Asia-Pacific Wealth Report 2015

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Preface

Asia-Pacific, the center of a significant increase in wealth over the last decade, continues to be the driving force in global high net worth individual (HNWI[1]) population and wealth growth. As the region's emerging economies mature, the stage appears to be primed for continued pace-setting wealth growth, creating tremendous opportunity for the region's still-expanding wealth management industry. Against this backdrop, Capgemini and RBC Wealth Management are pleased to present the *Asia-Pacific Wealth Report (APWR) 2015*, an in-depth look at the region's HNWIs, including the trajectory of their population and wealth, their behaviors and preferences, and their needs and concerns.

Along with growth, wealth managers and firms operating in the region can expect numerous challenges ahead. For one, the industry will face heightened demand for additional guidance on achieving social impact goals. More than in any other region, HNWIs in Asia-Pacific consider their wealth managers to be their primary source of insight on social impact, increasing the need for the industry to provide meaningful advice on this important topic. Our report offers specific recommendations, based on cultural and demographic trends, aimed at aiding wealth managers in their efforts to engage HNWIs on social impact.

The report also reveals the preference among Asia-Pacific HNWIs for cash and credit in their portfolios. Unlike the rest of the world[2], cash holdings in Asia-Pacific slightly outweigh equity ownership. Further, by a large margin, HNWIs in Asia-Pacific are more likely to consider a firm's ability to offer credit as a prerequisite for initiating a relationship. This characteristic underscores the need for firms to have healthy balance sheets and appropriate risk management tools to support the potentially sophisticated financing needs of their HNW clients.

In the final section of our report, we identify the distinct needs that set Asia-Pacific HNWIs apart from those in the rest of the world, as well as the difference in understanding of those needs by individual wealth managers. Compared to other HNWIs, those in Asia-Pacific have a higher proportion of their wealth coming from business ownership, and exhibit a strong preference for professional advice and digital interactions, in addition to credit availability to meet these needs. We describe the actions firms can take in three specific areas—enabling wealth managers, adding digital capabilities, and offering robust credit solutions—to better address these unique characteristics of Asia-Pacific HNWIs.

Whether Asia-Pacific represents familiar ground or new territory, we hope you will find our latest report useful in understanding the landscape of this increasingly important region.

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

2 Rest of the world refers to all countries covered in global market sizing (for the first section of the report) or the Global HNW Insights Survey 2015 (for all other sections of the report) except the markets in Asia-Pacific

Executive Summary

ASIA-PACIFIC DOMINATES GLOBAL HNWI GROWTH

- Asia-Pacific led all regions in growth and overtook North America as the region with the largest HNWI population.
- A handful of emerging markets, including India, China, Indonesia, and Thailand, were among the fastest-growing markets in the world.
- Asia-Pacific has been driving global HNWI wealth over the last eight years. China and India have been, and will continue to be, the stand-out stories in Asia-Pacific over the medium term.
- Emerging Asia is expected to lead Asia-Pacific and global HNWI wealth growth through 2017.

CASH, CREDIT PLAY PROMINENT ROLE IN ASIA-PACIFIC HNWI PORTFOLIOS

- Cash remains the largest asset class in Asia-Pacific (excl. Japan), setting the region apart from the rest of the world where equities are dominant.
- HNWIs in Asia-Pacific (excl. Japan) continued to allocate more internationally than most of their counterparts in the rest of the world, despite a decline in international investment from a year earlier.
- Credit is highly important to Asia-Pacific (excl. Japan) HNWIs, and as a result, they place high expectations on their wealth management firms to make credit available.

ASIA-PACIFIC HNWIs WANT MORE ADVICE ON SOCIAL IMPACT

- Asia-Pacific (excl. Japan) HNWIs are seeking guidance on how to achieve their social impact goals.
- Of all the potential sources of social impact advice, wealth managers are the most important for Asia-Pacific (excl. Japan) HNWIs, and demand for their support is expected to continue.
- Opportunities exist for firms and wealth managers to take advantage of certain cultural and demographic trends that will help strengthen their efforts to support social impact infrastructure and ensure they effectively engage HNWIs.

COMPLEXITY OF ASIA-PACIFIC HNWI WEALTH DEMANDS STRATEGIC ACTION

- Asia-Pacific HNWIs have distinct needs that set them apart from HNWIs in the rest of the world, yet wealth managers are not fully attuned to the importance and understanding of these needs.
- Further growth in Asia-Pacific emerging-market HNWI wealth and an expected wealth transfer to the next generation carries the risk of widening the disconnect between HNWIs and wealth managers.
- Firms in Asia-Pacific must be prepared to take action in three specific areas—wealth manager enablement, digital capabilities, and lending solutions—to adequately address Asia-Pacific HNWI needs.

Asia-Pacific Dominates Global HNWI Growth

- **Asia-Pacific led all regions in HNWI growth and overtook North America as the region with the largest HNWI population in 2014.** Asia-Pacific registered an expansion of 8.5% for HNWI population and 11.4% for wealth. The brisk pace resulted in a high of 4.7 million HNWIs with a record US$15.8 trillion of assets.
- **A handful of emerging markets, including India, China, Indonesia, and Thailand, were among the fastest-growing markets in the world.** Despite some fears to the contrary, these countries avoided major economic concerns, supporting HNWI expansion. Individuals in higher wealth bands also aided overall HNWI growth in this region, as they registered much stronger growth compared to their global counterparts.
- **Asia-Pacific has been instrumental in driving global HNWI wealth over the last eight years, almost doubling in size with an 88% increase, the largest of all the regions.** Since 2006, Asia-Pacific has accounted for around 40% of all HNWI population and wealth created globally.
- **China and India have been, and will continue to be, the stand-out stories in Asia-Pacific over the medium term (five to seven years).** These two markets represent nearly 10% of global HNWI wealth and account for 17% of the global increase in new wealth since 2006, adding US$3.2 trillion during that time.
- **Emerging Asia is expected to lead Asia-Pacific and global HNWI wealth growth through 2017.** Asia-Pacific, having already surpassed North America in HNWI population, is projected to grow HNWI wealth by 10.3% annually through 2017. At that rate, the region will overtake North America in HNWI wealth by 2015, driven mainly by accelerated Emerging Asia expansion of 12.5%.

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ASIA-PACIFIC OVERTAKES NORTH AMERICA IN HNWI POPULATION

Asia-Pacific, long an engine of global HNWI growth, continued to be the dominant force in 2014 by boosting both its HNWI population and wealth more than any other region.

HNWI population grew by 8.5% to reach 4.7 million, a full million more than just two years prior, and enough to overtake North America as the region with the largest HNWI population for the second time in four years (see Figure 1).

Investable wealth grew by 11.4%, slightly faster than the region's five-year compound annual wealth growth rate (see Figure 2). Excluding Japan, Asia-Pacific's growth was even greater at 12.3% for the HNWI population and 14.5% for overall wealth.

Asia-Pacific's growth was all the more impressive given political upheaval and a slowing of the region's emerging economies. The impact of reduced investment flows into emerging markets due to the rising U.S. dollar and the expected Federal Reserve rate hike proved less severe than anticipated, while other events had clear positive effects. In India, for example, falling oil prices and constructive 2014 mid-year election results had a positive effect on the economy and equity markets, boosting HNWI gains. In addition, political unrest in Thailand and friction between China and Japan cooled, setting the stage for positive market returns.

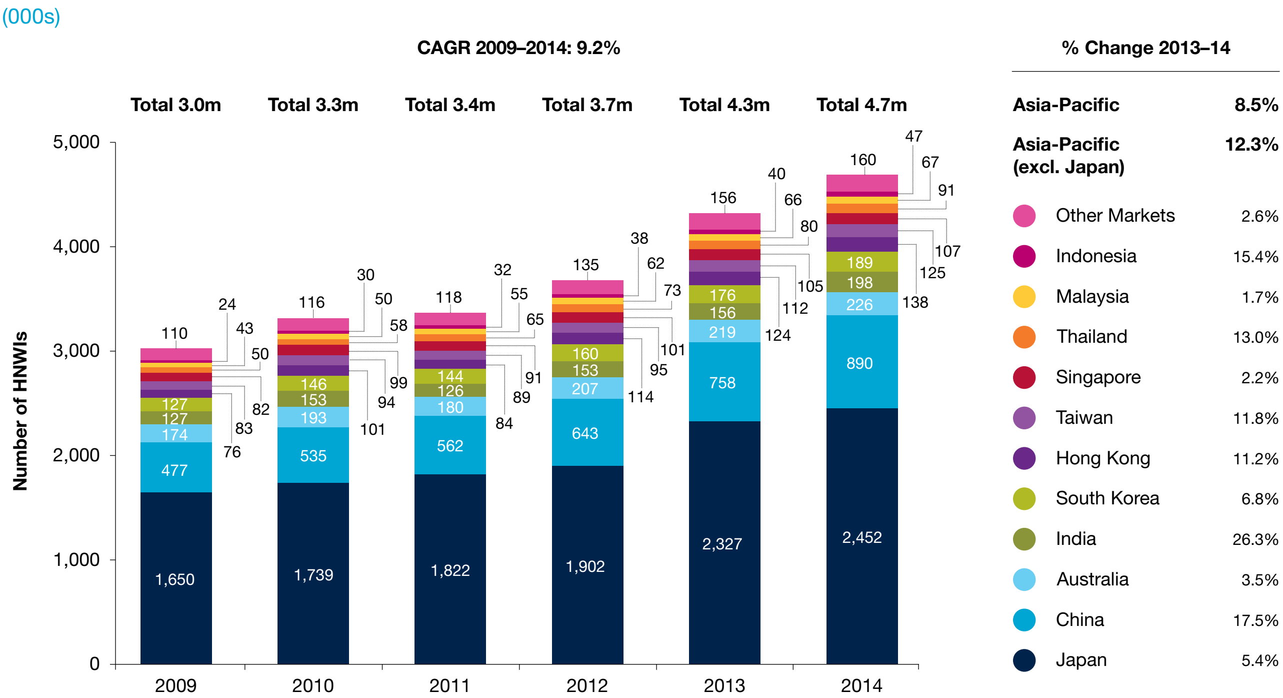
A handful of emerging markets were particularly central in spurring Asia-Pacific's impressive growth.

Following marginal HNWI growth in 2013, India recorded the largest gains—for the region and globally—in HNWI population (26.3%) and wealth (28.2%).

The election of a popular reform-minded prime minister helped to boost investor confidence and contributed to strong performance in the stock market, with a 21.9% increase in the MSCI Index (see Figure 7). Lower oil prices helped reduce the country's budget deficit and retail inflation fell considerably. All of these events helped India move up to third place for HNWI wealth across Asia-Pacific, displacing Australia, which suffered from a significant 7.6% decline in equity markets.

The emerging markets of China, Indonesia, and Thailand also turned in strong double-digit increases in HNWI population and wealth. China benefited from GDP growth

Figure 1. Asia-Pacific HNWI Population, 2009–2014 (by Market)



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

Source: Capgemini Financial Services Analysis, 2015

of 7.4% (see Figure 7) and increased exports. Though the Chinese equity markets performed moderately (up 4.7%), Chinese HNWIs were aided by their exposure to other regions and asset classes, such as Hong Kong real estate, which expanded by 8.0%. In Indonesia, outstanding equity market performance of 24.1% combined with strong GDP growth of 5.0% helped to propel HNWI gains. Additionally, Thailand experienced a raft of good news that helped it overcome low consumer confidence in the first half of the year caused by a military takeover of the government. Thanks to dropping oil prices, inflation in Thailand fell sharply through early 2015. Meanwhile, reduced imports improved overall trade balance. During the second half of 2014, Thailand's equity markets had rebounded enough to post an overall gain of 13.3%.

Japan's high-flying HNWI growth of 2013 did not materialize again in 2014. A GDP decline of 0.1% and a 5.7% decline in equity markets put a damper on Japanese HNWI population growth, which decelerated from 22.3% in 2013 to a more modest 5.4%. With important structural reforms now in place, growth is expected to gain momentum.

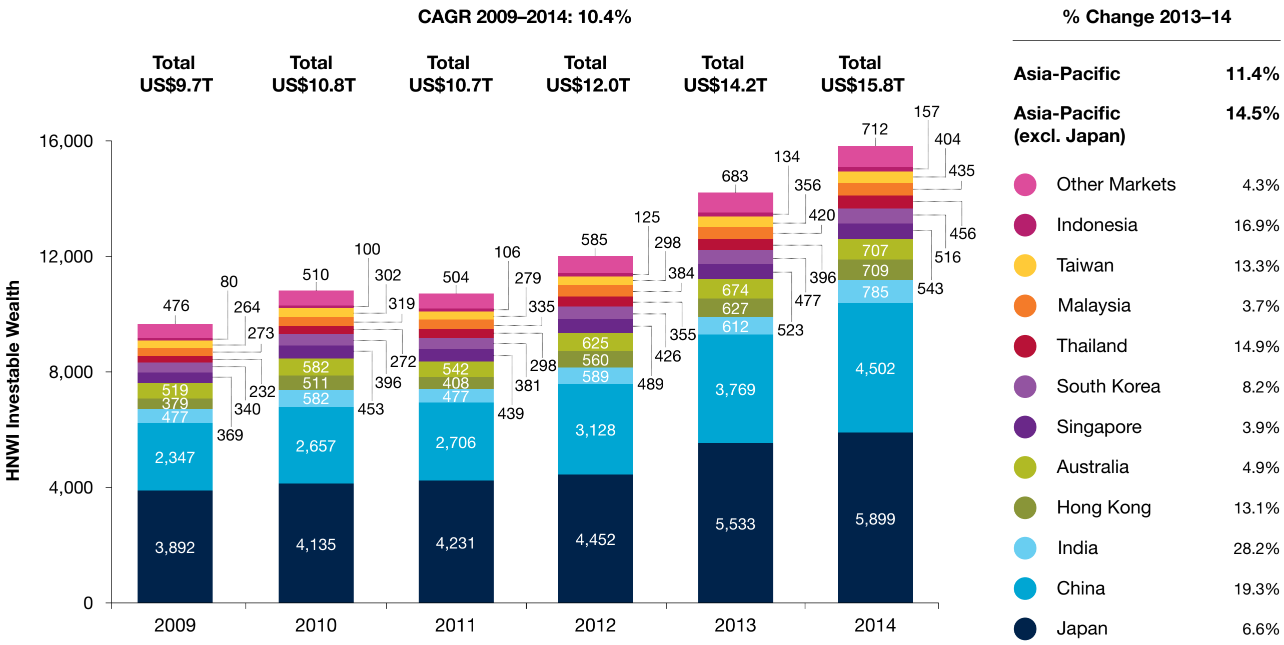
ASIA-PACIFIC ULTRA-HNWIs RECORDED HIGHEST GROWTH OF ALL

Ultra-HNWIs—those with more than US$30 million of investable assets—were the main drivers of HNWI wealth growth globally in 2014. Within that top-tier segment, the ultra-HNWIs of Asia-Pacific were the biggest drivers of HNWI wealth. Asia-Pacific ultra-HNWIs, accounting for 0.7% of the region's HNWIs, grew their population by 14.3% and their wealth by 16.5%, compared to only 6.9% and 5.1%, respectively, for ultra-HNWIs in the rest of the world (see Figure 3). The mid-tier millionaires of the region (with between US$5 million and US$30 million of assets) also had a substantial impact on global HNWI wealth growth, expanding their wealth and population in the range of 11%, compared to 6% for their counterparts in the rest of the world.

