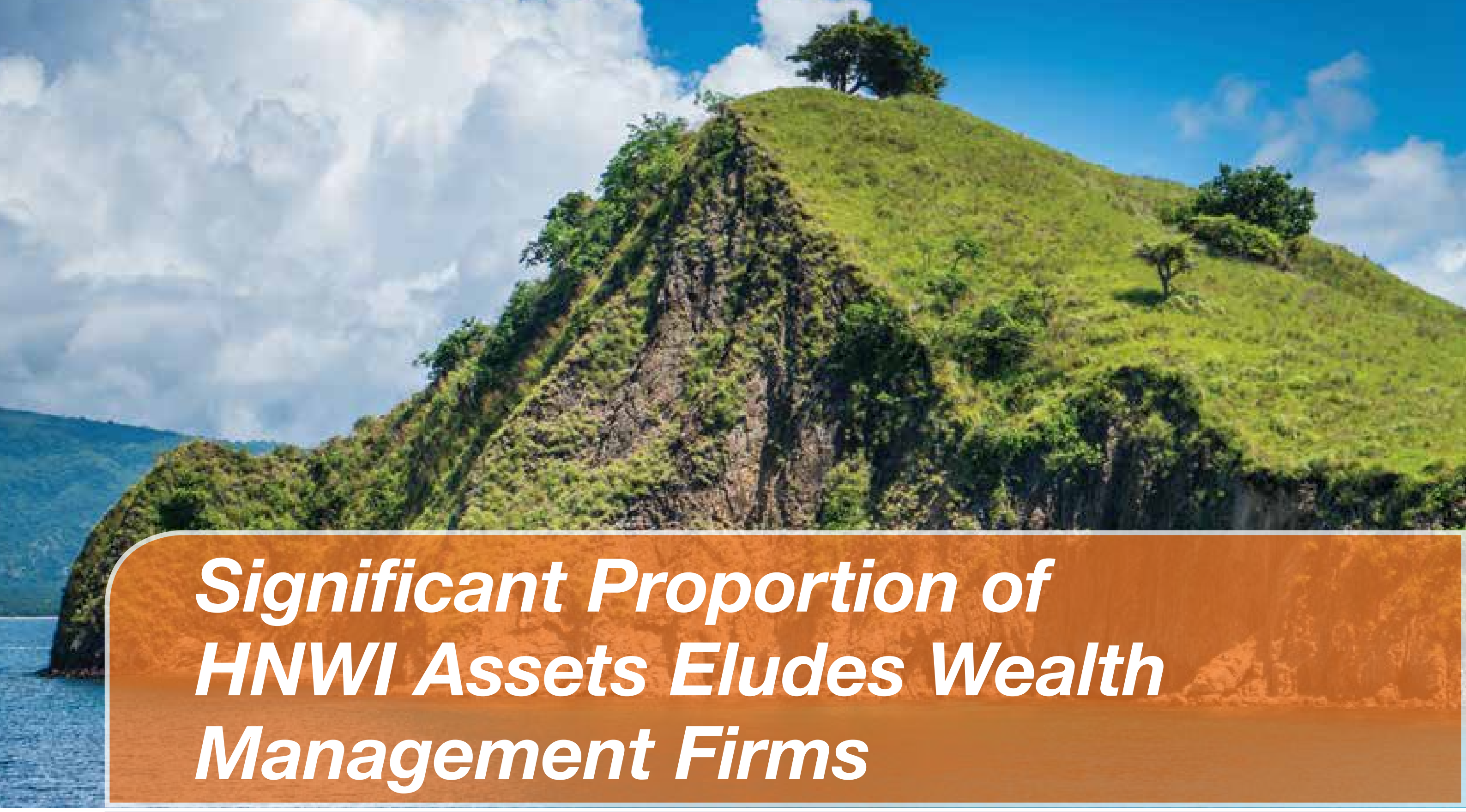
	2014	'15	'16F	'17F
GDP	2.6	2.3	2.6	2.9
Market Cap	(5.7)	(7.9)	-	-
Real Estate	6.8	9.7	-	-

Taiwan

	2014	'15	'16F	'17F
GDP	3.9	0.9	1.3	2.1
Market Cap	3.4	(12.5)	-	-
Real Estate	1.3	(4.4)	-	-

Note: 2014 and 2015 GDP data from EIU; 2016 and 2017 GDP data from Consensus Forecasts; Regional market capitalization growth rate data was calculated using WFE data, which covers most of the major markets in a particular region

Source: Capgemini Financial Services Analysis, 2016; Economic Intelligence Unit, Mar 2016; World Federation of Exchanges, Mar 2016; Global Property Guide House Price Index, May 2016; Consensus Forecasts, May 2016



Significant Proportion of HNWI Assets Eludes Wealth Management Firms

- **Though the wealth management industry has earned a greater amount of HNWI trust in Asia-Pacific (excl. Japan) compared to last year, it has not succeeded in capturing a majority of HNWI assets.** The region's HNWIs are more likely to keep their wealth in cash or a retail bank account (32.6%) than hold it with a wealth manager (30.6%).
- **Of all the wealth services, Asia-Pacific (excl. Japan) HNWIs place the highest value on investment management,** presenting an opportunity for firms able to offer products that align with HNWI investment philosophies and practices. Broadly speaking, Asia-Pacific (excl. Japan) HNWIs favor a growth-oriented approach, and consider equities, international investments, and credit to be key components of their portfolios.
- **To fully meet the expectations of Asia-Pacific (excl. Japan) HNWIs, firms must also offer strong goals-based financial planning capabilities.** Compared to rest-of-the-world HNWIs, those in Asia-Pacific (excl. Japan) place higher value on financial planning (90.9% versus 86.2%) and professional advice (71.0% versus 51.9%).[5]
- **Asia-Pacific (excl. Japan) HNWIs are the most active social impact investors in the world, allocating more than one-third of their portfolios (36.3%) toward social improvement.** They are also the most likely of any in the world to increase their allocations to social impact investments over the next two years.

5 Professional advice data from 2015 Asia-Pacific Wealth Report, Capgemini and RBC Wealth Management

Rising Trust Levels Fail to Boost Assets under Management

Trust in every facet of wealth management is on an upswing throughout Asia-Pacific. All aspects—from the individual relationships HNWIs have with wealth managers and firms, to the infrastructure that supports the industry—are being viewed in an increasingly positive light.

Notably, trust in wealth management firms expanded to 76.2% in Q1 2016 from 63.7% in Q1 2015 among Asia-Pacific (excl. Japan) HNWIs, and grew even more among Japanese HNWIs (to 47.3% from 24.9%) during this time period.

Confidence in the infrastructure that underlies wealth management also grew in remarkable fashion. Trust in the financial markets, for example, leapt from 47.8% to 68.8% in just one year (see Figure 7).

Though trust forms the foundation of successful wealth management relationships, rising trust levels have not translated into significant gains in HNWI assets under management.

Asia-Pacific (excl. Japan) HNWIs hold less than one-third of their assets (30.6%) with a wealth manager—less than the 34.5% that HNWIs in the rest of the world allocate to wealth managers. The percentage in Japan is lower still (23.7%).

Asia-Pacific (excl. Japan) HNWIs allocate only 20.7% of their wealth to their primary wealth managers, less than the 23.2% that HNWIs in the rest of the world do.

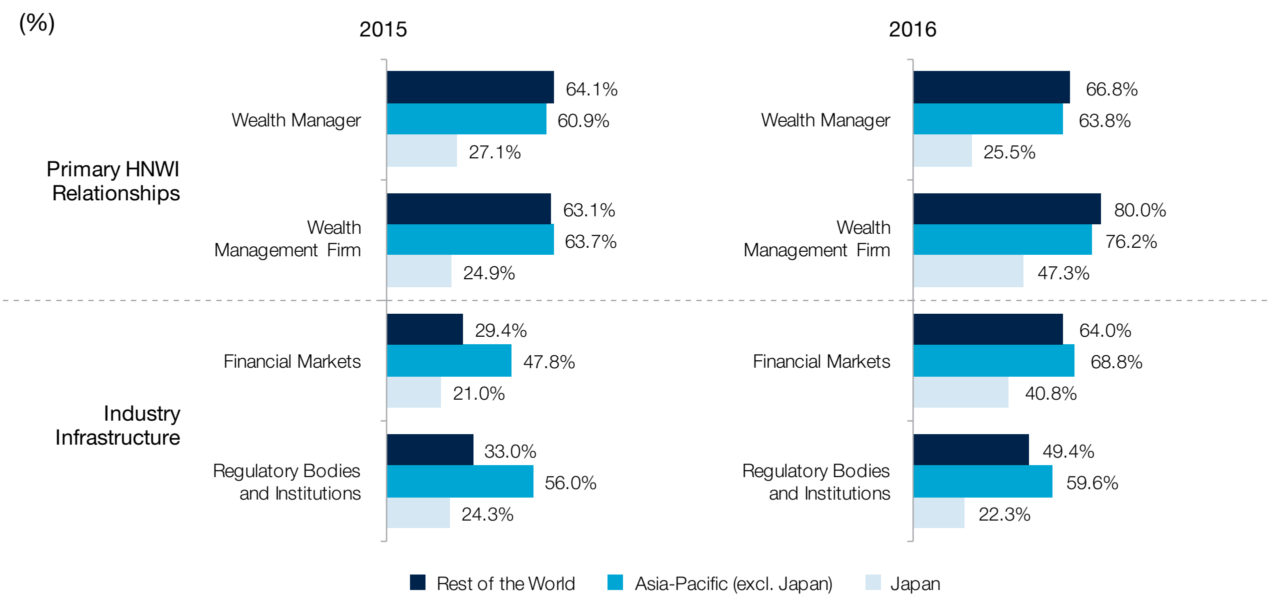
Compared to their counterparts in the rest of the world, Asia-Pacific (excl. Japan) HNWIs are more likely to keep their assets available in the form of physical cash (15.4%) or in retail bank accounts (17.2%). Japanese HNWIs exhibit the greatest preference by far for putting their wealth in a bank (27.0%) or parking it in physical cash (17.8%).

Demographics may only hasten the tide of HNWI assets being allocated outside the wealth management industry. Asia-Pacific (excl. Japan) HNWIs under-40 exhibit much less trust and confidence in their wealth managers (61.4% versus 82.3% for those over-60), but about equal satisfaction (69.4% for under-40 HNWIs versus 71.3% for those over-60).

The lower trust levels are likely a key driver behind younger HNWIs allocating less of their assets to wealth managers.

Asia-Pacific (excl. Japan) HNWIs under-40 place only 19.3% of their assets with their primary wealth manager, compared to 23.5% for those over-60 (see Figure 8).

