

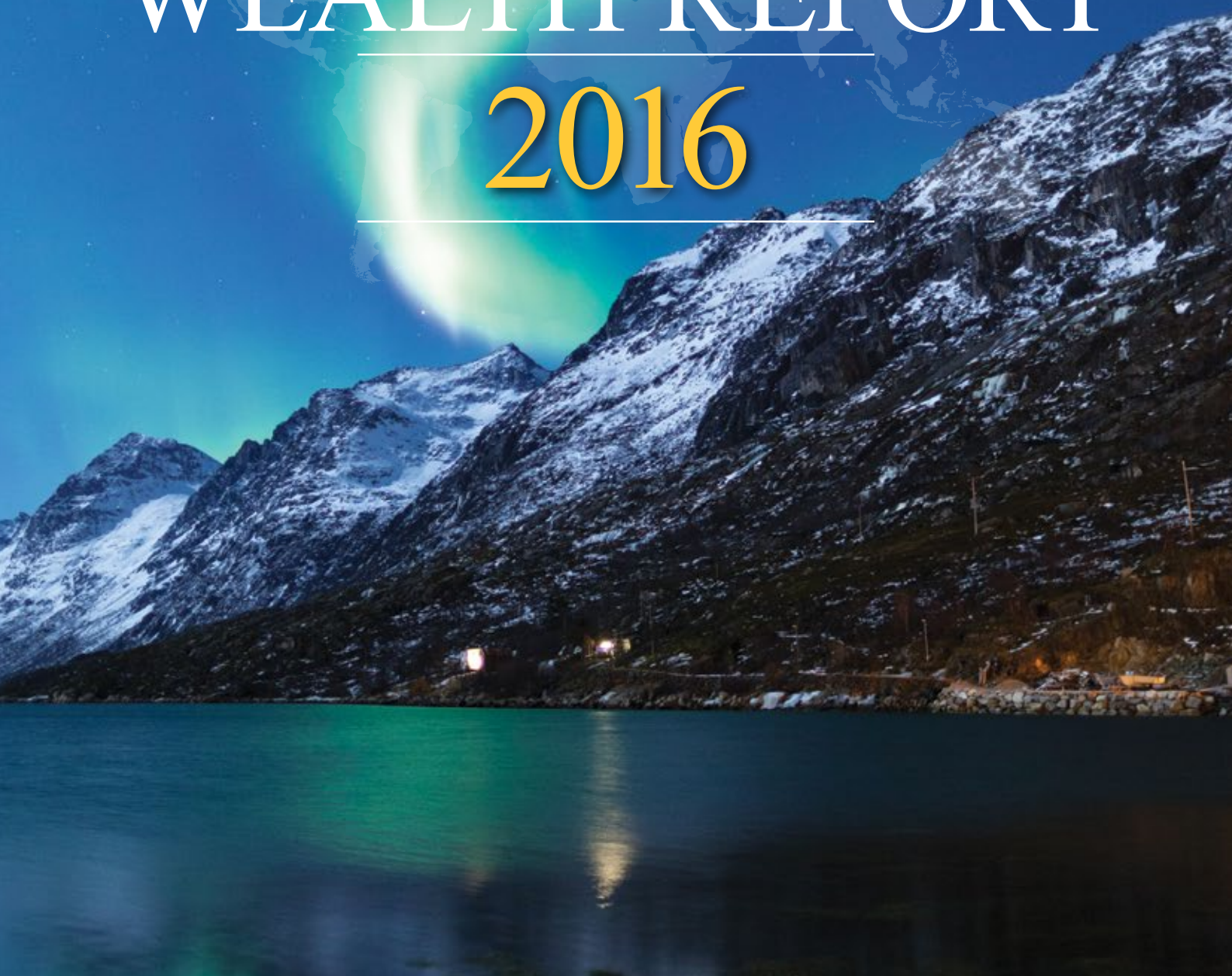


# WORLD WEALTH REPORT

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# 2016

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# Preface

## Marking 20 Years of the *World Wealth Report*

With this edition of the *World Wealth Report (WWR)*, we enter our 20th year of analyzing high net worth individuals (HNWIs<sup>1</sup>), making it the publication with the longest track record in the industry. The 2016 edition also marks the first time we have put forth the milestone figure of US\$100 trillion, the amount global HNWI wealth is projected to surpass by 2025 if the growth rates of the last decade continue, propelled predominantly by Asia-Pacific. Even if future growth rates do not match those of the last decade, we expect the significant further expansion of HNWI wealth to be one of the industry's biggest advantages.

But will it be enough? Our analysis suggests the industry will have to make several strategic changes before it can benefit from the continued growth of HNWI wealth. Our Global HNWI Insights Survey—the most thorough and expansive of its kind, with over 5,200 responses from thousands of HNWIs across 23 countries—reveals that HNWIs currently hold less than one-third of their financial wealth with wealth managers.

A host of possible reasons for the subdued level of engagement with wealth managers emerged in our surveys of HNWIs and wealth managers, as well as in our interviews with C-suite executives. For one, HNWIs and firms are not aligned on fee structures, with HNWIs preferring a pay-for-performance model, compared to the industry's more standard charge of a percentage fee based on assets under management (AUM).

For another, firms are missing the mark when it comes to preparing digital strategies, opening themselves up to a startlingly high risk of possible net income loss. HNWIs and wealth managers alike are demanding richer digital functionality, yet less than half of wealth managers are satisfied with the digital tools their firms provide. Our DigiWealth Maturity Assessment Model<sup>2</sup>, introduced for the first time, found that wealth management firms are underachieving on the digital front, reaching only a medium level of digital maturity.

Compounding the challenge is the growing appeal of FinTech<sup>3</sup> firms, which are providing increasingly effective alternatives to face-to-face advice. The rapid advance of automated advice, for example, has become a viable option for many HNWIs, forcing firms to adapt and update their business models. Further, HNWIs are starting to turn to online communities for advice from their peers about investments.

Wealth managers and firms must take action to ensure they remain top of mind as HNWI wealth continues to expand. In our Spotlight section, we outline how firms can collaborate with FinTechs and engage wealth managers to ensure digital success. The report also includes our review of the last 20 years of the *WWR*, including predictions we made that panned out, and those that did not, as well as a look at the upcoming trends that will influence the next decade.

Never before has the industry faced so much opportunity in the form of wealth growth, combined with so many disruptions. We hope you find the 2016 *World Wealth Report* useful for understanding and navigating this uncertain environment.



Anirban Bose

Head, Banking & Capital Markets  
Capgemini (FS SBU)

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

2 Capgemini's DigiWealth Maturity Assessment Model is a robust tool that measures five digital maturity levels, based on 34 parameters, across three different areas of digital capabilities: enterprise, wealth manager, and client

3 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 HNWI clients. This includes both digital technologies that are provided as completely new and standalone services to HNWI clients, as well as those that support/enable traditional wealth management services. For our definition, the major focus is on the services developed and provided by startups, as well as large, innovative technology companies



# Executive Summary

## Asia-Pacific Growth Offsets Global HNWI Wealth Growth Deceleration

- Asia-Pacific surpassed North America for the first time to become the region with the largest amount of HNWI wealth.
- Japan and China emerged as engines of global growth, driving close to 60% of the global HNWI population growth in 2015.
- Ultra-HNWI<sup>4</sup> wealth, long a driver of overall HNWI wealth, did not provide its usual boost in 2015.
- Under the most aggressive growth scenario, global HNWI wealth is projected to surpass US\$100 trillion by 2025, nearly triple the 2006 amount.

## Strong Opportunity Exists for Wealth Managers to Gain More HNWI Assets

- HNWI trust and confidence in wealth management firms (and other stakeholders) increased significantly over the past 12 months.
- Despite the favorable trust environment, HNWIs hold less than one-third of their wealth with wealth managers, although there is significant potential for wealth managers to amass a greater share of HNWI wealth.
- Wealth managers have an opportunity to tap into HNWIs' strong demand for investment advice, especially since nearly half of HNWIs favor a growth-oriented approach with less of a focus on liquid assets and more on alternative investments.
- More HNWIs are starting to favor a pay-for-performance fee model, creating a challenge for firms and wealth managers, but also offering a lever for firms who are able to profitably offer such a model.

## Looking Back and Ahead: 20 Years of the *World Wealth Report*

- In spite of the devastating effects of the financial crisis, global HNWI wealth expanded almost fourfold over the last 20 years.
- In the 20 years the *World Wealth Report* has been published, we anticipated several industry trends, including technology disruption and the rise of social impact investing, but we did not predict the financial crisis and its related impact on regulatory oversight and social attitudes toward wealth.
- The pace of change over the next decade will accelerate across client, operations, regulatory, and digital areas, including specific issues such as market volatility, wealth transfer impact, pressure on traditional fee models, acceleration of commoditization, regulatory focus on fiduciary duty, and technology disruption from FinTechs.
- Firms appear to be constrained in their ability to invest for the future, given their relatively low budget allocations to forward-looking areas such as re-orienting the business model and developing new propositions.

## Digital Maturity Remains Elusive Goal

- Wealth managers have joined HNWIs in expressing demand for digital tools, but they are not fully satisfied with the digital tools their firms provide.
- Digital capability is crucial to maintaining and growing profits, but very few firms have built differentiated digital maturity into their businesses, putting a portion of profits at risk.
- Digital maturity is only going to increase in importance as HNWIs increasingly embrace new FinTech capabilities, including automated advice platforms and online peer-to-peer (P2P) investment platforms.
- In addition to the strategic roadmap shared in the 2014 *World Wealth Report*, wealth management firms can enable digital success by putting wealth managers at the center of digital transformation and collaborating with FinTech players.

4 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)



## Asia-Pacific Growth Offsets Deceleration in Global HNWI Wealth Growth

- **Asia-Pacific surpassed North America for the first time to become the region with the largest amount of HNWI wealth.** Buoyed by Asia-Pacific, global HNWI population and wealth grew modestly in 2015, by 4.9% and 4.0%, respectively. Faltering growth in the Americas constrained global HNWI wealth expansion.
- **Ultra-HNWI wealth, long a driver of overall HNWI wealth, did not provide its usual boost in 2015.** Dampened by Latin America, the global ultra-HNWI population expanded by just 4.2% and wealth by only 2.5%. Excluding Latin America, however, ultra-HNWI wealth grew more than the other wealth segments, both in 2015 and over the past four years.
- **Japan and China emerged as engines of global growth, registering double-digit increases in HNWI population and ultra-HNWI wealth growth.** Together, the two countries drove nearly 60% of global HNWI population growth. Brazil was the poorest performing country, losing 7.8% of its HNWI population and 5.9% of ultra-HNWI wealth.
- **Global HNWI wealth is projected to surpass US\$100 trillion by 2025, nearly triple the 2006 amount, propelled by strong Asia-Pacific growth.** If past growth rates hold, Asia-Pacific is likely to continue to be a dominant force over the next decade, representing two-fifths of the world's HNWI wealth, more than that of Europe, Latin America, and the Middle East and Africa combined.

## Building on Momentum, Asia-Pacific Becomes Largest HNWI Market

*Asia-Pacific emerged as the highlight of global HNWI growth in 2015, surpassing North America in HNWI wealth for the first time ever, against a backdrop of more moderate wealth expansion throughout the rest of the world.* Globally, growth in HNWI population and wealth slowed to 4.9% and 4.0%, respectively, well off the more robust 2010 to 2014 annualized rates of 7.7% and 7.2%, respectively (see Figures 1 and 2). Asia-Pacific was the only region whose 2015 growth in population (9.4%) and wealth (9.9%) effectively matched its 2010 to 2014 annualized growth on both counts (9.1% and 10.0%, respectively).

North America, long a stronghold of wealth, saw HNWI growth slow dramatically, creating the opportunity for Asia-Pacific to move ahead. While the North American economy and real estate market performed solidly, the equity markets in both the United States and Canada finished 2015 in negative territory, causing these HNWIs to achieve only modest increases in population (2.0%) and wealth (2.3%).

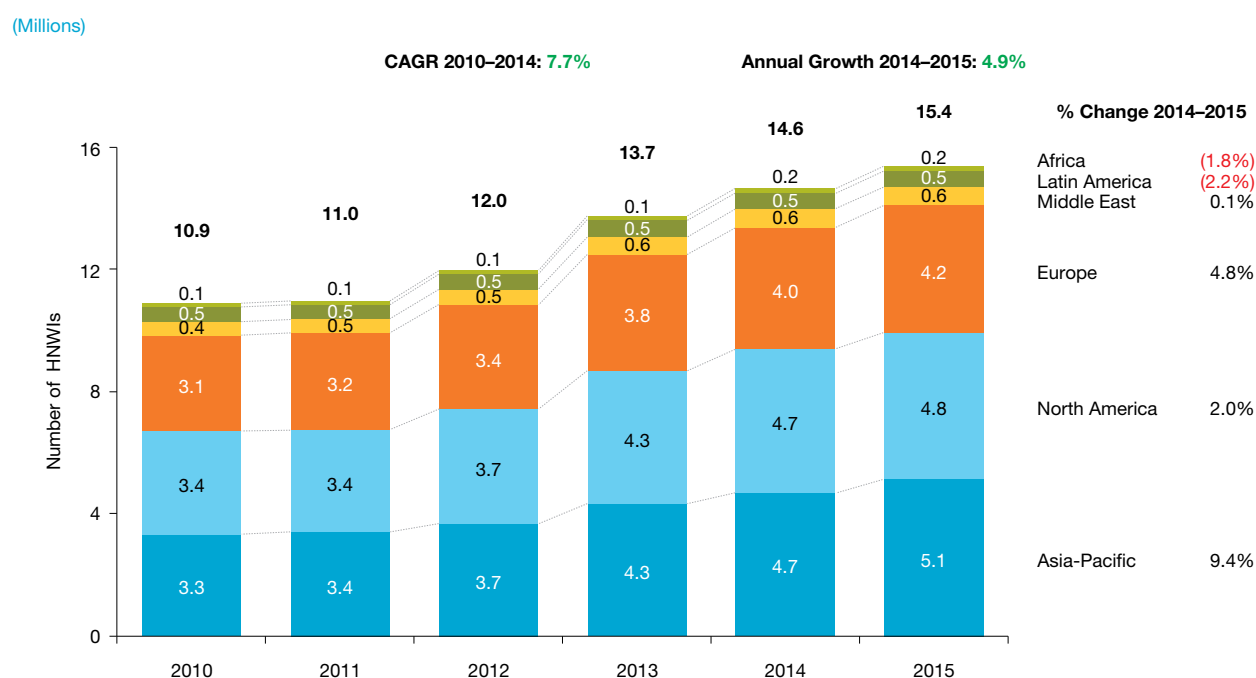
Latin America also constrained global wealth expansion, recording a drop in HNWI population of 2.2% and wealth of 3.7%. Brazil, the region's largest economy, continued to contract in the face of political volatility and massive equity market declines. Europe's growth was steady (4.8% for both HNWI wealth and population), led by Spain (8.4% and 8.9%), Netherlands (7.5% and 7.9%), France (5.9% and 6.3%), and Germany (5.1% and 5.6%).

The more muted growth throughout other parts of the world helped Asia-Pacific clinch its position as the largest HNWI segment. Asia-Pacific had been building momentum for years, first overtaking North America in HNWI population in 2014. Now it has substantially increased its population lead (with 5.1 million HNWIs, compared to North America's 4.8 million), while also pulling ahead in terms of wealth (US\$17.4 trillion versus North America's US\$16.6 trillion). *Japan and China proved to be the engines of Asia-Pacific and global growth, together driving about 60% of global HNWI population growth in 2015.*

As in previous years, Japan and China made up half of the group of four that dominate HNWI wealth. Along with the United States and Germany, the four countries accounted for 61.2% of global HNWIs in 2015 (see Figure 3), reflecting a consistent and steady uptick over the last four years (from 58.4% in 2012). Further, the four countries drove 81% of HNWI population growth in 2015.

The ranking of HNWI population by country remained largely the same from a year earlier, with a few exceptions. *Brazil, reflecting its array of troubles, saw HNWI population tumble by 7.8%, causing it to move down one place in the rankings to 17th.* Mexico lost 1.8% of its HNWI population, pushing it down one notch to 22nd place. Strong HNWI growth in Netherlands (7.5%) caused it to move ahead one place to 11th in the rankings, switching places with India, which had growth of only 1.1%.

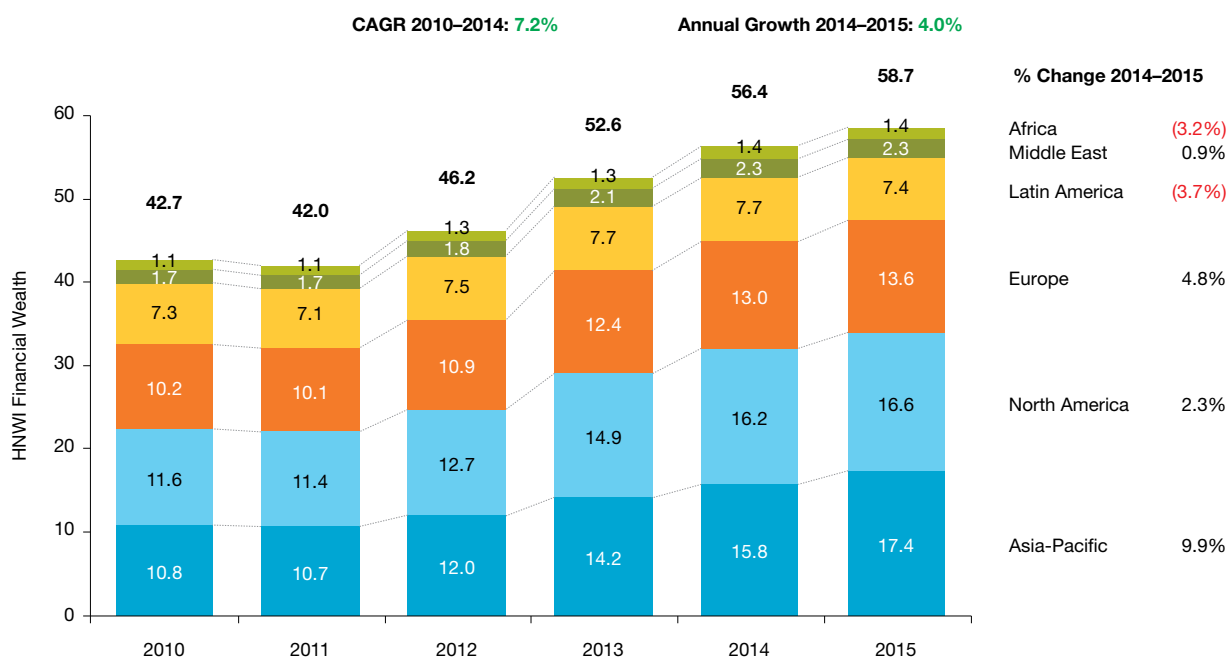
Figure 1. HNWI Population, 2010–2015 (by Region)



Note: Chart numbers and quoted percentages may not add up due to rounding  
Source: Capgemini Financial Services Analysis, 2016

Figure 2. HNWI Wealth Distribution, 2010–2015 (by Region)

(US\$ Trillions)



Note: Chart numbers and quoted percentages may not add up due to rounding  
 Source: Capgemini Financial Services Analysis, 2016

*The biggest bursts of growth in HNWI population came from China and Japan.* Though the Chinese equity markets suffered some volatility throughout the year, they ended on a high note, burnishing China's status as a global wealth powerhouse. Aided also by the highest GDP and real estate market growth among the top markets, HNWI population leapt by 16.2% in China, the largest gain of any country. In Japan, economic and market indicators recovered assertively from a year earlier, boosting HNWI population by around 10.9%.

### Latin America Drags Down Ultra-HNWI Growth

Traditionally, ultra-HNWIs—with US\$30 million or more in investable assets—have acted as the engines behind overall HNWI population growth. That was not the case in 2015 (see Figure 4), largely due to the powerful influence of the Latin American ultra-HNWI segment. While Latin Americans made up 3.4% of global HNWIs in 2015, they accounted for 8.4% of global ultra-HNWIs. Similarly, Latin Americans held 12.6% of HNWI wealth, but 28.7% of ultra-HNWI wealth, the most of any region.