Only the segment known as the millionaires next door (with between US$1 million and US$5 million of assets) experienced slower growth in 2014 compared to their annualized growth rate from 2009–2014. This segment, making up nearly half of the region's HNWI population, also had the lowest population and wealth growth rates (8.3% and 8.6%, respectively) of all segments.

Figure 2. Asia-Pacific HNWI Wealth, 2009–2014 (by Market)

(US$ Billion)



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

Source: Capgemini Financial Services Analysis, 2015

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Figure 3. Composition of Asia-Pacific HNWI Population (by Wealth Bands), 2014

	Number of Individuals 2014	HNWI Population CAGR 2009–2014	HNWI Population Growth 2013–2014	HNWI Wealth CAGR 2009–2014	HNWI Wealth Growth 2013–2014	% of HNWI Wealth 2014
+ US$30m Ultra-HNWI	39.9k (0.7% of total)	11.6%	14.3% (6.9%)	12.7% (5.9%)	16.5% (5.1%)	27.2% (37.6%)
US$5m–US$30m Mid-Tier Millionaire	392.9k (8.4% of total)	10.3%	11.3% (6.2%)	10.4%	11.7% (6.1%)	23.9% (21.8%)
US$1m–US$5m Millionaire Next Door	4,262.5k (90.9% of total)	9.1%	8.3%	9.2%	8.6%	48.8% (40.7%)

Growth/CAGR figures with significant difference (more than five percentage points) from rest of the world average

Rest of the world average

Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2015

INDIA, CHINA SET PACE FOR STRONG ASIA-PACIFIC PERFORMANCE

Since 2006, Asia-Pacific has dominated HNWI growth, expanding its annualized HNWI population by 7.8% and wealth by 8.2%, above global rates in the 5% range. As a result, Asia-Pacific increased its HNWI population share to 32.0% in 2014 from 27.1% in 2006 and its HNWI wealth share to 28.1% in 2014 from 22.6% in 2006 (see Figure 4). In contrast, the other two mature regions, North America and Europe, lost ground in terms of both HNWI population and wealth during that time.

Since 2006, Asia-Pacific HNWI wealth has increased by 88%, amounting to 40% of the US$19.2 trillion of HNWI wealth created globally through 2014. HNWIs in North America are responsible for 26.0% of the growth in global HNWI wealth over the last eight years, while HNWIs in Europe contributed 14.8%.

India and China, in particular, have propelled Asia-Pacific HNWI growth in recent years and are expected to continue to act as drivers both regionally and globally in the years ahead. These two markets represent nearly 10% of global HNWI wealth (see Figure 5), and account for 17% of the global increase in new wealth since 2006, adding US$3.2 trillion during that time. Together, the two countries witnessed annualized HNWI wealth growth of 12.4%, outpacing the 6.5% recorded by other Asia-Pacific countries, and the 4.8% registered by other markets across the globe.

Of the US$7.4 trillion of HNWI wealth added in Asia-Pacific since 2006, India and China accounted for an impressive 43%.

Continued growth is expected to result in India and China holding over 10% of all global HNWI wealth by 2017 (10.7%).

Their share within Asia-Pacific is also expected to rise to 35.5% by 2017, aided by the ongoing rise of the middle class and expanding domestic consumption. These factors should help spur robust economic and GDP growth, providing a solid platform for HNWI growth.

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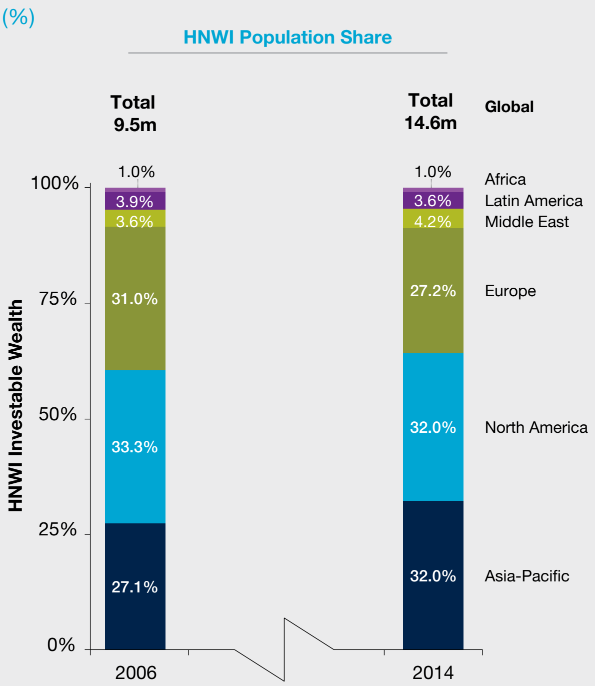
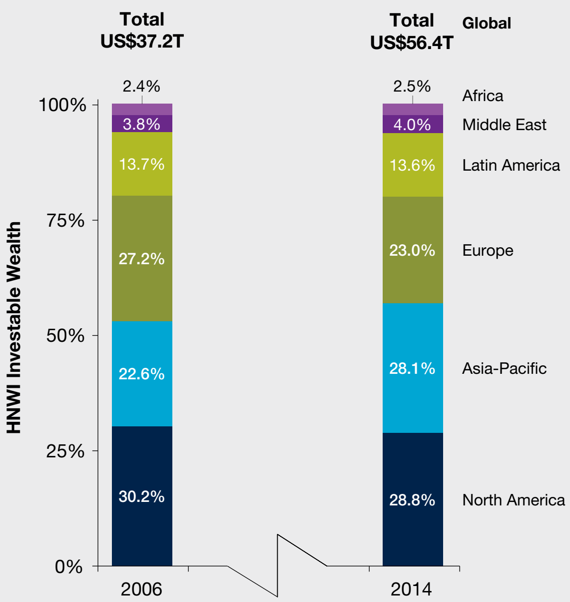
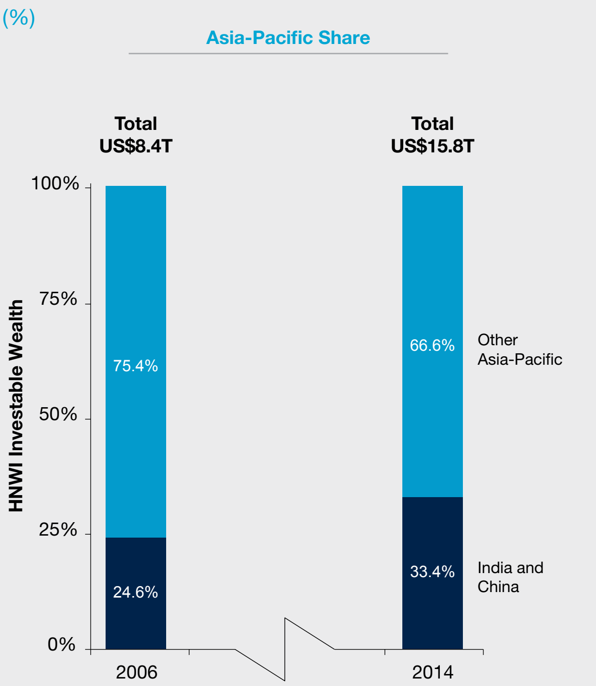
Figure 4. Total HNWI Population and Wealth Share, 2006 and 2014 (by Region)

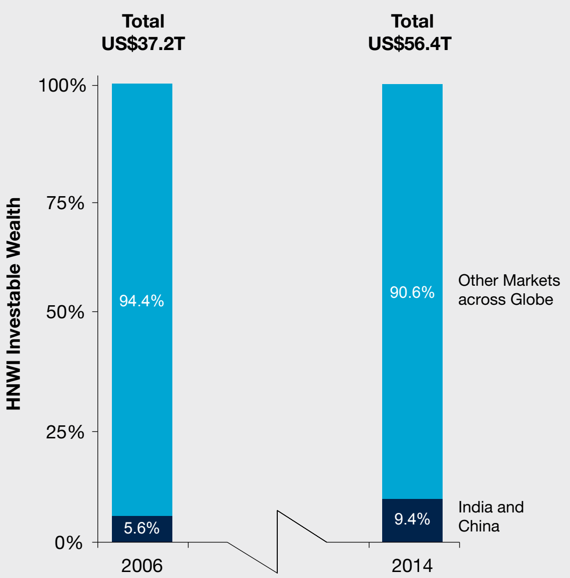




Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2015

Figure 5. India and China HNWI Investable Wealth Share, 2006 and 2014





Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2015

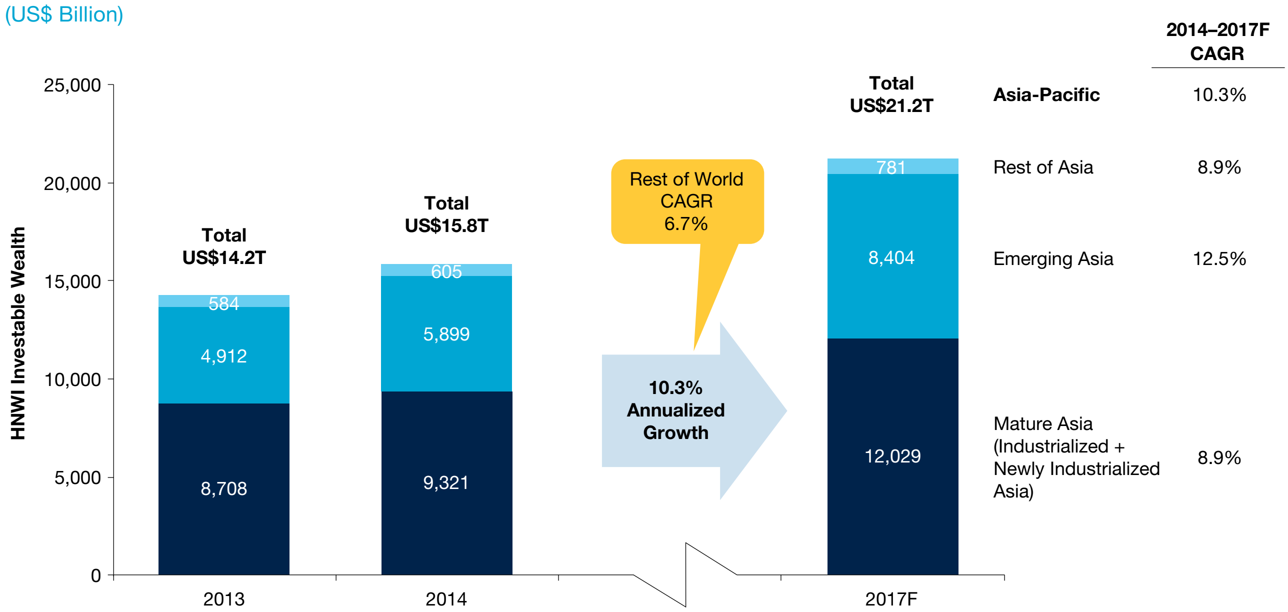
EMERGING ASIA TO LEAD ASIA-PACIFIC AND GLOBAL HNWI GROWTH THROUGH 2017

HNWI wealth is expected to expand more rapidly in Asia-Pacific than any other region of the world through 2017. Annual growth of 10.3%, compared to 6.7% in the rest of the world, will propel Asia-Pacific HNWI wealth to US$21.2 trillion by 2017 (see Figure 6). Asia-Pacific already surpassed North America in HNWI population in 2014 and is on track to surpass it in HNWI wealth this year.

Much of the growth is expected to come from Emerging Asia, consisting of China, India, Indonesia, and Thailand. Emerging Asia's expected annualized growth of 12.5% through 2017 is higher than Asia-Pacific's 10.3% and nearly double the rest of the world's 6.7%.

Mature Asia, which includes Japan, Australia, New Zealand, Singapore, Hong Kong, Taiwan, Malaysia, and South Korea, is also expected to grow at a rate of 8.9% through 2017, reaching US$12.0 trillion.

