Press Contacts:
Miranda Sanders (North America)
Weber Shandwick for Capgemini
Tel: +1 212 445 8120
Email: msanders@webershandwick.com

Benjamin Pfeffer (EMEA)
Weber Shandwick for Capgemini
Tel: +44 (0) 20 7067 0461
Email: bpfeffer@webershandwick.com

Wealth Management Firms' Digital Maturity Not Keeping Pace with Demand for Digital, Finds the Asia-Pacific Wealth Report 2016

Challenges related to keeping up with business as usual impact Wealth Management firms' ability to prepare for disruption

Singapore, Hong Kong, October 13, 2016 – Low levels of digital maturity, combined with a lack of vision regarding automated advice and peer-to-peer networks, present challenges to wealth management firms in Asia-Pacific, finds the Asia-Pacific Wealth Report 2016, released today by Capgemini, a global leader in consulting, technology, and outsourcing services. Digital capabilities are critical in Asia-Pacific, with 85.9 percent of the region's High Net Worth Individuals (HNWIs)[1] considering digital maturity an important factor when deciding to allocate assets to wealth managers, far above the 72.4 percent rate for HNWIs in the rest of the world (RoW.) This finding calls for firms to increase digital maturity to retain and attract HNWI clients as well as to prevent wealth manager attrition.

Although the region leads the world with the highest number (5.1 million) of HNWIs and wealth (US$17.4 trillion), Asia-Pacific (excluding Japan[2]) HNWIs are more likely to keep their wealth in cash or a retail bank account (32.6 percent) than hold it with a wealth manager (30.6 percent). The figures decline further in Japan, where only 23.7 percent hold assets with a wealth manager while most others hold it in a bank (27.0 percent) or as physical cash (17.8 percent), according to findings of the report. Conversely, trust in wealth management firms increased to 76.2 percent in Q1 2016 from 63.7 percent in Q1 2015 among Asia-Pacific HNWIs (excluding Japan), and grew even more among Japanese HNWIs (to 47.3 percent from 24.9 percent) during this time period.

"Such contrasting behavior — increasing trust and a lower proportion of assets under professional management — points to an opportunity for wealth management firms to leverage digital capabilities. With a large majority of Asia-Pacific wealth management clients outside of Japan saying that digital maturity is key to

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

[2] As Japanese HNWIs have unique investing behaviors and preferences, and because the country accounts for more than 50 percent of the region's HNWI population, we frequently isolate and make reference to Asia-Pacific excluding Japan when performing regional analysis. Complete findings on Japan as a country are covered extensively in the Asia-Pacific Wealth Report.

increasing or decreasing assets with their firms, it is clear that improving digital capabilities can translate into client satisfaction, increased assets under management and reduced wealth manager attrition," said Anirban Bose, Head of Banking and Capital Markets, Capgemini.

For example, in India, 96.2 percent of HNWIs are likely to consider their primary wealth management firm's digital maturity as a critical parameter in their decision to allocate assets over the next 24 months. In China and Indonesia, the numbers reflect 95.5 percent and 95.1 percent respectively. The greater propensity of Asia-Pacific (excluding Japan) HNWIs to not put assets under management or walk away from their wealth managers also underscores their low tolerance for sub-par digital tools. Often self-made and independent, Asia-Pacific HNWIs are accustomed to accessing information at their own discretion, using self-service digital tools, and they expect the same high level of access to their wealth-related data.

Digital maturity important for retaining wealth managers

In the report, Capgemini's DigiWealth Maturity Assessment Model[3] shows Asia-Pacific wealth management firms scoring as low as 2.8 on a scale of 5, for delivering a 'digitally-enabled client experience and strong client capability over digital channels'. But the impact of sub-par digital maturity is not just restricted to HNWIs' decision to park assets under management, firms also scored as low as 2.7 on a scale of 5, for 'engaging advisors through digital tools and helping them become more productive'. In fact, close to 10 percent of wealth managers in Asia-Pacific (excluding Japan) have lost clients over the past 12 months due to poor digital capabilities; almost double the 5.3 percent in the RoW.

Firms also risk losing wealth managers in search of competitors that offer better digital capabilities. Nearly half (45.5 percent) of the Asia-Pacific (excl. Japan) wealth managers say they would potentially leave their firm for lack of strong digital capabilities against 40.2 percent in the RoW. For under-40 Asia-Pacific wealth managers (excluding Japan), this rises to 50.6 percent.

In addition to the demand for digital maturity, wealth management firms face increasing competition from a wide range of automated advisories — online-only firms that offer automated portfolio management services. Although they're not typically equipped to offer detailed financial planning services, Asia-Pacific HNWIs (excluding Japan) are highly likely to turn to automated advisory services, with 79.6 percent considering the prospect, compared to only 64.7 percent in the RoW. These scores must be viewed in the backdrop of wealth managers' understanding of the growing acceptance of such services. Only 20.2 percent of wealth managers in Asia-Pacific (excl. Japan) think their clients would consider using automated advisories, putting them at a disadvantage against the 32.8 percent of wealth managers in the RoW, who are more attuned to the pattern. Whether wealth management firms consider automated advisories as competitors or partners, they must formulate a response to such providers.

[3] The DigiWealth Maturity 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, digital maturity is measured on various parameters across enterprise, client, and wealth manager.

The report also details the role of peer-to-peer advice forums, which augment standard wealth management advice. Nowhere are these forums more widely used than in Asia-Pacific (excluding Japan) — 59.1 percent of HNWIs tap into them at least weekly, much more than the 48 percent of HNWIs in the RoW. Within the region, peer-to-peer networks are most favored in China (72.1 percent) and Indonesia (70.6 percent), evidently vying for the precious attention of HNWIs.

Need for digital transformation roadmaps to be prioritized

Wealth management firms cannot be complacent while innovative competitors offer game-changing services. To counteract unfavorable trends and move up the digital maturity curve, they should consider prioritizing a comprehensive digital transformation roadmap that has support from the top leadership. Too often, funds and effort that could be spent on digital modernization end up going toward investments that prolong business as usual practices which provides a further advantage to innovative competitors.

The report concludes that elements of the roadmap must include Big Data opportunities, FinTech partnerships, holistic return models for investments in digital programs, engagement of wealth mangers in such programs, and a culture of innovation.

The Asia-Pacific Wealth Report 2016 from Capgemini is the industry's leading benchmark for tracking HNWI population, wealth, and investment behaviors and practices in the region. The report explores the record HNWI wealth levels in Asia-Pacific and the economic and market performance drivers of growth in key individual markets. This year's report takes a detailed look at the digital maturity of wealth management firms in Asia-Pacific and the importance of digital capabilities for firms to better serve HNWIs and ensure satisfaction of wealth managers.

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Capgemini's wealth management practice can help firms from strategy through to implementation. Based on unique insights into the size and potential of target markets across the globe, it helps clients implement new client strategies, adapt their practice models, and ensure solutions and costs are appropriate relative to revenue and profitability expectations. It further helps 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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