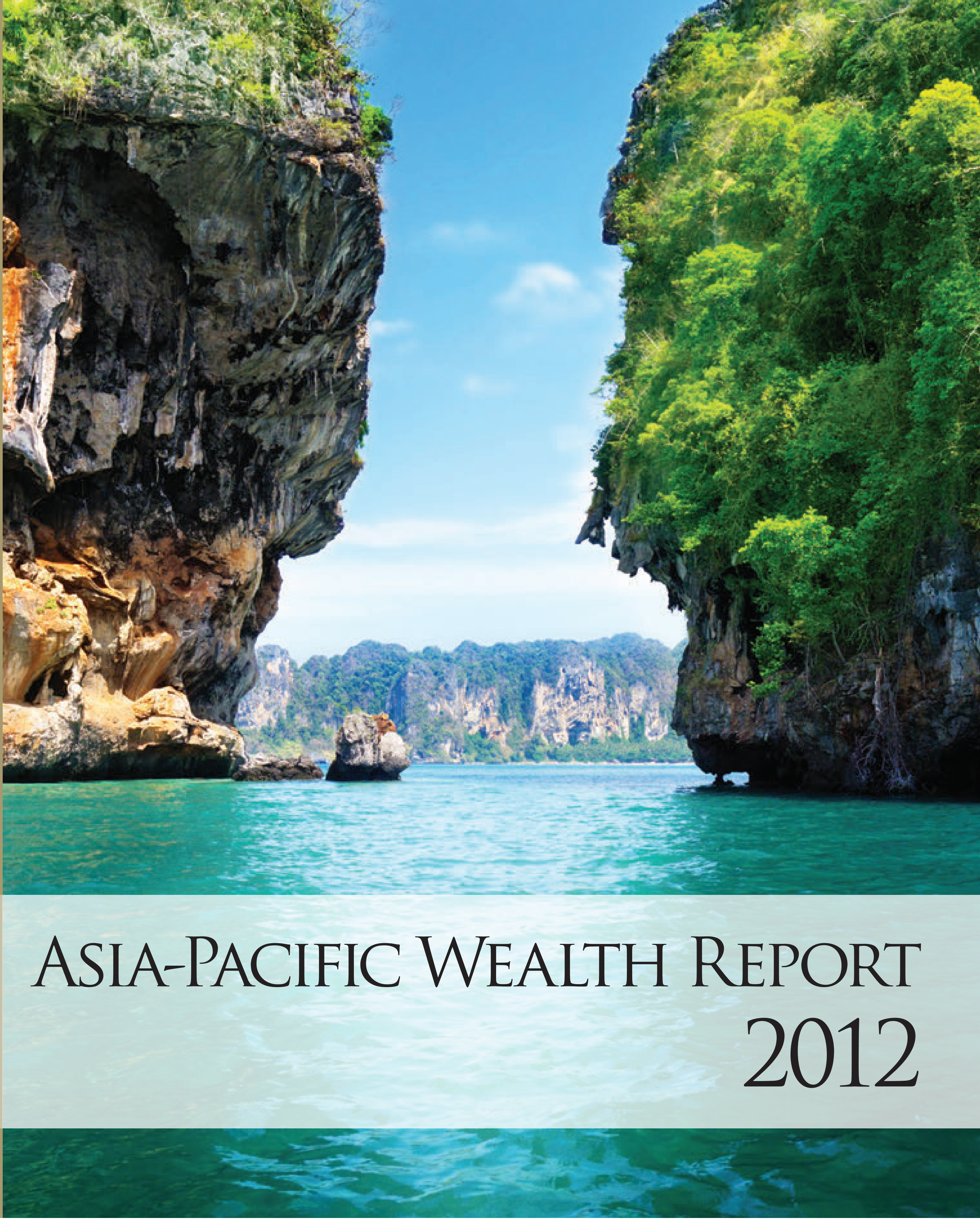


Asia-Pacific Wealth Report 2012

Capgemini
CONSULTING.TECHNOLOGY.OUTSOURCING

RBC Wealth Management

Preface

Capgemini and **RBC Wealth Management** are pleased to present the *2012 Asia-Pacific Wealth Report* (APWR), which looks at the region's ever-growing population of high net worth individuals (HNWIs)—those with US$1 million or more[1] at their disposal for investing.