Because of this outsized influence, Latin America's struggles have impacted the ultra-wealthy, both in the region and globally. Brazil, accounting for 56.3% of Latin American ultra-HNWI wealth, predictably emerged as a trouble spot. *With a striking 5.9% decline in ultra-HNWI wealth, Brazil was the main cause of below-par HNWI growth in Latin America, as well as slower global ultra-HNWI growth.*

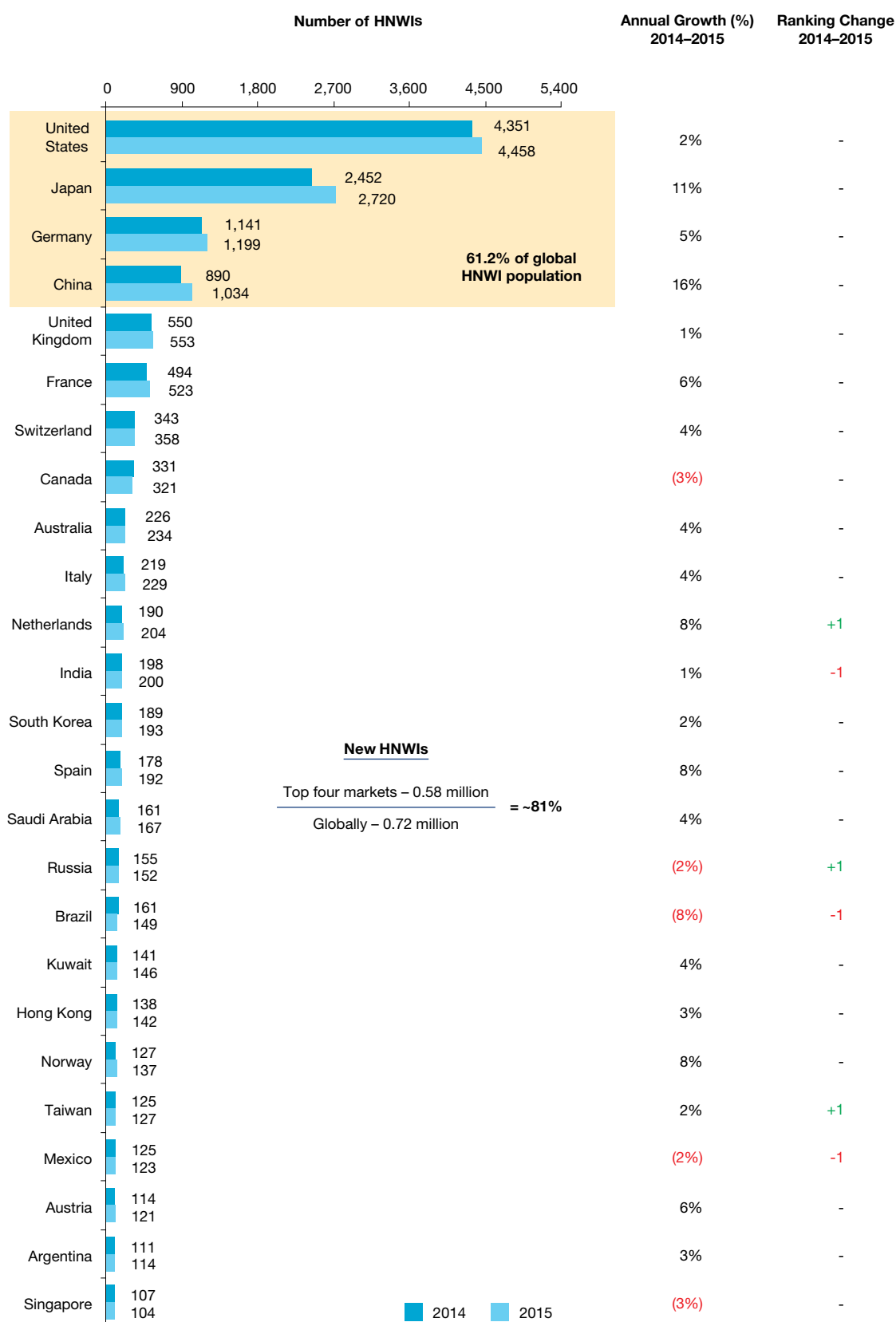
Globally, the ultra-HNWI population expanded by only 4.2% in 2015, well below the 2010 to 2014 annualized rate of 7.9%. Similarly, ultra-HNWI wealth grew by only 2.5%, far from the 6.1% annualized rate over 2010 to 2014. Excluding the drag of Latin America, ultra-HNWI wealth growth globally would more than double, to 5.3% in 2015, the most of any of the wealth segments.

Asia-Pacific's growth rate of 10.8% was the only one to reach double digits, driven by supercharged ultra-HNWI wealth growth in China and Japan of 17.6% and 13.2%, respectively. Asia-Pacific ultra-HNWI wealth grew at more than double the rate of next-fastest Europe (4.8%), and well over North America's 2.9%.



Figure 3. Largest HNWI Populations, 2015 (by Market)

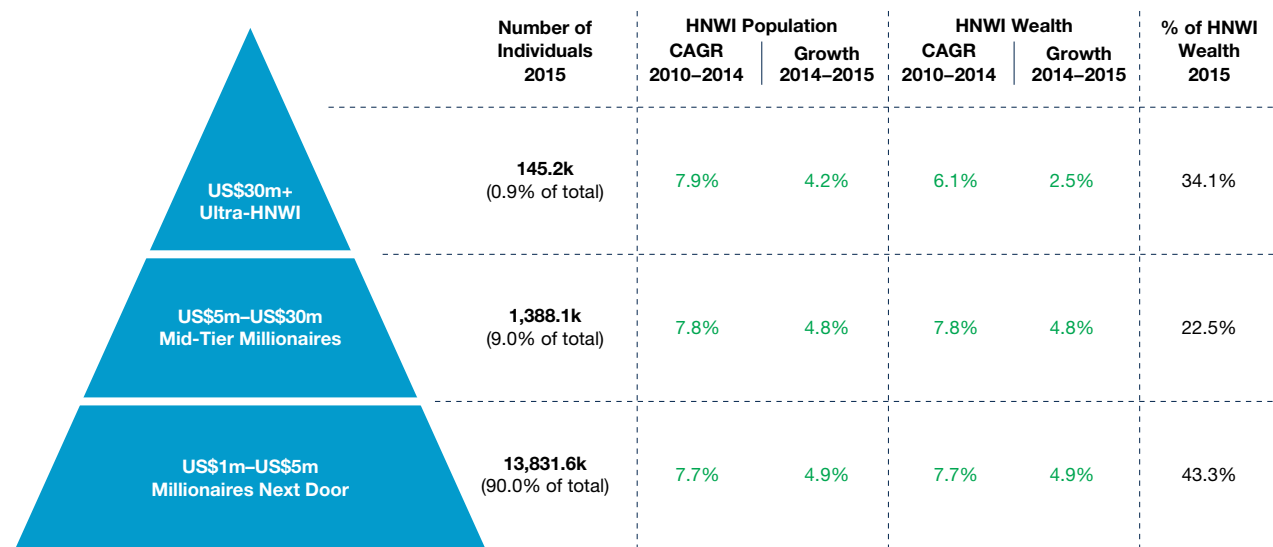
(Thousands)



Note: Chart numbers and quoted percentages may not add up due to rounding  
Source: Capgemini Financial Services Analysis, 2016

Figure 4. Composition of Global HNWI Population by Wealth Bands, 2015

(Thousands)



Note: Chart numbers and quoted percentages may not add up due to rounding  
 Source: Capgemini Financial Services Analysis, 2016

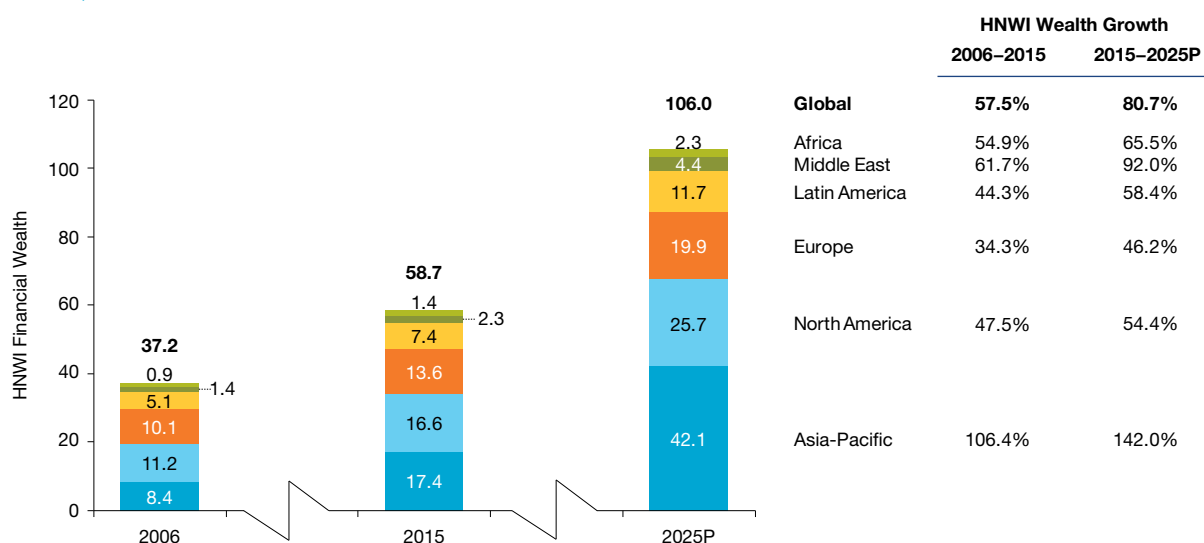
### Asia-Pacific Should Continue to Fuel Global HNWI Wealth Expansion through 2025

Over the next decade, Asia-Pacific is expected to change the face of global HNWI wealth. Already in the past ten years (2006 to 2015), the region has doubled its HNWI population and wealth, boosting population by 99.1% to 5.1 million and wealth by more than 100% to US\$17.4 trillion (see Figure 5).

China was fundamental to the increase, tripling its HNWI population and wealth during this time. Meanwhile, HNWI wealth expanded much more slowly in Europe (34.3%), where it was curbed by the staggering impact of the financial crisis, as well as in Latin America (44.3%). North America witnessed a robust growth rate of 47.5% during the same period.

Figure 5. HNWI Wealth Projection, 2006, 2015, 2025P (by Region)

(US\$ Trillions)



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

By 2025, using historical growth rate assumptions to derive a fairly aggressive hypothetical growth scenario, Asia-Pacific's HNWI population would more than double to 11.7 million individuals, well ahead of the anticipated 7.6 million for second-place North America. Further, Asia-Pacific HNWI wealth would expand to US\$42.1 trillion, far outstripping North America's expected US\$25.7 trillion.

*Ultimately, if projected growth rates hold, Asia-Pacific's share of HNWI wealth and population may become larger than that of Europe, Latin America, and the Middle East and Africa combined, representing two-fifths of the world's HNWI wealth and cementing the region's status as a wealth leader.*

Such growth, of course, is not guaranteed. Political and economic headwinds could plunge the region into the so-called middle-income trap, in which a country's growth allows it to reach middle-income levels but then slows, making the transition to high-income levels seemingly unattainable. With Asia-Pacific's growth maturing, especially in China, the region is potentially susceptible to this type of phenomenon. Indeed, some economic forecasters project a slowing of economic growth in the region's emerging markets from 2015 through 2025 (compared with the prior decade), though this may be partially offset by a more optimistic growth outlook for Japan over the same period.<sup>5</sup>

Even so, a more conservative growth scenario with an annual HNWI wealth growth rate of just 7.0% in Asia-Pacific (compared to the 9.2% used previously) would still cause HNWI wealth in the region to surge past US\$34 trillion and global wealth to surpass US\$98 trillion by 2025.

Asia-Pacific's expected growth momentum would help catapult HNWI wealth globally to new heights. By 2025, using our more aggressive growth scenario, HNWIs around the world are projected to hold more than US\$100 trillion, nearly three times the 2006 level. The number of HNWIs is projected to reach 28.2 million, triple the 2006 level.

*Within Asia-Pacific, China and India are viewed as the engines of growth. Our survey of wealth managers<sup>6</sup> found that 27% across the globe identify China and 13% cite India as the biggest areas of HNWI wealth expansion through 2025 (see Figure 6).*

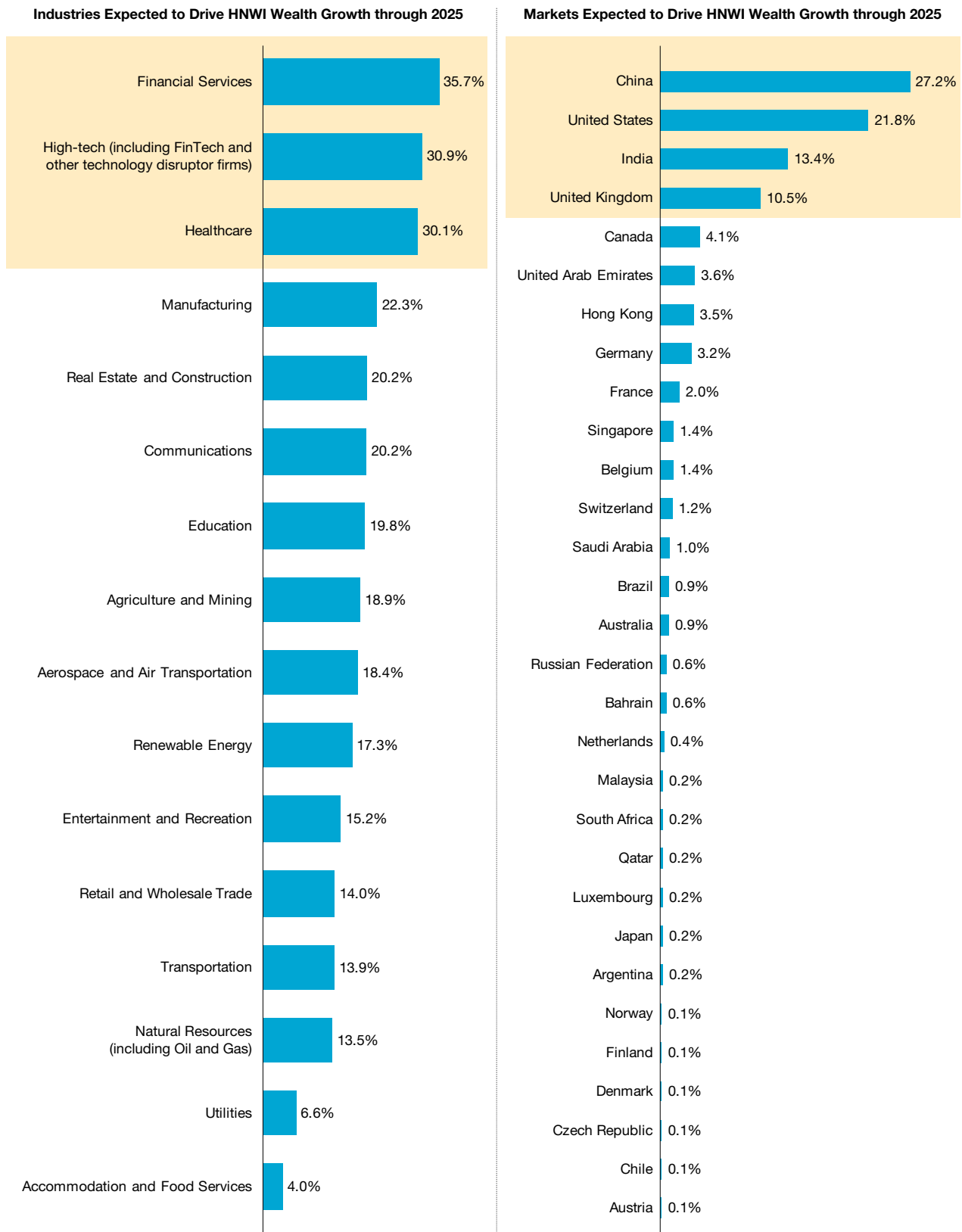
Rounding out the top four were the United States (22%) and United Kingdom (10%). At an industry level, while a variety of industries are expected to contribute to HNWI wealth growth in the coming decade, the top three, in the view of wealth managers, are financial services (36%); technology, including FinTech (31%); and healthcare (30%).

<sup>5</sup> Consensus Economics Forecasts, May 2016

<sup>6</sup> The 2016 Capgemini Wealth Manager Survey queried more than 800 wealth managers across 15 major wealth markets

Figure 6. Industries and Markets Expected to Drive HNWI Wealth Growth through 2025, Q1 2016

(%)

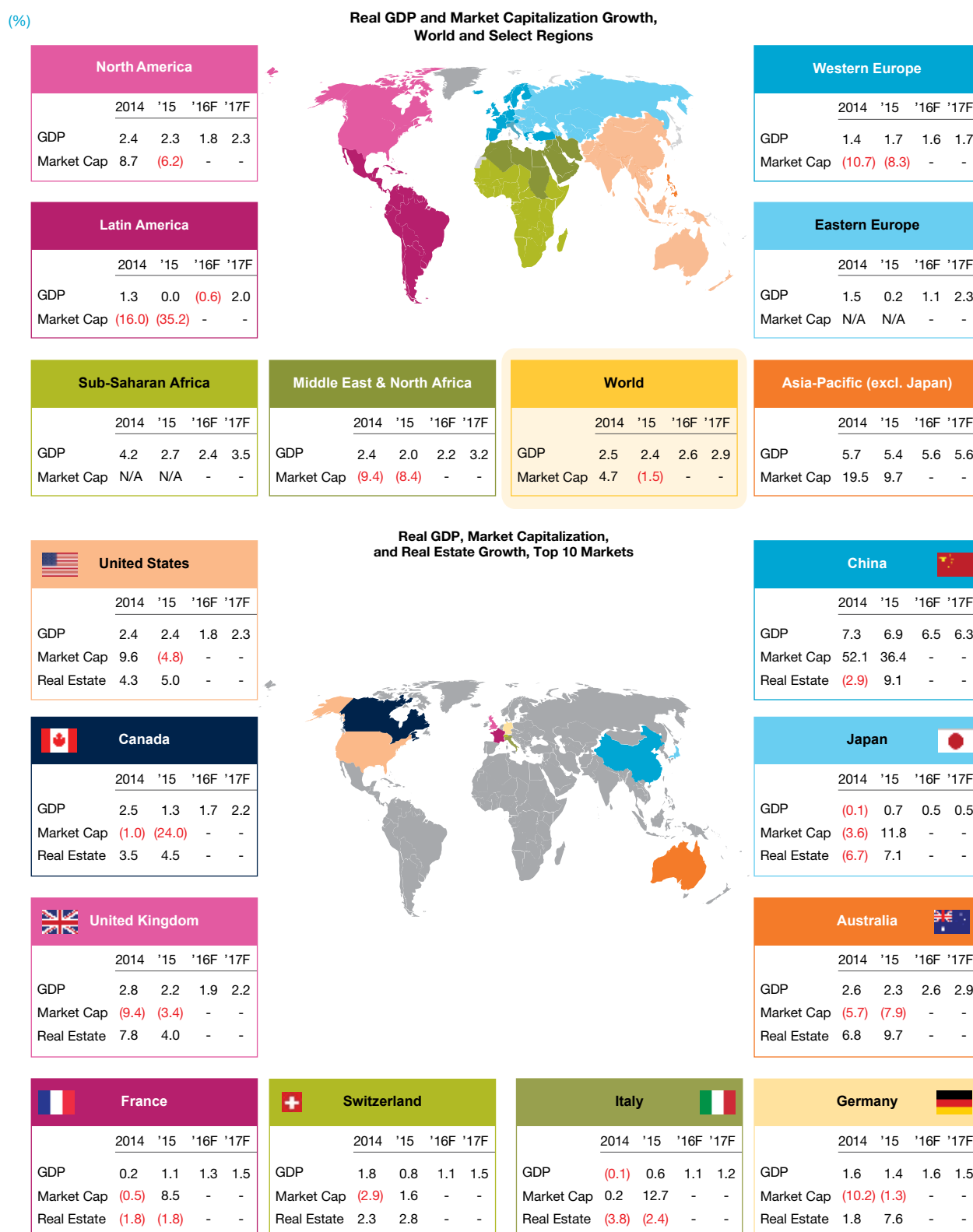


Note: Questions asked: "Which industries do you believe will be the biggest drivers of HNWI wealth growth in the coming decade (through 2025)?"