Figure 6. Asia-Pacific HNWI Wealth Forecast, 2013–2017F



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

Source: Capgemini Financial Services Analysis, 2015

Figure 7. Real GDP, Equity, and Real Estate Growth, Select Asia-Pacific Markets, 2013–16F

India

	2013	'14	'15F	'16F
GDP	6.9	7.3	7.8	8.1
Equity	(6.0)	21.9	-	-
Real Estate	(9.1)	(9.2)	-	-

World

	2013	'14	'15F	'16F
GDP	2.3	2.5	2.7	3.2
Equity	24.1	2.9	-	-

Asia-Pacific (excl. Japan)

	2013	'14	'15F	'16F
GDP	5.7	5.8	6.1	6.1
Equity	0.4	(0.2)	-	-

China

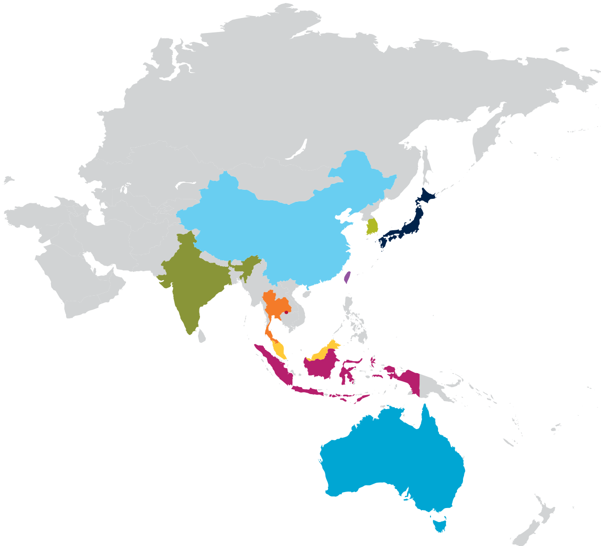
	2013	'14	'15F	'16F
GDP	7.7	7.4	6.9	6.8
Equity	0.4	4.7	-	-
Real Estate	10.1	(2.9)	-	-

Thailand

	2013	'14	'15F	'16F
GDP	2.9	0.7	3.3	3.9
Equity	(16.9)	13.3	-	-
Real Estate	3.9	3.7	-	-

Japan

	2013	'14	'15F	'16F
GDP	1.6	(0.1)	1.3	1.6
Equity	24.9	(5.7)	-	-
Real Estate	3.9	8.3	-	-



Malaysia

	2013	'14	'15F	'16F
GDP	4.7	6.0	4.8	5.1
Equity	4.2	(13.4)	-	-
Real Estate	4.3	2.0	-	-

South Korea

	2013	'14	'15F	'16F
GDP	2.9	3.3	3.0	3.4
Equity	3.1	(12.6)	-	-
Real Estate	(0.8)	0.9	-	-

Singapore

	2013	'14	'15F	'16F
GDP	4.4	2.9	2.8	3.3
Equity	(1.8)	(0.5)	-	-
Real Estate	(0.9)	(3.8)	-	-

Hong Kong

	2013	'14	'15F	'16F
GDP	3.1	2.5	2.4	2.7
Equity	8.1	2.0	-	-
Real Estate	3.3	8.0	-	-

Indonesia

	2013	'14	'15F	'16F
GDP	5.6	5.0	5.0	5.6
Equity	(25.0)	24.1	-	-
Real Estate	2.9	0.4	-	-

Australia

	2013	'14	'15F	'16F
GDP	2.1	2.7	2.6	3.1
Equity	(0.3)	(7.6)	-	-
Real Estate	6.5	5.3	-	-

Taiwan

	2013	'14	'15F	'16F
GDP	2.2	3.7	3.5	3.6
Equity	6.6	6.9	-	-
Real Estate	14.5	1.3	-	-

Note: 2013 and 2014 GDP data from EIU; 2015 and 2016 GDP data from Consensus Forecasts; 2014 Real Estate Growth is based on Global Property Guide House Price Index, Mar 2015

Source: Capgemini Financial Services Analysis, 2015; Economic Intelligence Unit, Jun 2015; MSCI Barra Indices; Global Property Guide House Price Index, Mar 2015; Consensus Forecasts, Jun 2015

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Cash, Credit Play Prominent Role in Asia-Pacific HNWI Portfolios

- **Cash remains the largest asset class in Asia-Pacific (excl. Japan), setting the region apart from the rest of the world where equities are dominant.** The preference for cash remained high in Asia-Pacific, despite a significant move away from cash toward equities by Japanese HNWIs, who hold the highest percentage of assets in cash.
- **HNWIs in Asia-Pacific (excl. Japan) continued to allocate high levels of their assets internationally than most of their counterparts in the rest of the world,** despite a decline in international investment from a year earlier. Hong Kong led the way, with an international allocation of 56%, which was the second-highest level globally. HNWIs in Japan continued to have lower levels of international investment despite significant increase in their international allocations.
- **Availability of credit is highly important to Asia-Pacific (excl. Japan) HNWIs.** As a result, they place high expectations on their wealth management firms to make credit available to leverage both investments and business initiatives.

CASH PREVAILS OVER EQUITIES IN ASIA-PACIFIC

The Global HNW Insights Survey 2015 queried more than 5,100 HNWIs, including more than 1,600 from Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, and Singapore, to better understand the evolving nature of HNWI allocation throughout the region (see Figure 8).

When it comes to allocating assets, Asia-Pacific HNWIs stand out from their counterparts in the rest of the world in one important respect: they favor cash over equities.

Though Asia-Pacific (excl. Japan) HNWIs' 23.1% allocation to cash in 2015 was only slightly higher than the 22.8% for equities, it contrasted sharply with the cash-versus-equity equation evident in the rest of the world (see Figure 9). Cash has become the dominant asset for Asia-Pacific (excl. Japan) HNWIs in 2015, only by a thin margin over equities, knocking real estate off the top spot. However, Asia-Pacific (excl. Japan) HNWI cash holdings are still on par with those of HNWIs in the rest of the world, who favored equities (27.9%) over cash (23.3%).

HNWIs across the world are consistent in their desire to keep cash on hand to meet the demands of their lifestyles, as well as have financial security in case of market volatility. However, HNWIs in Asia-Pacific (excl. Japan) are more likely to also use cash to invest in prospective unique financial opportunities that may arise unexpectedly (by a margin of 5.1 percentage points) and real estate (by 2.2 points).

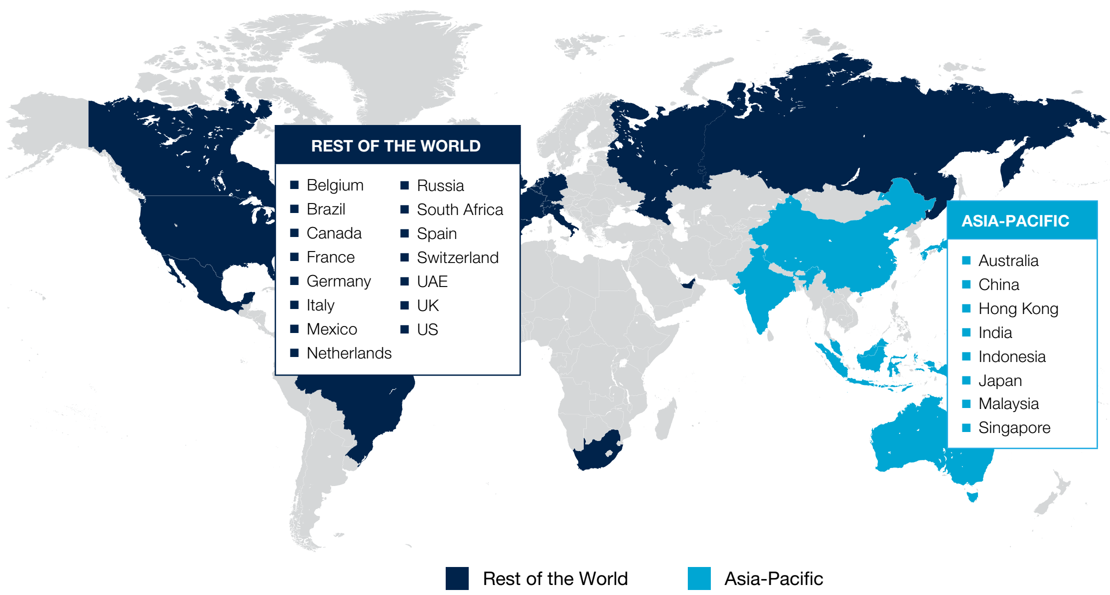
The disparity in the share of equities held by Asia-Pacific compared to the rest of the world, however, showed signs of becoming less pronounced in 2015.

Notably, equity holdings for Japanese HNWIs increased by 5.6 points to 26.3%, making it the market with the second-highest allocation to equities within Asia-Pacific.

The rise in Japanese equity holdings was accompanied by a decline in cash, though Japanese cash holdings, at 37.1%, still remains the highest in the world by a large margin. The current Japanese HNWI cash allocation represents a 6.7 percentage point decrease over the past year and a 12.3-point decline since the first quarter of 2013. Singaporean HNWIs also had high levels of cash, at 27.1%, helping to drive the overall level of cash in Asia-Pacific (excl. Japan).

Increased receptivity toward equity investments was not limited to Japan. Equity allocations increased in every major market of Asia-Pacific (except Singapore) in 2015. As equity allocations throughout the region rose, those related

Figure 8. Geographic Scope of Global HNW Insights Survey, Q1 2015



Note: Country boundaries on diagram are approximate and representative only

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

to real estate declined. Over the past two years, real estate investment across Asia-Pacific has decreased by 3.2 points to 21.4%, dropping from the most-held to the third-most-held asset.

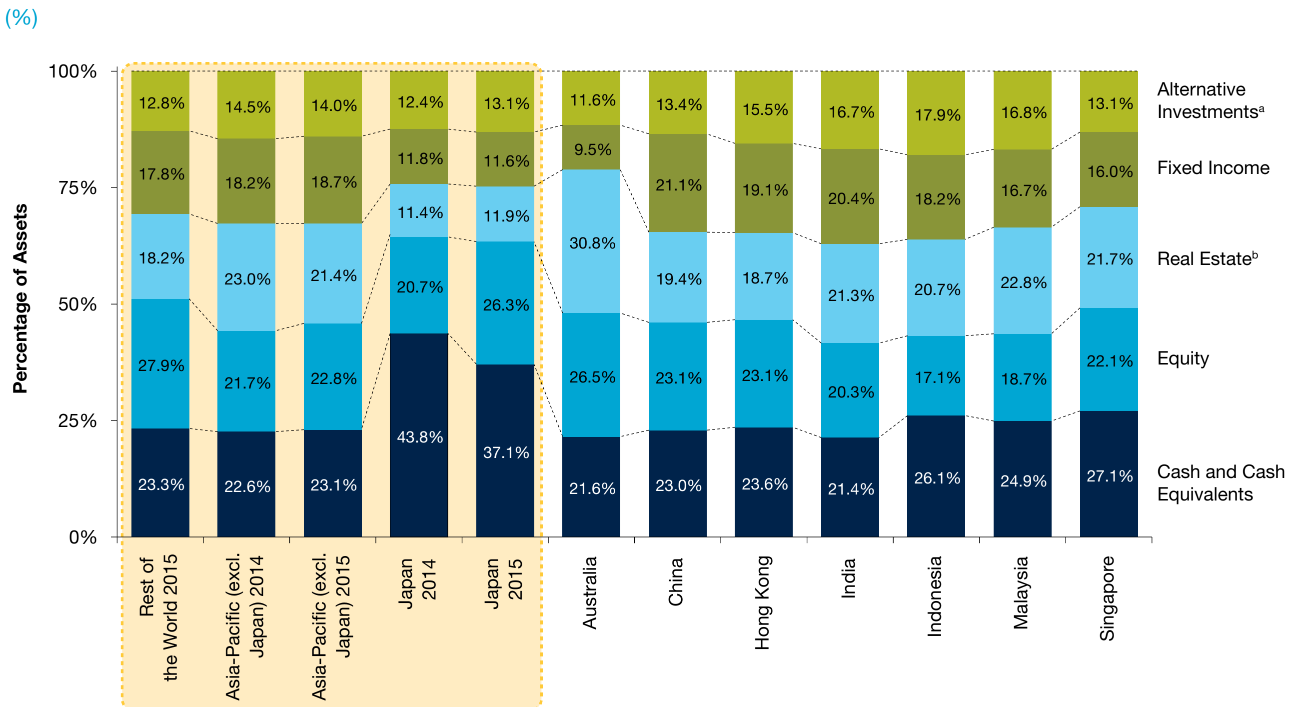
Real estate holdings declined the most in India, by 4.9 percentage points to 21.3% and Hong Kong (2.7 points to 18.7%), followed by Australia (2.3 points), though Australian HNWIs continued to have the highest allocation to real estate (30.8%). After Japan, Australia and India also had the distinction of increasing their allocations to equities the most—by 4.2 percentage points for Australia and 2.3 points for India. Hong Kong HNWIs increased their allocations to fixed income and alternative assets.

Demographically, younger HNWIs and those with greater wealth were more likely to invest in equities.

HNWIs under 40 and between the ages of 40 and 49 boosted their allocation to equities to 22.2% and 23.6%, respectively. HNWIs over the age of 60, meanwhile, significantly cut back their allocation to equities, by 5.5 points to 17.2%. By wealth band, HNWIs with between US$10 million and US$20 million increased their allocation to equities the most (by 2.1 percentage points to 21.1%), followed by those with more than US$20 million (by 1.8 points to 24.1%).

Younger HNWIs (under 40) accommodated their expansion into equities by reducing their real estate exposure, while wealthier (HNWIs who have more than US$10 million) ones cut back on a combination of fixed income and cash. Strikingly, the wealthiest HNWIs (with more than US$20 million of assets) paired their expansion into equities with a boost in real estate investment of 3.9 points to 25.2%. Female HNWIs held a quarter of their wealth in cash and cash equivalents, higher than the 21.4% of cash held by males, who had a slightly higher exposure to equities (23.2%), compared to female HNWIs (22.3%).

Figure 9. Breakdown of HNWI Financial Assets, Q1 2015



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

b. Excludes primary residence

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 and RBC Wealth Management Global HNW Insights Survey 2014, 2015

INTERNATIONAL INVESTMENTS DECLINED, BUT STILL HIGH FOR ASIA-PACIFIC HNWIs

Led by Hong Kong, Asia-Pacific (excl. Japan) HNWIs are among the most likely to invest in opportunities outside their home markets.

At 37.8%, the level of international allocation by Asia-Pacific (excl. Japan) HNWIs is comparable to that of the Middle East (42.9%) and Europe (38.1%), and significantly higher than North America, which is at 26.6%. Asia-Pacific remained even with the pack and above the rest of the world level of 36.2%, despite a decline in international allocations from 43.4% in 2014 (see Figure 10). In contrast, HNWIs in Japan increased their international allocations significantly (6.2 percentage points) but continued to have lower levels of international investment (31.8%).

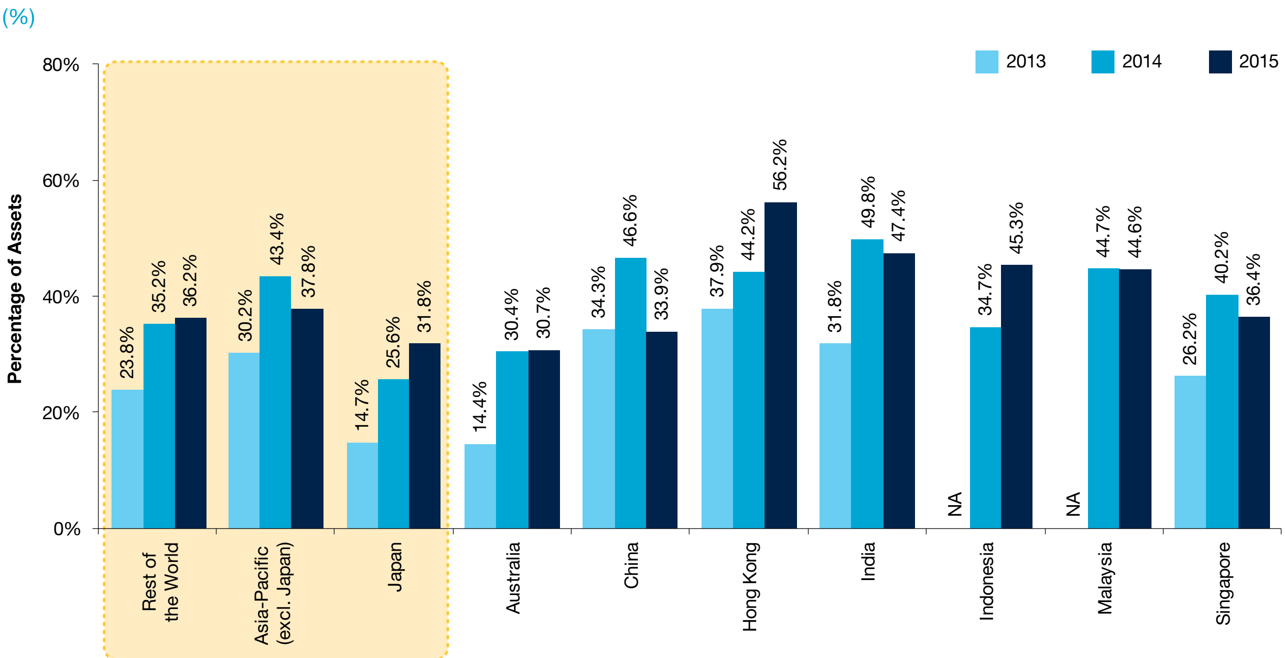
Hong Kong was a driving force, boosting its level of investment in outside markets by 12.0 percentage points in 2015 to reach 56.2%, the second-highest level of international allocation across the globe, behind United Arab Emirates (63.2%). HNWIs in Hong Kong and other mature markets of the region are likely seeking to hedge against local economic headwinds, while also taking advantage of growth opportunities in other regions.