For the first time ever, our research finds, Asia-Pacific became home to more HNWIs than any other region in 2011. However, Asia-Pacific's HNWI population is unique in its composition and growth, presenting special challenges for wealth management firms. For instance, much of the wealth is newly generated, and a large proportion of HNWIs are entrepreneurs (or heirs of entrepreneurs). Markets in the region are also growing at very different rates.

And even though the population of HNWIs grew in 2011, the aggregate level of investable HNWI wealth in the region declined marginally. The region grappled with its own economic challenges, including inflation, slowing growth, and capital outflows. Wealth also declined amid a slowdown in many of the business segments in which HNWIs are entrepreneurs. At the same time, Asia-Pacific economies battled the effects of global trends, especially the weakness in Europe's economy, which reduced demand for Asia-Pacific goods and services.

Nevertheless, Asia-Pacific is expected to continue showing stronger growth than other regions going forward, and its HNWI population and wealth are likely to keep expanding accordingly. In the process, HNWIs are increasingly looking for the kind of benefits offered by offshore wealth centers—from wider access to products and services to advantageous tax frameworks and financial confidentiality. This report finds Asia-Pacific HNWIs are increasingly drawn to offshore wealth centers close to home, such as Singapore and Hong Kong. These centers offer legal and regulatory transparency, geographic and cultural proximity, and proactive regulators keen to design simple processes. As a result, they are well-positioned to become as attractive for offshore wealth as centers such as Switzerland, especially for HNWIs within the region.

To serve HNWIs well in these Asia-Pacific offshore wealth centers, wealth management firms will need to devise a strategy to meet the existing need for skilled advisors, enhance capabilities around risk and compliance by upgrading IT infrastructures, and improve the products and services that drive solutions relevant to the Asia-Pacific market.

It is a pleasure to present this year's Report, and we hope you draw value from its insights.

Jean Lassignardie
Global Head of Sales and Marketing
Global Financial Services
Capgemini

M. George Lewis
Group Head
RBC Wealth Management
Royal Bank of Canada

[1] Investable wealth does not include the value of personal assets and property such as primary residences, collectibles, consumables, and consumer durables

Asia-Pacific's Population of HNWIs Became the World's Largest by Region in 2011

- **In 2011, Asia-Pacific became home to more high net worth individuals (HNWIs)[2] than any other region.** Driven by growth in the large markets of Japan and China, the HNWI population in Asia-Pacific continued its sustained growth in 2011, and hit 3.37 million. For the first time, that was more than the number of HNWIs in North America, and more than in Europe for the second straight year. Asia-Pacific HNWI investable wealth[3] declined marginally, by 1.1%, mainly due to declines among the higher wealth bands,[4] but that decline was less than in most regions.
- **The Asia-Pacific HNWI population was more concentrated in the largest markets in 2011 than it had been in 2010, but signs of fragmentation are likely to re-emerge over the longer term.** Japan alone accounted for 54.1% of the region's HNWIs in 2011, China for 16.7%, and Australia for 5.3%. Their combined share (76.1%) was up 1.7 percentage points from the year before, but it had previously dropped from 77.4% in 2008 to 74.4% in 2010—a trend that is likely to re-emerge, especially if previous high growth rates in certain smaller markets return or continue.
- **HNWI population growth was not uniform across the region.** Despite the aggregate expansion, the HNWI population did contract in several Asia-Pacific markets in 2011, most notably India and Hong Kong—which had led the growth in the prior two years. Those significant declines constrained the overall growth in the Asia-Pacific HNWI population, but those losses were offset by robust growth in the markets of China, Japan, Indonesia, Malaysia, and Thailand.

ASIA-PACIFIC'S HNWI SEGMENT CONTINUES TO EXPAND OVERALL

Asia-Pacific's HNWI population continued its growth trajectory in 2011, becoming the largest HNWI market globally for the first time. While the world's population of HNWIs grew just 0.8% in 2011,[5] Asia-Pacific's gained 1.6% to 3.37 million individuals (see Figure 1), surpassing North America for the first time, after passing Europe the year before.

However, North America's 3.35 million HNWIs still accounted for the largest regional share of HNWI investable wealth—at US$11.4 trillion[6]—though that was down 2.3% from 2010 due to the ongoing effects of the Eurozone debt crisis and the lingering impact of the global economic crisis. The Eurozone crisis also contributed to a drop in aggregate investable wealth among Asia-Pacific HNWIs, with losses in most of the region's mature markets, and sharp declines in India and Hong Kong. Still, there were pockets of growth in the region, which kept the aggregate decline to 1.1%, and total investable HNWI wealth in the region at US$10.7 trillion (see Figure 2).