Please select the top three Industries; "Which countries do you believe will drive HNWI wealth growth in the future?" Choose top three

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

Figure 7. Real GDP, Market Capitalization, and Real Estate Growth, 2014–2017F (World, Select Regions, and Markets)



Note: 2014 and 2015 GDP data from EIU; 2016 and 2017 GDP data from Consensus Forecasts, except the Sub-Saharan Africa and MENA regions, which were taken from EIU; Market capitalization growth for Western Europe denotes the growth for Europe, Asia-Pacific (excl. Japan) denotes growth for Asia-Pacific overall, MENA region denotes growth for Middle East; Regional market capitalization growth rate data calculated using World Federation of Exchanges (WFE) data, which covers most of the major markets in a particular region

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



## Strong Opportunity Exists for Wealth Managers to Gain More HNWI Assets

- **HNWI trust and confidence in their wealth management firms (and other stakeholders) increased significantly.** The trust and confidence of HNWIs with firms increased by 17.0 percentage points and the trust in financial markets almost doubled, although trust in wealth managers remained flat.
- **Despite the more favorable trust environment, HNWIs hold less than one-third of their global wealth with wealth managers,** underscoring the potential for wealth managers to amass a greater share of HNWIs' total investable wealth, especially in light of record HNWI wealth growth. HNWIs are willing to consolidate more of their assets with wealth managers, especially if they are already satisfied with the relationship.
- **HNWIs cite financial planning expertise, along with investment access and advice, as the most important elements in a wealth management relationship.** As such, wealth managers should build a strategy around holistic financial planning and advisory services to attract more HNWI assets.
- **Wealth managers have an opportunity to tap into HNWIs' investment advice requirements, especially since nearly half of HNWIs favor growth-oriented investment.** Growth investors tend to maintain longer-term investment horizons and hold more of their wealth in alternative investments (and less in equity and cash), requiring wealth managers to evolve their investment approaches to meet these demands.
- **More HNWIs are starting to favor a pay-for-performance fee model, presenting a challenge to firms and wealth managers, but also a lever for those able to profitably offer such a model.** While still in an early stage, some firms are exploring new fee models in response to client and regulatory demands, though the nature of performance fees will likely expand to encompass performance across a wide range of financial objectives.

## Significant Liquid HNWI Wealth Remains Up for Grabs for Wealth Managers

Despite a favorable outlook for wealth managers—HNWI wealth at record highs (see page 7) and attitudes toward the wealth management industry increasingly positive—wealth managers are falling short in their ability to attract a greater amount of HNWI assets.

Our survey of more than 5,200 HNWIs in 23 countries conducted in the first quarter of 2016 (see Figure M1 in Appendix) shows that wealth managers oversee less than one-third (32.1%) of global HNWI wealth, while primary wealth managers handle even less (21.8%). A portion of the rest of HNWI wealth is locked up in various illiquid assets, including real estate and businesses. *However, the greatest amount—more than one-third of the total—remains essentially liquid and thus potentially available to wealth managers. A significant amount of this wealth (18.4%) is sitting in retail bank accounts, while another large chunk (14.9%) exists in the form of physical cash (see Figure 8).*

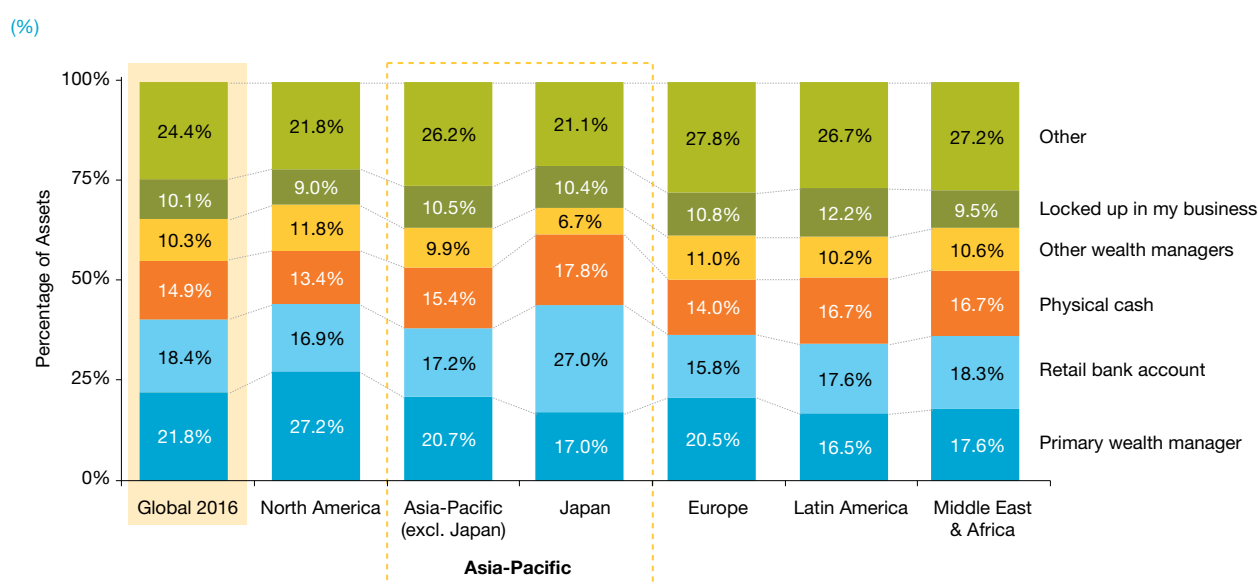
*Younger HNWIs are even more inclined to favor bank accounts and cash over the services of wealth managers.* They also tend to have more of their wealth tied up in their businesses. As a result, the amount of wealth overseen by wealth managers is much lower for under-40 HNWIs (27.5%) than for those over 60 years old (42.2%), a trend capable of imperiling the wealth management industry if it persists.

Before they can become the standard option for HNWIs seeking places to house their money, wealth managers need to overcome numerous challenges. *Despite large increases in the trust HNWIs have in nearly every aspect of the financial services business, especially wealth management firms, their regard for wealth managers did not improve much over the last year.*

During this time, trust in the financial markets enjoyed a huge leap, doubling to 60.8%, hinting that any trepidation HNWIs may have had about participating in the markets due to the financial crisis is fading. HNWIs also exhibited positive feelings toward financial regulators (an increase of 11.3 percentage points), their ability to generate wealth (an increase of 8.4 percentage points), and especially the wealth management firms that serve them (an increase of 17.0 points to 73.9%). The jump in trust for firms underscores the commendable job they are doing in building relationships with clients. HNWI trust in wealth managers, however, increased only marginally (by 1.9 percentage points), indicating that wealth managers are under pressure to deliver value to their clients, especially with the advent of automated advisors (see Figure 9).

*Globally, HNWI satisfaction with their wealth managers also remained generally flat, dipping by 1.7 points to 70.8%.* North America registered the largest drop (5.4 points), though it remained the region where HNWIs are most satisfied (76.8%). In all the other regions except Japan, where satisfaction was the lowest at 56.7%, satisfaction levels shifted marginally within the 70% to 75% range. Younger HNWIs (those under 40) remained harder to please than older ones (over 60), registering a satisfaction rate of 70.5% versus 74.9%.

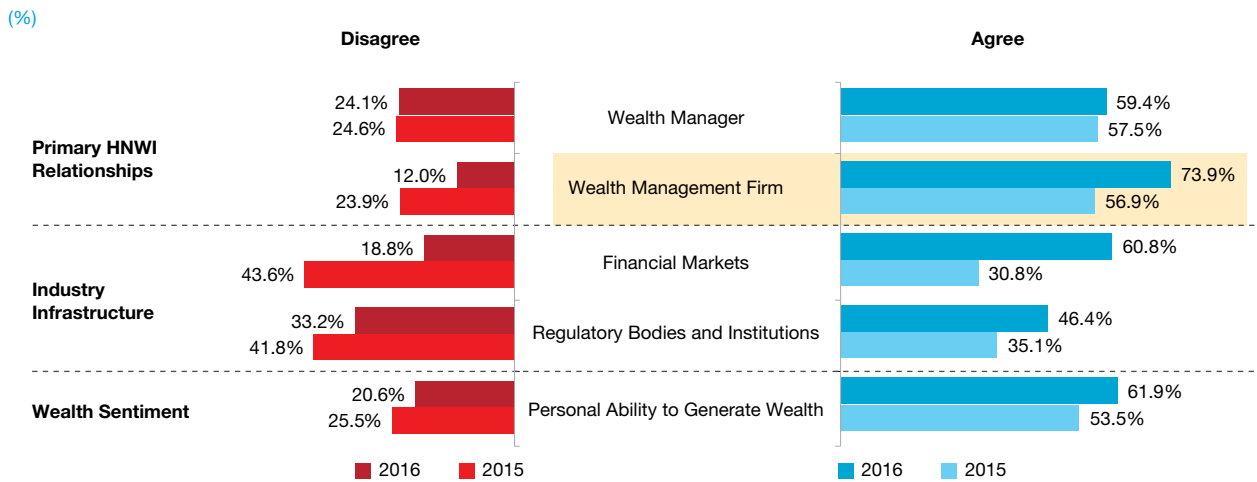
Figure 8. Breakdown of HNWI Investable Wealth across Entities and Accounts (by Region), Q1 2016



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 HNWI Insights Survey 2016, Capgemini

Figure 9. HNWI Trust and Confidence in Key Stakeholders, Q1 2015, 2016



Note: Chart numbers may not add up 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; Respondents were asked to rate on a scale of 1–7 and the above percentage represents the sum of rating from 5–7 for Agree and 1–3 for Disagree

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

## HNWIs Open to Consolidating Wealth with Wealth Managers

Despite more muted trust and satisfaction levels for wealth managers compared to other industry stakeholders, HNWIs say they still are willing to consolidate more of their wealth with wealth managers. Keeping satisfaction levels high, however, is critical. Satisfied HNWIs are much more likely to move assets to their primary wealth manager (68.1%), compared to the global average (54.1%), and especially compared to those who are dissatisfied (20.7%) (see Figure 10).

*Given the low level of under-40 HNWI assets currently under wealth manager advisement (see page 15), younger HNWIs are very open to the idea of consolidating their assets under a manager. Nearly two-thirds (63.1%) say they are likely to do so.* Younger HNWIs may view consolidation as a valid way to achieve their goal of simplifying their wealth management relationships. Firms and wealth managers should strive to take advantage of this tendency by providing solutions that appeal to more youthful clients.

Despite pockets of opportunity, the ability to acquire greater amounts of HNWI assets may not be as easy as some wealth managers think. Wealth managers globally overestimate the willingness of HNWIs to consolidate assets by 14.6 percentage points, with the mismatch between HNWI and wealth manager perspectives being most notable in Europe and especially Japan.

*Wealth managers can improve their odds of attracting more HNWI assets by building a consolidation strategy that blends overall holistic financial planning with a sophisticated*

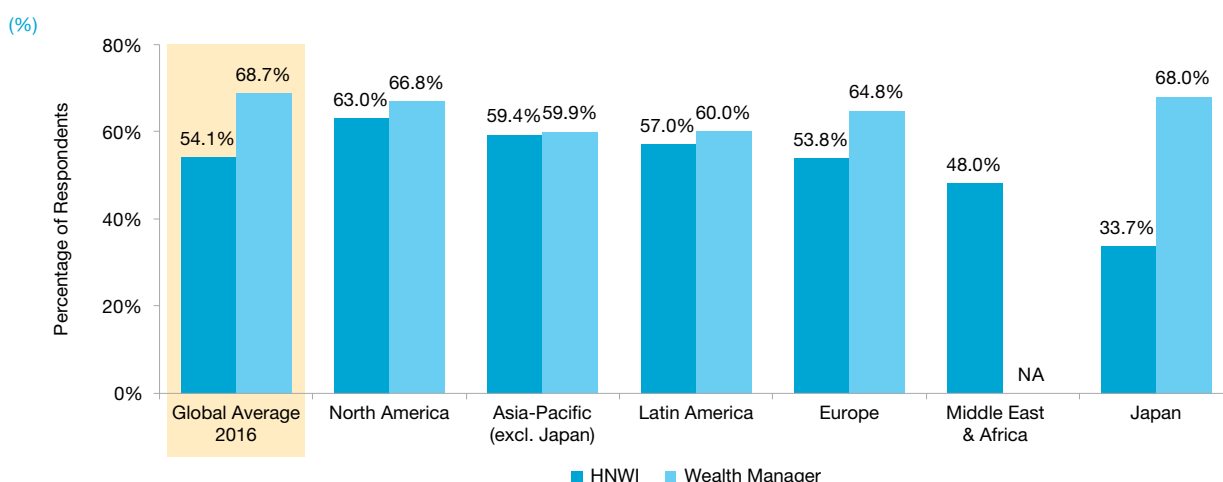
*view on investments.* We found that financial planning expertise is among the most important elements HNWIs seek in a wealth management provider (40.3%), along with deep investment access (39.8%), and investment advice (47.4%). Both younger and older HNWIs value these top three services highly, while younger HNWIs also express greater interest in more specialized services, including credit solutions and business expertise (see Figure 11).

Wealth management delivered with a human touch is well suited for meeting all of these diverse HNWI needs. Financial planning, for example, requires greater deft and nuance than the typical automated advisor can currently provide, particularly when it comes to bigger, more complex portfolios. Human advisors are also currently more skilled at understanding HNWIs’ personal and financial goals, and matching them up with suitable investments. Even so, we believe innovative digital technologies and wealth managers will be most effective when they co-exist and collaborate (see page 37).

By region, HNWIs express a variety of views on the most important elements of the wealth management proposition. Those in North America, for example, place heavier emphasis than other regions on retirement planning. HNWIs in Asia-Pacific (excl. Japan) are more likely to value research than those in other regions, while those in Europe and especially Japan express outsized interest in custody and asset safekeeping. In Latin America, HNWIs are notably keener on business-related advice and credit solutions than HNWIs in other regions.

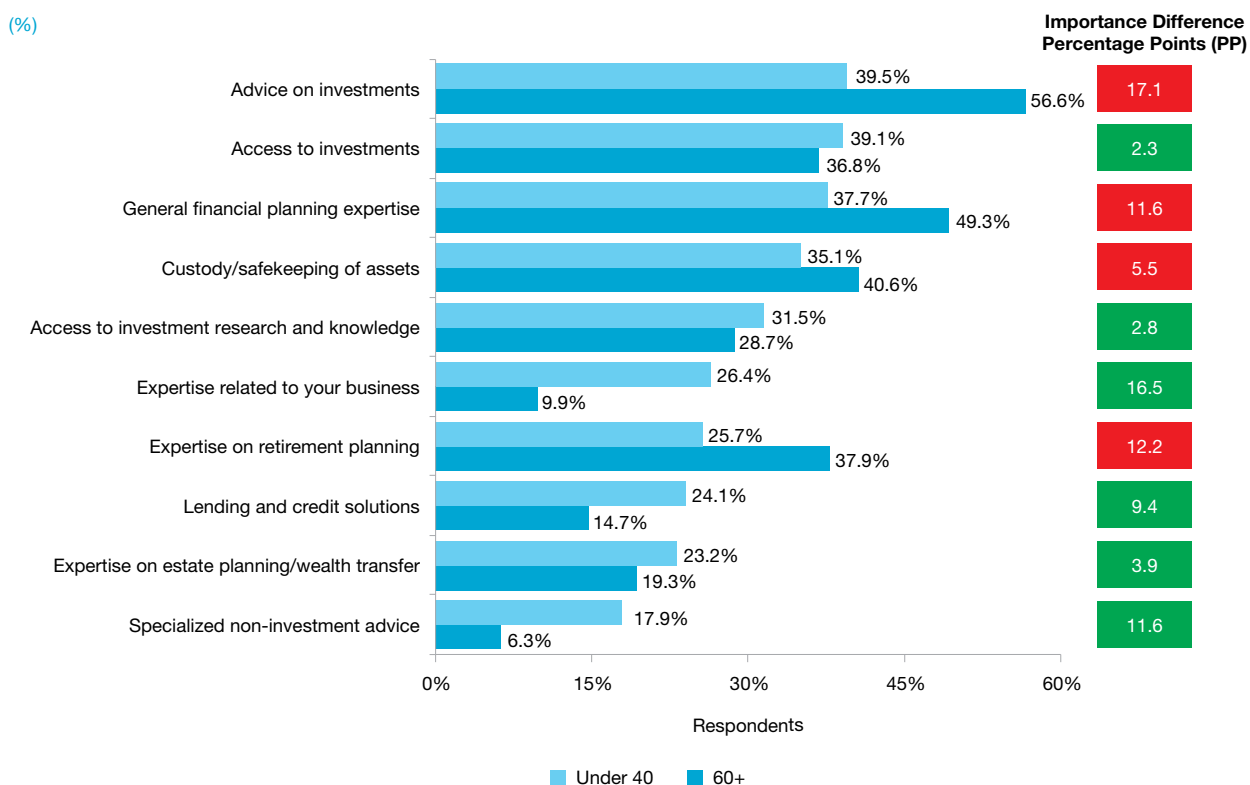


Figure 10. HNWI Likelihood to Consolidate More Assets with Primary Wealth Management Provider Compared to Wealth Manager Perspective (by Region), Q1 2016



Note: Questions asked: "How likely is it that you would consolidate more of your assets with your primary wealth management provider?"; "How likely is it that your HNWI clients would consolidate more of their assets with their 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; Ratings of 5, 6 and 7 have been shown in the chart above  
 Source: Capgemini Financial Services Analysis, 2016; Global HNWI Insights Survey 2016, Capgemini; Capgemini Wealth Manager Survey, 2016

Figure 11. Most Important Elements for HNWIs to Choose Wealth Management Provider, by Age, Q1 2016



Note: Question asked: "Which of the following elements of the proposition were MOST IMPORTANT to you when you chose to begin a relationship with your wealth management provider?"; For Importance Difference (PP), red signifies that the factor is more important for HNWIs above 60 and green signifies that the factor is more important for HNWIs under 40  
 Source: Capgemini Financial Services Analysis, 2016; Global HNWI Insights Survey 2016, Capgemini

Globally, 27.2% of HNWIs said that investment returns were the most important factor in their decision to consolidate assets with their primary wealth manager (see Figure 12). However, given the difficulty of guaranteeing returns, wealth management firms may be better off focusing on other aspects of the relationship, including lower overall fees (with 18.6% of HNWIs citing it as the most important factor in the decision to consolidate), access to deeper investment expertise (15.6%), and better investment and overall planning advice (15.5%).

In the 2015 World Wealth Report, we addressed one of these pillars of the wealth management proposition: the need for overall financial planning and advice. We noted that wealth managers must deliver goals-based planning, while also acting as the conduit to a full range of capabilities, both inside and outside of the firm.<sup>7</sup> In the following sections, WWR 2016 examines the other fundamental aspect of wealth management—the investment side.

### Investment Philosophies Drive Allocation Decisions

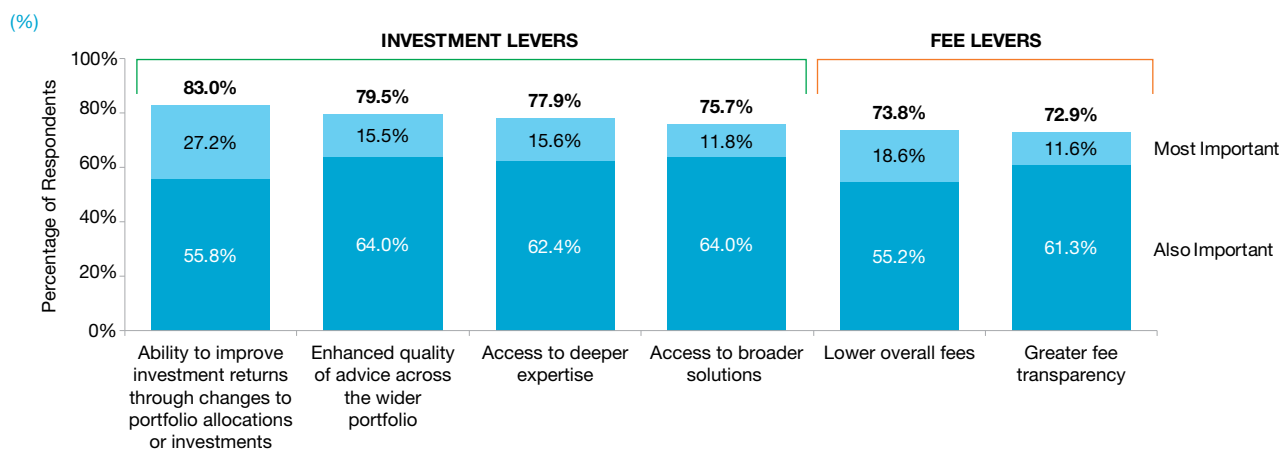
Having a thorough understanding of the drivers behind HNWI investment is crucial to attracting more HNWI assets. To find out more about these motivations, we surveyed HNWIs on their investment philosophies, allocation preferences, and attitudes toward fees. Our findings provide a starting point for wealth managers and firms seeking to develop a plan for winning over a greater portion of the HNWI assets still up for grabs.