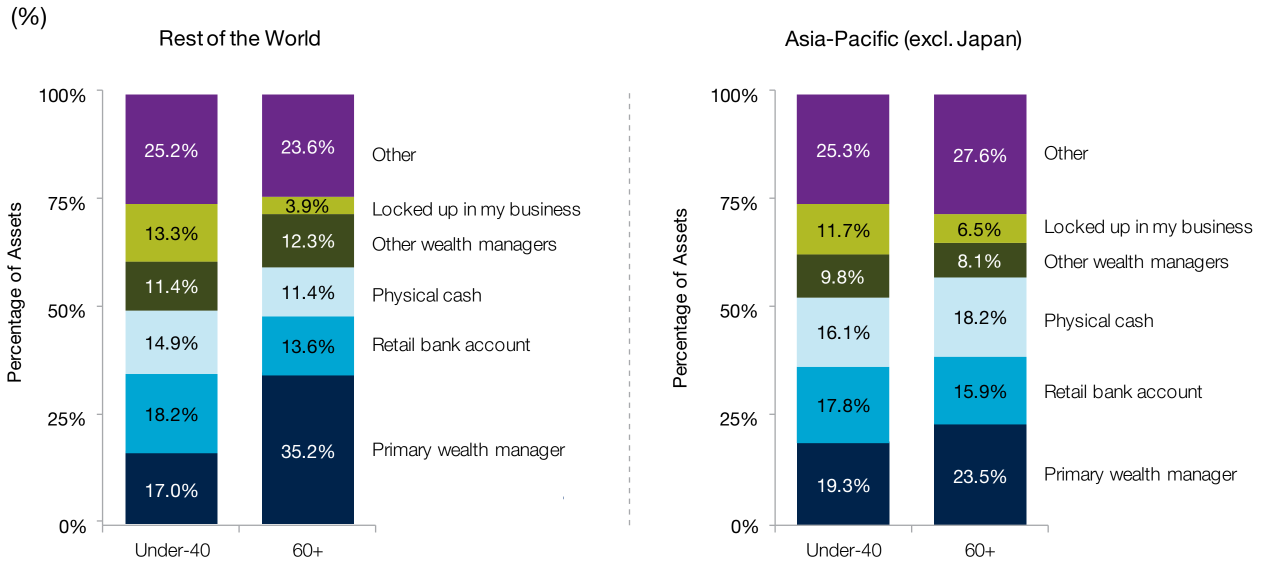
Figure 7. HNWI Trust and Confidence in Key Stakeholders, Q1 2015, 2016



Note: 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; Respondents were asked to rate on a scale of 1–7 and the above percentage represents the sum of rating from 5–7

Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini; Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

Figure 8. Breakdown of HNWI Investable Wealth across Entities and Accounts (by Age), Q1 2016



Note: Question asked: "How does your investable wealth breakdown across entities and accounts?"; Chart numbers may not add up to 100% due to rounding; Real estate is included as a part of Other

Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

Though rising overall trust levels paint a positive picture of the state of the wealth management industry in Asia-Pacific, they also mask troublesome trends, including the low amount of assets allocated to wealth managers, especially among younger HNWIs. Though some HNWI wealth is locked in hard assets, such as real estate and business, much remains essentially liquid in retail bank accounts or actual cash, presenting ample opportunity for firms seeking to amass a greater share of HNWI wealth.

Wealth management firms need to not only be aware of these trends and work to counteract them, but also build upon the substantial amounts of trust they do have, to develop new platforms for reaching out to and attracting more Asia-Pacific HNWIs.

Targeted Investment Management Services Present Opportunity

The services that Asia-Pacific (excl. Japan) HNWIs value from their wealth management providers present very specific opportunities for firms to nurture stronger relationships. Much more so than their counterparts in the rest of the world, HNWIs in Asia-Pacific (excl. Japan) hold investment management expertise in high regard.

It is the most valued wealth management service for 34.0% of HNWIs in the region, more than 10 percentage points higher than for HNWIs in the rest of the world.

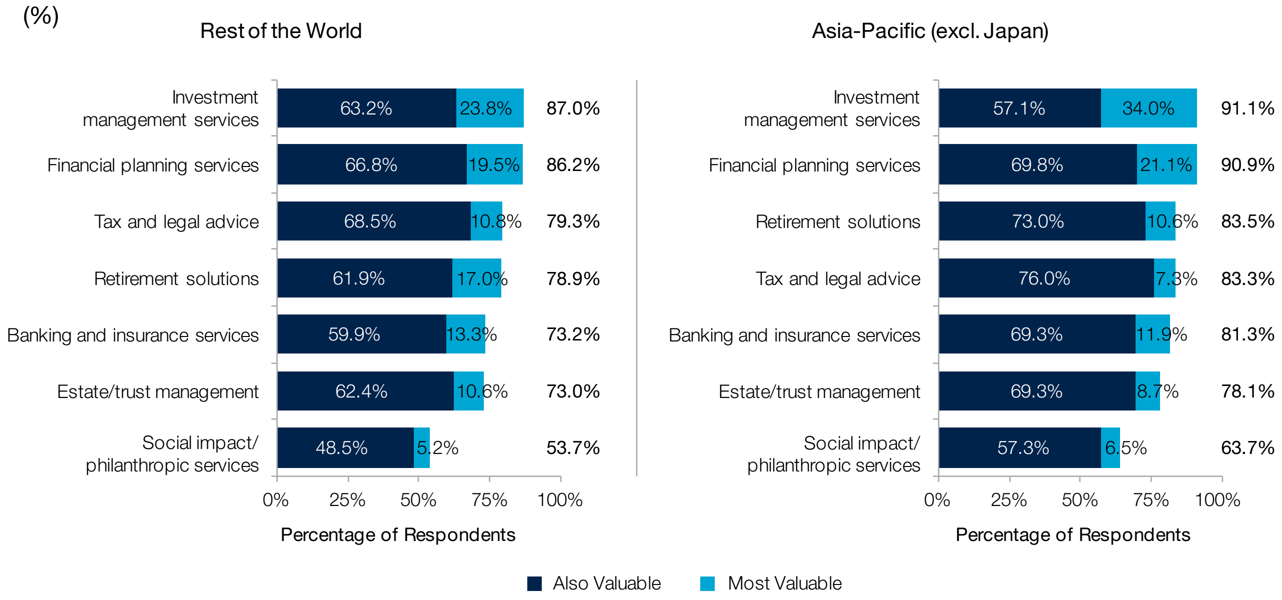
Investment management resonates with Asia-Pacific (excl. Japan) HNWIs more fully than a host of other services, including retirement solutions, insurance, tax and legal advice, and estate management (see Figure 9).

HNWIs in the region also have greater faith in their ability to generate wealth over the next 12 months (70.5% versus 67.6% for the rest of the world). By putting forth attractive investment propositions, wealth firms can take advantage of the natural tendency and confident attitudes that HNWIs in the region have toward making investments.

Our research, based on surveys of more than 5,200 HNWIs globally, including nearly 1,700 in Asia-Pacific, offers insights into the specific types of investments that tend to be favored in the portfolios of Asia-Pacific HNWIs. We discovered key differences between HNWIs in the region and those elsewhere when it comes to the underlying **investment philosophy** that guides decisions, **asset allocation, international investment,** and **the use of credit (leverage).** Wealth management firms that take heed of these distinctions may emerge as better prepared to attract a greater proportion of HNWI assets throughout the region.

INVESTMENT PHILOSOPHY: Asia-Pacific (excl. Japan) HNWIs stand out not only for the high value they place on investment management services, but also for the types of investments they favor. Compared to the rest of the world, HNWIs in the region have outsized interest in growth-

Figure 9. Most Valuable Wealth Management Services for HNWIs, Q1 2016



Note: Question asked: "Given your current circumstances, how valuable are the following wealth management services to you?"; Chart numbers may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

oriented investments (54.6% versus 47.3% elsewhere). The growth approach is especially prized by younger HNWIs in the region, with 62.5% of under-40 HNWIs favoring it versus 39.3% of over-60 HNWIs. Females are also drawn to it over males, by a comparison of 58.7% versus 47.9%. The orientation toward growth is strongest among the region's emerging markets.

India, China, and Indonesia have more growth-focused HNWIs than any other markets around the globe, with percentages reaching into the 60% range.

That compares to only 20.8% for Australia (see Figure 10). The considerable span highlights the potentially significant differences across heterogeneous markets of the region, underscoring the need for firms to foster flexibility in their overall approaches.

ASSET ALLOCATION: Equities became the dominant asset class in Asia-Pacific (excl. Japan) HNWI portfolios for the first time in the four years of the HNW Insights Survey, solidly surpassing cash and its equivalents (23.3% versus 20.6%). The amount of assets held in equity by Asia-Pacific (excl. Japan) HNWIs now only slightly trails the 25.2% held by HNWIs in the rest of the world. Japanese HNWIs continue to be heavy investors in equities (24.7%), while also steadily decreasing their allocation toward cash (see Figure 11).

Since 2013, the portion of Japanese HNWI wealth held in cash has decreased by 15.4 percentage points, from 49.4% to 34.0%.

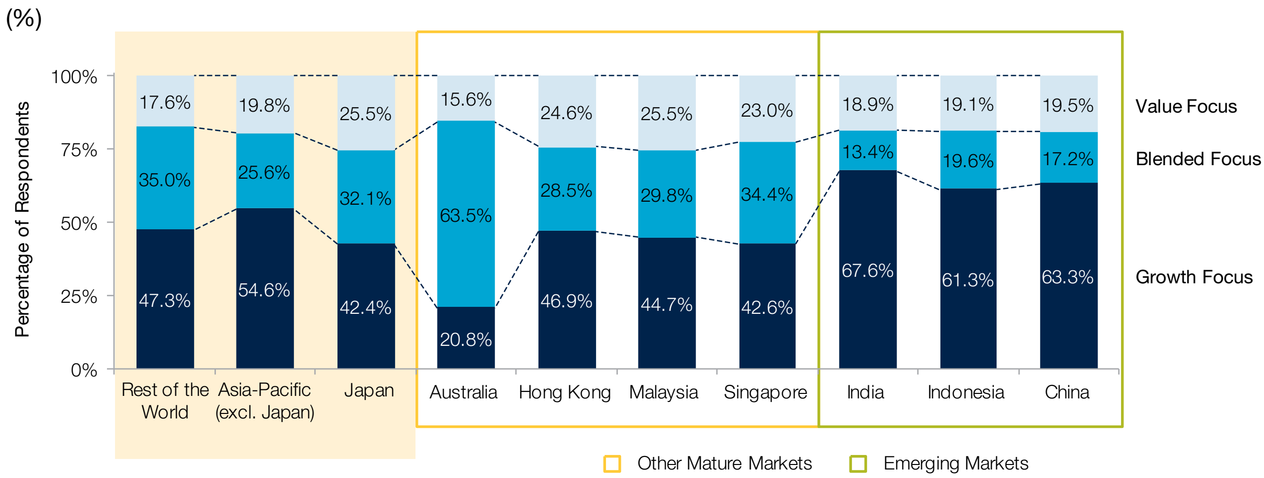
HNWIs in Asia-Pacific are much more likely than those in the rest of the world to hold their equity in individual stocks.