Younger HNWIs (under 40) and those with more wealth (US$20 million of assets or more) were more likely to allocate internationally. Of HNWIs under 40, 41.8% invested internationally, compared to 37.4% of those aged 60 years and above. Similarly, 47.2% of HNWIs with more than US$20 million of assets sought investments abroad, compared to 34.7% of those with US$1 million to US$5 million. Female HNWIs in Asia-Pacific (excl. Japan) had a slightly higher allocation to international investments (38.5%), compared to males (37.1%).

DEMAND FOR CREDIT RUNS HIGH

In comparison with their global peers, Asia-Pacific (excl. Japan) HNWIs like to hold credit in their portfolios, making the ability to offer financing an important factor for firms operating in the region. More than one-quarter (25.5%) of Asia-Pacific (excl. Japan) HNWI assets are financed through credit, versus only 18.2% for HNWIs in the rest of the world (see Figure 11).

Figure 10. HNWI International Holdings (Outside Home Region), Q1 2015



Note: Question asked: Can you please indicate the approximate geographical allocation of your investments CURRENTLY?; Japan has been considered as domestic market for Asia-Pacific (excl. Japan)

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2013, 2014, 2015

The use of credit is particularly high in India (33.6%), Indonesia (31.1%), and Malaysia (30.8%).

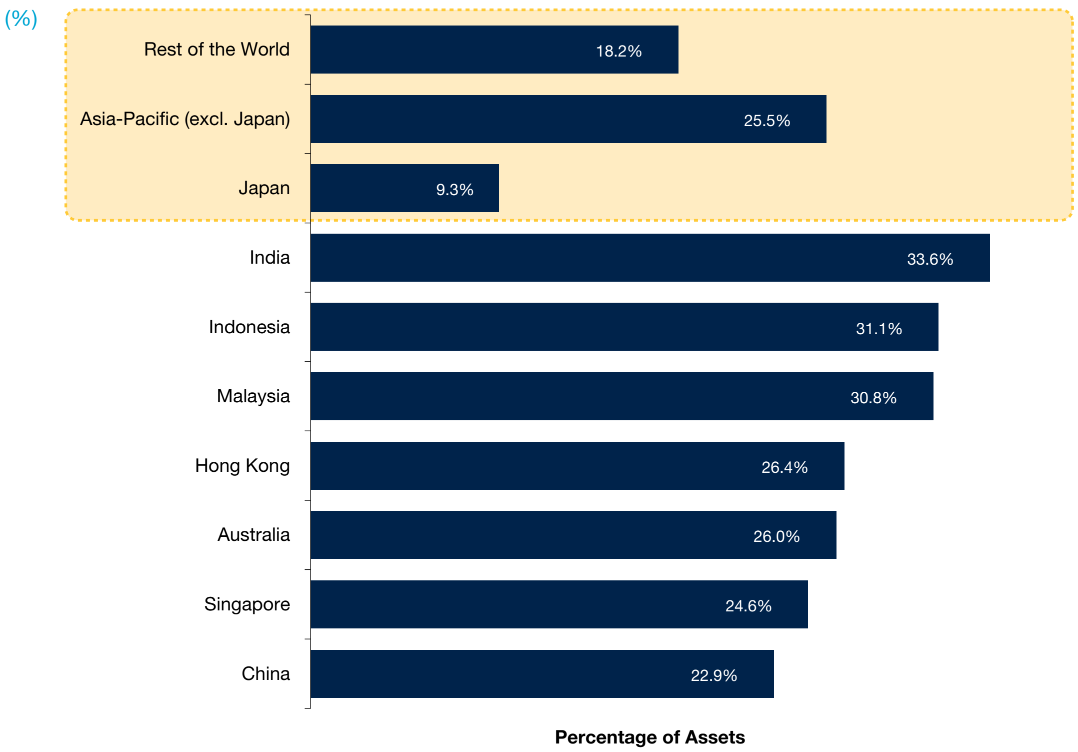
At the same time, the use of credit in Japan is the lowest across the globe (9.3%).

By a large margin, HNWIs in the region place high importance on a firm's ability to provide credit when choosing to initiate a wealth management relationship. Asia-Pacific (excl. Japan) HNWIs give significantly higher importance (58.7%) to credit provisioning as a factor in choosing a wealth management firm than those in the rest of the world (34.9%). HNWIs in China (70.2%) and India (60.5%) are the most likely to place high priority on a firm's credit services, while those in Hong Kong and Japan give it the lowest priority at 27.1% and 27.6%, respectively (see Figure 12). Younger HNWIs in the region also regard credit highly (61.5% for those under 40 versus 44.8% for those over 60), as do females (61.5% versus 56.3% for males).

The ability to leverage credit for investment purposes is most important to Asia-Pacific (excl. Japan) HNWIs, and at 57.1%, is the highest percentage across the globe (versus 37.8% for the rest of the world).

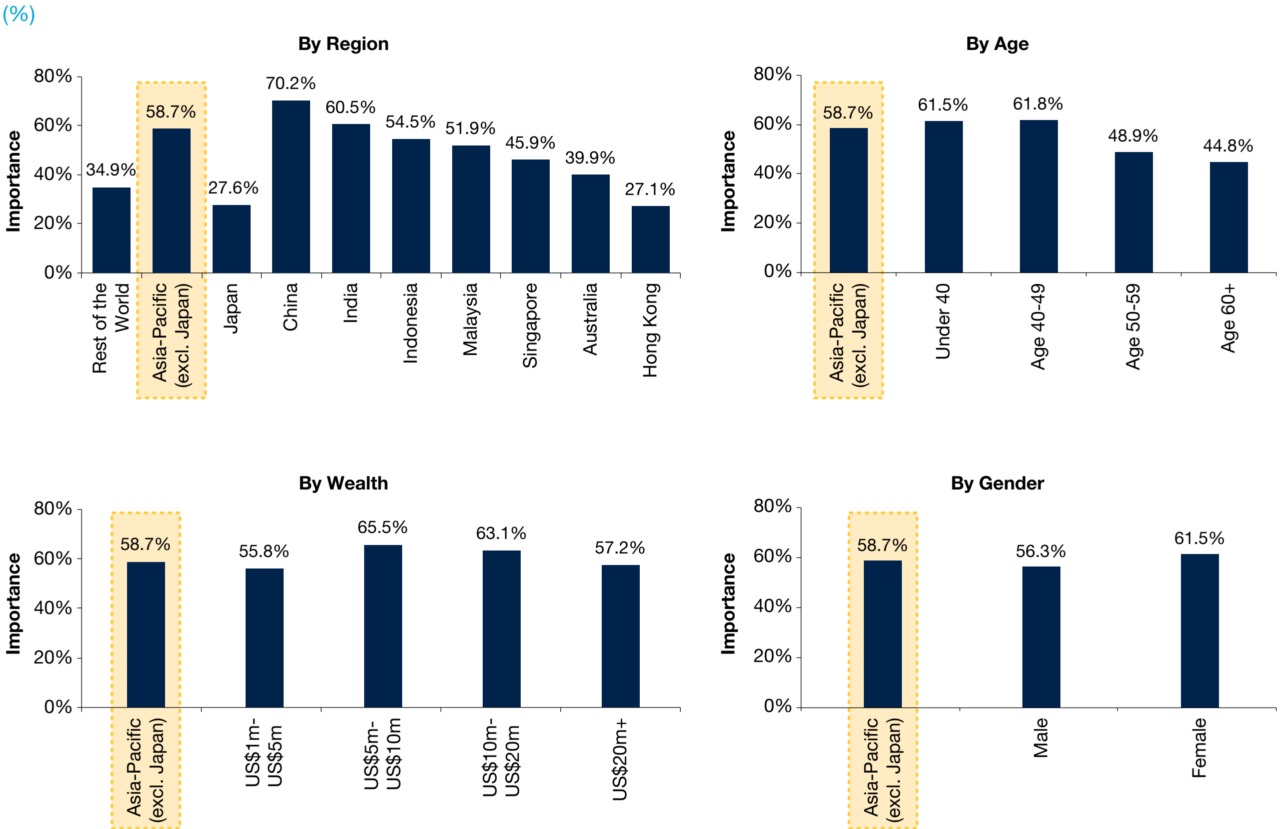
HNWIs in China are especially interested in credit for investments, with 67.6% of credit used for investments. The region's HNWIs are also more likely to use their credit for business purposes (17.5%—among the highest level globally—versus 12.6% for the rest of the world). HNWIs in Hong Kong (33.3%), Australia (29.2%), and Singapore (24.6%) are the region's most interested in leveraging their credit for real estate.

Figure 11. Level of Credit As a Proportion of Assets, Q1 2015



Note: Question asked: Please tell us what percentage of your total personal assets (e.g., investments, real estate, collectibles) is financed by borrowed money/credit CURRENTLY?
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

Figure 12. HNWI Importance of Availability of Credit When Selecting a Firm, Q1 2015



Note: Question asked: On a scale of 1-7, How important is the availability/ease of availing sufficient credit when making a choice on beginning a relationship with a wealth management firm?

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

CONCLUSION

Compared to their counterparts in the rest of the world, HNWIs in Asia-Pacific (excl. Japan) are more focused on cash and credit. HNWIs in the region are more likely to hold cash in their portfolios versus any other asset. A shift away from cash toward equities by Japanese HNWIs, the largest holders of cash in the region, caused this distinction to become only slightly less pronounced in 2015. In addition to holding more cash, Asia-Pacific (excl. Japan) HNWIs tend to use it differently from HNWIs in the rest of the world, exhibiting a relatively higher preference to invest in prospective unique financial opportunities that may rise unexpectedly and real estate. Wealth managers can work with the HNWIs in the region to provide them with customized opportunities in these areas, as a part of overall wealth management and goal-based planning.

Asia-Pacific (excl. Japan) HNWIs also stand out for the high importance they place on the use of leverage and credit, highlighting the need for firms in the region to offer credit and tailor it to local needs (see page 32). Finally, in keeping with their business pursuits, which often cross borders, the interest of Asia-Pacific HNWIs in international investment remains high, despite a cutback from a year earlier. Providing information, guidance, and access to international investment opportunities as a part of an overall wealth management plan will also be important for the firms and wealth managers operating in the region.

Asia-Pacific HNWIs Want More Advice on Social Impact

- **Asia-Pacific (excl. Japan) HNWIs seek guidance on how to achieve their social impact goals.** Demand for advice hit 24.3% throughout the region, and is highest in the emerging markets of China, Indonesia, and India. Compared to HNWIs in the rest of the world, HNWIs in the region placed the highest importance on more professional social impact support. This is in line with the significant service gap, identified in the *2014 Asia-Pacific Wealth Report*, between the support Asia-Pacific HNWIs expected to get from their wealth managers in social impact, and what they actually received.
- **Of all the potential sources of social impact advice, wealth managers are the most important for Asia-Pacific (excl. Japan) HNWIs, and demand for their support is expected to continue.** Compared to HNWIs in the rest of the world (23.9%), a significantly higher proportion of those in Asia-Pacific (excl. Japan) (50.0%) are advised by their wealth managers. Questions remain on the effectiveness of the advice received, given that 66.5% say they want more social impact support from wealth managers going forward.
- **Opportunities exist for firms and wealth managers to take advantage of certain cultural and demographic trends that will help strengthen their efforts to support social impact infrastructure and ensure they effectively engage HNWIs.** Wealth managers can involve entire households in social impact discussions, given the heavy regional emphasis on familial bonds. In addition, they should tap into the deeper interest in social impact exhibited by younger and female HNWIs.

WEALTH MANAGERS ARE HNWIs' PRIMARY SOURCE FOR SOCIAL IMPACT ADVICE

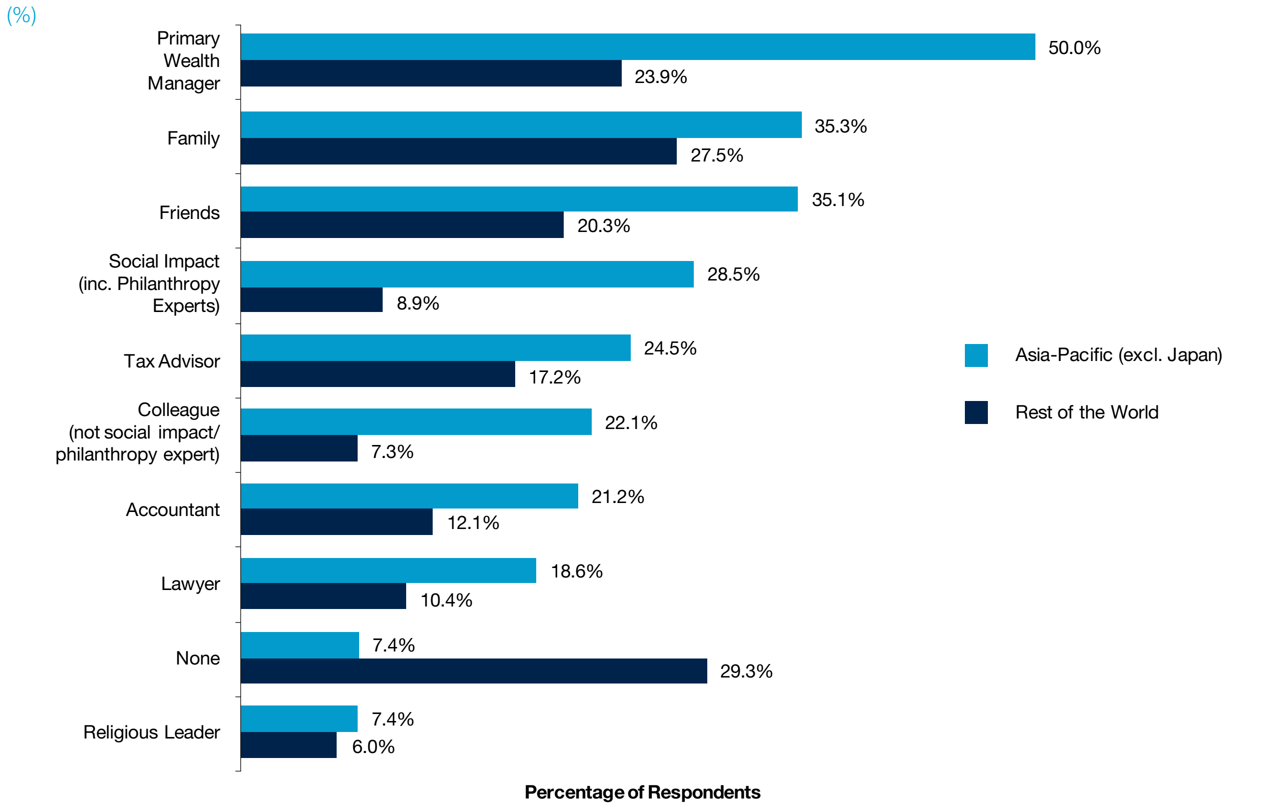
The structured approach for thoughtfully investing time, money, or expertise to solve social issues is not very mature in Asia-Pacific. Hence, HNWIs in Asia-Pacific (excl. Japan) are increasingly seeking advice in this evolving area, especially in the emerging markets of Asia-Pacific where first- and second-generation wealth creators are looking to give back to society. Nearly one-quarter of HNWIs in the region (24.3%) say they are getting advice on driving social impact, with the highest level of advice received by HNWIs in the emerging markets of China (28.9%), Indonesia (27.5%), and India (26.0%).