► **Investment Philosophies** – Before wealth managers can create deeper relationships with HNWIs, they should strive to understand the investment philosophies that drive them. *Interestingly, HNWIs are least likely to embrace the approach of famed value-seeker, Warren Buffet, arguably the world’s most successful individual investor.* Only 19.3% follow Buffet’s strategy of investing in stocks appearing to trade below their intrinsic value.<sup>8</sup> HNWIs are much more likely (47.6%) to emphasize growth, picking investments that have above-average return potential, even at expensive prices based on standard metrics such as the price/earnings (PE) ratio. About one-third (33.1%) take a blended approach, seeking investments with strong return potential at a reasonable price (see Figure 13).

*Growth-oriented investors dominate in most markets, but are especially prevalent in Asia-Pacific (excl. Japan). In this region, 68% of HNWIs in India, 63% in China, and 61% in Indonesia define themselves as growth investors.* More than half of HNWIs in the United States, United Arab Emirates and France (53%) are also focused on growth. The outright growth strategy tapers off with age (23.0% for 60-and-over HNWIs versus 61.0% for younger ones), and is largely replaced by a blended approach for older HNWIs, indicating a greater interest in capital preservation as HNWIs age, but not at the expense of growth opportunities.

► **Allocation and Drivers** – *HNWIs focused on growth take a long-term approach to their investments.* Nearly three-quarters (73.6%) of growth investors have a long-term horizon, compared to 46.3% of value

Figure 12. Factors Encouraging HNWIs to Allocate More of their Total Financial Wealth to their Primary Wealth Management Provider, Q1 2016



Note: Question asked: “Please indicate the extent to which the following factors would encourage you to allocate more of your total financial wealth to your primary wealth management provider?” Chart numbers and quoted percentages may not add up due to rounding  
 Source: Capgemini Financial Services Analysis, 2016; Global HNWI Insights Survey 2016, Capgemini

7 2015 World Wealth Report, Capgemini and RBC Wealth Management

8 Warren Buffet’s investment strategy is used here for illustration; it is acknowledged that his strategy includes several other pillars, such as company leadership and stability, among others

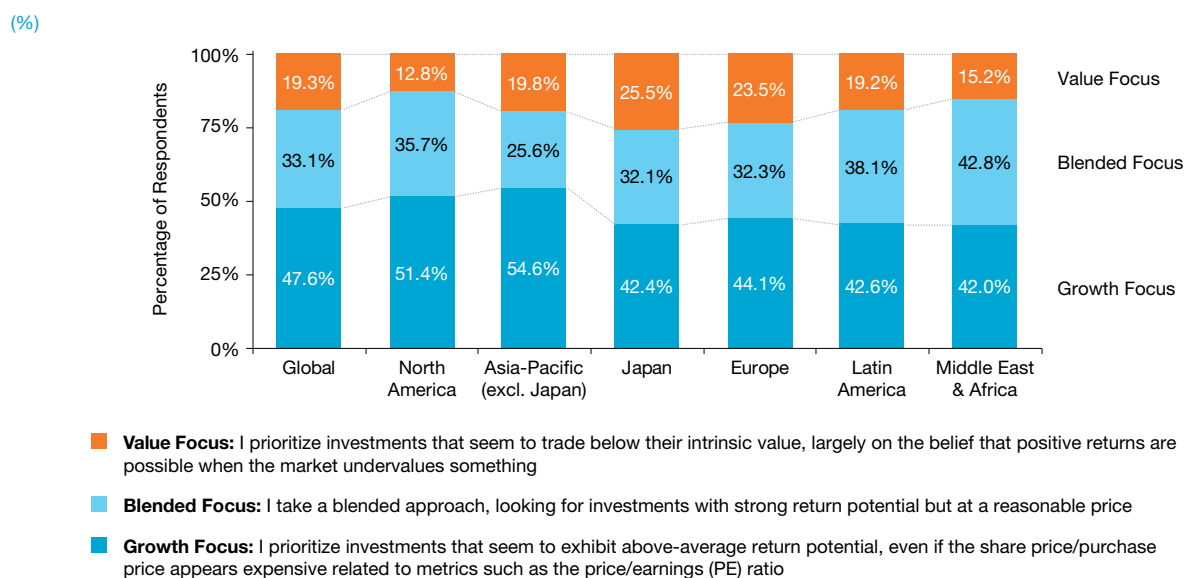
investors and only 29.9% of those with a blended approach. In keeping with the emphasis younger HNWIs place on growth, those under 40 are also most likely of all the age groups to invest for the long term (60.9%).

*HNWIs with a long-term, growth-oriented approach put less of a focus on liquid assets.* Equities and cash make up 43.6% of their portfolios, with the allocation toward equities being low (21.8%), compared to those with a

value-based or blended approach. In contrast, HNWIs globally allocate 48.3% of their investments toward cash and equities (see Figure 14).

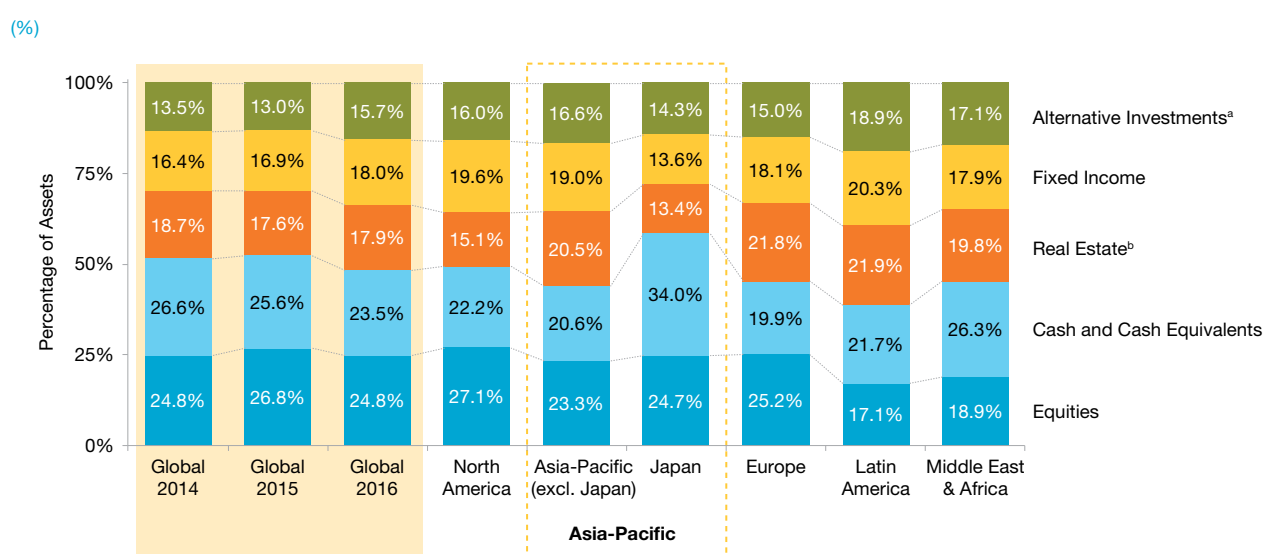
*Growth-oriented HNWIs are also most interested in allocating their assets toward alternative investments (18.3%), versus those with value or blended approaches, as well as versus the global norm.*

Figure 13. Personal Investment Philosophy of HNWIs, Q1 2016



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 14. Breakdown of HNW Financial Assets (by Region), Q1 2016

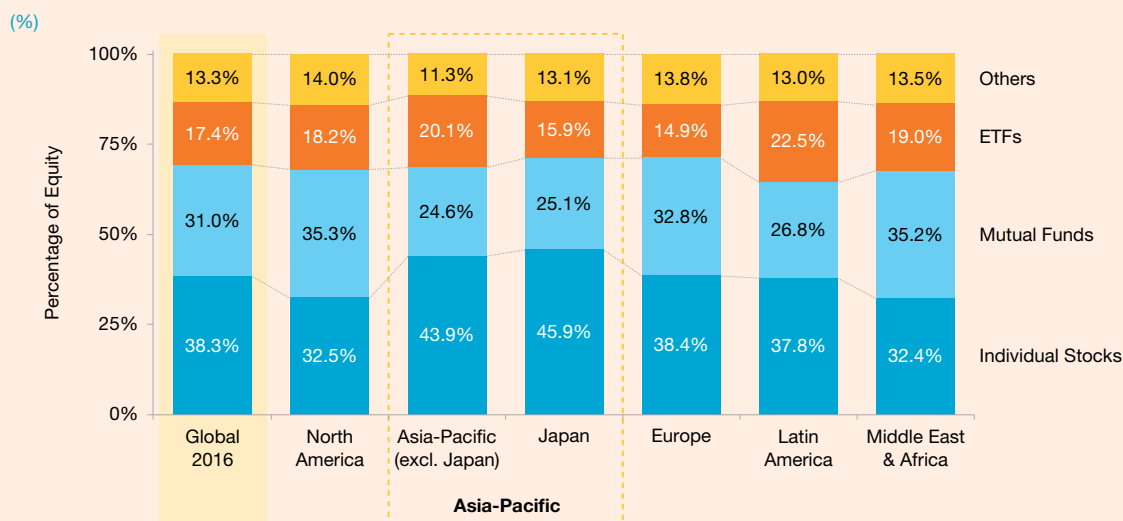


Note: Question asked: "What percentage does each of these asset classes approx. represent in your CURRENT financial portfolio?" Chart numbers may not add up to 100% due to rounding  
 Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini; Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

## HNWIs' Equity Allocation Dominated by Individual Stocks and Mutual Funds

An examination of investment allocations strictly within the equity space shows that HNWIs are most likely to invest in individual stocks (38.3%), followed by mutual funds (31.0%), and exchange-traded funds (ETFs) (17.4%). Stocks are especially popular in Asia-Pacific (excl. Japan) (43.9%), and emerge second to mutual funds only in North America, and Middle East and Africa (see Figure 15). ETFs, meanwhile, are most used in Latin America, followed by Asia-Pacific (excl. Japan).

Figure 15. Breakdown of HNWI Equity Allocation (by Region), Q1 2016



Note: Question asked: "How are your investments in EQUITIES CURRENTLY allocated across these different options?"; Chart numbers may not add up to 100% due to rounding

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

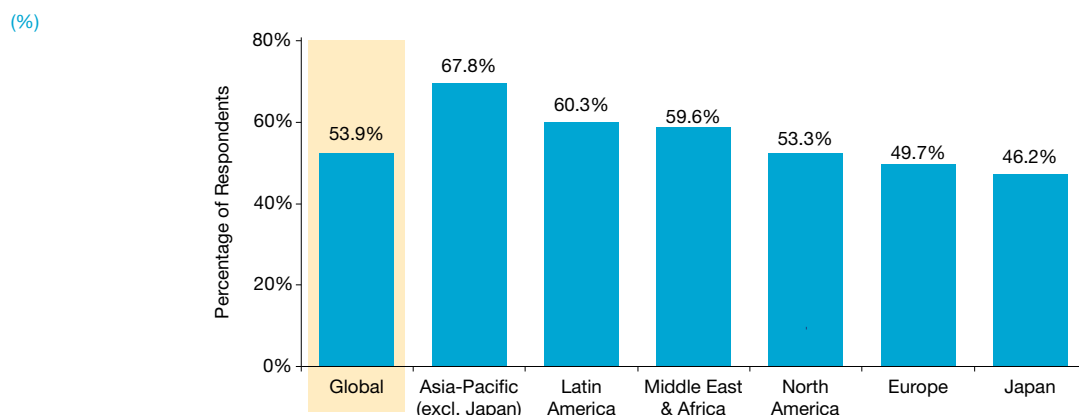
Perhaps the most striking finding related to equity allocations is the strong propensity for younger HNWIs to invest in ETFs, largely at the expense of mutual funds. Under-40 HNWIs invest twice the percentage of assets in ETFs as compared to HNWIs over 60 (20.2% vs. 9.8%) while the older HNWIs invest more in mutual funds (37.7%) as compared to under-40 HNWIs (27.5%). Over time, this tendency may have important implications for wealth management firms, forcing them to adapt their strategy and business mix.

HNWIs overall have moved decisively to diversify their assets geographically. Globally, 53.9% (see Figure 16) of HNWIs in Q1 2016 said that they hold investments or accounts in markets outside of their home country. International investment is especially high in Asia-Pacific (excl. Japan) at 67.8%.

A number of factors enticed HNWIs to invest internationally, including specific investment opportunity abroad (the main reason for holding assets outside the home country for 80.5% of HNWIs), followed by portfolio diversification (79.8%), and concern about economic risks in their home markets (78.5%). Demographically, 83.9% of HNWIs in Asia-Pacific cited specific investment opportunity abroad and 86.5% of HNWIs in Latin America cited concern about economic risks in their home markets as the most important reason to invest outside the home country (see Figure 17).

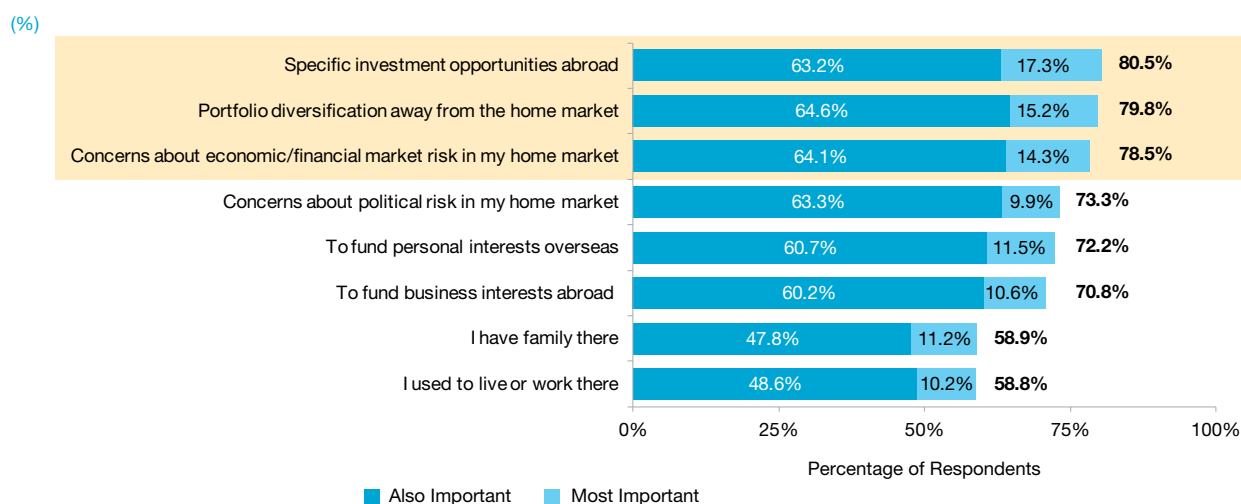
- Attitudes toward Fees** – Fee models present a significant challenge to firms and wealth managers, but also a potential opportunity for firms able to accommodate new models into their business. *While most HNWIs (30.1%) currently pay a fee based on the percentage of assets under management, more are becoming enamored with the idea of paying according to investment performance.* Pay for performance is ideal, say 28.1% of HNWIs, about ten percentage points more than the 18.0% of HNWIs who currently do pay by performance. While 30.1% of HNWIs pay based on a percentage of assets, only 23.6% say they would prefer to do so in an ideal world (see Figure 18), and this may be because they have not experienced any other fee model for comparison. *Preference for the pay-for-performance model cut across almost all the wealth segments, and was especially popular among ultra-HNWIs.*

Figure 16. HNWI's Holding Investments Outside their Home Country (by Region), 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 HNWI Insights Survey 2016, Capgemini

Figure 17. Most Important Reasons for HNWI's 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?" Chart numbers and quoted percentages may not add up due to rounding  
 Source: Capgemini Financial Services Analysis, 2016; Global HNWI Insights Survey 2016, Capgemini

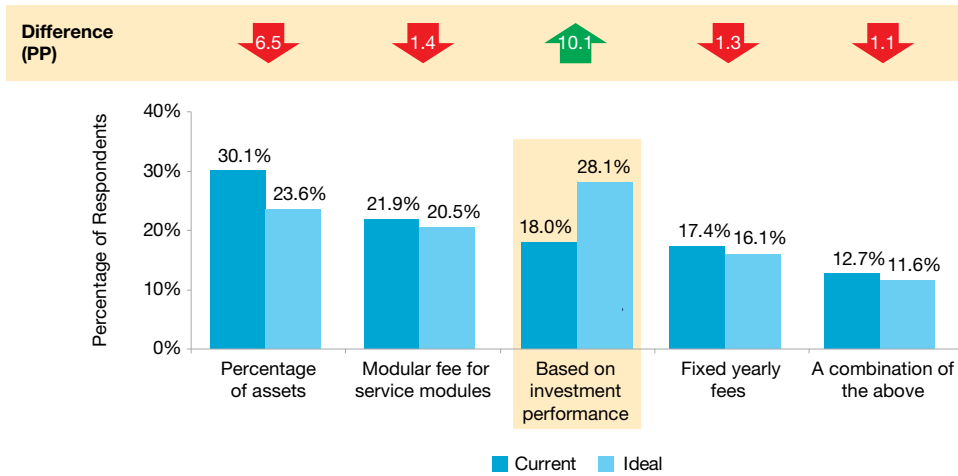
At issue is the nature of performance. Given the difficulties of securing benchmark-beating returns in more basic investments since the financial crisis, there has been a general trend toward goals-based financial planning as the value proposition for wealth managers. As a result, performance fees as a differentiator will likely need to encompass more than pure investments, taking into account the ability of wealth managers to meet HNWI's varied financial objectives.

*These changing HNWI preferences, along with regulatory pressure, for instance, from the implementation of MiFID II in Europe during 2017, which will require greater fee transparency, are likely to set off a wave of experimentation in fee structures, as these wealth management executives indicate:*

- "Clients are demanding fee transparency," noted one COO of a national bank in the U.S., who added, "Overall, there is downward pressure on fees."
- A business unit head of a universal bank in Europe said, "Performance fees have potential, but today, the performance fee model has a share of only 15% to 20%."
- Fee structures are shifting as firms adapt to narrowing commissions and greater price transparency, said the head of global private banking at another universal bank in Europe. "Our model is oriented toward the full satisfaction of the needs of the client," said this banker. Accordingly, "the customer pays only for what adds value and does not pay for what does not."

Figure 18. Payment for Wealth-Related Services, Q1 2016

(%)



Note: Questions asked: "How do you currently pay your wealth manager for wealth-related services?"; "In an ideal world, how would you like to pay your wealth manager for wealth-related services?"  
 Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

Already, firms are introducing a variety of new fee structures. Smaller firms such as XY Planning Network, which caters to Gen X and Gen Y clients, for example, eschews commissions, sales fees, and asset minimums in favor of a monthly retainer. Another, IAM Advisors, has embraced a pay-for-performance model that lets clients opt to pay either a standard percentage-based fee, or a discounted fee along with a bonus based on performance. The performance incentive only kicks in when a positive return on investment is achieved. Further, the firm makes up for underperformance in one year before charging any performance bonuses in future years.

In the more traditional private bank model, a North American institution is experimenting with a new fee structure for clients with less than US\$1 million of assets. By white-labeling a third-party automated advice service, the bank will be able to try out a modular fee structure in which clients pay standard asset-based fees for automated advice, and add-on fees for services provided by individual wealth managers.

## Investments with Social Impact<sup>9</sup> Considerations Gaining Significant Traction

For many HNWI, achieving an investment return while also addressing social needs is an ideal method of allocating assets. The 2016 *WWR* builds upon analysis from 2014 *WWR* (definition and analysis of the extent of HNWI demand) and 2015 *WWR* (advice sources preferred by HNWIs) with an in-depth look at trends within social impact financial investments, especially around the social investment asset classes preferred by HNWIs.