Individual stocks account for 43.9% of Asia-Pacific (excl. Japan) HNWI equity allocations, and are even more predominant in Japan (45.9%). In contrast, mutual funds have a much greater presence in the rest of the world, causing individual stock allocations among HNWIs there to reach only 35.2% of equity allocations.

Whether Asia-Pacific (excl. Japan) HNWIs invest in equities depends somewhat on their investment philosophies. Those with a growth approach are somewhat less likely to allocate toward equities (20.7%, compared to 24.3% for those with a value approach and 26.6% for those with a blended approach). Growth-oriented investors are also more likely to emphasize alternative investments and fixed income. For the most part, HNWIs throughout the world take a long-term approach to their investments. However, the percentage of HNWIs preferring a short-term view is slightly higher among Asia-Pacific (excl. Japan) HNWIs (23.3% versus 19.3% in the rest of the world).

INTERNATIONAL INVESTMENT: Asia-Pacific (excl. Japan) HNWIs are the most internationally focused investors in the world, placing substantially more of their holdings outside their home markets (67.8% of HNWIs in Q1 2016 said that they hold investments or accounts in markets outside of their home country, as compared to 52.7% in the rest of the world).

Figure 10. Personal Investment Philosophy of HNWIs, Q1 2016

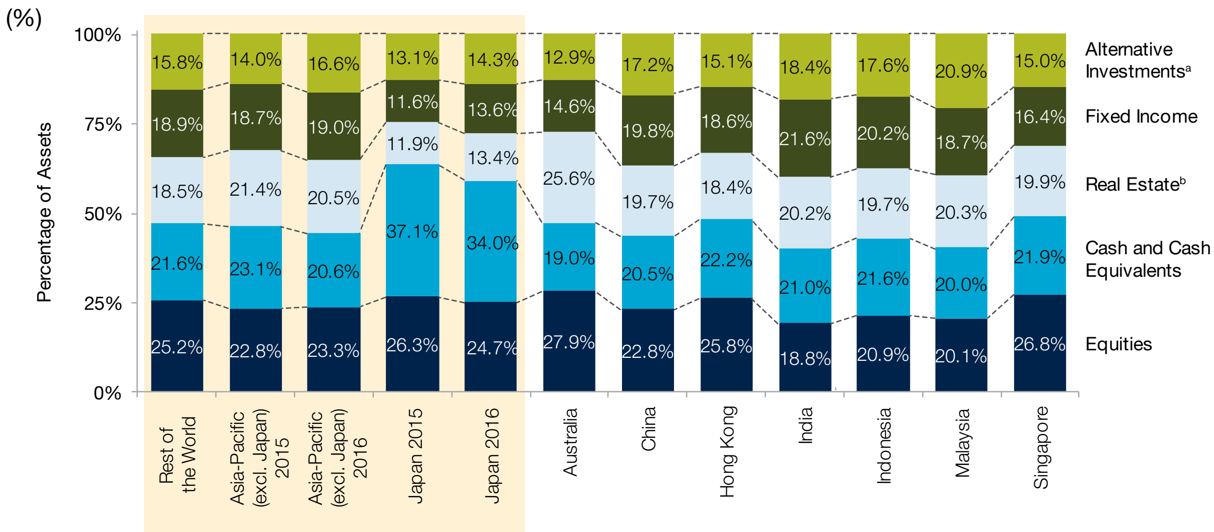


- **Value Focus:** I prioritize investments that seem to trade below their intrinsic value, largely on the belief that positive returns are possible when the market undervalues something
- **Blended Focus:** I take a blended approach, looking for investments with strong return potential but at a reasonable price
- **Growth Focus:** I prioritize investments that seem to exhibit above-average return potential, even if the share price/purchase price appears expensive related to metrics such as the price/earnings (PE) ratio

Note: Question asked: "How would you describe your personal investment PHILOSOPHY?"; Chart numbers may not add up to 100% due to rounding

Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

Figure 11. Breakdown of HNWI Financial Assets, Q1 2016



a. Includes structured products, hedge funds, derivatives, foreign currency, commodities, and private equity

b. Excludes primary residence

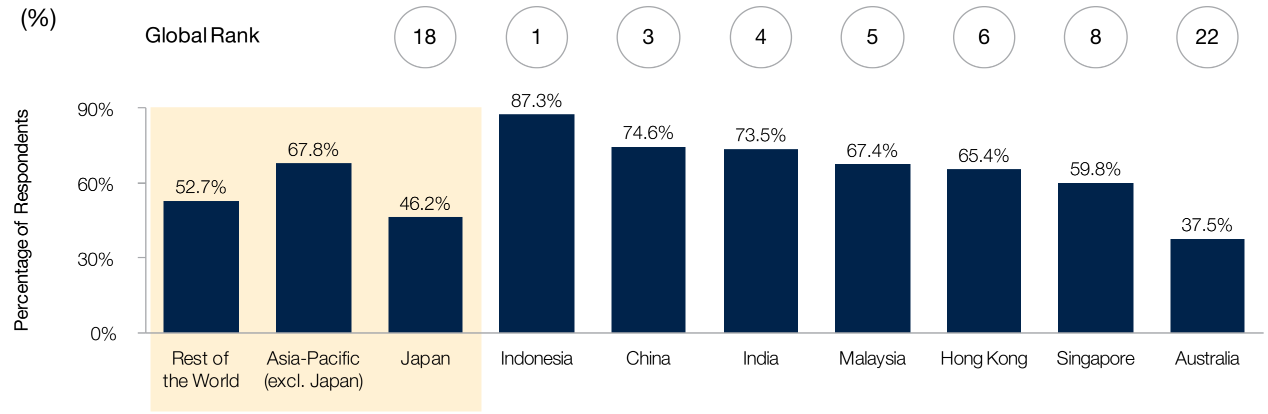
Note: Question asked: "What percentage does each of these asset classes approximately represent in your CURRENT financial portfolio?"; Chart numbers may not add up to 100% due to rounding

Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini; Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

Five of the top six most globally minded markets are located in Asia-Pacific (excl. Japan), with Indonesia topping the list at 87.3%, followed by China (No. 3) at 74.6%, and India (No. 4) at 73.5% (see Figure 12).

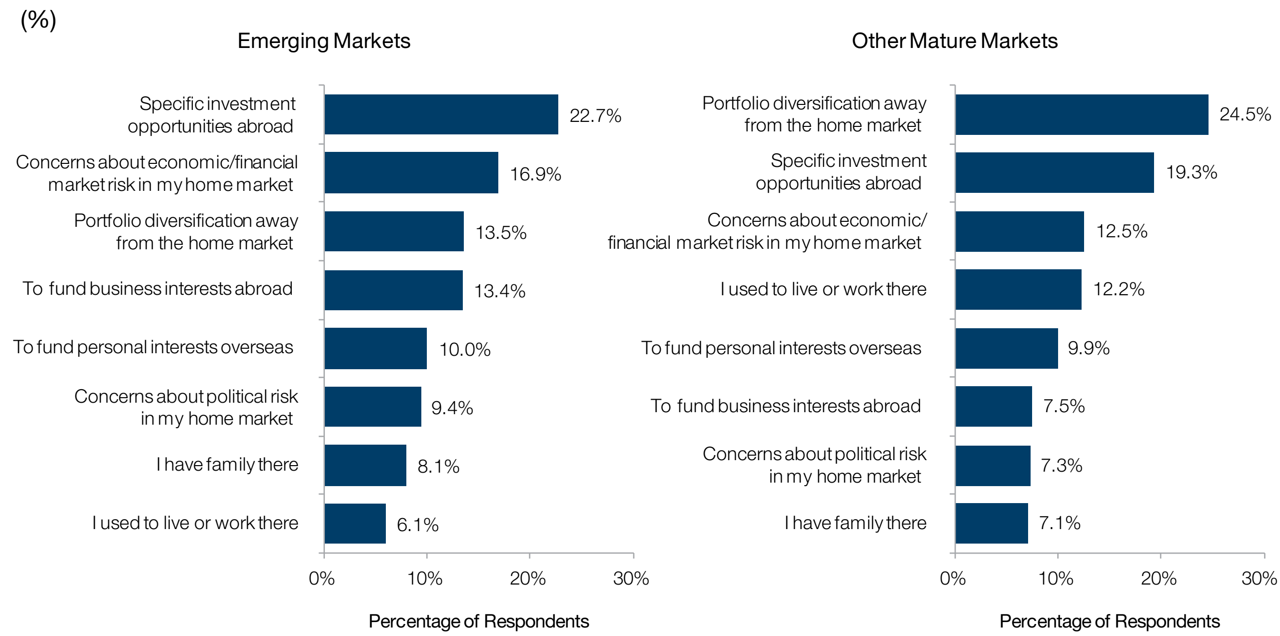
While concerns about economic risks play a role in international investment, HNWIs in the region say they are mostly going abroad to seek specific opportunities, as well as greater diversification (see Figure 13).

Figure 12. HNWIs Holding Investments Outside their Home Country, Q1 2016



Note: Question asked: "Specifically, do you hold any assets or accounts in markets outside of your home country?"
Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

Figure 13. Most Important Reasons for Asia-Pacific (excl. Japan) HNWIs to Hold Assets or Accounts in Markets Outside of Home Country, Q1 2016



Note: Question asked: "What are your main reasons for holding assets or accounts in markets outside of your home country?"
Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

HNWIs in the mature economies are significantly more interested in diversifying their portfolios away from their home markets (24.5% versus 13.5% for those in emerging markets). At the same time, HNWIs in the emerging markets are somewhat more concerned about avoiding risks in their home markets (16.9% versus 12.5% for those in mature markets).

LEVERAGE: As noted in the 2015 Asia-Pacific Wealth Report, credit is a key component of Asia-Pacific (excl. Japan) HNWI investment portfolios, making the ability to provision credit an important factor for firms operating in the region.[6] More than one-quarter (25.5%) of HNWI assets in the region are financed through credit, compared to only 18.2% in the rest of the world. The use of credit is

6 2015 Asia-Pacific Wealth Report, Capgemini and RBC Wealth Management

particularly high in India (33.6%), Indonesia (31.1%), and Malaysia (30.8%). By a wide margin, HNWIs in the region are mostly using the credit to fund investments (57.1% versus 37.8% in the rest of the world), with Chinese HNWIs expressing the greatest interest in doing so, at 67.6%, followed by India at 50.8%. Using leverage to fund real estate purchases (18.0%) or for business purposes (17.5%) is much less likely in Asia-Pacific (excl. Japan).