Japan is by far the single largest HNWI market in Asia-Pacific, and accounted for 54.1% of all HNWIs in the region in 2011, up from 52.5% in 2010. China is the next largest, followed by Australia. The three markets together accounted for 76.1% of all HNWIs in the region in 2011, up slightly from 74.4% in 2010. However, the share held by those three had eroded in the two years prior—dropping from 77.4% in 2008 to 74.4% in 2010. That trend toward fragmentation is especially likely to re-emerge if previously evident rates of sharp growth remain or return in developing Asia-Pacific markets.

Asia-Pacific accounted for 14 of the top 20 fastest growing HNWI populations in the world in 2009, and eight of the top 20 in 2010. In 2011, Asia-Pacific accounted for seven of the top 20 fastest growing HNWI populations with some markets sustaining strong gains. For example, the number of HNWIs in Indonesia jumped 23.8% in 2010, and rose another 8.2% in 2011. The 2010 and 2011 gains were 16.0% and 12.8% respectively in Thailand, and 12.0% and 5.2% in China.

[2] HNWIs are those individuals with US$1 million or more at their disposal for investing

[3] Investable wealth does not include the value of personal assets and property such as primary residences, collectibles, consumables, and consumer durables

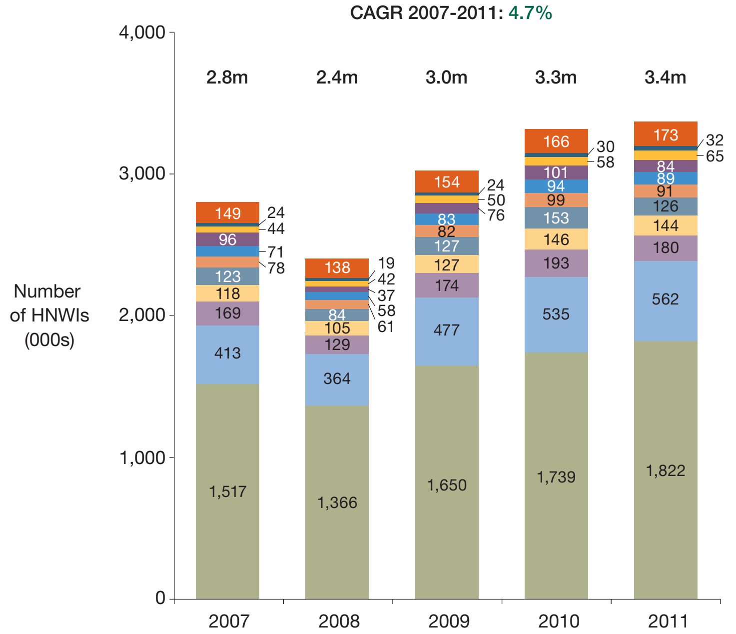
[4] For the purposes of our analysis, we also separate HNWIs into three discrete wealth bands: those with US$1 million to US$5 million in investable wealth (so-called 'millionaires next door'); those with US$5 million to US$30 million (so-called 'mid-tier millionaires') and those with US$30 million or more ('Ultra-HNWIs')

[5] See *World Wealth Report 2012*, http://www.capgemini.com/insights-and-resources/by-publication/world-wealth-report-2012/

[6] Ibid

FIGURE 1. Asia-Pacific HNWI Population, 2007–2011 (by Market)

(000s)