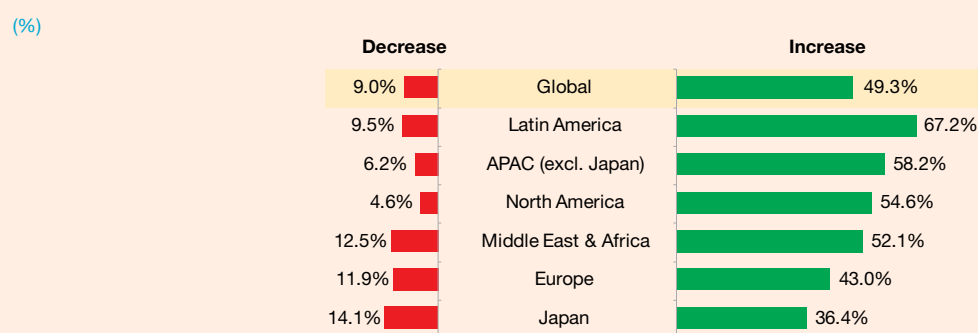
Globally, 31.0% of HNWI investment portfolios<sup>10</sup> are based on the concept of achieving social gain, with the emerging regions of Asia-Pacific (excl. Japan) (36.3%) and Latin America (34.2%) leading the trend. In the Asian markets of Indonesia, China, and Malaysia, HNWIs have invested more than 40% of their portfolios with social goals in mind.

HNWIs achieve social impact by investing in individual funds or companies that promote specific goals, such as clean energy or sustainable trade, or by screening out investments that are not socially responsible.<sup>11</sup> Globally, 41.6% of the socially conscious investments HNWIs make are allocated to publicly listed or private companies.

HNWIs can also turn to a host of new products that have sprung up to meet the growing demand to marry social and financial returns, including green bonds, which fund projects with environmental benefits; community bonds, issued by non-profits; and social impact bonds, which pay a return only if measurable social goals are achieved. Globally, 13.8% of HNWIs' social investments go toward social impact bonds.

*Social impact investing has been gaining traction in recent years. With almost half of HNWIs (49.3%) saying they will increase their social impact investments over the next two years, its influence is expected to expand.* Interest is especially high in Latin America, where 67.2% of HNWIs say they will increase their funding of social impact efforts (see Figure 19).

Figure 19. HNWI Change in Allocation to Social Impact-Based Investments over the Next Two Years (by Region), Q1 2016



Note: Question asked: "How do you intend to change your allocation to social impact investments over the next 24 months? Increase my allocation, Decrease my allocation, Keep the allocation same as now"

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

Wealth managers can take advantage of the growing interest in social impact by meeting the demand for information and education about this still-new method of investing. *Making discussion of social impact an elemental part of holistic wealth management will be important when serving younger HNWIs. Already, 40% of investments in under-40 HNWI portfolios are made with social impact goals in mind, and 64% are planning to increase this further in the future.*

Wealth management firms can stay ahead of the growing demand for socially responsible investing by developing products and tools that meet the need. At a leading global wealth and asset management firm, HNWIs can create a customized portfolio based on investment products and indices selected for their environmental, social, and governance track records. A U.S.-based investment firm has designed a platform that supports three approaches: investors can exclude certain companies or sectors, emphasize ones that align with their goals, or make investments that target specific social outcomes.

Some firms are seeking to integrate discussions about social investment into holistic wealth planning. The wealth and asset management division of a leading UK bank, for example, has created a detailed questionnaire designed to help HNWIs more clearly articulate their social investment goals, allowing wealth managers to tailor the most appropriate vehicles. Other firms are promoting education and awareness. A leading U.S.-based universal bank's wealth management division, which offers a growing platform of impact portfolios, recently published a whitepaper examining the risks and performance outcomes of impact investing, and proposing relevant investment solutions.

9 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

10 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)

11 In addition to positive screening such as purchasing individual public equities (with a social impact framework in place) and more exotic investments such as green bonds or private impact investment, social impact investments also refer to avoiding/screening out certain investments that are not socially responsible such as tobacco companies. Furthermore, social impact investments and investments to asset classes such as equities and alternatives are expected to overlap



## Looking Back and Ahead: 20 Years of the *World Wealth Report*

- **In spite of the devastating effects of the financial crisis, global HNWI wealth expanded by almost four times over the last 20 years, to US\$58.7 trillion**, driven by accelerated growth in Asia-Pacific. North America maintained healthy HNWI wealth growth during this time, while Europe slowed.
- **In the 20 years the *World Wealth Report* has been published, we anticipated and covered several industry trends, including technology disruption, cost pressures, and the rise of social impact investing**, but we did not predict the financial crisis, and its related impact on regulatory oversight and social attitudes toward wealth. The delay in Asia-Pacific overtaking North America as the wealthiest region and the persistently high levels of cash held by HNWI were also unexpected.
- **The pace of change over the next decade will likely accelerate, with disruption occurring in four key areas—clients, operations, regulations, and digital technology.** These changes will span issues such as persistent market volatility, service impacts caused by wealth transfer, pressure on traditional fee models, acceleration of value chain commoditization, regulatory focus on fiduciary duty, and technology disruption from FinTech startups.
- **The budget priorities of wealth management firms indicate that they are struggling to respond to the new dynamics of the industry**, while also keeping up with the day-to-day challenges of running the business. A relatively lower percentage of budget allocation is going toward forward-looking initiatives such as re-orienting the business model and developing new propositions.



## Striking HNWI Wealth Growth Marks Last 20 Years

The remarkable resiliency of HNWI wealth growth is the standout feature of our review of the last 20 years of the *World Wealth Report*. Despite going through the biggest contraction of the global financial markets (in 2008) since the Great Depression, global HNWI wealth expanded by almost four times, from US\$16.6 trillion in 1996, to US\$58.7 trillion in 2015 (see Figure 20). Asia-Pacific clocked the greatest growth during this time, while Europe lost the most ground.

Powered by a sharp rise in manufacturing and economic activity in China, Asia-Pacific expanded its share of wealth at an annual rate of 8.8% from 1996–2015, leaping from a distantly ranked third place to become the region with the greatest amount of HNWI wealth. Asia-Pacific’s share of 29.6% of the world’s HNWI wealth in 2015 surpassed North America’s 28.3%, and is up from 21.1% in 1996.

North America recorded healthy growth throughout this period (7.2% annually), expanding its share of HNWI wealth by 1.8 percentage points. *Europe, plagued by sovereign debt problems, had a much harder time recovering from the global financial crash and experienced the biggest setback, falling from first to third place in the regional rankings.* Its annual growth rate of 5.4% was the slowest of all the regions, except the Middle East.

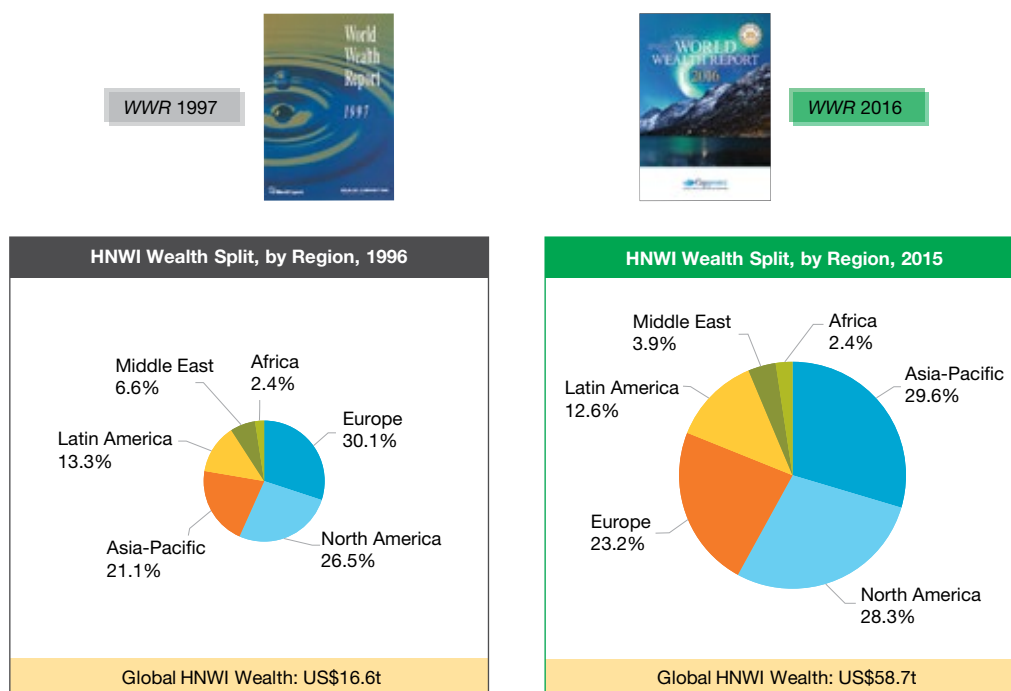
## Numerous Predictions Pan Out

*Though the devastating impact of the global financial crisis on HNWI wealth at the end of 2008 was not among our predictions, we were on the mark in the 2009 World Wealth Report in anticipating a strong rebound in HNWI population and wealth.* The crisis provoked a drastic decline in HNWI wealth going into 2009, but by the end of 2014, wealth had reached record heights for two years in a row. Our forecast that HNWI wealth would recover to US\$48.5 trillion by 2013 was on target, with HNWI wealth increasing to US\$52.8 trillion at the end of 2013, as noted in the 2014 *World Wealth Report*, compared to US\$46.2 trillion at the end of 2012.

Beyond the overall market growth, we anticipated and covered several other key industry trends over the past 20 years:

- ▶ **Wealth Transfer.** We correctly predicted in the 2006 *World Wealth Report* that an aging HNWI population would lead to an accelerated pace of wealth transfer, requiring wealth managers to adopt new service delivery strategies. Wealth transfer became increasingly important, as described in the 2008 *World Wealth Report*, as a burgeoning number of older HNWIs (Baby Boomers in the U.S. and second- and third-generation wealth creators in Asia-Pacific) began to pass on their wealth to younger generations. This trend is expected to continue as today’s young entrepreneurs begin

Figure 20. Global HNWI Wealth Split, 1996–2015



Source: Capgemini Financial Services Analysis, 2016

generating new wealth, while wealth transfer and inheritance will run for at least another decade. Within the U.S. alone, an estimated US\$59 trillion of wealth is expected to be transferred to heirs, charities, estate taxes, and estate closing costs from 2007 to 2061, with an estimated US\$36 trillion going to the heirs.<sup>12</sup> Chief among our recommendations in the 2011 *World Wealth Report* was the need for wealth managers to offer a more holistic approach to wealth management services, including the opportunity to liaison with wealth-transfer attorneys and accountants.

- ▶ **Competitiveness (Cost/Scale Pressure):** Cost containment has been another prominent theme over the years. In the 2006 *World Wealth Report*, we anticipated the need to streamline back-end processes to improve efficiencies and better meet HNWI needs. In the 2012 *World Wealth Report*, we examined in detail how firms can build scalable business models to drive profitable asset growth, while maintaining high levels of client satisfaction.
- ▶ **Technology/FinTech Disruption:** Technological change has been unrelenting in the past 20 years, and its ability to either assist or disrupt wealth management firms has been an ongoing focus. In the 2007 *World Wealth Report*, we looked at ways firms could leverage technology to provide the most appropriate products and services to clients and unlock their full potential. In the 2014 *World Wealth Report*, we focused on how HNWI are demanding digital capability from their wealth managers, regardless of their age, wealth level, geography, or need for advice. In the 2015 *World Wealth Report*, our attention shifted to the more disruptive aspects of technology, particularly the challenges and opportunities presented by automated advisory services. This year's *WWR* touches on the significantly increased adoption of FinTech offerings such as automated advice platforms and peer-to-peer open investment communities by HNWI (see page 36).
- ▶ **Demand for Social Impact:** Over the last two years, we have noted growing demand for social impact investment expertise. In the 2014 *World Wealth Report*, we found that driving social impact is a high priority for HNWI globally, especially in the emerging markets, particularly Asia-Pacific. The following year we suggested that wealth management firms need to develop more sophisticated in-house capabilities to meet HNWI demand for this increasingly popular investment niche. This year we explore trends in the investments space and the preferences of HNWI as they make social impact investments (see page 23).
- ▶ **Interest in Investments of Passion:** We identified continued interest in investments of passion over the years. Though the 2009 *World Wealth Report* observed HNWI scaling back their investments of passion amid

economic distress and the rising cost of luxury items, demand for all types of passion investments recovered in 2010, as noted in the 2011 *World Wealth Report*. By the 2012 *World Wealth Report*, we had identified investments of passion as a core pillar of some HNWI's portfolios, in part due to their low correlation with traditional assets during times of economic uncertainty.

- ▶ **Wealth Unit as Anchor (Enterprise Value):** As financial services institutions (FSIs) dealt with the fall-out of the financial crisis, we were out front in the 2011 *World Wealth Report* in holding wealth management up as a centerpiece of universal bank business models, articulating specific strategies for better integrating wealth management into the enterprise, and extracting value from the combination. This included creating cross-enterprise advice teams, providing unique investment opportunities through the investment bank, preferred financing for entrepreneurs, and expert input from private and investment bank on wealth creation.
- ▶ **Prominence of Offshore Wealth Centers:** Finally, we observed the rising importance of offshore wealth centers, noting in the 1998 *World Wealth Report* that markets in the Europe and Japan would develop quickly, as governments in these countries set up regulatory and tax codes to encourage domestic investment. In the 2012 *Asia-Pacific Wealth Report*, an offshoot of the *World Wealth Report*, we recorded the emergence of countries such as Singapore and Hong Kong as highly attractive offshore wealth centers, offering legal and regulatory transparency, geographic and cultural proximity for HNWI in South East Asia and China, as well as proactive regulators intent on simplifying regulations.

## Five Unexpected Trends Unfolded

Despite many accurate predictions, we did not anticipate some events over the last 20 years. The biggest was the **breadth and depth of the global financial crisis**, which caused global HNWI wealth to decline by 19.5% in 2008. It took years following the crisis for HNWI wealth to get back on a steady growth path and for the industry to win back HNWI trust.

**A sudden increase in regulatory intensity arising from the crisis was another unexpected setback for the industry.** Regulators across the globe stepped up their scrutiny of a wide variety of risks in the wake of the crisis, putting new and unanticipated pressures on profit margins. As we covered in detail in the 2013 *World Wealth Report*, the volume and pace of regulatory change continues to be a major challenge for wealth management firms, creating significant costs related to both compliance and non-compliance, as well as constraints in delivering an integrated client experience.

<sup>12</sup> "New Report Predicts U.S. Wealth Transfer of \$59 Trillion, With \$6.3 Trillion in Charitable Bequests, from 2007-2061", Boston College Center on Wealth and Philanthropy, May 28, 2014, accessed May 2016 at [http://www.bc.edu/content/dam/files/research\\_sites/cwp/pdf/Wealth%20Press%20Release%205.28-9.pdf](http://www.bc.edu/content/dam/files/research_sites/cwp/pdf/Wealth%20Press%20Release%205.28-9.pdf)

Also linked to the crisis is an **escalating “war on wealth”**, manifested by the Occupy Wall Street movement and fueled recently by events such as the Panama Papers. The public outcry against rising inequality and offshore wealth secrecy has drawn unexpected deep support, putting wealth management firms on the defensive against responsive regulatory measures and societal censure.

**Although we were correct in forecasting that Asia-Pacific would overtake North America as the world’s largest HNWI wealth center, it took longer than we anticipated.** Our prediction, made in the 2009 *World Wealth Report* of the shift occurring by 2013, was off by two years. A slowdown in key Asia-Pacific economies, including China and India, tempered HNWI wealth growth, delaying the region’s move to the top spot until 2015.

The final unexpected trend of the last 20 years has been the **persistently high levels of cash held by HNWIs**. Despite overall strong stock market performance around the globe, HNWIs have continued to hold almost a quarter of their financial wealth in cash, an allocation they perceive as necessary to fund their lifestyles as well as to protect against market volatility. Given these conditions, HNWIs appear unlikely to change the nature of their cash allocations over the next decade.

## Disruption Will Span Four Key Areas of Wealth Management for the Next Decade

Over the coming decade, change in the wealth management industry will likely accelerate. Industry executives and wealth managers agree that disruption will occur in four key areas—clients, operations, regulations, and digital technology (see Figure 21).

Clients are sure to become increasingly digitally connected, making them more aware of their options and subsequently more demanding. At the same time, client needs will become more diverse, spanning to include more emphasis on inter-spouse and inter-generational wealth transfer, retirement planning, and social impact investing. All of this will require wealth management firms to up their game.

*As one COO of a national U.S. bank, put it, “The financial planning and self-service tools that were differentiators will be table stakes in the future. Client sophistication will increase and customized advice will be important.”* Wealth managers will have to work harder to remain relevant to this new breed of client, said one wealth manager, who noted that next-generation HNWIs “are not at all lazy to do research themselves. For them, a wealth manager is solely an advisor, and they prefer to make financial decisions for themselves.”

Figure 21. Future Trends in Wealth Management across Client, Operations, Regulatory, and Digital (CORD) Areas

CLIENT	OPERATIONS
<ul style="list-style-type: none"> <li>Continued <b>robust HNWI wealth growth</b>, led by Asia-Pacific and high-tech industries</li> <li>Continued (potentially increased) <b>overall market volatility</b></li> <li>Potential <b>era of low and hard-to-predict investment returns</b></li> <li>Increased HNWI financial literacy and <b>demand for sophisticated advice</b></li> <li>Acceleration of inter-spouse and inter-generational <b>issues related to wealth transfer</b></li> <li>Potentially <b>negative impact on service levels</b> as firms exit the market for cost and regulatory reasons (possibly offset by an increase in specialized low-cost FinTechs)</li> <li>Continued <b>rise in demand for social impact investing</b></li> </ul>	<ul style="list-style-type: none"> <li>Goals-based <b>financial planning to replace brokerage models</b></li> <li>Future winners will have <b>scale and global operating model</b> to meet HNWI client needs</li> <li>Persistent <b>low-interest-rate environment</b> leading to margin pressure</li> <li>Increase in <b>mutualization/sharing of functions across smaller banks</b> in order to survive</li> <li>After investment management, <b>commoditization moves to financial planning tools</b>, requiring differentiation on bespoke/custom service</li> <li>Continued <b>consolidation of sub-scale firms</b></li> <li><b>Shortage of experienced and capable wealth managers</b> to meet new service requirements</li> <li><b>Pay-for-performance fees become more widespread</b> and signal the death of commissions</li> </ul>
REGULATORY	DIGITAL
<ul style="list-style-type: none"> <li>Short-term <b>landing of core post-crisis regulations</b></li> <li>Possible <b>receding of volume of new regulations</b>, unless a new crisis or acceleration of populist pressure on politicians</li> <li>Continued <b>governmental and societal “war on wealth”</b>, including pressure on white-listed jurisdictions</li> <li>General trend toward <b>increased fiduciary duty and wealth manager certification</b> in all jurisdictions</li> <li><b>Increased regulatory focus on new entrants such as automated advisors as AUM rises</b>, especially in the wake of any market disruption</li> </ul>	<ul style="list-style-type: none"> <li><b>Spread of FinTech disruption across full value chain</b> (moving from current focus on investment management, all the way to prospecting [one end] and advice [other end])</li> <li>Rise in <b>sophistication of third-party support tools</b> to wealth firms</li> <li><b>Increased use of innovation hubs</b> within wealth management firms to combat rise of disruptive new entrants (often working as partners)</li> <li><b>Increased outsourcing</b> of back-, middle-, and front-office functions (ECM, E-Signatures) in response to margin pressures</li> <li>Broader leverage of <b>account aggregation technology</b></li> <li>Increased <b>innovation with data and analytics</b> to drive and enable differentiated service and product solutions for clients</li> <li><b>New investment/loan models</b> built on P2P and crowd-sourced tools to emerge</li> <li>Major focus on <b>IT security</b></li> </ul>

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

From an operations perspective, there will be heavy emphasis on cutting costs, to the point where firms will increasingly consider sharing functions across banks as a way to get the functionality they need at a reasonable price. *“There is a big effort on the rationalization of processes,” said a senior executive of a U.S.-based universal bank, adding, “Costs have to go down but we need really good platforms. There is a tendency of a trend of ‘mutualization of platforms’ across smaller banks.”* Others view cloud computing as essential to more efficient processing. Not only does it allow firms to minimize capital expenditure by accessing computing capacity on demand, it allows firms to “connect to both internal and external experts,” said one wealth manager.