Diverse Needs Demand Financial Planning

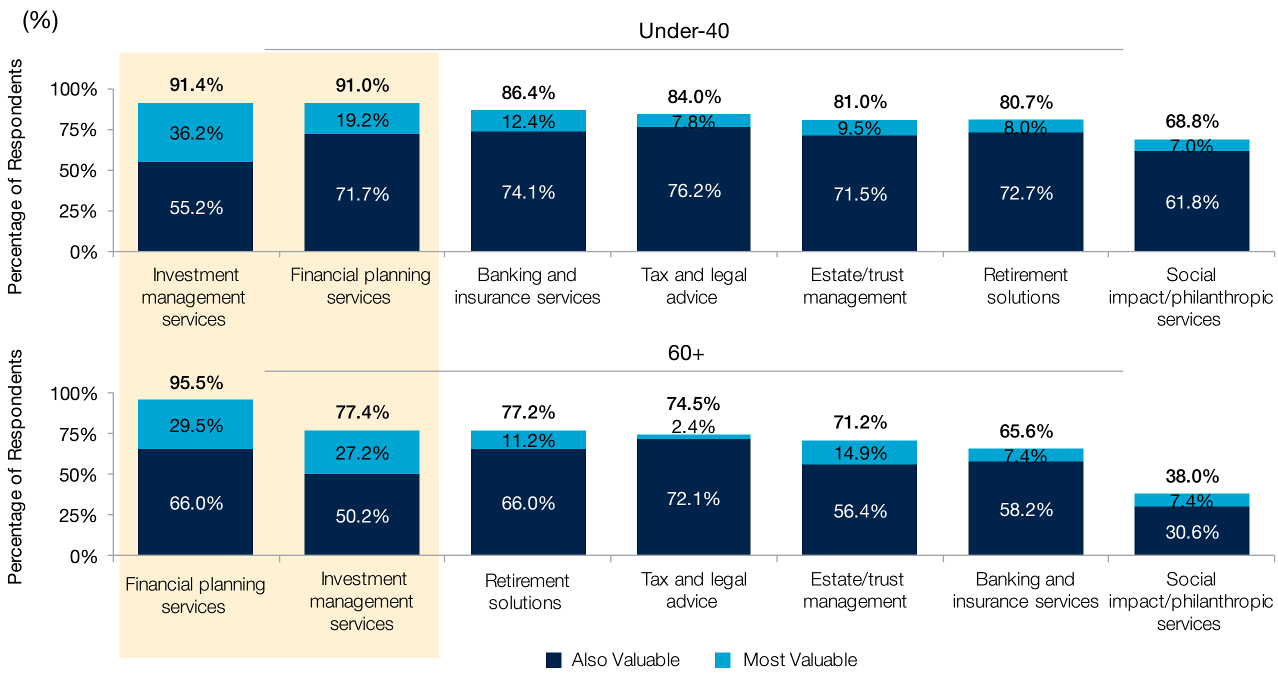
While investment management services are vitally important to serving Asia-Pacific (excl. Japan) HNWIs, they must be coupled with financial planning capabilities to fully meet the expectations of this demanding clientele.

Financial planning emerged as a strong second behind investment management as the most valuable wealth management service a firm could provide. At 90.9%, Asia-Pacific (excl. Japan) HNWIs placed greater importance on financial planning than did HNWIs in the rest of the world (86.2%), with financial planning being the most valuable wealth management service for 21.1% of HNWIs, compared to 19.5% in the rest of the world (see Figure 9). Further, the desire for financial planning expertise extended to all age groups. Almost all Asia-Pacific (excl. Japan) HNWIs over-60 years (95.5%) pegged financial planning as valuable or most valuable. Similarly, so did 91.0% of those under-40 years (see Figure 14).

The demand for financial planning reflects the diverse and complicated needs of the region's HNWIs.

As noted in the 2015 Asia-Pacific Wealth Report, Asia-Pacific HNWIs place a high priority on catering to the wealth needs of all family members, bringing greater complexity to overall wealth management plans.[7] They also exhibit higher demand for customized services and a preference to have access to multiple experts compared to HNWIs elsewhere. With younger HNWIs expressing deep concern about various wealth management-related issues, such as rising education costs, the need for comprehensive financial planning is expected to increase. Already, Asia-Pacific (excl. Japan) HNWIs exhibit a much higher preference for professional financial advice (71.0%), compared to those in the rest of the world (51.9%), with the preference even more pronounced in the emerging markets of India and China.

Figure 14. Most Valuable Wealth Management Services for Asia-Pacific (excl. Japan) HNWIs (by Age), Q1 2016



Note: Question asked: "Given your current circumstances, how valuable are the following wealth management services to you?"; Chart numbers may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

7 2015 Asia-Pacific Wealth Report, Capgemini and RBC Wealth Management

Meeting the broad demands of Asia-Pacific (excl. Japan) HNWIs will require firms to more strategically orient their services toward delivering goals-based financial planning and wealth management services.

An asset consolidation strategy that blends overall holistic financial planning with a sophisticated approach to investment management can help wealth managers improve their odds of attracting more HNWI assets.

As noted, Asia-Pacific (excl. Japan) HNWIs stand out from their peers around the world in a variety of ways, from their investment philosophies, to how they use credit, to how aggressively they invest abroad. Some wealth management institutions in the region are already making changes to meet the more exacting demands of their HNWI clients. The advisory services division of a universal bank in Singapore requires relationship managers to more deeply understand client needs and better personalize advice. “Clients are more demanding and they want the best from the bank,” said the head of advisory services at this bank, adding, “Firms need to use the client information and combine it with market information and bank offerings to make the value proposition appeal to the client’s unique benefit.” Another firm seeks to ensure it is in regular touch with clients. “We have a team structure with every client tagged to a junior banker, senior banker, and managing partner,” said the managing director and CEO of this Indian non-bank finance company, adding, “You need to have more knowledge of the client’s portfolio, and treat it like your portfolio.”

In conclusion, Asia-Pacific (excl. Japan) HNWIs stand out from other HNWIs in several ways. For one, they are somewhat less likely to hold their assets with a wealth management firm, preferring to retain some liquidity through physical cash or retail bank accounts. Wealth management firms can overcome this resistance by appealing to the greater interest the region’s HNWIs show in sophisticated investment management. This inclination towards investment management comes with its own set of distinct preferences. HNWIs in the region favor growth-oriented investments, are increasingly open to equity allocations, invest more of their assets internationally, and are far more likely to take advantage of credit to leverage their assets. Just as important, investment management should be combined with goals-based financial planning.

Clearly, wealth management firms seeking to make an impression on Asia-Pacific (excl. Japan) HNWIs should be well aware of the many differences that separate them from other HNWIs. They should seek to act as the conduit to a full range of capabilities, both inside and out of the firm, to better fulfill the full complement of HNWI needs. The most successful firms will be those that acknowledge and address those distinctions through targeted services.

Social Impact Investing Makes Gains in Asia-Pacific

Asia-Pacific (excl. Japan) HNWIs are leaders in striving to achieve social benefits alongside financial gains. HNWIs in the region have more assets in their investment portfolios[8] allocated toward social impact investments than those anywhere else in the world, with well over a third (37.3%) of portfolios geared toward social improvement, compared to only 31.6% for those in the rest of the world (see Figure 15).

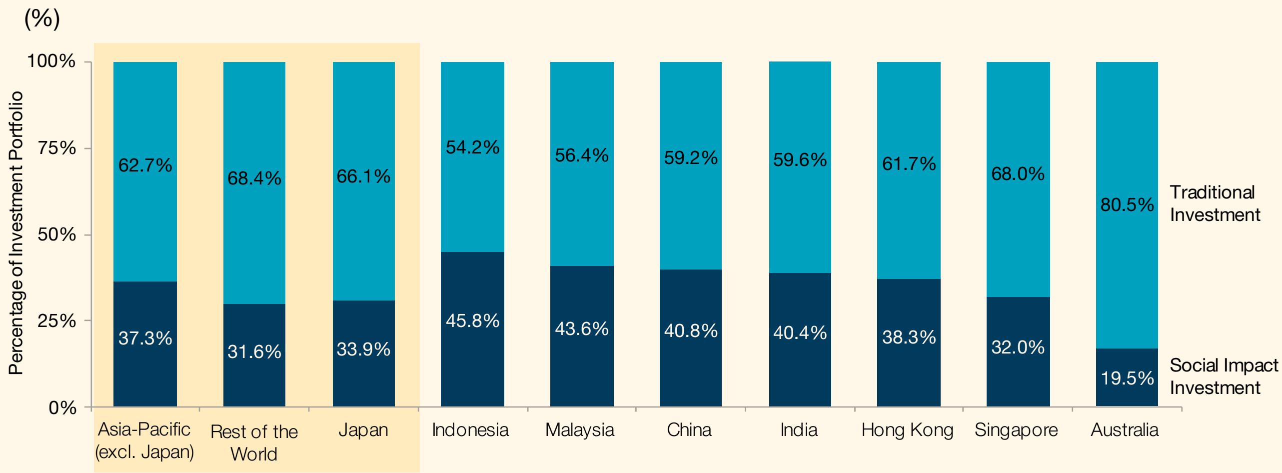
The greatest enthusiasm for putting portfolios to work for social gain comes from HNWIs in the emerging markets of the region (Indonesia, Malaysia, China, and India). Younger HNWIs are also big proponents of social impact investing. The widely recognized social consciousness of younger HNWIs extends to their investment choices, helping to explain the two-fifths of Asia-Pacific (excl. Japan) HNWIs under-40 who are interested in social impact investing, compared to only one-fourth of those over-60. Females are also somewhat more drawn to the practice than males (39.6% versus 34.6%).

Though social impact investing is a relatively new concept, growing interest in it is making it an essential component of a well-rounded wealth management program, especially in Asia-Pacific (excl. Japan). A much higher proportion of HNWIs in the region intend to increase their allocations to social impact investments over the next two years (58.2% compared to 50.4% in the rest of the world), with the greatest boost coming from Indonesia (77.9%), India (75.6%), and Malaysia (72.3%). Several forces are expected to drive social impact investing, including HNWIs under-40 (63.2% say they will increase such investing over the next two years, compared to only 46.8% for those over-60) and females (61.4% versus 53.0% for males).

Investors employ a number of investment strategies for achieving social gain, and HNWIs in Asia-Pacific (excl. Japan) are similar to their counterparts in the rest of the world in exploring a wide range of them. Investments in public (22.0%) and private (19.0%) companies that address environmental and social challenges are the biggest tools used by Asia-Pacific (excl. Japan) HNWIs (see Figure 16).

Compared to their peers in the rest of the world, HNWIs in the region are somewhat more likely to turn to socially responsible bonds or funds, and somewhat less likely to make loans to charities (though interest in charitable lending is higher in the region's emerging markets). Younger and older Asia-Pacific (excl. Japan) HNWIs are mostly in sync with how they allocate their social impact investments, with one exception. Those under-40 expressed a higher interest in investing in dedicated Socially Responsible Investment (SRI) funds (16.7% versus 9.2% for those over-60).