HNWIs in Asia-Pacific (excl. Japan) turn to multiple sources for advice on social impact, indicating the difficulty of receiving the expected level of expertise from a single source. Wealth managers, family members, and friends all play an important role, but so do other professionals like philanthropy experts, tax advisors, accountants, and lawyers. Compared to HNWIs in the rest of the world, those in Asia-Pacific (excl. Japan) are much less likely to have no source of advice on how to drive social change (7.4% versus 29.3%).

Wealth managers have emerged as the primary source of social impact advice for HNWIs in Asia-Pacific (excl. Japan) with, 50.0% of HNWIs in the region saying they are advised by their primary wealth managers (see Figure 13). Family members and friends are the next most likely sources, at 35.3% and 35.1%, respectively.

The broad range of advice sources underscores not only the fragmented advice landscape, but also points to the possibility that current advice levels are not meeting HNWI expectations.

Figure 13. Source of Social Impact Advice for HNWIs, Q1 2015



Note: Questions asked: For the time, money and expertise that you give to social impact causes, who is advising you on the opportunities to consider (e.g., translating causes into opportunities, selecting organizations, due diligence etc.)?; Who is advising you on the different mechanisms to make the contribution to social impact (e.g., donation vs. investment, appropriate structures, etc.)?

Percentage means: simple average of % of HNWIs who are taking advice of the person on social impact opportunities and mechanisms

Percentages will not add up to 100, as the respondents can choose multiple sources of advice

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

Primary wealth managers are best positioned to meet the needs of Asia-Pacific (excl. Japan) HNWIs seeking social impact advice for two main reasons. First, they are already involved in these discussions, as 50% of HNWIs in the region already consider their wealth managers to be their primary source of advice, compared to 23.9% in the rest of the world. HNWIs in the emerging markets of Asia-Pacific, such as China, India, and Indonesia are especially keen on turning to their primary wealth managers for social impact advice. When considering social impact opportunities, 71.8% of HNWIs in China seek out their wealth managers for advice, as do 49.2% in India and 48.7% in Indonesia.

Second, this preference throughout the region for primary wealth managers to provide social impact advice is expected to continue. Compared to HNWIs in the rest of the world (43.6%), those in Asia-Pacific (excl. Japan) say they are far more likely (66.5%) to seek additional guidance on social impact from their wealth managers in the future (see Figure 14). The desire for more professional guidance to drive social impact is consistent with a 9.4 percentage-point gap between the support HNWIs expected to receive from their wealth managers in achieving their social impact goals, and what they actually got, as identified in the *Asia-Pacific Wealth Report 2014.*

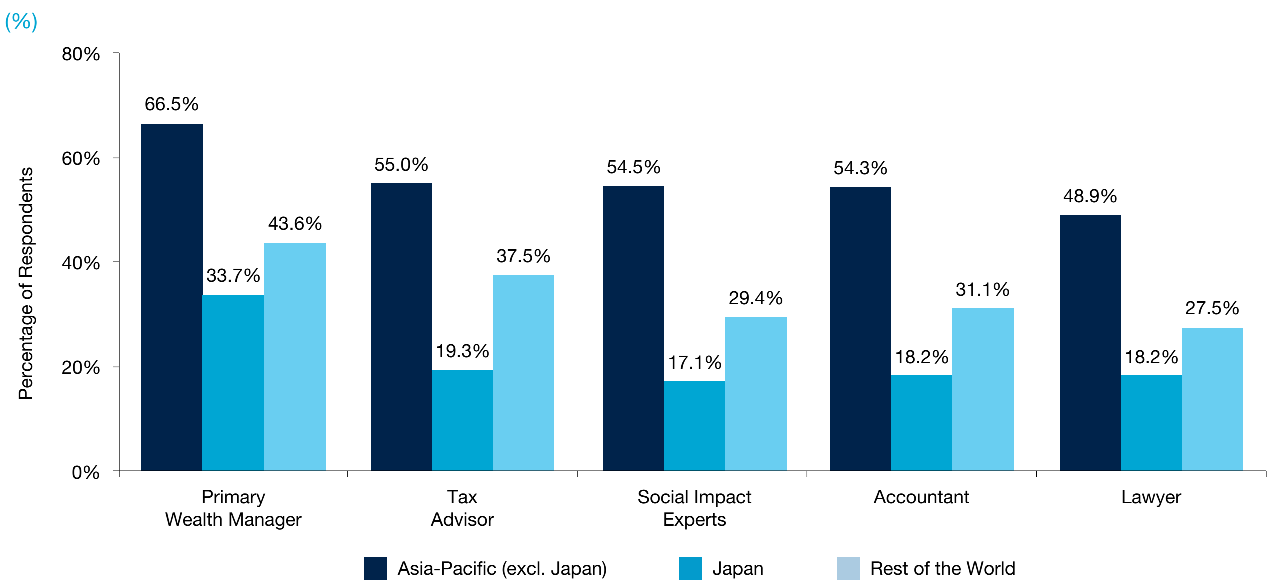
ADDRESSING KNOWLEDGE AND INFRASTRUCTURE GAPS CRITICAL FOR FIRMS

Driving social impact requires knowledge that goes beyond basic investment strategies. It can be difficult, for example, for HNWIs to identify the causes they are interested in and how best to support them. They also often do not have the tools they need to understand the effectiveness of their social impact efforts especially related to the money and effort they put in a cause. While HNWIs in Asia-Pacific (excl. Japan) use wealth managers as their primary source for advice, their desire for further professional support indicates the advice they are receiving may not be sufficient.

Of all the social impact areas where Asia-Pacific HNWIs (excl. Japan) are seeking additional knowledge, being able to better measure the outcomes of their investments is the most important, cited by 67.1%. A close second is being able to identify tangible opportunities (63.9%). By margins of more than 20 percentage points, HNWIs in Asia-Pacific (excl. Japan) are much more interested in these key areas of social impact compared to HNWIs in the rest of the world.

Asia-Pacific wealth management firms are well positioned to tap into the demand that HNWIs in the region have for knowledge and advice across the full spectrum of social impact investing.

Figure 14. Importance of Receiving More Advice from Select Professionals for Driving Social Impact, Q1 2015



Note: Question asked: How important is it for you to receive more advice on the means and ways to drive social impact, from these professionals?
Respondents rated their importance on a scale of 1–7; Ratings of 5–7 have been combined to form "important"
Social Impact Experts includes Philanthropy Experts

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

Demand for guidance on social impact from wealth management firms is especially high in the region's emerging markets.

By margins exceeding 30 percentage points, HNWIs in the emerging markets are more interested in receiving guidance on key areas of social impact compared to HNWIs in the region's more mature markets. This demand dovetails with the high importance placed on receiving more advice from wealth managers, which reaches as high as 72.8% in the emerging markets of China, India, and Indonesia, compared to 41.1% in the region's mature markets. Firms will need to factor in the divergence of the demand for wealth managers across different markets in the region while devising strategies to guide HNWIs in the region.

With the infrastructure to support social impact still in a nascent stage, firms have the opportunity to shape it by collaborating with social impact organizations. For example, the Asian Venture Philanthropy Network, with more than 200 members in 28 countries, acts as a hub for news and events in venture philanthropy, seeking to increase the flow of financial and non-financial capital to Asia-Pacific's social sector. Another venture, the Impact Investment Exchange (IIX), operates a stock exchange for social enterprises throughout the region, bringing together social entities and socially-minded investors. In addition to supporting an exchange platform, IIX offers advisory services and is creating a $50 million growth equity fund to invest in early stage social enterprises in Southeast and South Asia.

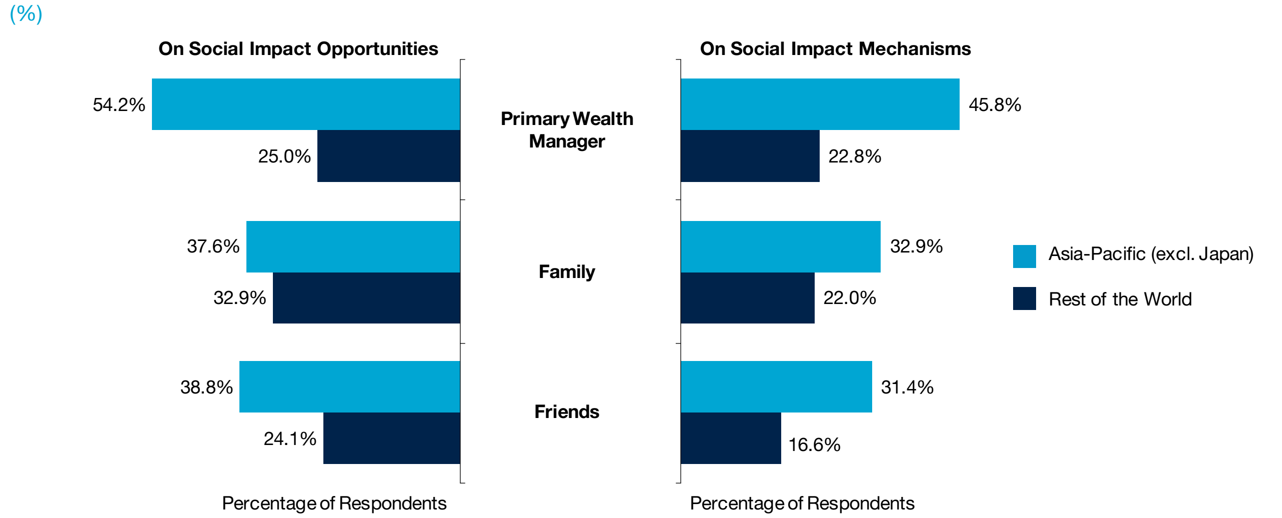
Other firms have focused on building in-house teams to advance HNWI understanding of social impact and promote participation. Many leading firms have formed a core team of social impact experts, including tax and philanthropy specialists, to aid in improving and scaling social impact initiatives, as well as help wealth managers plug any knowledge gaps.

CULTURAL, DEMOGRAPHIC TRENDS POINT THE WAY

Wealth management firms can also take advantage of regional demographic and cultural trends as they seek to effectively broaden HNWI knowledge of social impact. Culturally, Asia-Pacific HNWIs place great value on family and friend connections, a characteristic that helps explain the high level of advice they receive from those sources. When exploring how best to drive social impact, Asia-Pacific HNWIs are much more likely to tap the knowledge of family members (32.9%), compared to HNWIs in the rest of the world (22.0%) (see Figure 15).

Based on Asia-Pacific HNWIs' high emphasis on familial bonds, wealth managers should seek to engage all members of high net worth families in education and strategy sessions related to social impact. Engaging entire households, including the next generation, aligns well with the increased focus by wealth managers on a goals-based wealth management approach *(see page 30).*

Figure 15. Select Sources of Social Impact Advice for HNWIs, Q1 2015



Note: Questions asked: For the time, money and expertise that you give to social impact causes, who is advising you on the opportunities to consider (e.g., translating causes into opportunities, selecting organizations, due diligence etc.)?; Who is advising you on the different mechanisms to make the contribution to social impact (e.g., donation vs. investment, appropriate structures, etc.)?

Percentage means: % of HNWIs who are taking advice of the person for making social impact

Percentages will not add up to 100% as the respondents can choose multiple sources of advice

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

Demographically, younger Asia-Pacific HNWIs are more likely to place high importance on receiving advice related to driving social impact.

When it comes to getting advice about different social impact approaches, 67.0% of HNWIs under the age of 40 express an interest, compared to only 55.5% of those over 40.

This pattern is evident across all the key activities related to social impact and offers important insight into a segment of Asia-Pacific HNWIs expected to benefit from a significant transfer of wealth over the next generation (see page 28). Understanding the preferences of these younger HNWIs is important in order to effectively serve them.

Similarly, female HNWIs are more interested in learning about all aspects of social impact than males. For example, 67.6% of females want advice on identifying social impact opportunities, compared to 60.1% of males.

Like younger HNWIs, females are growing in wealth and prominence, highlighting the need to better understand their preferences. By presenting younger, as well as female HNWIs, with education and insight about social impact, wealth management firms can better appeal to this important segment. Notably, spouses are often the recipients of wealth transfers, prior to the movement of wealth to the next generation, making spouses (male or female) another important point of engagement for wealth managers.

The high interest that younger and female HNWIs have in learning about driving social impact coincides with a preference for receiving such advice from their primary wealth managers over all other types of professionals. Nearly 70% of HNWIs under 40 (69.2%) want more social impact advice from their primary wealth managers, compared to 61.0% of those over 40. Similarly, 69.6% of female HNWIs want social impact advice from their wealth managers, compared to 63.4% of males.

CONCLUSION

The ability to drive social impact is an evolving and intriguing concept for a significant slice of Asia-Pacific HNWIs. While a broad range of professionals are available to offer guidance on this emerging discipline, Asia-Pacific HNWIs are most comfortable going to their wealth managers. Compared to HNWIs in the rest of the world, those in Asia-Pacific are much more likely to consider wealth managers as their primary source of insight on social impact, both now and in the future.