Regulations are not likely to lighten up any time soon. Concepts such as price transparency and client protection, embodied in legislation such as the Foreign Account Tax Compliance Act (FATCA) in the U.S., Markets in Financial Instruments Directive (MiFID II) in Europe, and Common Reporting Standard (CRS) in OECD, as well as a general trend toward increased fiduciary duty and wealth manager certification will continue to burden firms in all jurisdictions. “Different types of regulations are coming into the picture,” noted one wealth manager. *A strategy officer of the private banking division of a European universal bank agreed, saying, “Regulatory burden will continue to grow for a while.” Though there is hope for a reversal. “Transparency in pricing, showing the cost of regulatory oversight, may cause a tipping point eventually,” this executive said.*

Digital technology promises to become an even bigger force in the industry. *“We thought wealth management was immune to digital disruption,” said the director of wealth advisory services at a national universal bank in the U.S. “However, it is not the case and even older clients want it anywhere and anytime.”* Whether digital technology will ultimately help or harm incumbents in the wealth management industry appears to be an unsettled question. More sophisticated third-party support tools could help firms leverage data and analytics to deliver personalized

services to clients. “Firms will invest in Big Data to harness data of the client pool and deliver insights,” said one wealth manager. Digital technology, however, could also undermine client relationships. Through automated advice, FinTech firms could alter the normal patterns of client-wealth manager interaction, threatening the business as a whole. “The advice produced by automated advisors is attractive to technology-savvy investors,” said one wealth manager. “This puts into question the longevity of wealth management firms.”

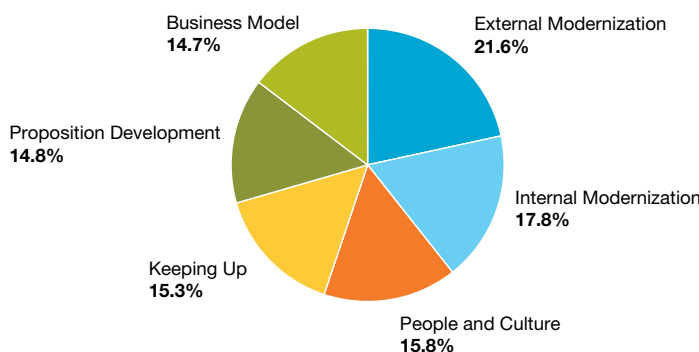
## Transformation Takes a Backseat to Day-to-Day Needs

*Firms recognize the need to respond to the changing dynamics of the industry, but are struggling to square those needs against the ongoing pressures of running the day-to-day business. This tension became apparent when we questioned industry executives about their future budget plans (see Figure 22).*

High on the priority list is external modernization (21.6%), as firms attempt to meet the ever-increasing digital demands of customers and enhance their client interfaces. Noted the CIO of the asset management division of a universal bank in the U.S., “The trends will be around client experience.” Internal modernization (17.8%) appears to be the second-most important investment theme, reflecting the need for firms to improve their behind-the-scenes systems.

People and culture (15.8%) is third on the priority list of firms, a response to the growing awareness that overly conservative cultures form barriers to progress. Of slightly lower importance is maintaining business as usual (15.3%). “Keeping up will always be a need,” said the strategy officer of a private banking division of a universal bank in Europe. “There is always work for keeping the house in order as the foundation for growth.”

Figure 22. Wealth Management Firms’ Future Investment Allocation, Q1 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”; Total 30 responses included  
 Source: Capgemini Financial Services Analysis, 2016; Executive Interviews, 2016

*The time and money geared toward all these basic running-the-bank efforts appear to be making it more difficult for firms to engage in activities where real differentiation could occur. Relatively fewer firms are putting resources toward developing new products or propositions (14.8%) or re-orienting the business model (14.7%).*

In part, this is because of the difficulty of execution. “The brokerage model has been broken for a long time,” lamented the COO of a universal bank in the U.S. “Where and how do you differentiate?” *Product development is not as straightforward as it used to be, noted another executive, the head of business development for the wealth management division of a European universal bank. “Affluent customers easily go elsewhere,” this executive said. “It is no longer predictive and it is difficult to find and develop the right product offering for the moment.”*

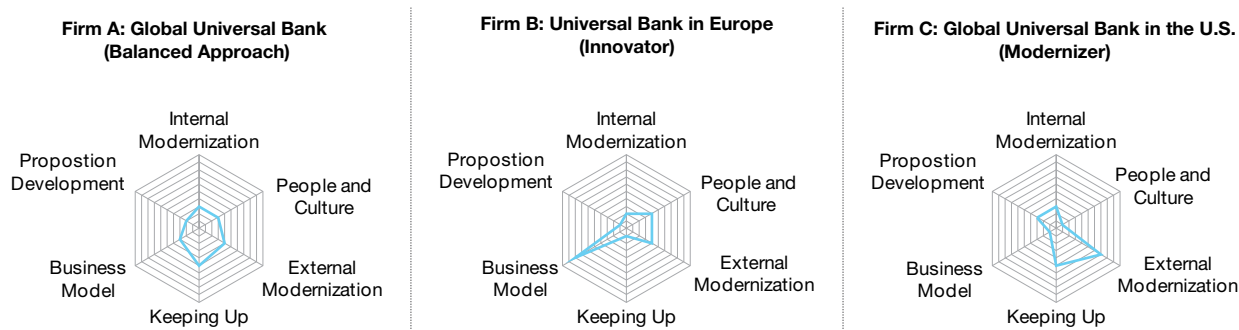
Given the multitude of pressing priorities, each firm’s approach to allocating their budgets will be unique. Using real-world examples, we have identified three models to prepare for the future that stand out: Balanced Approach, Innovator, and Modernizer (see Figure 23).

- ▶ A global universal bank, taking the **Balanced Approach**, plans to fairly evenly distribute its budget allocations across all the priority areas. Current systems, including the customer relationship management platform, are getting upgraded, even as the bank undertakes an intense digital transformation effort aimed at using data to spur business growth. To ensure it stays abreast of new developments, the bank also has a new innovation area and a multi-million-dollar venture capital fund holding minority stakes in financial sector startups. It has not ignored the people aspect of its business either, beginning efforts to foster a new client-oriented culture. The bank’s overall efforts are driven by a very high-level motive: “Our business model is totally focused on the customer,” said an executive.

- ▶ A European universal bank, adopting the role of **Innovator**, is undertaking a “core banking landscape redesign,” with the goal of becoming a truly digital bank. “A year ago we had a full digital picture, which became our roadmap,” said an executive. A primary goal is to develop modern application programming interfaces (APIs) to connect the client portal to the back-office software, an effort that requires the cooperation of the IT, business, and project teams. In addition to starting an accelerator program aimed at boosting innovation, the bank is running intense hackathons to help form its vision of the next-generation bank. And it is creating a portal that will serve as the single point of entry for every product and service.
- ▶ Finally, a global universal bank based in the U.S. is seeking to **Modernize** both its systems and culture. It is undertaking a “big effort on modernizing core systems in the proprietary environment,” said an executive. It is also leveraging third parties and APIs to improve the customer experience, while working to upgrade the digital capabilities of delivery channels. In addition to making new hires on the technology team to foster a more forward-thinking approach, the bank is encouraging its wealth managers to be more open to using digital tools.

*All three models reflect a general need to deliver a better digital experience to increasingly demanding clients. However, the magnitude of investment in various areas will vary based on current levels of digital maturity, management priorities, and the markets in which a firm operates.* The changing demands of customers, along with the growing threat from agile FinTech competitors, means that each firm must carefully examine its specific situation and make strategic choices about how to drive sustainable growth. There is no doubt that the next decade will bring even greater change, at a faster pace, than what the industry has already experienced over the last 20 years. Firms have no choice but to fully develop and execute clear-cut strategies for the future.

Figure 23. Future Investment Allocation Models, Q1 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



## Digital Maturity Remains Elusive Goal

- **Wealth managers have joined HNWI in expressing demand for digital tools.** More than 80% of wealth managers recognize the positive impact digital tools can have on client interactions, as well as their overall ability to do their job. Among HNWIs, demand for digital tools has broadened to include all age groups and wealth bands.
- **Wealth managers are not satisfied with the digital tools their firms provide, and want more from them.** Only 45.4% have high satisfaction with the capabilities provided to them. Social media tools are especially lacking, with wealth managers of all ages citing prospecting through social media as the most important digital capability, yet the least likely to provide satisfaction.
- **Digital capability is crucial to maintaining and growing profits, but very few firms have built differentiated digital maturity into their business.** We estimate firms offering sub-optimal digital experiences could put as much as 56% of net income at risk, due to client attrition. Yet most firms have reached only a medium level of digital maturity.
- **Digital maturity is only going to increase in importance, as HNWIs increasingly embrace new FinTech offerings, including automated advice platforms and peer-to-peer open investment communities.** Global HNWI demand for automated advisory services has shot up from 48.6% in 2015 to 66.9% in 2016, while 47.5% of HNWIs use online peer-to-peer platforms at least weekly to find out about investment ideas.
- **In addition to the high-level plan shared in the 2014 *World Wealth Report*, two specific actions—putting wealth managers at the center of digital transformation and pursuing collaboration with FinTechs—can help firms achieve digital success.** Firms can tap into the enthusiasm wealth managers have for using digital tools, as well as the expertise and collaboration potential of FinTech providers. These recommendations round out our roadmap first introduced two years ago, and reflect the growing importance of digital capabilities within the wealth management landscape during that time.

## Wealth Manager Demand for Digital Tools Runs High, but Satisfaction Falls Short

Despite a tradition of cultivating interpersonal relationships, wealth managers increasingly recognize the valuable role digital technology can play in delivering the best possible service to HNWIs. Our analysis of the industry's digital maturity, however, shows that digital tools in wealth management have yet to reach their full potential.

On the demand side, the desire for digital tools is strong and getting stronger. In the 2014 *World Wealth Report*, we found that 64.2% of HNWIs expected their future wealth relationships to be mostly or all digital, and that 65.3% of them would leave firms for a poor digital experience. We also found that 40.9% of under-40 HNWIs and 20.3% of those over 40 were interested in emerging digital channels. In 2016, HNWIs are expressing high demand for digital tools, across all age and wealth bands. Approximately 65% of all HNWIs say sophisticated digital channels are highly important. For HNWIs over 60, demand is nearly as strong, at 58.4%. HNWIs of all wealth segments are also interested in digital tools, in the range of 60% to 65% across the four categories of wealth.

*Wealth managers also want digital capabilities, with 81.3% acknowledging that the tools resonate with HNWIs. Nearly the same amount (81.1%) indicate that digital tools are important to facilitate their own role.* Wealth manager demand for digital tools spans all regions (in the range of 79% to 86%) and age groups (from 74% to 86%).

Wealth managers cite digital tools as valuable in supporting a number of functions, including increased collaboration with clients (85.9%), the ability to better leverage client data to identify growth opportunities (82.1%), and even time savings through reduced paperwork (82.1%). Younger (under 40) wealth managers are more likely than those over 60 (by a difference of 11.9 percentage points) to want to adopt digital because of their peers. Younger wealth managers are also more likely than older ones, by a difference of 7.3 percentage points, to be motivated by the opportunity to use digital for assessing and managing risk for clients. Older wealth managers are also more influenced by factors including better regulatory compliance, remote login, competition from technology-enabled players, experience from other industries, and strong client demand (see Figure 24).

Wealth managers who may have been reluctant to use digital tools in the past are now embracing them, as these wealth management executives indicate:

- ▶ “The group that is a bit anti is becoming smaller and smaller,” said the general manager of the private banking group of a national universal bank in Europe, adding that the bank’s wealth managers received iPads three years ago and are now requesting even more new tools.
- ▶ The director of investment management at a national bank in the U.S. observed “a lot of demand from wealth managers,” especially with respect to mobile-based information and the ability to aggregate and integrate client views.

Figure 24. Factors Influencing Wealth Manager Digital Adoption, Q1 2016

(%)

Top Five Factors Globally			Factors Influencing Younger and Older Wealth Managers		
			Under 40	60+	
1	The ability to increase access and collaboration potential with clients and experts	85.9%			
2	Experience of using digital tools in my daily life	82.4%			
3	Access to tools that save time and cut down on paperwork through document management	82.1%			
4	The ability to better leverage existing client data and contacts to grow business	82.1%			
5	The ability to generate differentiated and tailored investment recommendations for clients	80.9%			

Note: Question asked: “To what extent do you agree to the following statement with respect to drivers for your interest in and adoption of digital tools in your wealth management practice? My adoption of digital is being influenced by...”; 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; In factors influencing younger and older wealth managers, only top five factors where the gap in agreement between under 40 and 60+ wealth managers is the largest have been shown

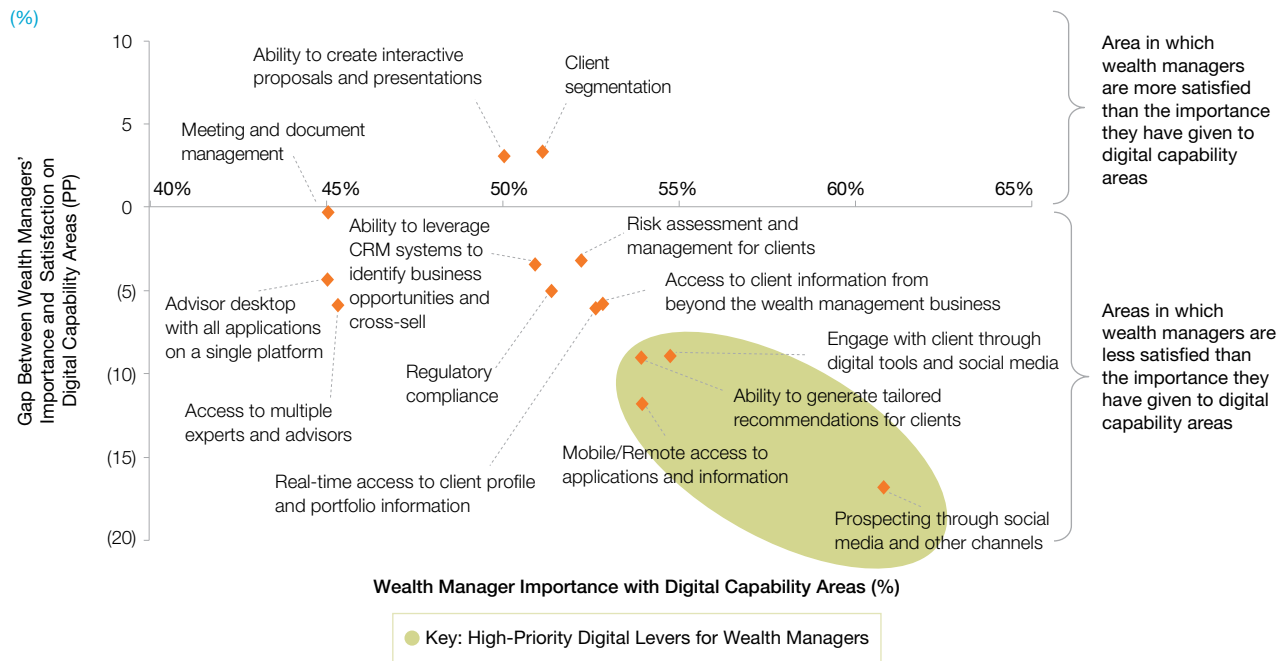
Source: Capgemini Financial Services Analysis, 2016; Capgemini Wealth Manager Survey, 2016

- ▶ “Everybody is really enthusiastic and demanding more,” said a development executive at the private banking unit of a European universal bank. “Our clients are pushing our wealth managers to use the iPad more. It is facilitating the conversations.”
- ▶ “Wealth managers are positive about apps that have been put in the market,” said the COO of a wealth management firm in Europe. “They are fully aware of the added value of the client reporting proposition.”

Yet wealth managers are far from satisfied with the digital capabilities they currently use to perform their jobs. Wealth managers ascribe more importance to almost every type of digital capability—from engaging with clients, to generating tailored recommendations—than they have satisfaction with those capabilities. Overall, only 45.4% are satisfied with their firms’ digital tools.

The gap between importance and satisfaction is most evident in the areas of social media and mobile, two of the newest and most dynamic digital channels (see Figure 25). *Wealth managers of all ages view prospecting through social media as the most important digital capability, with about 70% of under-40 wealth managers citing it, as well as one-third of over-60 managers, for an overall percentage of 60.5%. But prospecting through social media is also the least likely to satisfy, with the gap between importance and satisfaction reaching 17 percentage points, the largest of any capability surveyed.*

Figure 25. Wealth Manager Importance for/Satisfaction with Different Digital Capability Areas (Global), Q1 2016



Note: Questions asked: “How important is it for you to have digital capabilities in the following areas?”; “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

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



## Low Digital Maturity Threatens Profits

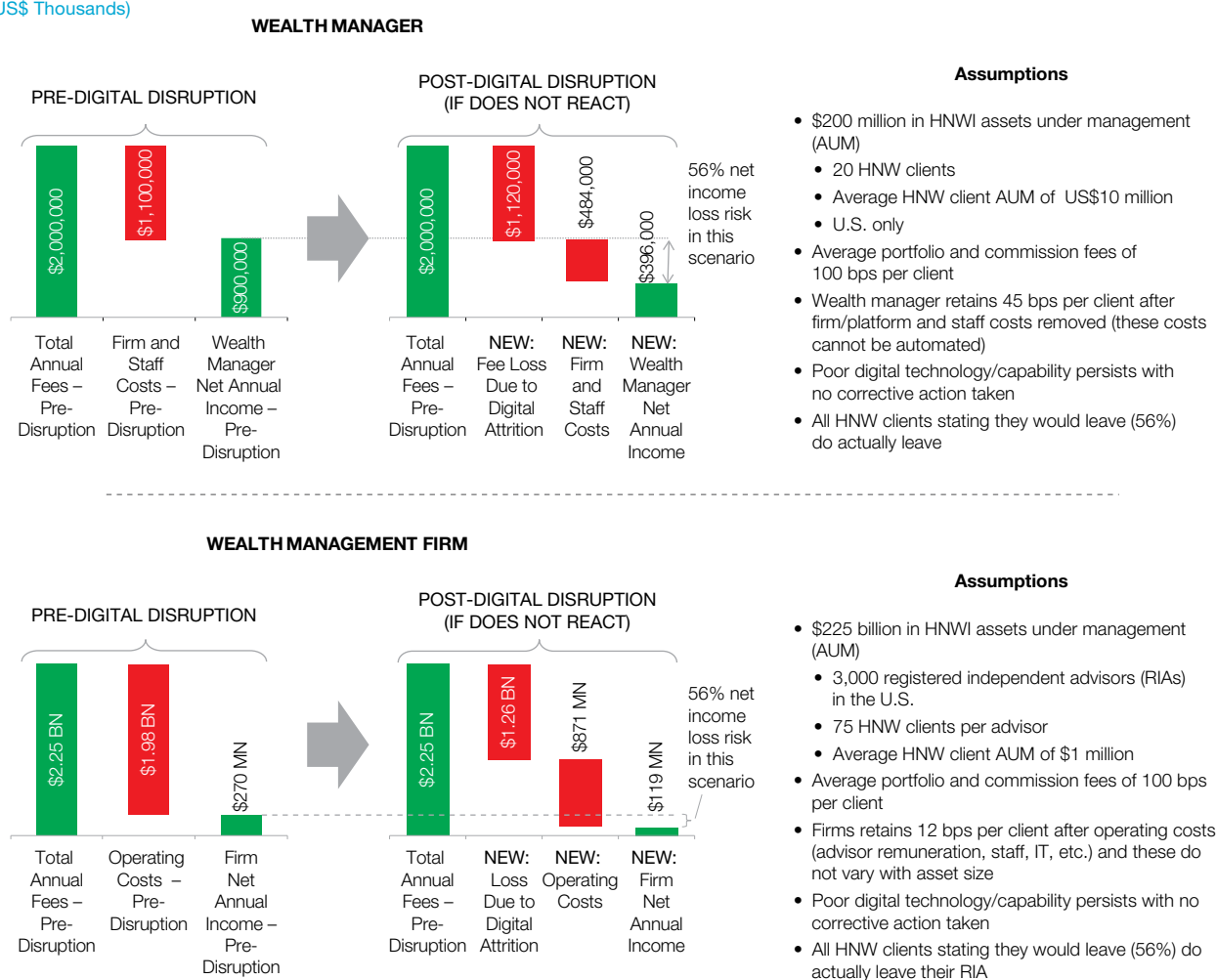
Firms cannot afford to fall short in any aspect of their digital strategy. Across all ages, wealth segments and regions, there is a significant risk of HNWI's leaving their wealth management firm. We modeled a stunning 56% drop in net income under the most extreme scenarios for individual wealth managers and firms that do not embrace a rich set of digital offerings (see Figure 26). The model assumes that rampant attrition of digitally dissatisfied HNWI clients would more than offset any savings a manager or firm might incur by avoiding an investment in digital. While such a drop is highly unlikely since attrition would be

phased over time and few firms would take no action, the model nonetheless paints a clear picture of the amount of profit at stake as the industry transforms.