Figure 15. Breakdown of HNWI Investment Portfolio, Q1 2016



Note: Question asked: "How much of your investment portfolio would you say is allocated 'traditionally' and how much is 'social impact investment'?"; Traditional investment refers to investments made with the motive of attaining a financial return with no specific consideration for driving a societal benefit; Social impact investment refers to any investment decision you make with the intention of driving a societal benefit

Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

8 HNWI investment portfolio refers to relevant investment portfolio, which excludes cash (and probably illiquid assets such as real estate, in some cases based on HNWIs' perspective)

Holistic Approach Embeds Social Impact Considerations

Social impact investing, once a novel and groundbreaking way of thinking about allocating assets, has become a motivating force for many investors, fulfilling a growing desire to broaden investment mandates beyond just earning returns.

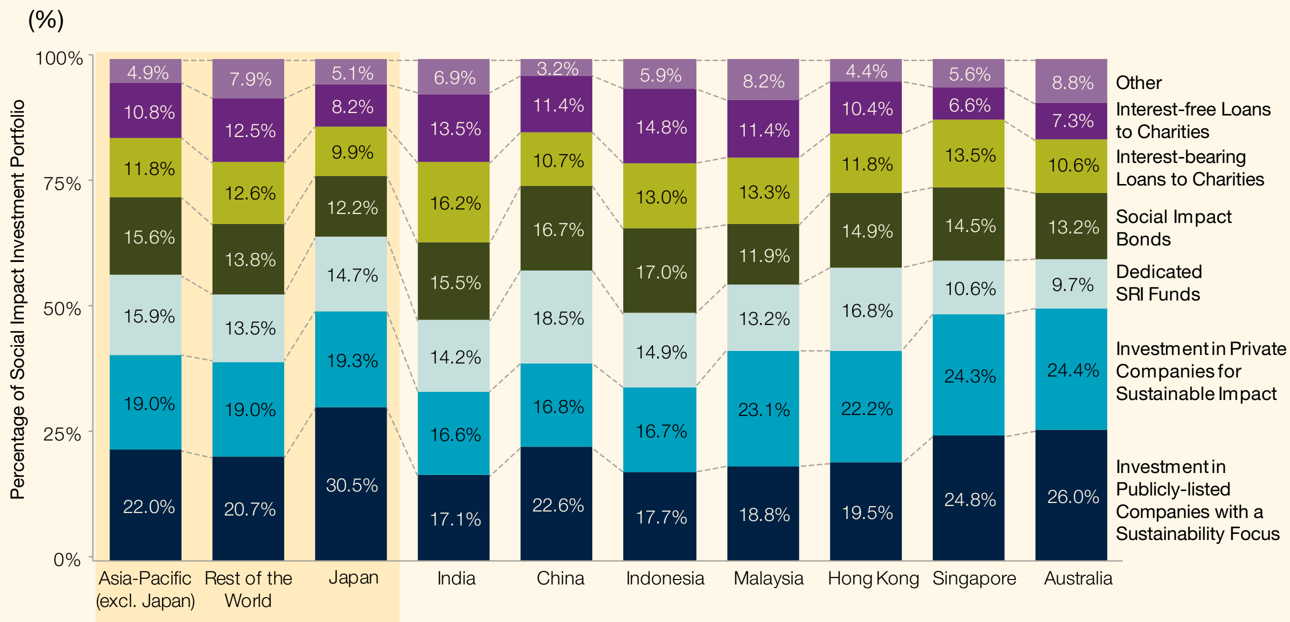
Asia-Pacific (excl. Japan) HNWIs are already among the world's most attuned to the idea of deriving social benefit through unconventional investment choices. Within the region, certain pockets of HNWIs, including those who are younger and female, are expected to accelerate demand even further.

The growing interest puts the onus on wealth management firms to make social impact investment discussions an integral part of a holistic approach to wealth management. These discussions should be personalized, taking into account the myriad ways of achieving social gain as well as the varying levels of interest in social impact investment already in evidence between older and younger HNWIs and throughout the region's emerging and mature markets.

Because Asia-Pacific (excl. Japan) HNWIs already seek social impact advice from an array of third-party sources, including philanthropy experts, tax advisors, accountants, and lawyers,[9] wealth management firms must seek to present themselves as essential experts in this area of investment.

In recent years, a number of firms have sought to address growing HNWI demand for social impact products. One of the biggest Japanese financial holding companies, for example, acted as an underwriter and distributor of 'green bonds' issued by the World Bank, which aim to finance projects related to reducing global warming. One of the globe's largest managers of private assets introduced the first-ever development impact bond in education to improve learning outcomes at targeted schools in India. New sustainable investment management funds analyze environmental, social, and governance aspects in the hunt for investment opportunities that can also have a positive impact on the world. Several large asset management firms are also launching social impact funds and bonds that focus specifically on Asia-Pacific.

Figure 16. Breakdown of HNWI Social Impact Investment Portfolio, Q1 2016



Note: Question asked: "Considering your social impact investments only, how do they breakdown across the following strategies?"; Chart numbers may not add up to 100% due to rounding

Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

9 2015 Asia-Pacific Wealth Report, Capgemini and RBC Wealth Management, Page 20

Digital Maturity in Asia-Pacific Not Keeping Pace with HNWI Demand

- **Asia-Pacific HNWIs hold less than one-third of their record wealth with wealth managers, though they are open to consolidating more of it in the future, if service needs are met.** Digital is a key lever for firms to gain more client assets, as 85.9% of HNWIs in Asia-Pacific (excl. Japan) consider digital maturity to be an important factor for increasing (or decreasing) assets with their primary wealth management firm.
- **Digital capabilities are more important to Asia-Pacific HNWIs than to those anywhere else in the world.** Wealth managers, especially younger ones, are also highly attuned to the need for digital services. Almost 10% say they lost clients over the past 12 months due to poor digital capability at their firms.
- **Low levels of digital maturity, combined with a lack of vision with respect to automated advice and peer-to-peer networks, present numerous challenges,** causing wealth management firms to face attrition risk from clients, as well as wealth managers. Nearly half of Asia-Pacific (excl. Japan) wealth managers say they would potentially leave their firms for lack of strong digital capabilities.
- **Despite a coming wave of disruptive forces, wealth management firms remain bogged down in addressing day-to-day concerns.** Keeping up takes a significant portion of the available investment budget, preventing firms from adequately preparing for the digital future.

Firms Need to Work Hard to Attract HNWI Assets

With HNWI wealth growth on a tear in Asia-Pacific, the region's wealth management firms appear poised at first glance to gather significant new assets. HNWIs there are expected to amass up to US$42.1 trillion over the next decade, five times the amount they held in 2006 (see page 10).

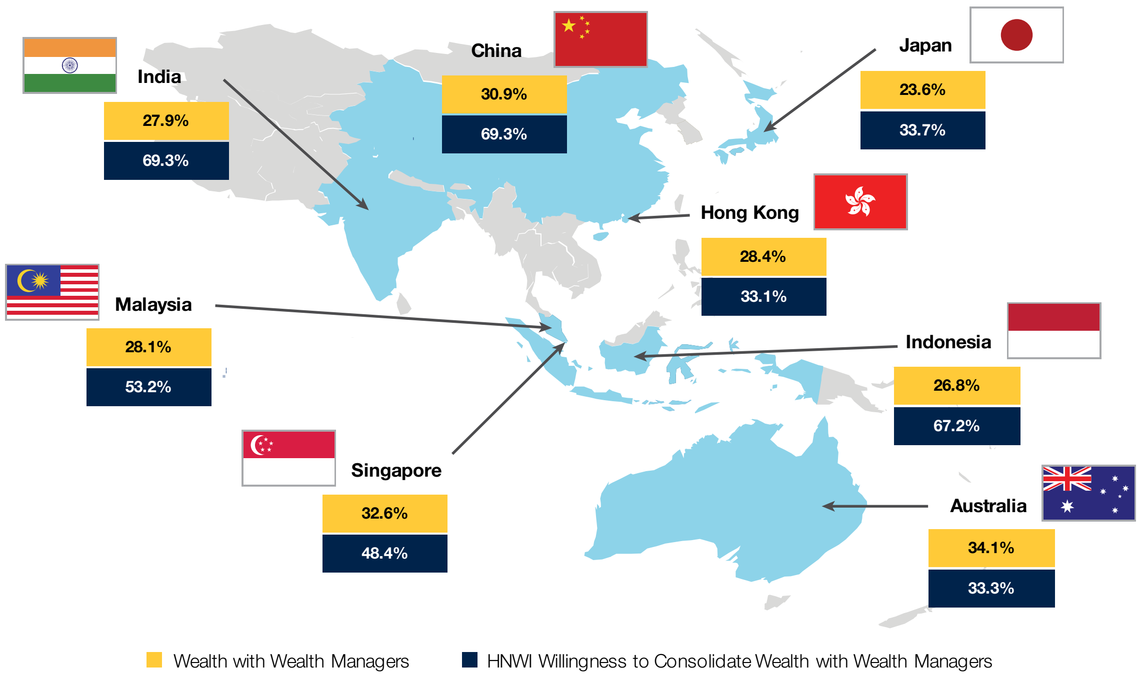
The record amount of HNWI wealth, however, is not necessarily benefiting wealth management firms, given that Asia-Pacific (excl. Japan) HNWIs have placed less than one-third of their assets (30.6%) with wealth managers as of the first quarter of 2016 (see page 13). That amount is less than the 34.5% that HNWIs in the rest of the world have allocated.

Adding to the healthy HNWI wealth growth is the strong willingness HNWIs express toward consolidating their growing assets with wealth managers. Overall, 59.4% of HNWIs in Asia-Pacific (excl. Japan) say they are open to placing more of their assets with a wealth manager. The inclination is especially high among HNWIs in China and India (both at 69.3%), and Indonesia (67.2%) (see Figure 17).

Though Asia-Pacific HNWIs say they are partial to working with wealth managers, and have the means to do so, their actions point to an underlying reluctance.

In this Spotlight section of our report, we present research that aims to broaden the industry's understanding of how it is falling short of HNWI expectations and potentially missing out on a tremendous opportunity. Unlocking the resistance Asia-Pacific HNWIs have toward wealth management firms could be a game changer for those firms able to decipher it.

Figure 17. HNWI Wealth with Wealth Managers and Willingness to Consolidate Wealth (by Market), Q1 2016



Note: Questions asked: "How does your investable wealth breakdown across entities and accounts?"; "How likely is it that you would consolidate more of your assets with your primary wealth management provider?"; Please indicate your response on a scale of 1–7. 1 = Not at all likely, 4 = Neither likely nor unlikely, 7 = Extremely likely; Data representative of respondents who assigned a rating of 5–7

Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

One step that wealth management firms can take to win over Asia-Pacific HNWIs is to go the extra mile in service. Overwhelmingly, HNWIs who express greater satisfaction with wealth managers say they are more likely to consolidate their assets with them. In Asia-Pacific (excl. Japan), 76.1% of highly satisfied HNWIs say they are likely to consolidate assets with their primary wealth manager, with the percentages reaching especially high in India (88.2%), Indonesia (87.0%), and China (85.8%).