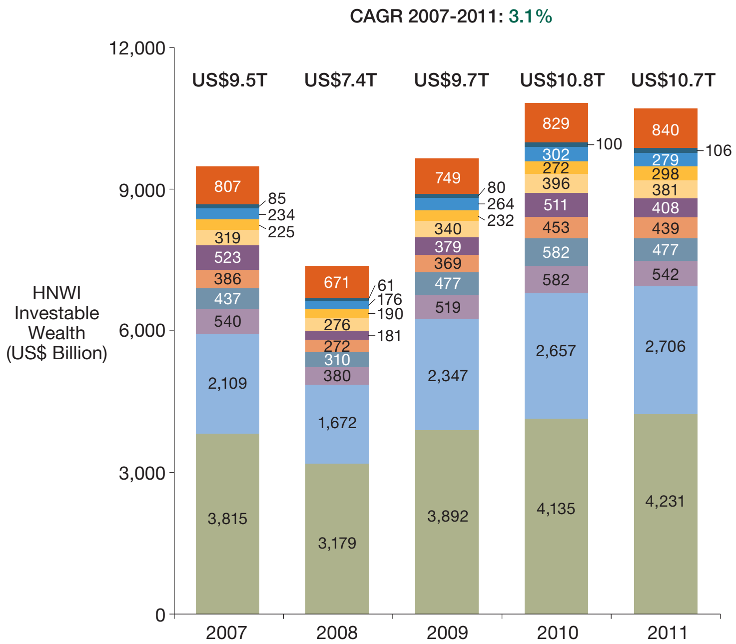
Annual Change	2009-10	2010-11
Asia-Pacific	9.7%	1.6%
Other Markets	8.4%	3.9%
Indonesia	23.8%	8.2%
Thailand	16.0%	12.8%
Hong Kong	33.3%	-17.4%
Taiwan	13.7%	-5.4%
Singapore	21.3%	-7.8%
India	20.8%	-18.0%
South Korea	15.5%	-1.5%
Australia	11.1%	-6.9%
China	12.0%	5.2%
Japan	5.4%	4.8%

Japan, China, and Australia now account for 76.1% of total Asia-Pacific HNWI population (up from 74.4% in 2010)

Note: Chart numbers may not add up due to rounding; Other Markets include Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka, and Vietnam
Source: Capgemini Lorenz Curve Analysis, 2012

FIGURE 2. Asia-Pacific HNWI Wealth Distribution, 2007-2011 (by Market)

(US$ Billion)



Annual Change	2009-10	2010-11
Asia-Pacific	12.1%	-1.1%
Other Markets	10.8%	1.3%
Indonesia	24.9%	5.3%
Taiwan	14.7%	-7.8%
Thailand	17.3%	9.3%
South Korea	16.5%	-3.9%
Hong Kong	35.0%	-20.1%
Singapore	22.6%	-3.1%
India	22.0%	-18.0%
Australia	12.1%	-6.9%
China	13.2%	1.8%
Japan	6.2%	2.3%

Note: Chart numbers may not add up due to rounding; Other Markets include Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka, and Vietnam
Source: Capgemini Lorenz Curve Analysis, 2012

These markets were aided by robust macroeconomic growth as measured by gross national income (GNI), national savings, and domestic consumption, and pockets of industrial strength for the entrepreneurial base (see "Performance of Certain Business Segments Drove Fortunes of Many Asia-Pacific HNWIs" on p12).

Japan, which underwent significant shocks due to natural disasters, recovered well in the second half of 2011, posting growth of 4.8% in its HNWI population. This growth was mainly aided by the nation's recovery efforts, which helped to increase domestic consumption, and continued yen appreciation. The growth rates for Japan's HNWI population have been relatively stable since 2007 compared with other Asia-Pacific markets, mainly because Japanese HNWIs have traditionally been conservative, holding high levels in cash, fixed income, and real estate (where domestic prices are still high). As a result, Japan's HNWIs have been significantly less invested in declining equities than regional and global peers.[7]

In other markets, however, the fortunes of HNWIs are tied very closely to equities. In Hong Kong, for example, the HNWI population contracted by 17.4% in 2011, after expanding by 33.3% in 2010, following wide swings in stock market values. Many HNWIs in Hong Kong are active and aggressive investors in equity markets and related equity-linked derivative products, so the volatility and losses displaced a significant number of individuals from the HNWI category.

The HNWI population in India similarly dropped by 18.0% in 2011 after gaining 20.8% in 2010. Indian MSCI equity-market index also sank in 2011 (down 38.0%), after surging by 19.4% in 2010. The equity-market decline and a steeper-than-expected economic slowdown drove down the number of individuals with more than US$1 million in liquid assets available to invest.

Population and Wealth of 'Millionaires Next Door' Increased in 2011

In 2011, wealth grew 1.5% among Asia-Pacific's so-called 'millionaires next door'—those with US$1 million to US$5 million in investable wealth (see Figure 3). The number of HNWIs in that category also grew—by 1.9% to 3.08 million—reflecting the expansion of wealth, and accounted for 91.5% of all HNWIs in the region. Aggregate wealth across the HNWI population declined marginally, however, because of losses among the higher wealth bands, whose holdings have a disproportionate influence on the pool of investable wealth.