Wealth managers have an opportunity to service HNW clients better by leveraging this trend. One way is to meet the higher demand for social impact advice within the region's emerging economies. Another way is to target social impact advice toward HNWIs who are younger and female. Compared to other demographic groups, these two segments express heightened interest in understanding their social impact options.

Wealth managers should also be prepared to address HNWIs' biggest concerns about driving social impact, which include being able to identify tangible opportunities and measure the outcome of their efforts. Forming in-house teams of experts and partnering with social impact entities to improve the industry infrastructure will help the firms better address the social impact related needs of HNWIs. Finally, given the strong emphasis on family ties throughout the region, conversations about social impact should engage the full household as part of an overall goals-based approach (see page 30).

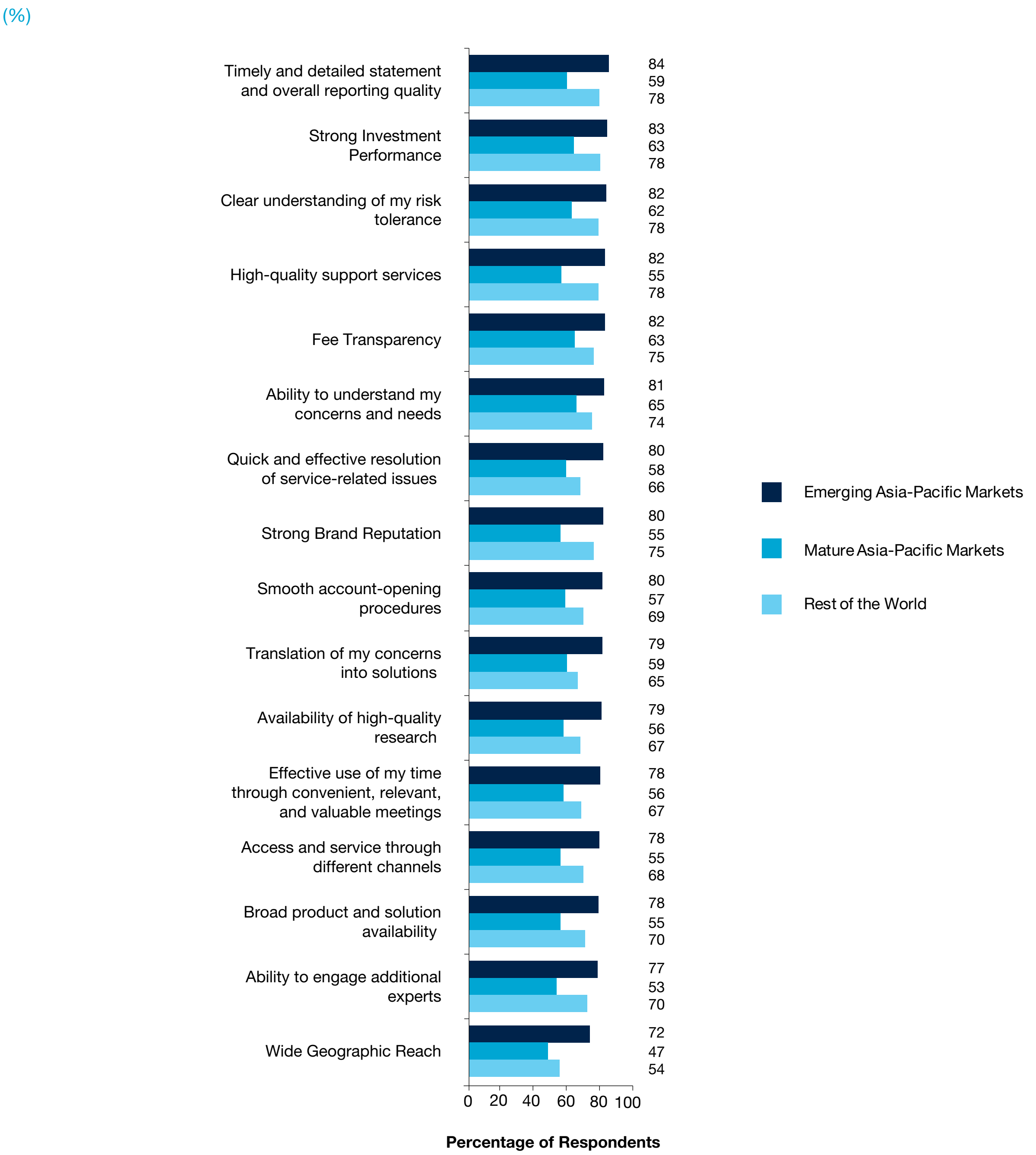
Complexity of Asia-Pacific HNWI Wealth Demands Strategic Action

- **Asia-Pacific HNWIs have distinct needs that set them apart from HNWIs in the rest of the world, yet wealth managers are not fully attuned on the importance and understanding of these needs.**
  - Asia-Pacific HNWIs have a higher proportion of their wealth coming from business ownership compared to the rest of the world, and they exhibit a strong preference for credit availability, professional advice, and digital interactions.
  - HNWIs in the emerging markets have a higher level of concern about wealth-related factors such as assets lasting through their lifetime and the impact of the economy on their ability to meet their financial goals. They also indicate higher importance for all their wealth needs compared to HNWIs in mature markets and the rest of the world.
  - More than any region in the world, the opportunity to bridge the gap between HNWIs and wealth managers on the HNWI wealth needs is greatest in Asia-Pacific (excl. Japan).
- **Further growth in Asia-Pacific emerging-market HNWI wealth and an expected wealth transfer to the next generation carries the risk of widening the disconnect between HNWIs and wealth managers.**
  - Much of the wealth increase through the end of 2017 is expected to occur in the emerging markets (see page 11), where a vast amount of wealth has been created over the last few years and where HNWI wealth concerns and demands are greatest.
  - Younger HNWIs have higher levels of concern about factors that could affect their wealth. With significant wealth likely to be transferred over the next few years to the next generation, firms may need to transition their value propositions from transactional to wealth-planning models.
  - Potential family conflicts during succession planning, a general aversion to discussing the details of wealth transfers, and worries about the ability of the next generation to manage wealth, will likely lead to further challenges.
- **Firms in Asia-Pacific must be prepared to take action in three specific areas—wealth manager enablement, digital capabilities, and lending solutions—to adequately address Asia-Pacific HNWI needs.**
  - Training and tools in support of goals-based wealth management will help overcome the scarcity of wealth managers throughout the region, as well as address the complexities of broad business ownership.
  - Investments in digital technology will enable firms to empower their clients and wealth managers, and create enhanced sales opportunities.
  - Strategies for providing credit, while mitigating risks, will help feed the regional appetite for lending solutions to satisfy investment and business goals and act as a competitive differentiator for firms with the risk appetite.

DISTINCT WEALTH NEEDS SET ASIA-PACIFIC HNWIs APART

Asia-Pacific HNWIs stand out from their counterparts in the rest of the world for their higher levels of concern regarding all aspects of their wealth—61.9% in Asia-Pacific (excl. Japan) versus 55.4% for the rest of the world—and the distinct needs that characterize their wealth management relationships. The region's wealth managers, however, seem to be misaligned on the variety and complexity of Asia-Pacific HNWI concerns and needs. The distinct characteristics of Asia-Pacific HNWIs

Figure 16. HNWI Importance on Wealth Needs, Q1 2015



Note: Question asked: On a scale of 1–7 (where 1 = Not at all important; 7 = Extremely important), please rate the importance of the following wealth management needs; Ratings of 5,6, and 7 have been shown in the chart above; Emerging Asia includes the countries of India, Indonesia, and China; Mature Asia includes the countries of Australia, Hong Kong, Singapore, Malaysia, and Japan

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

also underscores the need for firms in the region to gain further clarity on the factors that drive HNWIs as they make decisions about managing their wealth.

Across the board, HNWIs in the emerging markets of Asia-Pacific are more concerned than their counterparts in mature markets and the rest of the world about factors that could affect their wealth.

Topping the list are worries about their personal and family health (73.4%[3]), the rising cost of healthcare (71.2%), assets lasting through their lifetime (70.3%), the impact of the economy on their ability to meet their financial goals (70.1%), and future performance of the equity (69.4%) and real estate (68.0%) markets.

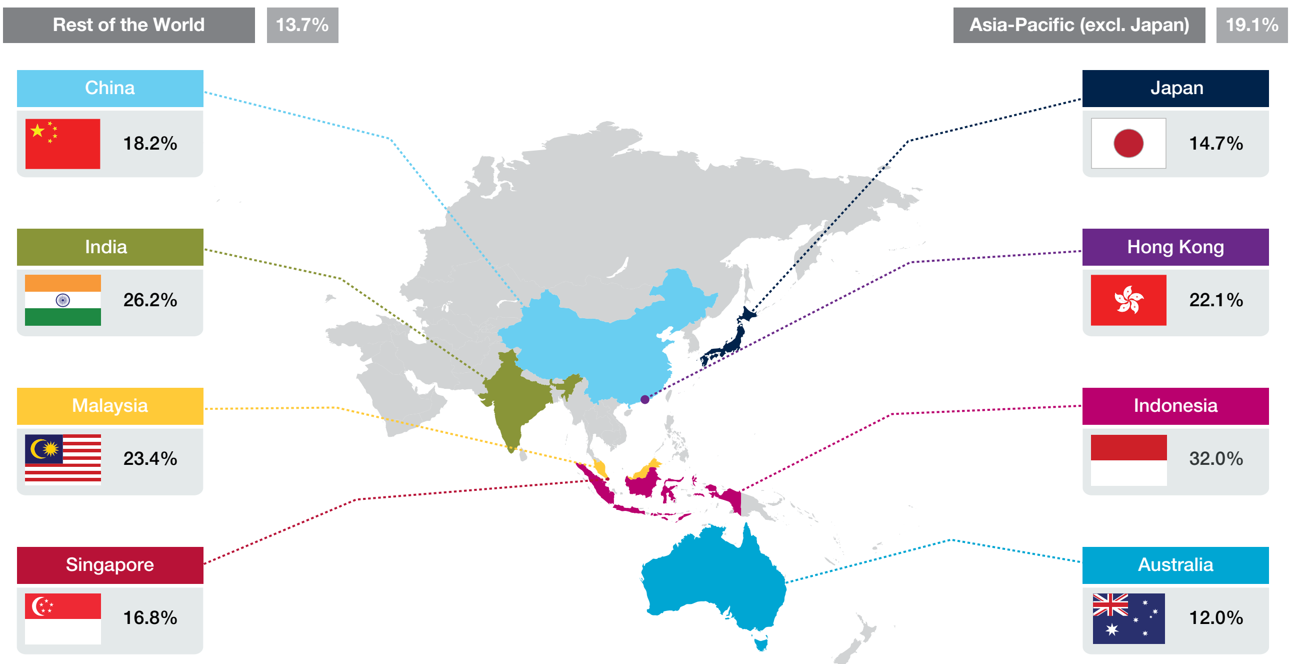
This same group of HNWIs also places a higher importance on wealth needs, thereby increasing the demands on their wealth managers (see Figure 16). They are more likely to want timely and detailed reporting (83.9%), strong investment performance (82.6%), high-quality support services (81.7%), and fee transparency (81.7%). They are also more likely to demand an investment plan that reflects a clear understanding of their risk tolerance (82.0%).

The tendency of Asia-Pacific (excl. Japan) HNWIs to stand apart from other HNWIs has been noted in the past. The *Asia-Pacific Wealth Report 2014* identified a number of behaviors particular to HNWIs in the region, including a greater willingness to pay for customized services (by a margin of 6.2 percentage points compared to rest of the world HNWIs), a preference for family wealth advice (by a margin of 9.9 points), and a desire to work with multiple experts in a single firm (by 16.0 points).

Our findings this year paint an even fuller picture of how HNWIs in Asia-Pacific (excl. Japan) are distinct from those in other regions. For one, business ownership figures largely as a source of Asia-Pacific HNWI wealth, pointing to high levels of entrepreneurship. Businesses (including their sale) constitute 19.1% of HNWIs' source of wealth in Asia-Pacific (excl. Japan), compared to only 13.7% in the rest of the world (see Figure 17). The rate is even higher (25.5%) in emerging markets of Asia-Pacific, contrasting with 17.8% in the mature markets, with the highest rates occurring in Indonesia (32.0%) and India (26.2%).

Perhaps not surprisingly given their high levels of business ownership and higher interest in real estate, Asia-Pacific (excl. Japan) HNWIs place great value on having access to credit.

Figure 17. Contribution of Business Ownership (incl. Sale of Business) As a Source of Wealth to HNWI Assets, Q1 2015



Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

[3] The number in the brackets refers to the percentage of emerging markets of Asia-Pacific HNWIs indicating high levels of concern regarding the relevant issues

Availability of credit and the ease of availing it is important to 58.7% of Asia-Pacific (excl. Japan) HNWIs when initiating a relationship with a wealth management firm, a higher percentage than the 34.9% of HNWIs in the rest of the world. In effect, for firms with the appropriate risk appetite, being able to leverage their balance sheets to provide financing will be a competitive differentiating factor (see page 32).

Driven by the complexity of their needs, including a desire for family wealth advice, HNWIs in Asia-Pacific (excl. Japan) also exhibit strong demand for professional advice. Their preference for professional financial advice was the highest in the world, at 71.0%, compared to 51.9% in the rest of the world (see Figure 18).

That trend is expected to continue, given the value placed on professional advice by under-45 HNWIs in the region (72.6% prefer it), compared to 64.1% of those over 45. Demand for professional advice is particularly strong in China (87.0%).