Over time, wealth management firms in Asia-Pacific (excl. Japan) may find it increasingly difficult to attract HNWIs. The region's under-40 HNWIs are less inclined to transfer their assets to a primary wealth manager than over-60 HNWIs (63.1% versus 72.5%).

This outcome bucks the trend found in the rest of the world, where younger HNWIs are much more open to working with wealth managers. Laying the groundwork now to meet the needs of younger Asia-Pacific (excl. Japan) HNWIs will help wealth managers stem the tide of under-40 HNWIs looking elsewhere for wealth management assistance.

Digital Strikes Chord with Both HNWIs and Wealth Managers

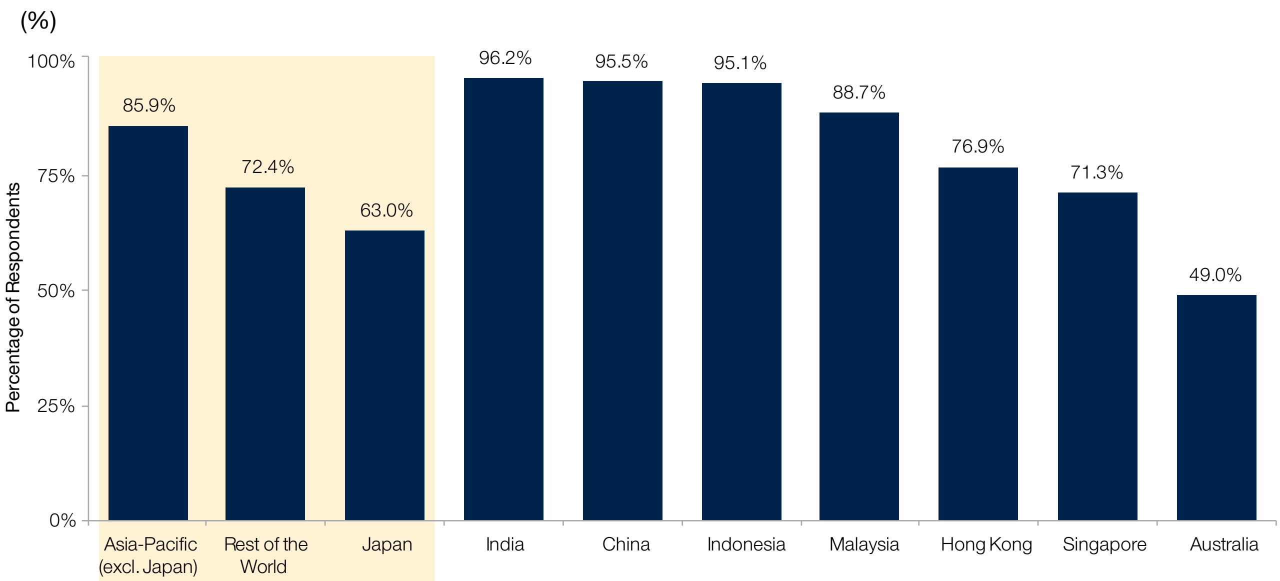
Given its strong bias toward building interpersonal relationships, the wealth management industry has been slower than most to adopt digital tools. Our research shows, however, that it can no longer afford to downplay digital.

We found that 85.9% of HNWIs in Asia-Pacific (excl. Japan) consider a firm's digital maturity to be an important factor when deciding whether to allocate more (or fewer) assets to wealth managers over the next 24 months, compared to only 72.4% in the rest of the world (see Figure 18).

Within Asia-Pacific, certain markets are extremely focused on digital, including India (96.2%), China (95.5%), and Indonesia (95.1%).

In some cases, a lack of digital tools has caused wealth managers to lose clients. Close to 10% of wealth managers (9.3%) in Asia-Pacific (excl. Japan) say they have lost clients[10] due to poor digital capabilities, almost double the 5.3% in the rest of the world.

Figure 18. Role of Digital Maturity for HNWIs in Increasing/Decreasing Assets with Wealth Management Firm over Next 2 Years (by Market), Q1 2016



Note: Question asked: "Thinking back to your responses on the digital services offered by your primary wealth management firm, how significant is your primary wealth management firm's digital maturity in your decision to increase or decrease assets over the next 24 months?"; Scale is 1–7 with 1 being the lowest and 7 being the highest; Data representative of respondents who assigned a rating of 5–7

Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

10 This was over the 12-month period from Feb 2015 to Feb 2016

This greater propensity of Asia-Pacific (excl. Japan) HNWIs to walk away from their wealth managers underscores their low tolerance for sub-par digital tools. The need for digital tools goes well beyond serving clients. They are also necessary for wealth managers, who see them as important for clients, as well as in enabling them to fulfill the obligations of their profession. Younger wealth managers are especially cognizant of the need to have good digital tools to adequately do their jobs. In Asia-Pacific (excl. Japan), 86.0% of wealth managers under-40 say digital tools are important for their clients (compared to 76.7% of over-60 wealth managers) and 85.2% say they are important to enable them with their role (far above the 66.5% of over-60 wealth managers who say so) (see Figure 19).

Though the need for digital tools in wealth management is well recognized, their application tends to fall short. Some of the most common uses of digital, such as the ability to access information remotely through a computer or mobile phone, are failing to make a positive impression.

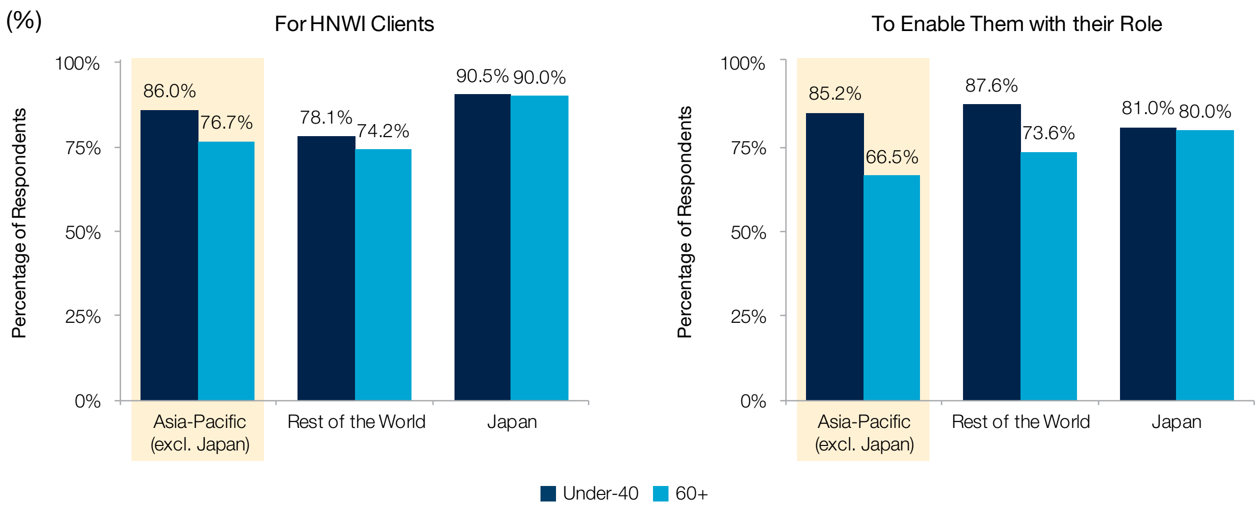
Only 40.7% of wealth managers in Asia-Pacific (excl. Japan) say they are satisfied with the remote access they have to information, even though 55.6% say it is important—representing gap of 14.9 percentage points, the largest within all the digital capability areas measured (see Figure 20).

Wealth managers in Asia-Pacific (excl. Japan) also expressed frustration with their ability to get wealth-related information of their customers, such as loans and deposits held at retail banks. Only 44.7% say they are satisfied with the access they have to related financial information, compared to the 56.7% who think it is important. The resulting 12.0 percentage point gap is the second largest of all the capability areas. In all ten of the digital capability areas measured, including the ability to engage clients and prospects through social media, wealth management firms failed to live up to expected standards.

Keeping wealth managers satisfied with the tools available to them is just as important as keeping clients happy. Because they are out on the front lines of customer engagement, wealth managers play a crucial role in promoting broader digital adoption. Without adequate tools to back them up, they risk becoming less passionate advocates. Worse, they run a greater risk of leaving one firm in search of another that offers better digital support. Especially for under-40 wealth managers, meeting expectations is crucial. Compared to those over-60, younger wealth managers in Asia-Pacific (excl. Japan) are much less satisfied with the digital capabilities available to them.

The biggest shortfall came in the area of digital tools and social media, where the gap between importance and satisfaction reached 21.1 percentage points for under-40 wealth managers.

Figure 19. Wealth Manager Perception of Importance of Digital Tools (by Age), Q1 2016



Note: Question asked: "How important are digital tools overall for your HNW clients in the wealth management space?"; "How important do you think digital tools are overall to enable you with your role?"; Scale is 1–7 with 1 being the lowest and 7 being the highest; Data representative of respondents who assigned a rating of 5–7

Source: Capgemini Financial Services Analysis, 2016; Capgemini Wealth Manager Survey, 2016

Figure 20. Wealth Manager Importance for/Satisfaction with Different Digital Capability Areas in Asia-Pacific (excl. Japan), Q1 2016

	Digital Capability Areas	Importance	Satisfaction	Gap (PP)
1	Ability to perform risk assessment and management for clients	61.2%	51.3%	9.9
2	Ability to access client information from beyond the wealth management business (e.g., loans, deposits with retail bank)	56.7%	44.7%	12.0
3	Ability to use mobile/remote access for applications and information	55.6%	40.7%	14.9
4	Ability to generate tailored recommendations for clients (leveraging Big Data, client profiles, and more tailored research)	55.3%	43.9%	11.4
5	Ability to manage meeting and document requirements	54.5%	50.6%	3.9
6	Ability to engage with clients through digital tools and social media	53.5%	49.6%	3.9
7	Ability to leverage CRM systems to identify business opportunities and cross-sell	53.2%	50.6%	2.6
8	Ability to prospect through social media and other channels	52.2%	43.6%	8.6
9	Ability to comply with regulatory requirements (such as through digital record-keeping and audit trails, and automation of KYC into on-boarding)	52.1%	45.3%	6.8
10	Ability to have real-time access to client profile and portfolio information	50.9%	48.9%	2.0

Note: Question asked: "How important is it for you to have digital capabilities in the following areas and how satisfied are you with the digital capabilities that you currently have for each area?"; Scale is 1–7 with 1 being the lowest and 7 being the highest; Data representative of respondents who assigned a rating of 5–7; Only top 10 digital capability areas by importance are shown

Source: Capgemini Financial Services Analysis, 2016; Capgemini Wealth Manager Survey, 2016

Low Levels of Digital Maturity Threaten Firms

Wealth management firms in Asia-Pacific (excl. Japan) exhibit a lack of digital maturity that threatens to undermine their relationships with HNWIs.

Based on the Capgemini DigiWealth Maturity Assessment Model,[11] which takes into account client experience, advisor engagement, and enterprise strategy, as determined through interviews with wealth management executives, we found that firms are generally overestimating their digital maturity.