*The correlation between digital maturity and asset acquisition/retention is only expected to increase in the coming years. Globally, 72.9% of HNWI's say digital maturity is very or somewhat significant in their decision to increase assets with their wealth management firm over the next 24 months* (see Figure 27), a percentage that advances to 86.5% for HNWI's under 40. A firm's digital maturity is especially important to HNWI's in Latin America (91.7%) and Asia-Pacific (85.9%).

Figure 26. Hypothetical Digital Attrition Risk/Impact to Wealth Manager and Firm, Q1 2016

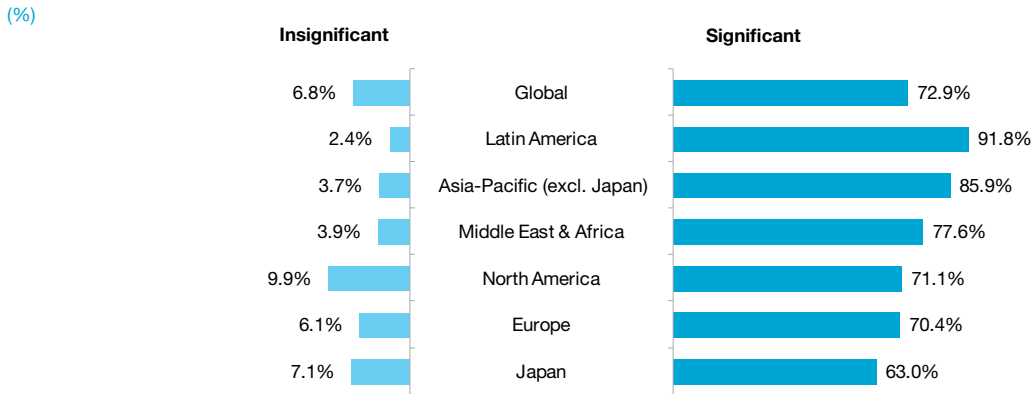
(US\$ Thousands)



Note: See assumptions in figure

Source: Capgemini Financial Services Analysis, 2016; Wealth Management in the Digital Age, Capgemini and Salesforce, 2016

Figure 27. Role of Digital Maturity in Increasing/Decreasing Assets with Wealth Management Firm over Next 2 Years (by Region), Q1 2016

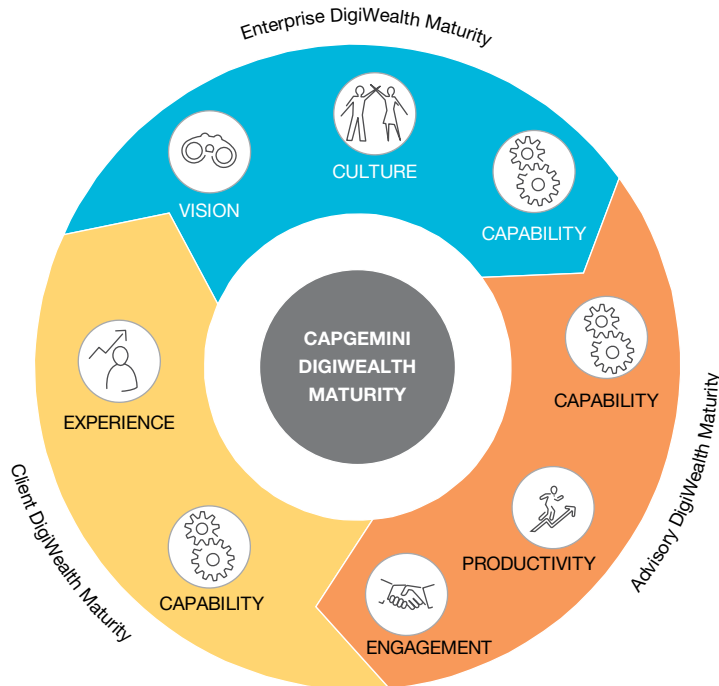


Note: Question asked: "Thinking back to your responses on the digital services offered by your primary wealth management firm, how significant is your primary wealth management firm's digital maturity in your decision to increase or decrease assets over the next 24 months?"; Respondents were asked to rate on a 5-point scale ranging from Not at All Significant to Very Significant; The above percentage represents the sum of rating from Somewhat Significant and Very Significant for Significant and Not at All Significant and Somewhat Insignificant for Insignificant  
 Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

To help firms better gauge their level of digital maturity, we created the Capgemini DigiWealth Maturity Assessment Model. This diagnostic tool examines digital capabilities from three perspectives: the firm, the client, and the advisory (see Figure 28). From the firm perspective, the model assesses the vision firms have for deploying digital tools and how well they have cultivated a culture that

emphasizes digital. In terms of HNW clients, the model analyzes the breadth and depth of the end-user digital experience. Wealth managers are measured in terms of the level of engagement they have with digital tools and how productive they are in using them (see page 42 for further details on the DigiWealth Maturity Assessment Model).

Figure 28. Capgemini DigiWealth Maturity Assessment Model



Source: Capgemini Financial Services Analysis, 2016

*Our analysis, based on self-assessments provided by senior industry executives, shows that the industry has achieved only a medium level of digital maturity.*

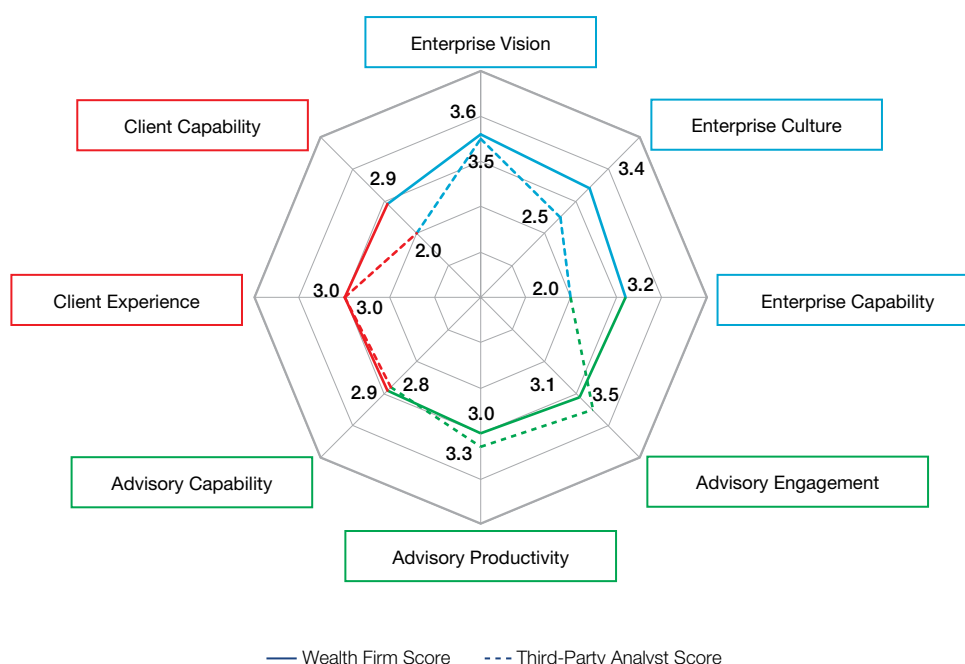
Firms are weakest in providing digital capabilities to clients and wealth managers (both scoring 3.0 on a 5-point scale), while enterprise-level digital maturity averaged 3.5. Actual levels may be even lower, if third-party analyst assessments are taken into account. Along most measures, analysts gave the industry lower scores than executives did (2.8 for enterprise, 2.6 for clients, and 3.2 for advisory).

*The vision that executives have for their digital maturity for the most part exceeds what is actually happening in the firm, highlighting the challenge of putting thought into action.* In looking at the detailed results of the assessment, both executives and analysts gave relatively higher scores to “enterprise vision” (3.6 and 3.5, respectively), while the actual levels of maturity in terms of culture and capabilities were lower (see Figure 29). Both also ranked client capabilities and experience on the low side, with analysts exhibiting a particularly poor view of client capabilities.

The most progress related to digital maturity may be occurring in the advisory area, where analysts had a more positive view of wealth manager engagement and productivity than executives did. *In addition, our wealth manager survey found much greater satisfaction with the digital tools being provided to them by their firms than there has been in the past. Compared to five years ago, when 64.8% of wealth managers expressed frustration with their firms’ digital capabilities, only 14.1% currently do.* The shift was starkest in Latin America, where HNWLs were the most frustrated five years ago (76.0%) and are the least frustrated currently (0%).

Firms need to be making progress on all aspects of digital maturity to ensure they remain relevant to clients who may be wooed by technology-driven competitors. Nothing less than a high level of digital maturity will be adequate in the face of digitally native competitors.

Figure 29. Average Digital Maturity Score of Wealth Management Firms across Enterprise, Advisory, and Client Parameters, Q1 2016



Note: Questions asked: “Please self-assess your ENTERPRISE digital maturity in the following areas”; “Please self-assess your ADVISORY digital maturity in the following areas”; “Please self-assess your CLIENT digital maturity in the following areas”; Wealth firm score is the digital maturity score provided by wealth management executives; Third-party analyst score is the average of ratings by third-party firms (non-FSIs); Total 42 responses included  
 Source: Capgemini Financial Services Analysis, 2016; Executive Interviews, 2016

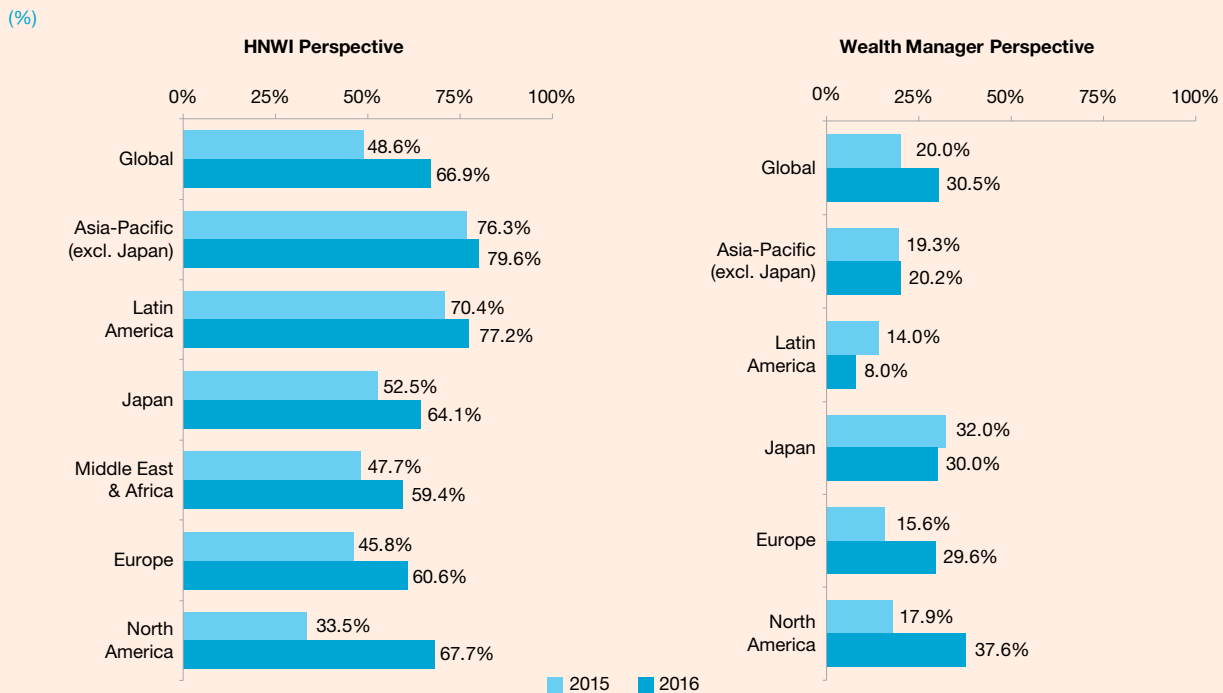
## FinTechs Make Rapid Gains

Financial technology firms, or FinTechs, are making inroads along the entire expanse of the wealth management lifecycle. Dozens if not hundreds have developed new, often improved ways of performing standard wealth management functions, encompassing everything from client acquisition, to advice, to compliance. With incumbent firms continuing to lag in addressing the growing HNWI interest in digital services, the influence of FinTechs has spread.

Advice, once the cornerstone of the wealth manager-HNWI relationship, is a prime example of a function that has also become susceptible to incursion. New FinTech offerings, including automated advice platforms, open investment communities, and third-party capability plug-ins are increasingly being embraced by HNWIs as alternatives to traditional face-to-face advice in some cases.

In just 12 months, HNWI demand for automated advisory services has shot up from 48.6% to 66.9% globally, with demand running even higher in Asia-Pacific (excl. Japan) (79.6%), and Latin America (77.2). Wealth managers, meanwhile, are woefully out of sync with the gathering strength of HNWI demand. Only 30.5% globally (up from 20.0% in 2015) believe their clients would consider having a portion of their wealth managed in an automated fashion (see Figure 30).

Figure 30. HNWI and Wealth Manager Assessment of HNWI Propensity to Use Automated Advisory Services (by Region), Q1 2015 and Q1 2016

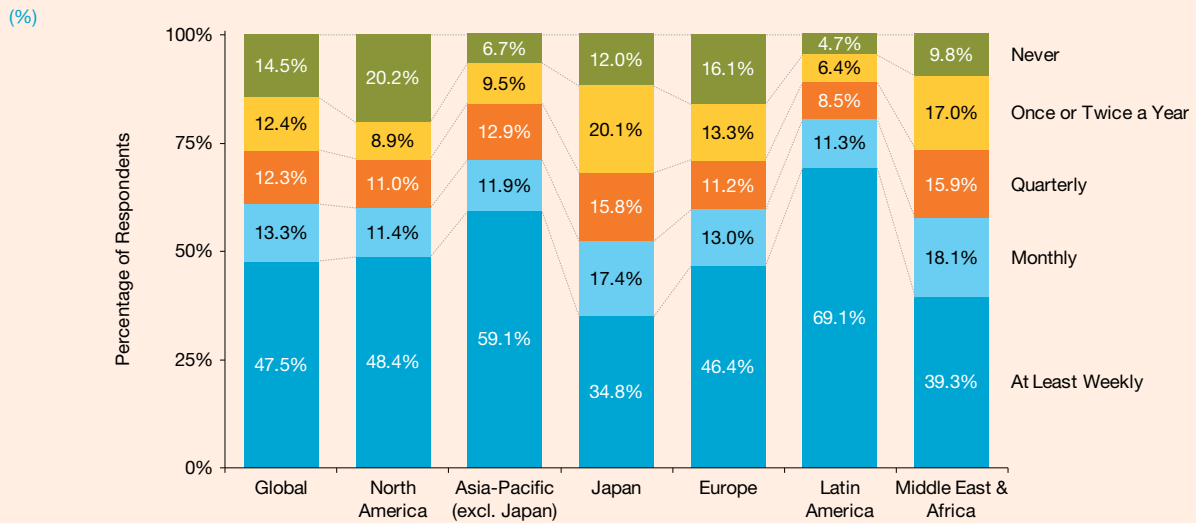


Note: Questions asked: "Would you ever consider having a portion of your wealth managed by an automated advisory service?"; "In your view, would your HNWI clients consider having a portion of their wealth managed by automated advisors?"

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

*HNWIs are increasingly turning to digital networks, swapping insight and information with peers through so-called open investment communities.* Nearly half of HNWIs (47.5%) tap into online peer-to-peer networks at least weekly to find out about investment ideas, while 25.6% use them monthly or quarterly (see Figure 31). Only 14.5% have never accessed the forums. Usage is set to expand, with 83.5% of younger HNWIs saying they expect to increase their use of such networks over the next 12 months. However, as with automated advice, wealth managers are underestimating HNWI demand for peer-to-peer advice forums. Only 33.6% think HNWIs are interested, and only 40.8% say they expect interest to rise in the future.

Figure 31. Current Frequency of Usage of P2P Advice Forums (by Region), Q1 2016



Note: Question asked: "How often do you currently use digitally accessed peer-to-peer advice forums for your wealth management advice needs?"  
 Chart numbers may not add up to 100% due to rounding  
 Source: Capgemini Financial Services Analysis, 2016; Global HNW Insights Survey 2016, Capgemini

FinTechs are also making inroads at the invitation of wealth management firms. Several of the world's largest firms are exploring accelerator programs designed to attract startups interested in collaborating. Other firms are investing in or acquiring FinTechs in an attempt to jumpstart their digital capabilities, especially in the areas of automated advice and investment management services.

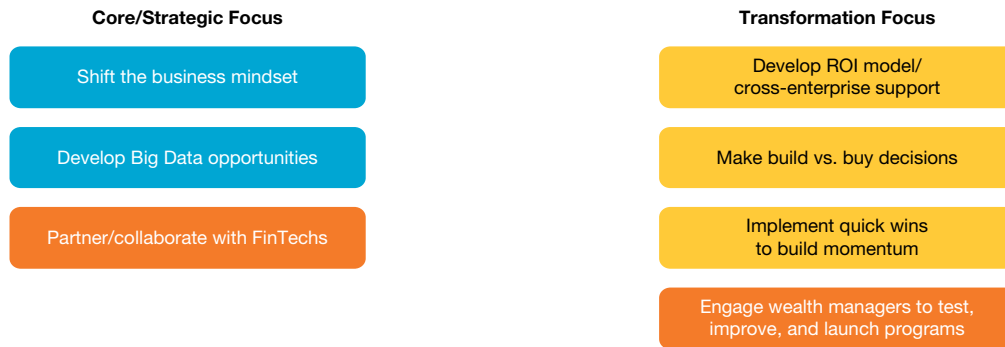
## Wealth Manager Engagement and FinTech Collaboration Can Push Digital Agenda

Wealth management firms must take bold steps to overcome resistance to change. We provided our recommendations through a high-level roadmap shared in the 2014 *World Wealth Report*, which urged firms to begin laying the groundwork for digital change by taking steps such as developing ROI models, making build vs. buy decisions, and developing Big Data opportunities. Based on the growing importance of digital capabilities within the wealth management landscape over the past 24 months, we encourage firms to take two more specific actions as a part of our high-level roadmap to achieve digital success: put wealth managers at the center of digital transformation, and pursue collaboration with FinTech firms (see Figure 32).

Continued progress toward full digital transformation will be necessary to achieve firms' objectives from digital initiatives, which mostly revolve around revenue growth, improving digital interactions for clients and wealth managers, and productivity gains.

- ▶ "Digital experience is really important," said the director of investment management at a private bank in the U.S. "This will continue to help drive revenue, experience, productivity, and efficiency."
- ▶ "Better client access to information and mobile access are important," said the president of a private U.S. bank. "Wealth manager technology and wealth manager access to allow them to do their jobs is also important."
- ▶ "Revenue growth/service improvement and efficiency/productivity gains have a similar weight," said the business unit head of a wealth management bank in Europe.
- ▶ The COO of a global universal bank highlighted final criteria regarding goals for deploying digital: "What will customers notice?"

Figure 32. High-Level Digital Prioritization Roadmap in Wealth Management



Note: Steps do not necessarily need to be taken sequentially  
 Source: Capgemini Financial Services Analysis, 2016; Executive Interviews, 2016

Wealth managers may be underestimating the level of interest HNWI have in digitally driven advice, but they are nonetheless enthusiastic about using digital tools in their jobs. More than three-quarters (78.9%) say they would like to pilot new digital tools, and more than half (53.0%) have already lobbied their firm to improve digital capabilities (see Figure 33). A surprising amount (42.5%) is even investing their own money to purchase off-the-shelf software in an attempt to plug gaps in their firms' offerings. In Asia-Pacific (excl. Japan) and North America, the drive toward piloting new digital programs is especially strong (more than 80%), while Latin America stands out for its heavy lobbying of senior leadership about the need for improved capabilities (68.0%).

Though wealth managers would like to do their jobs in a more digital fashion, firms for the most part have not fulfilled those visions. *More than half of wealth managers (54.6%) are not fully satisfied with their firm's digital capabilities, causing 38.7% of them to even consider looking for employment elsewhere.* More than half (57.1%) say digital capabilities are a key factor in deciding whether to join a new firm.

*These findings put wealth managers in a unique position with respect to digital transformation.* Their dissatisfaction with the current state of digital services puts them at risk for leaving for other firms. At the same time, wealth manager

enthusiasm for digital makes them a key enabler for success. Tapping into the insights and experience of wealth managers can help firms move down a solid path toward digital transformation, while also alleviating attrition risk.