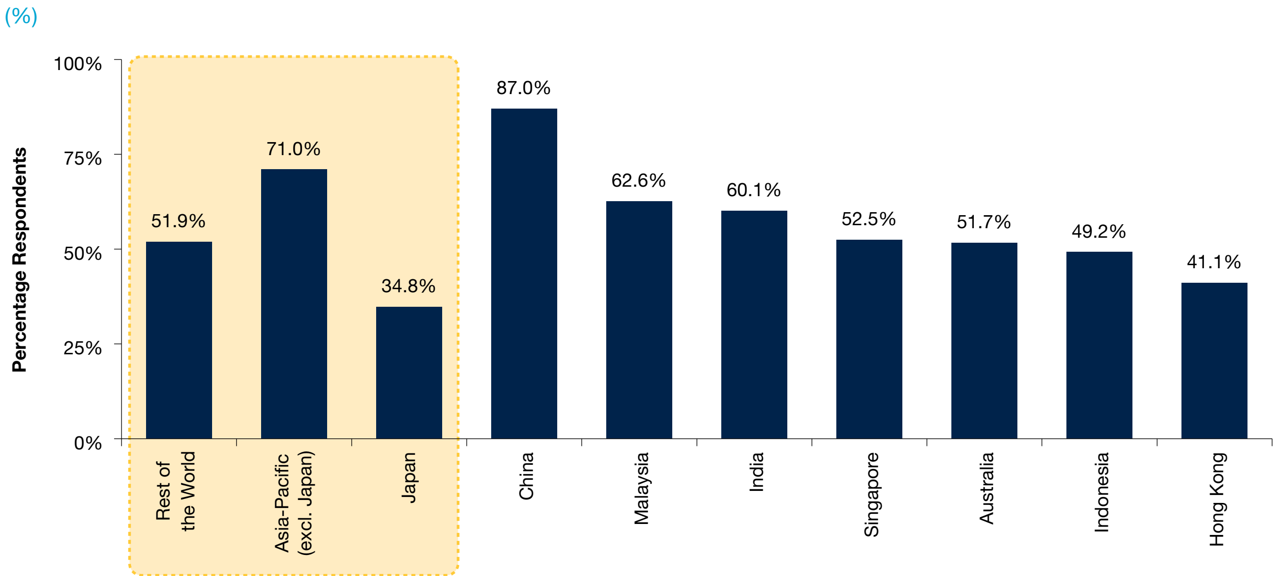
Despite the many ways that Asia-Pacific (excl. Japan) HNWIs stand out, wealth managers in the region do not appear to be fully attuned to their needs. Wealth managers largely overestimated their accurate perception of HNWI wealth needs, with 87.6% saying they have a good understanding, compared to 73.4% of HNWIs who agree (see Figure 19). The resulting 14.2 percentage point gap is significantly larger than the 8.7 point gap for the rest of the world. The largest discrepancies in HNWI-wealth manager understanding occurred in Singapore (24.3 points), Japan (20.4 points), and Australia (16.3 points). While Hong Kong had a lower gap (3.9 points), both HNWIs and wealth managers ranked their wealth manager understanding of HNWI wealth needs as very low, indicating ample opportunities for wealth managers to deliver better services.

EXPANDING ASIA-PACIFIC WEALTH BRINGS OPPORTUNITIES AS WELL AS CHALLENGES

The disconnect between wealth managers and their clients is at risk of becoming exacerbated as regional HNWI wealth continues to grow, driven by an expanding economy, especially in the emerging markets, and an expected significant wealth transfer to the next generation.

The growth engines of India and China, which have eased up on agriculture in favor of efforts in the industry and service sectors, are expected to continue contributing to the creation of highly skilled industries and more advanced infrastructure throughout the region.

Figure 18. HNWI Preference for Seeking Professional Advice, Q1 2015



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

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

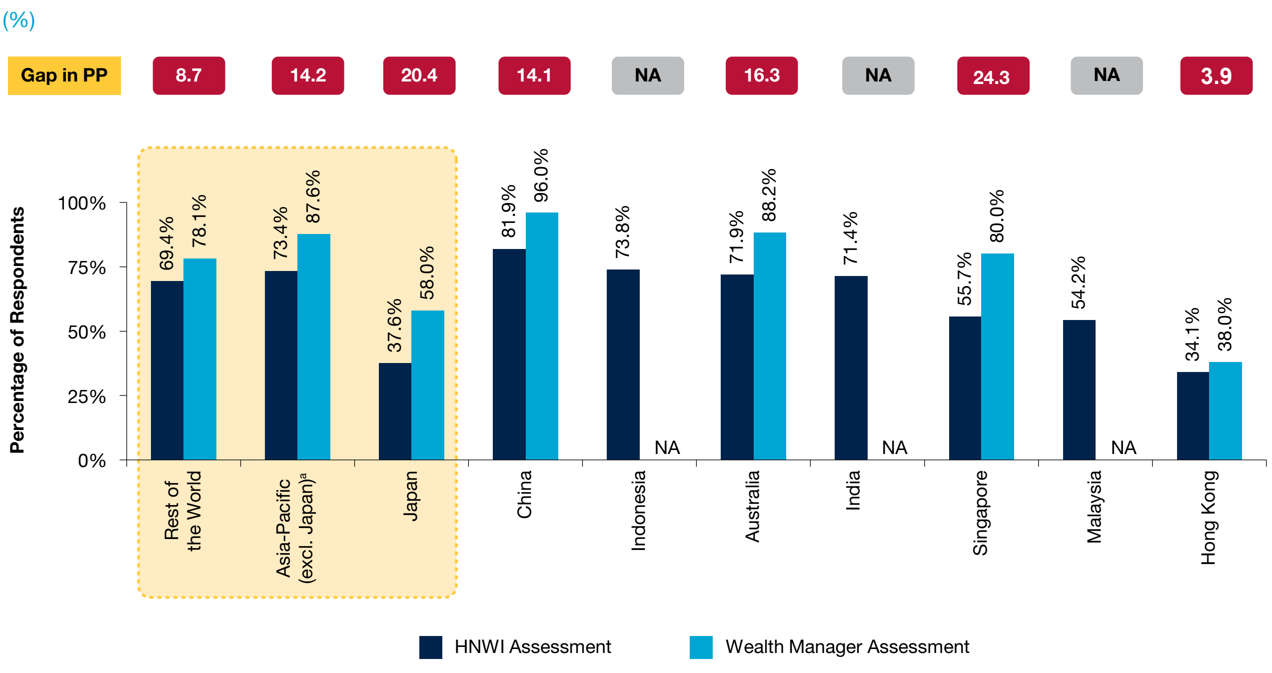
While these markets, especially China, are experiencing short-term challenges such as slower growth, higher levels of state ownership, and a need for robust infrastructure to support rapid urbanization[4], they are still expected to witness strong growth and wealth creation over the long term. As the emerging economies become increasingly mature, wealth creation opportunities will be abundant. Driven by robust GDP growth rates in the emerging markets, Asia-Pacific HNWI wealth is expected to grow at a CAGR of 10.3% to US$21.2 trillion by 2017 (see page 11).

In addition to expanding economic opportunity throughout the region, the HNWI wealth landscape will be affected by a significant transfer of wealth—up to 80% of the wealth in the region by some estimates—to the next generation over the next 15 years.[5] Between the growing economy and the expected intergenerational wealth transfer, the region's wealth management firms face significant opportunity to broaden their HNWI relationships. Yet they must proceed carefully or risk alienating the very clients they are trying to serve.

The movement of wealth from one generation to the next raises a host of challenges. *The World Wealth Report 2011* found that firms have struggled to retain relationships during generational wealth transfers, losing an estimated 50% of assets under management. When wealth revolves around a family business, as is the case for much of Asia-Pacific HNWI wealth, the challenges become even greater.

Business succession planning may be complicated by legal, regulatory, or tax implications, which could lead to a dilution of wealth during a transfer. The more global a business, the more complicated the situation can get, particularly if family members reside in different countries and have different citizenship. Another potential problem is the strong attachments owner-entrepreneurs have to their businesses, causing them to delay succession planning. This leaves the next generation unprepared for the challenges of managing both the inherited wealth and the business. In addition, strong wealth manager-HNWI relationships are necessary to overcome the taboos in some markets against talking about death and succession planning.

Figure 19. Understanding of HNWI Wealth Needs from HNWI and Wealth Manager Perspectives, Q1 2015



a. Excludes the HNWI responses from countries of India, Indonesia, and Malaysia, as there was no corresponding data from wealth managers in these countries

Note: Questions asked: On a scale of 1–7 (where 1 = Not at all and 7 = Extremely well), how strongly do you think your primary wealth manager understands your overall wealth needs?; On a scale of 1–7 (where 1 = Not at all and 7 = Extremely well), how well would you say you understand your clients' overall wealth management needs?; Ratings of 5,6, and 7 have been shown in the chart above

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015; Capgemini Wealth Manager Survey 2015

4 OECD Economic Survey of China 2015, http://www.oecd.org/china/economic-survey-china.htm, accessed June 2015

5 "Tapping Asia's wealth transfer potential", http://www.hubbis.com/articles-content/163/articles, accessed June 2015

Family disputes pose another potential problem, as family members often have different views on how wealth should be distributed and who the beneficiaries should be. In worst-case scenarios, these differences may lead to legal suits.

As wealth begins to get redistributed to the next generation, wealth managers will need to become attuned to the higher levels of concern younger HNWIs have regarding various factors that could affect their wealth, such as the availability of quality education (68.7%), rising education costs (62.7%), social upheaval (53.3%), and identity theft/personal financial crime (58.1%). Overall, the average level of concern for under-45 HNWIs in Asia-Pacific (excl. Japan) is 6.6 percentage points higher than for those over 45 (see Figure 20). Wealth transfers will also require managers to understand the needs of HNWI spouses, as this group generally inherits wealth first, before it ultimately moves to the next generation.

Given the intensity and range of younger HNWI concerns, their needs and demands are expected to be as complex as those of their parents. Rather than simply push younger HNWIs toward digital channels and investments, wealth managers should increasingly seek to position themselves as goals-based financial planners, taking into account the short-, intermediate-, and long-term personal goals of HNWIs.

Wealth managers should proceed carefully in their financial planning discussions, taking care not to make any assumptions about HNWI investment knowledge, while also ensuring HNWIs are fully financially literate and have reasonable expectations about how their investments will behave.

THREE CRITICAL LEVERS FOR SUCCESS IN ASIA-PACIFIC

The explosion of Asia-Pacific HNWI wealth in recent years and its continued expected growth has put an enormous amount of pressure on wealth management firms in the region, which continue to be constrained by a scarcity of talent and other resources. Certain characteristics of Asia-Pacific HNWIs further compound the challenge. For example, the region's HNWIs, especially younger ones, who constitute a higher proportion of the total HNWI population compared to other markets, according to executives and experts in the region, express a greater affinity toward digital tools and automated advisory services. This is putting pressure on wealth management firms to keep up with the latest advances in technology, while also meeting the sophisticated needs and demands of younger HNWIs.

Asia-Pacific HNWIs also have a high demand for credit, increasing the pressure for wealth management firms to cater to this demand, and if possible, enhance their existing business of offering loans and other credit services. Firms that lack the risk appetite or ability to leverage the balance sheet of a parent universal bank may find themselves at a disadvantage. In addition, balancing credit demand against the risks associated with providing credit in the region may be difficult for some firms.

Figure 20. Five Concerns with the Largest Gap between Younger and Older HNWIs, Asia-Pacific (excl. Japan), Q1 2015

Concern	Concern Levels		Difference (in PP)
	Younger HNWIs (Under 45)	Older HNWIs (45 and Above)	
Average Concern Levels	**63.6%**	**57.0%**	**6.6**
Availability of Quality Education	68.7%	52.7%	16.0
Rising Education Costs	62.7%	44.7%	18.0
Next Generation Not Being Able to Manage Inherited Wealth	59.6%	47.5%	12.1
Social Upheaval/Tensions	53.3%	45.6%	7.7
Identity Theft/Personal Financial Crime	58.1%	50.0%	8.1

Note: Question asked: On a scale of 1–7 (where 1 = Not at all a concern and 7 = Very high concern), please indicate to what extent the following issues cause concern in general; Ratings of 5, 6, and 7 have been shown in the table above

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

The most successful firms in the region will be those that can address all of these challenges. They must be able to hire and train a high-quality pool of wealth managers, and equip them with the proper tools and resources. They will have to upgrade their digital infrastructures to keep up with the demand from younger HNWIs. And they will need to facilitate lending and credit solutions or risk client attrition.

Our research indicates that firms are struggling to meet the diverse demands of HNWIs in the region. To a greater degree than elsewhere, Asia-Pacific HNWIs tend to have multiple wealth management relationships. They are likely to work with multiple firms at a rate of 36.9%, compared to 21.9% of HNWIs elsewhere (see Figure 21). The preference to work with five or more firms is especially high in Hong Kong (58.1%), India (53.4%) and Malaysia (48.9%).

HNWIs working with a single firm are more satisfied with their primary wealth manager, giving satisfaction ratings of 74.3% versus 67.6% for those working with five or more firms.

By providing services that span the diversity of unmet HNWI needs, wealth management firms have the opportunity to consolidate multiple relationships and increase satisfaction. But firms must be prepared to take action on a number of fronts.

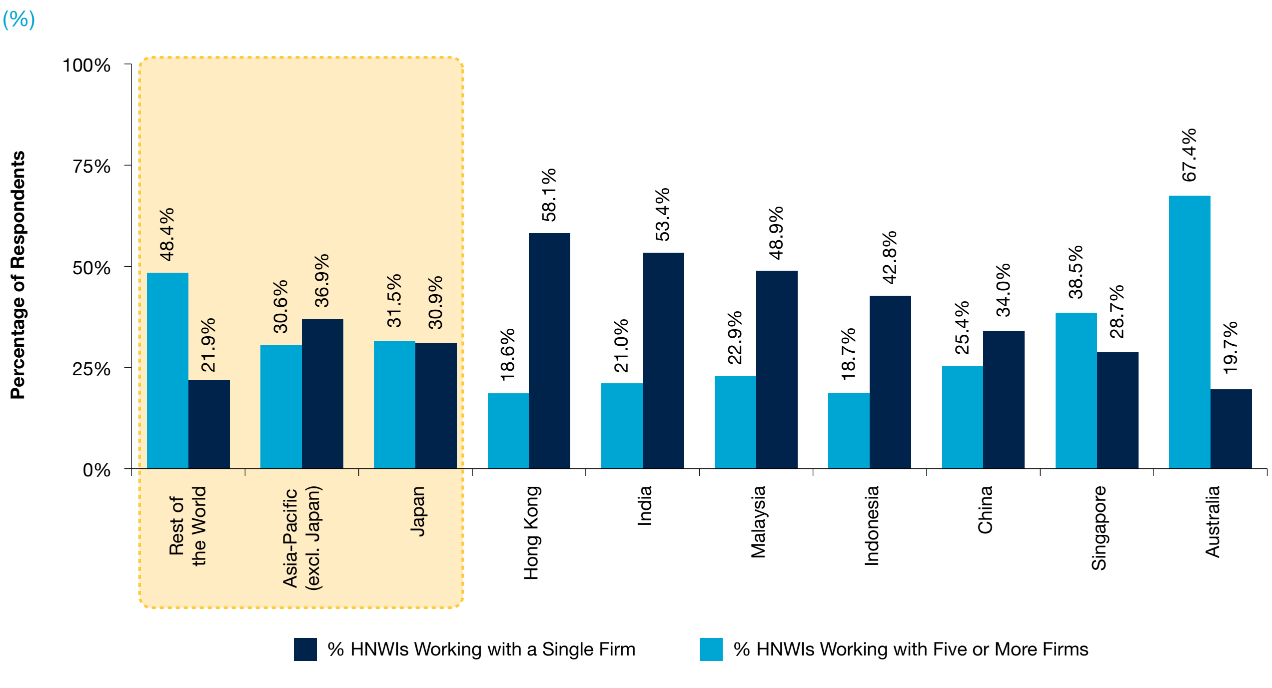
Wealth Manager Enablement and Training: The depth and diversity of Asia-Pacific HNWI wealth concerns, combined with the tendency of clients to want to work with multiple firms, points to shortcomings in the ability of wealth managers and firms to adequately identify and address HNWI needs.