Just 0.6% of HNWIs in Asia-Pacific fall into the 'Ultra-HNWI' category—having more than US$30 million available to invest, but that small number accounts for 24.5% of aggregate HNWI wealth in the region. Similarly, the 'Mid-Tier Millionaire' category (US$5 million-US$30 million in investable wealth) accounts for 7.9% of all the HNWIs in Asia-Pacific, but 23.8% of their aggregate wealth. Wealth among those in the Ultra-HNWI and Mid-Tier Millionaire categories dropped by 5.2% and 1.9% respectively in 2011 (and the population by 3.9% and 1.6% respectively), mostly because these investors are typically committed to higher-risk and/or less-liquid assets such as hedge funds, private equity, or commercial real estate that lose value quickly in declining markets, and can also be hard to sell. The losses among these groups help to explain why aggregate wealth declined even though the HNWI population increased.

FIGURE 3. Composition of Asia-Pacific HNWI Population by Wealth Bands, 2011

	Number of Individuals, 2011	HNWI Population Growth, 2010–2011	HNWI Wealth Growth, 2010–2011	% of HNWI Wealth, 2011
+ $30 m Ultra - HNWI	21.7 k (0.6% of total)	-3.9%	-5.2%	24.5%
$5–$30 m Mid-Tier Millionaire	266.0 k (7.9% of total)	-1.6%	-1.9%	23.8%
$1 m–$5 m Millionaire Next Door	3080.2 k (91.5% of total)	1.9%	1.5%	51.8%

Note: Chart numbers may not add up due to rounding
Source: Capgemini Lorenz Curve Analysis, 2012

[7] See *Asia-Pacific Wealth Report 2011*, http://www.capgemini.com/insights-and-resources/by-publication/asia-pacific-wealth-report-2011-english/

Drivers of Wealth:

ASIA-PACIFIC WAS BUOYANT IN 2011, BUT GLOBAL AND DOMESTIC VARIABLES CONSTRAINED ECONOMIES AND MARKETS

- **Gross domestic product (GDP[8]) continued to expand at a healthy rate of 6.5% in Asia-Pacific excluding Japan in 2011, far above the World GDP average of 2.7%.** The region's expansion followed stellar growth of 8.3% in 2010, and was fueled by a GDP gain of 9.2% in China and 6.9% in India in 2011. Even the developed economies of Australia and Japan performed better than expected. Japan, struck in quick succession in March 2011 by an earthquake, tsunami, and nuclear disaster, recovered well in the second half of 2011 as both government and personal spending increased.

- **Asia-Pacific growth was constrained, however, by both global and domestic challenges, especially in key markets such as India and China.** In 2011, the region's trade exports declined as the European economy slowed markedly and the Eurozone debt crisis deepened, fueling fears of financial contagion. At the domestic level, China's growth slowed as the government crackdown on property speculation cooled prices sharply, and banks faced an increasing debt burden due to their high exposure to local government financing vehicles (LGFV). In India, the major domestic challenges were high inflation, lower investment flows, and policy paralysis.

- **Entrepreneurship and commerce remain key drivers of HNWI wealth and population growth in Asia-Pacific, but some industry sectors were less vibrant in 2011 than in the past.** Key services and manufacturing industries, including healthcare, IT, automobile, and infrastructure, have been leading economic and HNWI wealth expansion in recent years, but were constrained by more challenging economic conditions in 2011. Now that large developing economies such as China are nearing the end of their national wealth-creation phase (measured by aggregate real GDP), the next wave of growth in Asia-Pacific HNWI wealth is likely to come from a diverse mix of industries, but especially those aimed at improving the wealth of society (recognized in GDP/capita levels), including financial services, education, healthcare, and value-added manufacturing.

- **The value of key asset classes also declined in 2011** as their performance in Asia-Pacific followed global trends. Most significantly, there were sharp losses in the value of equities and real estate, which over the last four years have together accounted for around 50% of aggregate portfolios held by Asia-Pacific HNWIs[9]. The potential for gains on investments was also reduced by the tendency of investors to favor lower-risk investments designed primarily to preserve capital.

- **Asia-Pacific excluding Japan is expected to grow at a good pace of 6.1% in 2012,** driven by China and India, which are still among the fastest-growing economies in the world despite their recent slowdown. The diversity of the Asia-Pacific economy, its broad ties to important regional trade blocs, and the growth in key industries in the region are all expected to help offset the negative impact of any weakness in the European economy.