We found a distinct gap between the assessment scores of wealth firms and those of third-party analysts (see Figure 21). In addition, a few industry-leading outliers helped to raise otherwise low digital maturity scores.

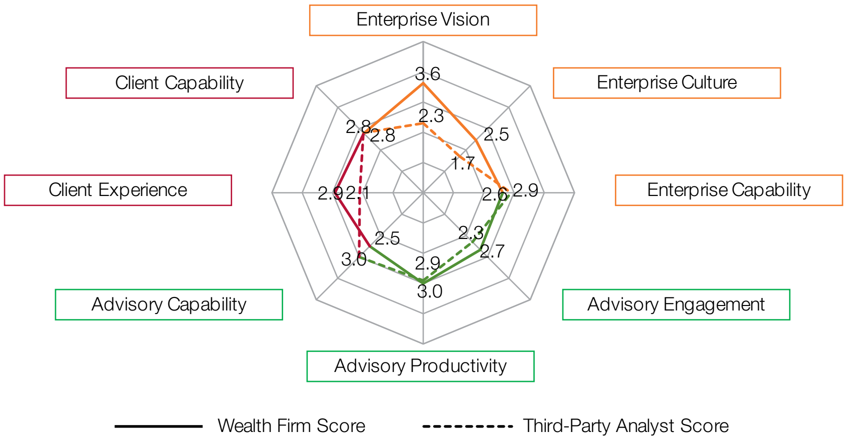
In looking at average scores provided by the wealth management firms' executives across advisory, client, and enterprise parameters, we found that firms are the weakest when it comes to engaging advisors through digital tools and helping them become more productive, scoring 2.7 on a 5.0 scale. Firms scored 2.9 in addressing the digital needs of clients, scoring equally on client experience and client capability parameters. From an enterprise perspective, firms also scored 2.9, gaining the most strength for having vision, but losing momentum in terms of fostering a widespread digital culture.

With digital technology penetrating so many facets of modern everyday life, wealth management firms cannot afford to keep digital progress on the back burner. HNWIs in Asia-Pacific, often self-made and independent,[12] have become accustomed to being able to access information at their own discretion using self-service digital tools, and they expect the same high level of access to their financial and wealth-related data as much as any other data.

11 2016 World Wealth Report, Page 34

12 2015 Asia-Pacific Wealth Report, Capgemini and RBC Wealth Management, Page 26

Figure 21. Average Digital Maturity Score of Wealth Management Firms Across Enterprise, Advisory, and Client Parameters, H1 2016



Note: Wealth Firm Score is the regional average digital maturity score provided by wealth management industry executives; Third-Party Analyst Score is the average of ratings by third-party firms (non-FSIs)

Source: Capgemini Financial Services Analysis, 2016; Executive Interviews, 2016

The digital expectations and preferences of HNWIs are exemplified in the case of a foreign bank operating in Asia-Pacific that lost a potential new client when it could not provide a secure online ID in a timely manner.

The individual fits the profile of many HNWIs in the region: a successful entrepreneur, accustomed to managing his own affairs in a hands-on manner. Because of social and political factors in the region, he had concerns about the safety and privacy of paper-based information, as well as a desire to be able to check the status of investments at any time of day. Though this individual was ready to open a full wealth management account, he took his business elsewhere when he discovered that it would take two weeks to activate online access. Because of a general mistrust of political and economic systems in Asia-Pacific on the part of some HNWIs, firms must make an even greater effort to cater to HNWIs through digital services. Though firms may be able to prolong relationships with existing clients even if their digital capabilities lag, they will surely miss out on attracting new clients.

By now, digital should not be viewed as a bonus add-on in wealth management, but a standard way of doing business. Whether a firm is operating in an economically mature region or an emerging market, it is imperative to make digital services a seamless part of the overall wealth management client experience.

The pressure to be proficient in digital is growing on all sides. On top of the demands from clients and wealth managers, firms face fallout from the rise of a wide range of automated advisory services.[13] Whether firms view automated advisors as competitors or potential partners, they still must formulate a response to these increasingly popular providers.

The pressure may be most acute in Asia-Pacific (excl. Japan), where HNWIs are by far the most likely to turn to automated advisory services, with 79.6% saying they would consider doing so, compared to only 64.7% in the rest of the world (see Figure 22).

Worse, wealth managers risk being caught off guard by the growing acceptance of automated advice. Only 20.2% of wealth managers in Asia-Pacific (excl. Japan) say they think their clients would consider using it, putting them at a disadvantage against the 32.8% of wealth managers in the rest of the world who are more attuned to this HNWI propensity.

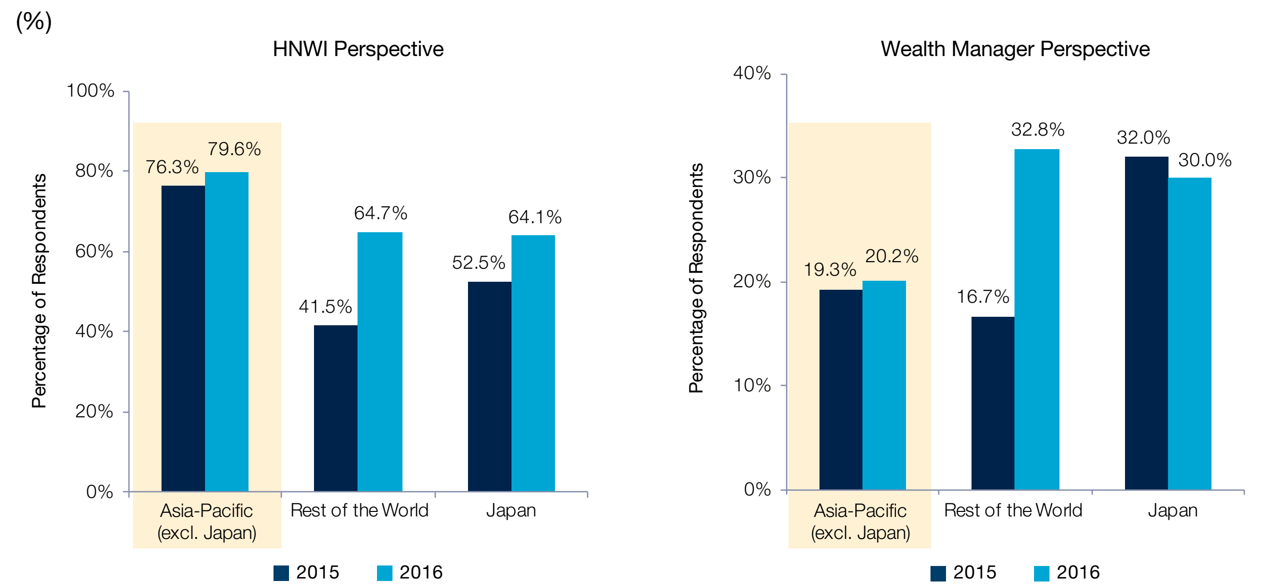
Another digital advance has arrived in the form of peer-to-peer advice forums. As such networks become increasingly popular, they threaten to supplant (or augment) standard wealth management advice. Either way, they warrant a response from traditional firms. Nowhere are these forums more widely used than in Asia-Pacific (excl. Japan), where 59.1% of HNWIs tap into them at least weekly, much more than the 48.0% of HNWIs in the rest of the world. Within the region, peer-to-peer networks are most favored in China (72.1%) and Indonesia (70.6%). Firms that fail to keep up with digital advances may not only lose clients, but also wealth managers.

13 Automated advisory services refer to online-only firms (or divisions of traditional wealth firms) that offer automated portfolio management services (i.e., client inputs result in automated portfolio management recommendations). However, they are not typically equipped to offer more holistic and detailed financial product and planning services

Nearly half of Asia-Pacific (excl. Japan) wealth managers (45.5%) say they would potentially leave their firms for lack of strong digital capabilities, more than the 40.2% of wealth managers elsewhere (see Figure 23). The attrition risk is even higher for under-40 wealth managers (50.6%).

The importance of having robust digital tools is matched by the difficulty of fostering a digital culture in the firm. Simply making the tools available is not enough.

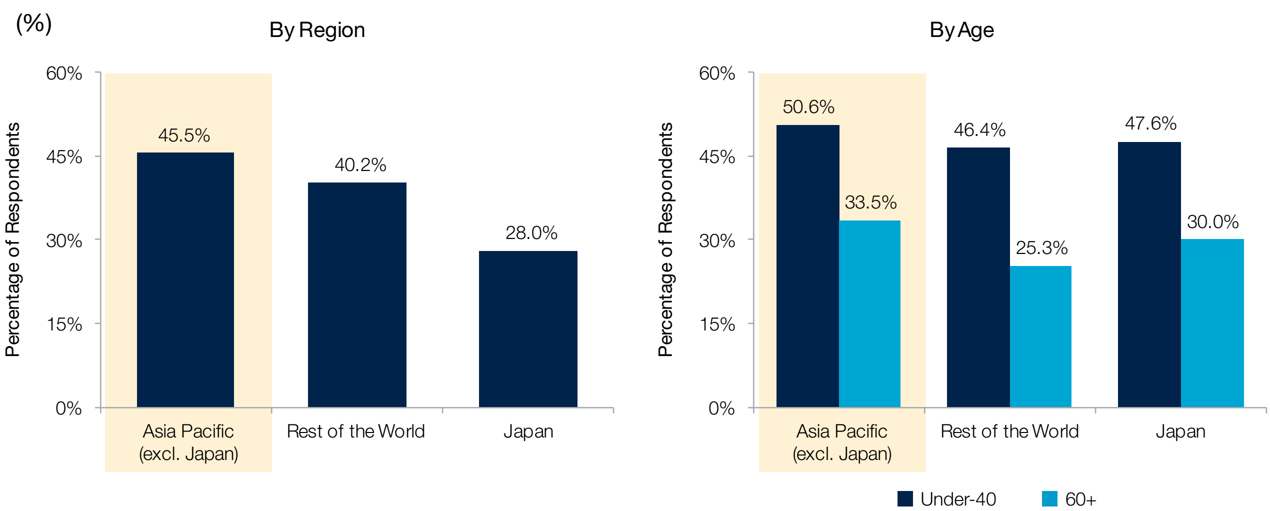
Figure 22. HNWI and Wealth Manager Assessment of HNWI Propensity to Use Automated Advisory Services, Q1 2015, 2015



Note: Questions asked: "Would you ever consider having a portion of your wealth managed by an automated advisory service?"; "In your view, would your HNW clients consider having a portion of their wealth managed by automated advisors?"; Data representative of respondents who said Yes

Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey, 2016, Capgemini; Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015; Capgemini Wealth Manager Survey, 2015, 2016

Figure 23. Wealth Managers Who can Potentially Leave their Firm for Lack of Strong Digital Capabilities, Q1 2016



Note: Question asked: "With respect to the digital capabilities of your firm, do you agree with the following statements? Please state Yes or No"; Data representative of respondents who said Yes

Source: Capgemini Financial Services Analysis, 2016; Capgemini Wealth Manager Survey, 2016

The most successful firms are those that have made digital the centerpiece of a top-down strategy, while also taking steps to change the culture of the organization. Having the flexibility to address individual client needs and respond to local competitors is also key.