In addition to engaging wealth managers in digital change, firms should follow the lead of other financial institutions by exploring collaborations with FinTech players. *Financial institutions<sup>13</sup> are open to the idea of working with FinTechs, with 45.5% of them citing such partnerships as a priority.<sup>14</sup> Wealth management firms are similarly open to the idea of working with FinTechs. "I do not see a strong competition from FinTech in the next five years," said the head of wealth management at a leading European bank. "Rather, they require strong partners."*

Twists on collaboration/partnerships such as investments (43.6%) and outright acquisitions (17.8%), have also become popular. Santander, for example, has launched a US\$100 million fund aimed at FinTech investments,<sup>15</sup> while big players such as BNP Paribas and Wells Fargo have formed accelerator programs to support startups.<sup>16</sup> BlackRock has embraced the concept of automated advice by acquiring a firm that specializes in it.<sup>17</sup>

13 Financial institutions refers to the wider financial services industry firms, including retail banking and wealth management firms

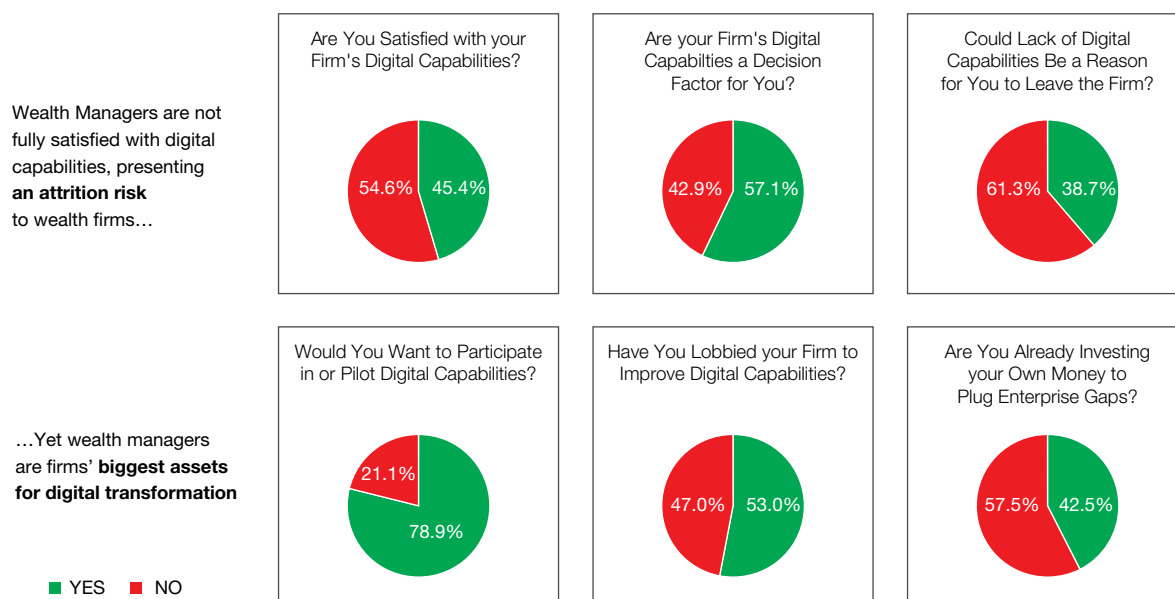
14 2016 *World Retail Banking Report*, Capgemini and Efma

15 Santander InnoVentures, accessed May 2016 at <http://santanderinnoventures.com/>

16 Applications now accepted for fifth NY FinTech Innovation Lab", Finextra, May 30, 2016 at <https://www.finextra.com/news/announcement.aspx?pressreleaseid=57214&topic=startups>

17 BlackRock Embraces Robo Finance Advice with Acquisition of FutureAdvisor", The Wall Street Journal, Anne Tergesen, updated August 26, 2015, accessed May 2016 at <http://www.wsj.com/articles/blackrock-embraces-robo-finance-advice-with-acquisition-of-futureadvisor-1440594106>

Figure 33. Wealth Manager Satisfaction, Attitudes, and Preferences on Firms' Digital Capabilities



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

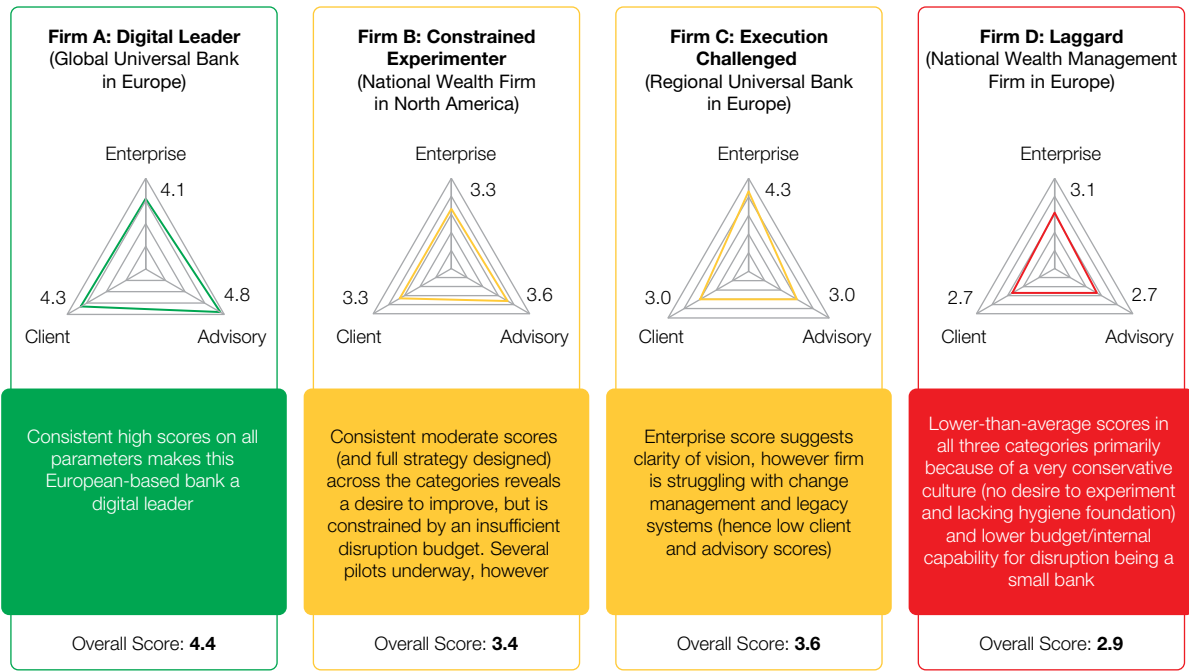
## Digital Leaders Set the Pace

A firm's level of digital maturity is a major determinant in how successful it will be in adjusting to a world that increasingly values digital interactions. Based on our DigiWealth Maturity Assessment Model, we have identified four levels of digital maturity and the characteristics associated with each (see Figure 34). As much as possible, firms must strive to emulate the actions of the leaders, while de-emphasizing the tendencies of the laggards.

- ▶ **Digital Leaders** exhibit a firm commitment to digital transformation by scoring consistently high across all three parameters (enterprise, client, and advisory). One Digital Leader, the private-bank unit of a global universal bank based in Europe, scored a 4.4 out of 5.0 on overall digital maturity with high scores across enterprise maturity (4.1), advisory maturity (4.8), and client maturity (4.3). This firm adheres to a detailed, time-bound action plan that has helped it achieve numerous advances. Among them are the integration of services along with wealth management, including self-service banking; the use of social networks to facilitate advanced digital communication; a video platform for clients to access information about products, services and events; apps to facilitate experience, productivity, and cost management; and an advanced advisory platform utilizing data and analytics. This firm is highly cognizant of the need to innovate and is well along the path of finding the proper balance between personal attention and digital interaction.

- ▶ The **Constrained Experimenter**, exemplified by a national wealth firm in North America, has a fully developed strategy for digital change, but is being held back by an insufficient budget, leading to a more moderate overall digital maturity score of 3.4. The firm has made progress along several fronts, including implementing new customer relationship management software, adding digital signatures to the client on-boarding process, and increasing its use of video to communicate with clients. Plus, it is in the process of piloting several social media tools. But given the high overall cost of compliance, the bank acknowledges difficulties in finding enough resources in the budget to support digital initiatives across the full array of channels.
- ▶ **Execution-Challenged** institutions have a clear vision of the digital future they would like to achieve, but have a variety of forces working against them. One Execution-Challenged bank, a unit within a regional European universal bank, gets high marks for being a visionary, with an enterprise-level score of 4.3. But lower scores related to its digital capabilities for clients and wealth managers resulted in an overall score of 3.6. This firm has managed to digitize some middle- and back-office functions, but is struggling on other fronts. Aging legacy systems combined with wealth manager inertia are putting additional strains on digital advancement, beyond typical budgetary limitations.

Figure 34. Four Levels of Digital Maturity with Score for Select Firms



Note: Scale is 1–5 with 1 being the lowest and 5 being the highest  
 Source: Capgemini Financial Services Analysis, 2016; Executive Interviews, 2016

- Finally, **Laggards** tend to be ruled by their very conservative cultures, resulting in a lack of both vision and execution. One Laggard, a small national wealth firm based in Europe with a score of 2.9, does not have a strategic plan for digital, but rather a series of disjointed business cases. Operating with a short-term view and unwilling to experiment, this firm has created its own barriers to achieving transformation. While it does offer a mobile banking app for reporting information, it has yet to realize much overall advancement in digital.

### In Summary: Digital Maturity Feeds Profitability

Firms able to achieve a high level of digital maturity are well positioned to reap both top-line revenue benefits and bottom-line gains. *Industry executives see enhanced client engagement as getting the biggest boost through digital improvement (5.5 on a scale of 1 through 7), with other benefits such as increased wallet share through better pricing and more tailored solutions also ranking highly, (5.2 and 5.3, respectively).* On the operations side, digital maturity is valued for its ability to generate more simplified processes (4.8), as well as time and cost savings (4.6).

First, however, firms must commit to the task of overhauling their cultures, operations, and day-to-day activities to fully embrace the opportunities presented by digital. A carefully considered, long-term digital strategy is a must. Only then will investments in technology and people fall into place in a way that will prepare firms to thrive in the midst of today's increasingly disruptive environment.



# Appendix

## Market Sizing Methodology

The 2016 *World Wealth Report* covers 71 countries in the market-sizing model, accounting for more than 98% of global gross national income and 99% of world stock market capitalization.

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 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 HNWI 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. Respondent demographics, as broken down by region, age, gender, and wealth band, are captured in Figures M1 and M2.

The Global HNWI 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. Respondent demographics, as broken down by region, age, and gender, are captured in Figure M2.

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.

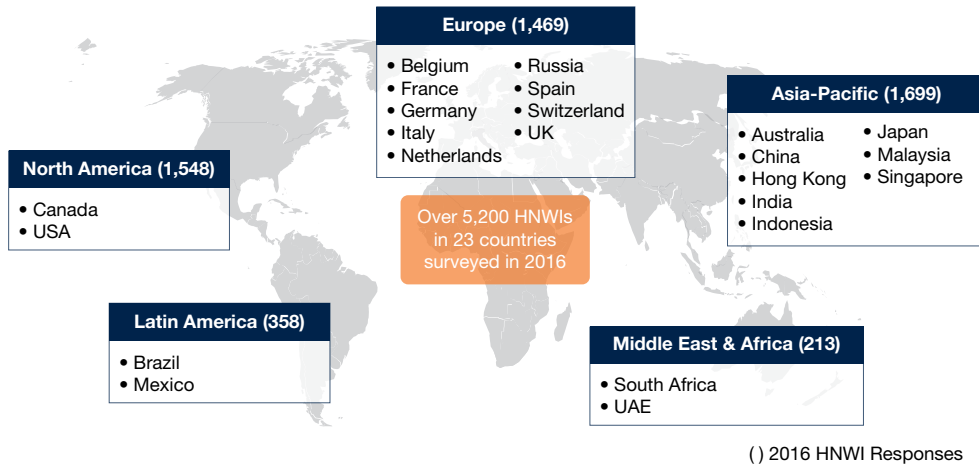
To arrive at the global and regional values, country- and region-level weightings, based on the respective share of the global HNWI population, were used. This was done to ensure that the survey results are representative of the size of the actual market (by HNWI population).

## Capgemini Digiwealth Maturity Assessment Model

The Capgemini DigiWealth Maturity Assessment Model is a comprehensive diagnostic tool that aims to understand the level of digital maturity of a firm or the industry in general. Through this model we measure the digital maturity on various parameters across enterprise, client, and wealth manager tools and capabilities. The detailed information on the model parameters is provided in Figure M3.

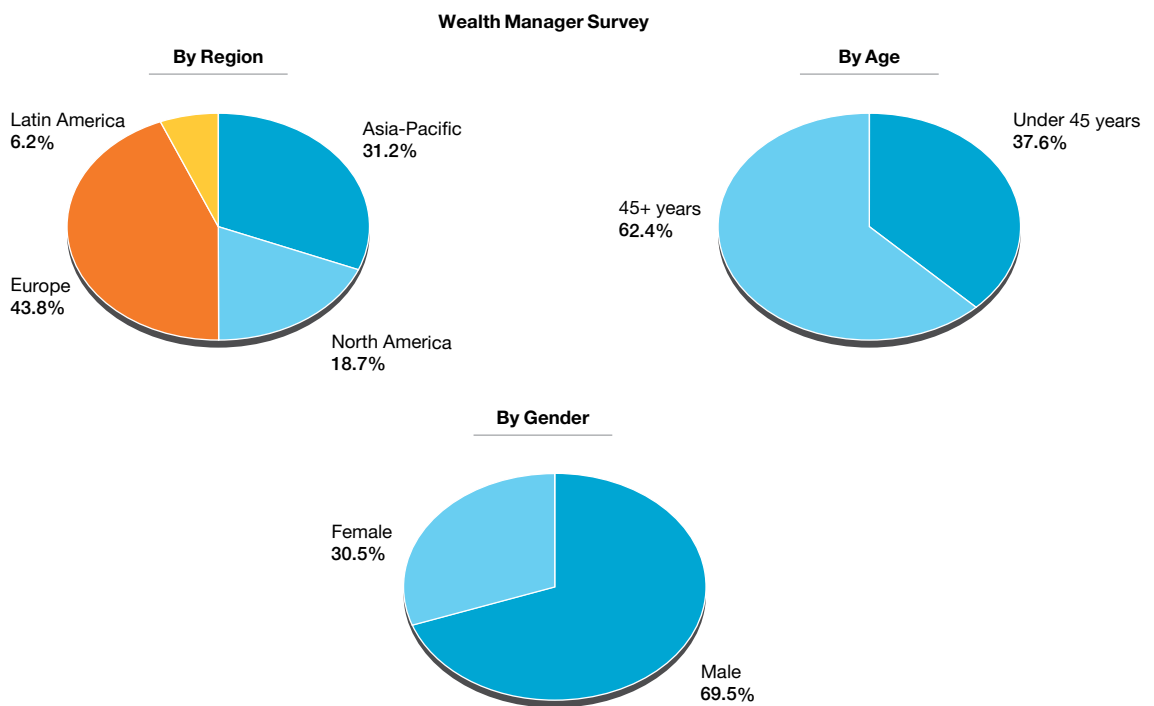
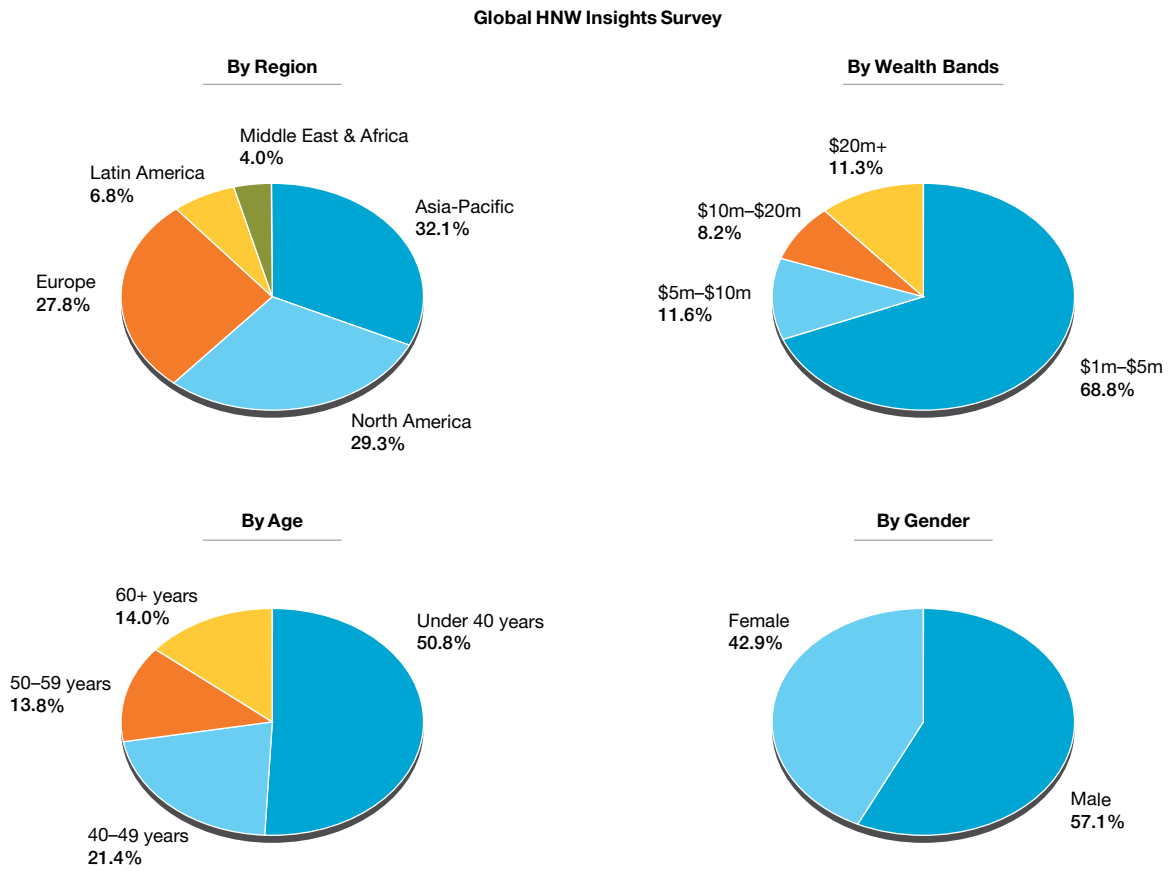
For more interactive and historical data at a regional and country level for Market Sizing and the Global High Net Worth Insights Survey, please visit [www.worldwealthreport.com](http://www.worldwealthreport.com).

Figure M1. Global HNWI Insights Survey, Q1 2016



Source: Global HNWI Insights Survey 2016, Capgemini

Figure M2. Global HNW Insights Survey and Wealth Manager Survey Demographic Breakdown, Q1 2016



Source: Global HNW Insights Survey 2016, Capgemini; Capgemini Wealth Manager Survey, 2016

Figure M3. Detailed Parameters for Capgemini DigiWealth Maturity Assessment Model

Enterprise Digiwealth Maturity			Wealth Manager Digiwealth Maturity			Client Digiwealth Maturity	
Vision	Culture	Capability	Engagement	Productivity	Capability	Vision	Culture
Digital Mindset	Business Case/ KPIs	Organizational Decision-Making	Wealth Manager Engagement	Remote Working	Informing	Availability	Informing
Legacy Technology	Enterprise Collaboration	Proposition/ Service Improvement	Wealth Manager Enthusiasm	Time Savings	Engaging	Convenience	Engaging
Choosing Initiatives	Skills and Expertise	Efficiency Improvement	Openess to New Models	Practice Cost Savings	Transacting	Experience	Transacting
Execution Roadmap	Roles and Responsibilities	Compliance Improvement		Financial Results	Channel Availability	Self-Service	
Communications	Innovation Culture						
Funding	Disruption Mentality						

Source: Capgemini Financial Services Analysis, 2016

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Capgemini's wealth management practice can help firms from strategy through to implementation. Based on our unique insights into the size and potential of target markets across the globe, we help clients implement new client strategies, adapt their practice models, and ensure solutions and costs are appropriate relative to revenue and profitability expectations. We further help firms develop, and implement the operational infrastructures—including operating models, processes, and technologies—required to retain existing clients and acquire new relationships.

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