[8] 'GDP' refers in all cases in this document to inflation-adjusted, or real GDP

[9] Based on data from *Asia-Pacific Wealth Report 2011*

ASIA-PACIFIC GDP FAR OUTPACED GLOBAL GROWTH IN 2011, DESPITE CHALLENGES

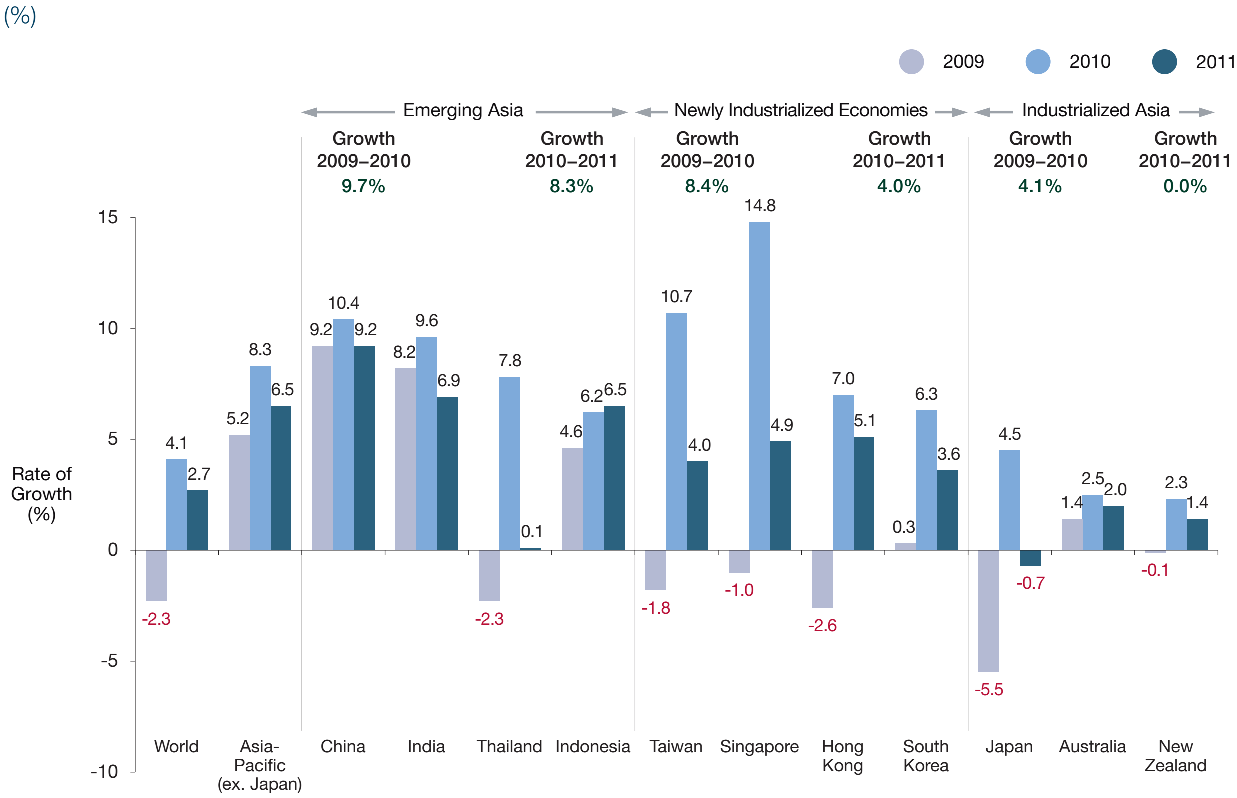
Asia-Pacific excluding Japan posted GDP growth of 6.5% in 2011, far more than the 2.7% growth in World GDP, and significantly more than any other region. However, Asia-Pacific's growth was down from 8.3% in 2010 as the region grappled with both global and domestic economic pressures.

Globally, Europe was at the forefront. The economy there worsened as the Eurozone debt crisis dragged on throughout 2011 and into 2012. As of Q2 2012, Greece, Portugal, Italy, Spain, Cyprus, and the Netherlands were all technically in recession—as was the U.K., which is not in the Eurozone. This weakness negatively impacted Asia-Pacific exports, fund flows, and overall market sentiment, and is likely to subdue the region's growth prospects in 2012. Exports to Europe from Asia-Pacific declined in 2011, with manufacturers in countries like Taiwan reporting sharply lower orders for electronic devices, for example, from brand names like Dell, Lenovo, and Nokia. However, the decline in exports to Europe was offset somewhat by rising exports to other regions such as North America in Q4 2011. Additionally, exports to Latin America have been steadily rising, and now account for about 4% of total Asia-Pacific exports.