Firms can provide their wealth managers with targeted training on holistic financial planning, including how to uncover client needs and the best ways to incorporate tools, such as scenario analysis, into their discussions.

As the industry moves toward a hybrid advice model (see the *World Wealth Report 2015*), firms must also develop their strategies for deploying both automated advice and human interaction, and ensure wealth managers are fully up to speed on how to identify the appropriate level of service for different clients.

To gear up for the expected transfer of assets to the next generation, the region's wealth managers must attune themselves to the specific concerns and behaviors of younger HNWIs. As the inheritors of the expected wealth transfer, the next generation of HNWIs may require additional guidance and education on how to handle the influx of assets, as well as the new wealth they create on their own. Wealth managers who are able to smoothly

Figure 21. HNWIs Working with One Firm and Five or More Firms, Q1 2015



Note: Question asked: How many wealth management firms do you work with?
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015

navigate this education process, as well as handle any potential problems related to business succession planning will be well positioned to retain the transferred assets. Also important will be fluency in all the digital tools and technologies that are standard to a younger age group (under 45).

The high rate of business ownership among Asia-Pacific HNWIs points to the increased likelihood of cross-border assets and transactions. Wealth managers with knowledge of cross-border products, and the ability to address the legal, regulatory, and tax implications of cross-border activities through access to the right experts, will be best prepared to handle the full scope of Asia-Pacific HNWI issues. These wealth managers must be guided on how to navigate all areas of the parent firm to ensure access to the appropriate set of in-house expertise.

On the front lines of wealth management in Asia-Pacific, firms have encountered a shortage of qualified and knowledgeable personnel. In response, some in the region have opened talent development facilities with ambitious plans to train thousands of employees in a wide range of areas, including client services, leadership and management, product proficiency, compliance, sales and advice, and corporate citizenship. These types of formal programs are instrumental to ensuring the development of wealth manager skills in accordance with a company's prescribed culture and procedures.

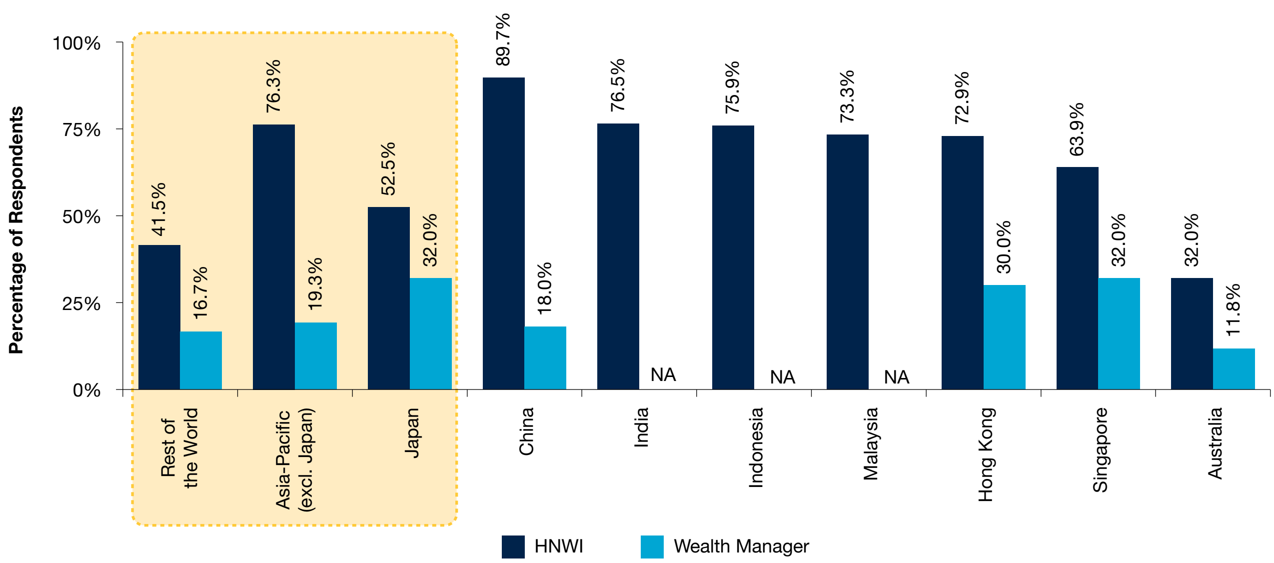
Digital Investment: Wealth management has long been defined by its emphasis on personal, face-to-face relationships, but there is no denying the steady encroachment of digital tools and automated advisory services, especially in Asia-Pacific (excl. Japan). HNWIs in Asia-Pacific (excl. Japan) are the most likely to prefer digital contact (27.2% versus 16.8% in the rest of the world).

Driven by their preference for digital contact, the propensity among Asia-Pacific HNWIs (excl. Japan) to use automated advisory services is extremely high, reaching 76.3%, compared to only 41.5% for the rest of the world.

The likelihood is even higher among younger HNWIs in the region (81.3% for HNWIs under 45 versus 64.8% for those over 45), who are driven by lower costs, convenience, and a better digital experience. HNWIs in China (89.7%), India (76.5%), and Indonesia (75.9%) are especially likely to say they would use automated advisory services (see Figure 22). Wealth managers, however, are not well aligned with this propensity, believing that only 19.3% of HNWIs are interested in using automated advisory service

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

(%)



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

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey 2015; Capgemini Wealth Manager Survey 2015 providers. While automated advice is not expected to replace traditional firms or wealth managers, it can help wealth managers more effectively deliver key services.

Firms willing to follow the lead of their tech-savvy clientele and invest in digital capabilities will accrue a number of benefits. First, they will be able to deliver the type of high-end digital and graphical tools that could help their clients easily access and visualize their full portfolios, including investments, risk exposure, and tax burdens. They can also digitally deliver market intelligence, research, and information in a personalized manner to interested clients.

Firms can also empower their wealth managers through digital capabilities. Using collaborative tools, wealth managers can interact with experts at other locations to answer complex questions, such as cross-border transactions or tax implications. They can also receive online training and education via digital links. These digital tools will help address the shortage of qualified wealth managers in the region by helping firms scale up and achieve greater efficiency and productivity among the managers that they do have.

Finally, digital capabilities lay the groundwork for the use of advanced predictive analytics, which are crucial to being able to mine data for insights into the market and client behavior. With better data, wealth managers will be able to efficiently identify client-specific opportunities for delivering appropriate products and services, resulting in a more satisfying client experience. Taken together, all these advantages of digital investment will result in enhanced client relationships, and ultimately, higher market share.

Some firms are already actively engaged in rolling out digital solutions to clients and wealth managers in Asia-Pacific. A global private bank based in Europe is targeting Asia-Pacific as the first of its regions to receive a newly-developed global digital private banking platform that aims to personalize the wealth management experience by providing client-specific market intelligence and information, along with trading tools, to support a swift response to moving markets. A large bank in Asia-Pacific, meanwhile, is targeting its wealth management division to deploy a cognitive computing platform. Using this platform, wealth managers will be able to analyze large volumes of complex data, make connections between client needs and the investment knowledge at its disposal, and better weigh clients' financial options.

Credit Provisioning: As the economy continues to expand throughout Asia-Pacific, so does HNWI demand for credit. For the most part, HNWIs are looking to take advantage of the growing economy, with 57.1% of Asia-Pacific (excl. Japan) HNWIs using credit for investments. Credit for real estate (18.0%) or business purposes (17.5%) was much less prominent overall, but figured largely in some markets and demographics. Using credit to invest in real estate was popular among HNWIs in mature markets, including Hong Kong (33.3%), Australia (29.2%) and Singapore (24.6%), while holding it for business purposes was more likely in emerging markets, such as Indonesia (43.9%) and India (24.8%).

The older HNWIs become, the more likely they are to use credit for real estate (20.6% versus 18.7% for younger HNWIs) and investments of passion (5.0% versus 2.7% for younger HNWIs). Under-45 HNWIs, meanwhile, are more likely to use credit to seek investment opportunities and returns (59.0% versus 49.9% for older HNWIs). The wealthiest HNWIs are most likely to use credit for business purposes (28.6% for those with US$20 million+ of assets, versus 14.6% for those with US$1 million to US$5 million).

Given the robust demand for credit throughout the region, wealth managers should strive to understand their clients' financial-planning needs holistically, including their potential credit requirements. When investment opportunities arise, wealth managers should be prepared to tap into additional leverage to increase the chances of earning above-average returns. They can also pave the way toward deeper relationships by developing a client's connections with other divisions of the firm, including corporate finance, to help with credit lines for business expansion via acquisition. Firms may also want to go beyond providing simple lending solutions to create more value through collateral and liquidity management. Increasingly, for example, firms are providing credit against non-traditional assets, such as jewelry.

The way in which firms go about building their credit capabilities will likely depend on their organizational structure and strategy. Wealth management firms housed within universal banks are likely to form specialized teams that include experts from investment banking, corporate finance, and business banking. Working together, the members of such teams can assemble tailored products that cater to specific HNWI needs. Meanwhile, pure-play wealth management firms, which have built up their presence in Asia-Pacific on the back of niche products and services, are more likely to team up with domestic financial institutions to bring lending solutions to market. Choosing to not offer loans is a risky proposition, given the high importance of credit to Asia-Pacific HNWIs.

Firms that move ahead with extending credit will need to do so with care. The high levels of credit already held by Asia-Pacific HNWIs calls for firms to exercise due diligence when extending further credit. To accommodate

HNWIs' high demand for loans and still meet internal lending guidelines, firms will have to develop a detailed credit analysis framework to mitigate potential credit risks, while also ensuring client profitability. Robust frameworks are particularly important for firms that are headquartered in other regions, yet extend credit locally within Asia-Pacific.

Many firms operating in the region have pioneered a variety of organizational structures aimed at providing more sophisticated services to HNWIs. Some have created dedicated units within their private banking divisions. One firm, for example, formed a 50-person team to originate and structure investment-banking solutions, such as initial public offerings and securities-based loans, for ultra-HNWIs. Another has placed a team of 25 investment bankers in the same physical workspace as its wealth managers to facilitate deals and transactions. Sometimes, high-level HNWI needs require very specific firm and expertise. The wealth management team of one firm, for example, worked with the trust and agency division of its global transaction banking business to acquire an asset for a key client through a syndicated lending facility that employed collateral in two jurisdictions.

CONCLUSION

Asia-Pacific wealth reflects high levels of complexity—it is more likely to be driven by business ownership and family wealth; it often demands sophisticated services, from digital technology to credit solutions. In the face of these complexities and the continued expansion of HNWI wealth throughout Asia-Pacific, wealth managers must come to terms with the heightened requirements of serving Asia-Pacific HNWIs. The coming intergenerational wealth transfer and a wave of business succession planning are only expected to add to the challenges of serving this segment.

Wealth management firms can address these challenges and stand out in the minds of HNWIs by aligning their services toward addressing their most critical needs. As a first step, firms must equip their wealth managers with a level of education and training suitable for handling the complexities of inherited wealth, business ownership and succession, and holistic financial planning. In situations that exceed their capabilities, wealth managers should be able to navigate the firm to tap the required in-house expertise. In keeping with Asia-Pacific HNWIs' preference for digital automation, firms should invest in digital capabilities aimed at empowering both their clients and wealth managers. Finally, given the heavy demand for credit, firms should develop an overall strategy for provisioning loans and consider partnerships with investment banking and other divisions to support creative financing options. The unique needs and characteristics of Asia-Pacific HNWIs demand these types of more advanced services.

Appendix

METHODOLOGY

MARKET SIZING

The Asia-Pacific Wealth Report 2015 focuses on 11 core markets: Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Thailand, and Taiwan. The market-sizing model includes 18 countries and territories (i.e. the 11 core markets and New Zealand, Kazakhstan, Myanmar, Pakistan, Philippines, Sri Lanka, and Vietnam) in its Asia-Pacific coverage.

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

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

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

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

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

2015 GLOBAL HIGH NET WORTH INSIGHTS SURVEY

The Capgemini and RBC Wealth Management 2015 Global HNW Insights Survey queried more than 5,100 HNWIs across 23 major wealth markets in North America, Latin America, Europe, Asia-Pacific, the Middle East, and Africa. More than 1,600 HNWIs were surveyed in Asia-Pacific across eight major markets of Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, and Singapore.

The Global HNW Insights Survey, the largest global survey of HNWIs across the globe, was administered in January and February, 2015 in collaboration with Scorpio Partnership, a firm with 17 years of experience in conducting private client and professional advisor interviews in the wealth management industry.

The 2015 survey covered three key areas: HNWI asset allocation, HNWI preference for credit, and HNWI preference for driving social impact. The first focus area measured current asset allocation patterns of HNWIs, as well as the geographic allocations of their investments. The second focus area looked into the key areas of use and importance of credit and the key reasons for holding credit. The third focus area on driving social impact addressed the importance of various actors and professionals in supporting HNWIs to fulfill their social impact goals, and expectations on support needed from their wealth managers and wealth management firms in the various areas of social impact.

In addition, the 2015 survey also focused on the evolving landscape of the wealth management industry and the evolving role of the wealth manager. It surveyed HNWIs about their wealth-related concerns and needs, their satisfaction with their wealth manager and firms in fulfilling these needs, and queried their thoughts on new, disruptive players in the industry.

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.

2015 CAPGEMINI WEALTH MANAGER SURVEY

The inaugural 2015 Capgemini Wealth Manager Survey queried more than 800 wealth managers across 15 major wealth markets in North America, Latin America, Europe, and Asia-Pacific. Around 250 wealth managers were surveyed in Asia-Pacific across five major markets of Australia, China, Hong Kong, Japan, and Singapore.

The survey was administered in January and February, 2015, in collaboration with Oxford Economics.

The survey focused on the evolving role of wealth managers, and emphasized analysis of four key areas: wealth managers' assessment of HNWI needs and concerns; wealth managers' assessment of the importance and satisfaction on the key capabilities provided by the firm; wealth manager views on digital capabilities for clients, themselves, and automated advisory services; 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).

The information contained herein was obtained from various sources; we do not guarantee its accuracy or completeness nor the accuracy or completeness of the analysis relating thereto. This research report is for general circulation and is provided for general information only; any party relying on the contents hereof does so at their own risk.

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