The private banking division of a well-established regional universal bank is one example of an institution that has achieved a high level of digital maturity. From an enterprise perspective, it benefits from budgeting and decision-making being driven from within the region, making it possible to identify, make a business case, and invest in digital programs in order to improve wealth manager productivity and offer tailored digital products that give it a significant competitive edge. Its wealth managers have warmed to using digital tools for on-boarding and service, while clients have become increasingly engaged through digital interfaces. Going forward, the bank is planning to upgrade the back-end processes supporting its new initiatives, while continuing to move the organizational culture forward in terms of its embrace of digital.

The successes of this firm contrast with the small steps a different private banking arm of a foreign universal bank has taken so far to adjust to the digital age. Though the bank has appointed a new CEO to foster digital growth and transformation across all operating markets and business lines, the wealth business in the region is still weighed down by a lack of technology investment over the last decade, the legacy of a conservative mindset, and decision-making that takes place at a home office thousands of miles away. In addition to poor client and wealth manager digital tools and experiences, a heavy reliance on manual processes means execution speeds are slow, while error rates are elevated. Having waited so long to address digital, this bank's main priority is to introduce basic online access and services for its clients.

Digital Investment Loses Out to Keeping Up with Business-As-Usual

Digital transformation is not the only disruptive force expected to affect the Asia-Pacific wealth management industry over the next decade. Clients, especially younger ones, are becoming more sophisticated and demanding, challenging firms to meet their diverse needs, even in the face of uncertain market returns (see Figure 24). Always hovering in the background is the risk that innovative competitors, such as Alibaba, WeChat, or Google (to name just a few), could introduce game-changing services, leaving traditional firms far behind. The industry is also facing increased pressure on margins and fee models, as well as talent shortages and potential geopolitical risks. Ongoing regulatory pressures add to the constraints.

The advance of digital technology, meanwhile, will continue to change the way wealth management firms do business. The ability to collaborate with forward-thinking FinTech[14] firms should become richer and potentially more advantageous over time.

Technology to reduce manpower costs, enhance the client experience, and perform sharper target marketing is all expected to continuously improve. But there are possible pitfalls as well. Firms need to ensure, for example, that their online security is bullet-proof.

Though the need to take advantage of the coming digital disruption is apparent, firms in Asia-Pacific are still struggling to optimally allocate resources and investments (see Figure 25).

Too often, funds that could be spent on digital modernization end up going toward investments that prolong business-as-usual practices. Through our interviews with industry executives, we found that just keeping up takes up a significant portion of the available investment budget, followed by the need to upgrade internal processes.

14 Our use of the term 'FinTech' refers to the use of digital technologies for making wealth management products, services, and distribution more effective for firms, wealth managers, and/or HNW clients. This includes both digital technologies that are provided as completely new and standalone services to HNW clients, as well as those which support/enable traditional wealth management services. For our definition, we are most focused on the services developed and provided by startups (as well as large, innovative technology companies)

Figure 24. Future Trends in Asia-Pacific Wealth Management across Client, Operations, Regulatory, Digital (CORD) Areas

Client

- **Growth of US$1m–US$2m segment,** which is potentially under-served
- **Uncertainty in market returns** given the economic forecasts
- Increased volume of **wealth transfer** from 1st- and 2nd-generation wealth creators
- **Challenges for wealth managers** to build relationships across households to retain assets
- **Heterogeneous demands** of the younger generation
- More **informed and demanding overall client base,** willing to self-serve if firms do not provide compelling proposition
- **Increased financial literacy** of clients to make them more discerning in the way they invest
- **Clients to lookout for active returns (alpha)** in return for management fees

Operations

- Challenges to achieve **scalability** (bespoke vs. off-the-shelf solutions)
- Increase in **use of robotics** (back and middle office, especially)
- Increased **pressure on margins and fee models/transparency**
- **Continued consolidation** with smaller players exiting the market
- **Talent shortages** as HNW client base increases but capable wealth managers do not keep pace
- **Geopolitical risks and pressures,** e.g., tax crackdowns, mass migration, and war games
- Ongoing **need to rationalize costs** and **increase productivity/ efficiency** (e.g., 500 people serving just 5,000 clients)

Regulatory

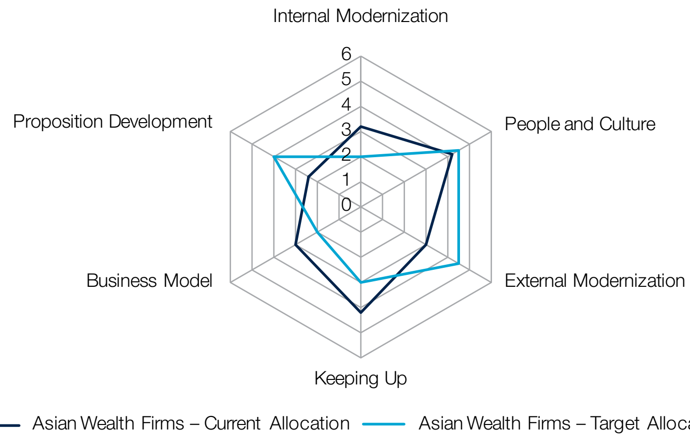
- An **onslaught of compliance work,** especially in areas still not addressed such as KYC/AML and CRS tax reporting, which are cascading from other regions and increasing the cost to serve
- **Smaller banks to struggle** due to regulatory costs
- Early steps in **harnessing innovation,** such as through regulatory sandboxes for safe experimentation
- **Difficult to predict unilateral measures** (e.g., Indonesia tax measures)
- Potential **increase in fund passporting** across the region, though efforts appear to have stalled recently

Digital

- **FinTechs to address service gap** for mass affluent clients
- **Increased competition** from innovative players such as Alibaba, WeChat, and Google
- Increased **application of digital** for reducing manpower cost, enhancing client experience, and strategic client targeting and marketing
- Potential **opportunity for FinTechs to disrupt the pension space** in some markets
- Major focus on **IT security**
- Rise in **sophistication of third-party support tools** to wealth firms
- Broader leverage of **account aggregation technology**
- **Increased use of innovation hubs** within wealth management firms
- Increased **innovation with data and analytics**

Source: Capgemini Financial Services Analysis, 2016; Executive Interviews, 2016

Figure 25. Asian Wealth Management Firms' Investment Allocation (20 Units), H1 2016



Note: Question asked: "Please tell us how you would expect to allocate your investments (both effort and monetary investments). Imagine you have 20 investment chips to allocate across key future investment themes"

Source: Capgemini Financial Services Analysis, 2016; Executive Interviews, 2016

While firms have high expectations for improving client interfaces, developing new propositions, and fostering innovation, most of these efforts continue to take a backseat to more mundane but still pressing concerns.

No matter where a firm falls on the spectrum of digital advancement, we found that investments in people and culture are paramount.

A firm's starting point is key. One regional bank in Asia-Pacific, for example, has spent the past several years modernizing internal technology platforms and building up significant digital capabilities, freeing it up to focus on more transformative elements such as new business models and innovation. Its biggest priority is to instill a culture that emphasizes digital. Meanwhile, a foreign bank operating in the region is still working to bring basic online functionality to clients. Despite being in the early stages of its digital transformation, this bank also identifies evolving the culture as its highest investment priority, underscoring the importance of full-scale change management in driving digital business growth, no matter how far along the digital journey an institution might be.

Conclusion

Asia-Pacific HNWIs, among the wealthiest and most distinctive in the world, can also lay claim to being the most demanding. Sometimes unimpressed by the levels of service they have received from wealth management firms, they have voted with their assets, placing less than one-third of them with wealth managers.

These HNWIs also have high expectations for digital services, making them more likely than those anywhere else in the world to sever wealth management relationships that do not feature robust digital capabilities.

Firms are not necessarily up to the challenge of meeting all these demands. Wealth managers express dissatisfaction with many important aspects of their firms' digital capabilities. Even though firms may recognize the criticality of undergoing digital transformation, they too often struggle to find the resources to fully fund such projects.

While each firm will have a unique set of organizational considerations, such as investment appetite, client segments served, and the overall digital maturity as a starting position, one key success factor for any Asia-Pacific bank on their digital journey is top-down organizational commitment. Industry leaders say that having a CEO with a digital vision and an ability to secure support from the board is the single-most important determinant of digital success.

At the execution level, firms need to ensure they build transformation roadmaps that span several areas:

- Develop Big Data opportunities
- Develop holistic ROI models for digital programs
- Generate cross-enterprise support for programs (and overall innovation culture)
- Explore FinTech collaborations/partnerships
- Engage wealth managers to test, improve, and launch programs

Several firms are already well into their digital transformation journeys in the region, and are likely to be well-positioned to not only capture the new wealth likely to be created in the coming decade, but also more of the existing record wealth by virtue of a superior digital proposition, in line with client demands. For the firms that are further behind, the time is now to raise the issue to the board level, and develop a vision and execution plan for the wealth business of the future.

Appendix

Market Sizing Methodology

The 2016 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 (i.e., 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: the estimation of total wealth by country; and 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 added 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 various 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, particularly 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.

2016 Global High Net Worth Insights Survey

The Capgemini 2016 Global HNW Insights Survey queried more than 5,200 HNWIs across 23 major wealth markets in North America, Latin America, Europe, Asia-Pacific, the Middle East, and Africa. Close to 1,700 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 across the globe, was administered in January and February, 2016, in collaboration with Scorpio Partnership, a firm with 18 years of experience in conducting private client and professional advisor interviews in the wealth management industry.

The 2016 survey covered key areas around HNWI investment behavior, including asset allocation and social impact investments. The survey measured current HNWI investment behavioral patterns of global HNWIs, including their asset allocation preferences, as well as the geographic allocations of their investments. The survey also covered the motivations and categories for social impact investment preferred by HNWIs.

To arrive at 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.

2016 Capgemini Wealth Manager Survey

The second edition of the 2016 Capgemini Wealth Manager Survey queried more than 800 wealth managers across 15 major wealth markets in North America, Latin America, Europe, and Asia-Pacific. Around 250 wealth managers were surveyed in Asia-Pacific across five major markets of Australia, China, Hong Kong, Japan, and Singapore.

The survey was administered in January and February, 2016, in collaboration with Phronesis Partners. It focused on the analysis highlighting the following key areas: wealth manager view on the future of wealth management industry; wealth manager importance and satisfaction regarding key digital capabilities provided by the firm; wealth manager views on digital tools for clients, automated advisory services, and peer-to-peer advice forums; and wealth manager judgment regarding their firm's expectations from them.

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 size of the actual market (by HNWI population).

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