Within Asia-Pacific, domestic concerns created a further drag on growth, with many governments grappling with the balance between inflation and growth. China faced issues of domestic CPI rising above 6% (for several months of 2011) and overheating property prices, where local governments were deeply involved. India suffered high inflation and policy paralysis, which undermined sentiment. Both China and India chose to prioritize the inflation fight over growth, keeping key interest rates at elevated levels for much of 2011. In the first half of 2012, China saw inflation abate, and initiated monetary-easing measures designed to engineer a soft landing. India, while still reeling from high levels of inflation, has also seen the rate of inflation decline.

While growth slowed in Asia-Pacific overall, the precise effect depended upon the state of industrial development. 'Emerging Asia' economies were still relatively more resilient, with average economic growth of 8.3% in 2011, down from 9.7% in 2010 (see Figure 4). However, consumer spending in China and India helped to offset the impact of other challenges. In 'Newly Industrialized Economies,' growth slowed to 4.0% in 2011, less than half the rate seen in 2010, due to the slowdown in exports, and supply disruptions due to floods in Thailand. Economic growth in 'Industrialized Asia' remained stagnant in 2011, negatively impacted mainly by the effects of Japan's disasters.

FIGURE 4. Real GDP Growth Rates, Select Asia-Pacific Economies, 2009-2011



Average Inflation (%)	China	India	Thailand	Indonesia	Taiwan	Singapore	Hong Kong	South Korea	Japan	Australia	New Zealand
2010	3.2	12.0	3.3	5.1	1.0	2.8	2.3	2.9	-0.7	2.8	2.3
2011	5.5↑	8.9↓	3.8↑	5.4↑	1.4↑	5.2↑	5.3↑	4.0↑	-0.3 NA	3.4↑	4.0↑

↑ 2011 inflation rate was higher than 2010 ↓ 2011 inflation rate was lower than 2010

Note: Aggregate real GDP growth rates are based on GDP weights as calculated by the EIU

Source: Capgemini Analysis, 2012; Economist Intelligence Unit, June 2012

Still, the global and domestic economic challenges had a tangible impact in 2011 on all types of economies in the region—Emerging, Newly Industrialized, and Industrialized (see Figure 5). For example:

- **Japan**, one of the largest economies in the region, suffered social and economic shocks after the earthquake, tsunami, and nuclear disaster of March 2011, which resulted in significant loss of human life and a standstill in industrial activity. Japan's GDP contracted by 0.7% in 2011, after growing 4.5% in 2010. However, government spending helped the economy to perform better than expected in the second half of 2011 in the aftermath of the disasters, and that aided the growth of the HNWI population and its wealth. Also, while Japan remains important to the region due to its size, much of the HNWI wealth is in cash or illiquid real estate holdings that change little from year to year. As a result, the year-on-year shifts in HNWI wealth are often less pronounced than in the more developing markets of the region.
- **China's** economic growth slowed to 9.2% in 2011 from 10.4% in 2010, due to the export slowdown and curbs on speculative real estate activity. Inflation averaged 5.5% for 2011, well above the official target of 4.0%. However, China is still one of the fastest-growing economies in the world, with 2011 marking the eighth time in the last 10 years that China has registered GDP growth of three times the global average.
- **India** battled inflation levels, coupled with a political stalemate that led to policy inaction, and saw economic growth slow to 6.9% in 2011 from 9.6% in 2010. Inflationary pressure also forced the central bank to hike interest rates 13 times between March 2010 and February 2012, before it turned to monetary easing in April 2012. Private consumption remained buoyant, however, which helped to insulate India somewhat from the negative effects of external forces.
- **Australia** remains one of the most resilient advanced economies as its economic growth was not hit to the same degree by the slowing global economy as the developed markets of North America and Europe. However, the rate of GDP expansion in Australia slowed in 2011 to 2.0% (from 2.5% in 2010), because of the effects of flooding. At the same time, mining industry fortunes are now increasingly tied to Chinese growth (with Western economies slowing down), and any further weakness in China posing a risk to Australia's economy.

Many Asia-Pacific countries also proved heavily exposed to international capital flows in 2011, including those related to foreign institutional investors (FIIs), which help to determine the fate of local equity markets (see Figure 6). China saw US$1.60 billion in FII funds leave its markets in 2011, while India lost US$4.09 billion, more than any other BRIC nation (Brazil, Russia, India, and China). These flows both reflected and drove volatility in various Asia-Pacific markets, including currencies, and helped to push many equity-market indices sharply lower. This, in turn, fueled active portfolio diversification among investors in the region in 2011.

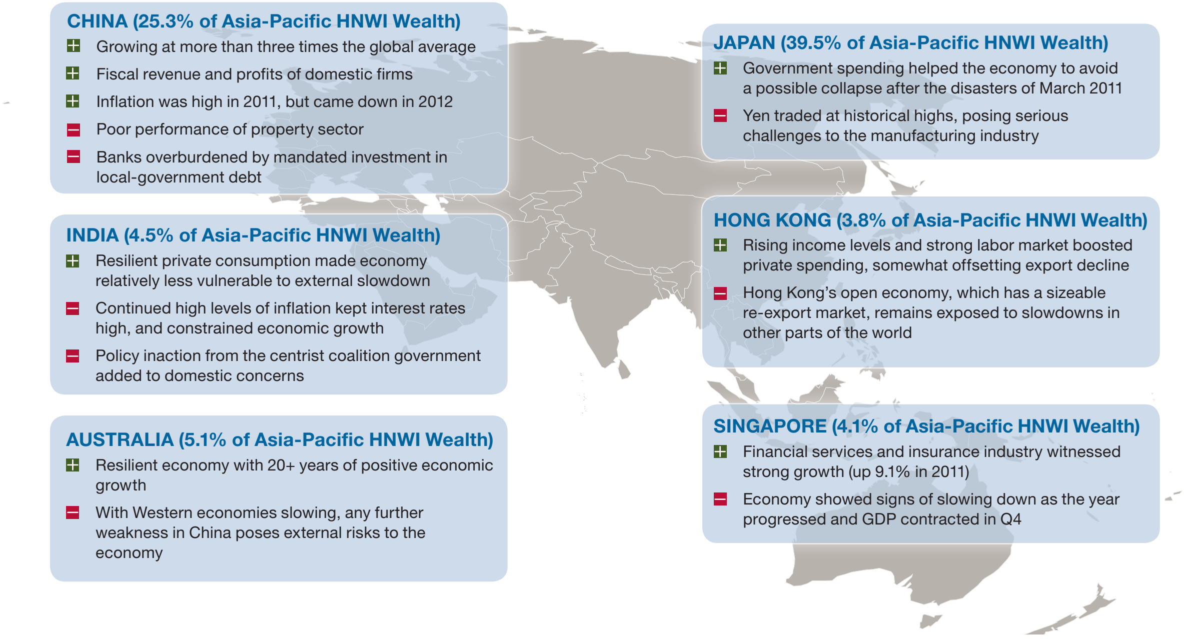
Other Economic Drivers of Wealth Were Robust in 2011

Asia-Pacific also saw strength in other drivers of wealth creation in 2011, including:

- **National savings**[10] as a percentage of GDP in Asia-Pacific excluding Japan was 34.1%, up slightly from 33.9% in 2010, and much higher than the 22.7% global measure. That rate was also by far the highest of any region, reflecting the traditional focus by individuals on savings, especially given the lack of national safety nets in many countries in the region. The national savings rate increased in both Emerging and Newly Industrialized Economies (except Thailand and Hong Kong). However, for Japan, the decline in the national savings rate (of 110 basis points) was highest across the globe due to the effects of the natural disaster.
- **Government consumption** rose slightly in Asia-Pacific excluding Japan to reach US$1.9 trillion in 2011, up from US$1.8 trillion in 2010, powered in part by infrastructure development in China. Total government spending was still far below the levels seen in Western Europe (US$3.2 trillion) and North America (US$2.9 trillion), but those regions have seen public spending stagnate under the strain of hefty sovereign-debt balances. Japan also witnessed increased government spending on the back of recovery efforts in the second half of 2011.
- **Private consumption** jumped 6.1% in Asia-Pacific excluding Japan to reach US$4.6 trillion, fueled by spending among the expanding middle classes. Personal spending even grew among Emerging Economies, despite the negative effects of a slowing global economy, and some of the Newly Industrialized Economies saw substantial gains—such as 8.1% in Hong Kong, and 6.4% in Singapore. The rise in private consumption occurred despite the decline in consumer confidence across much of Asia-Pacific in 2011. Confidence was especially low in Japan and New Zealand in the second half of 2011 after both countries had to manage the effects of natural disasters.

[10] National savings is equal to real GDP minus the combined total of real public and private consumption

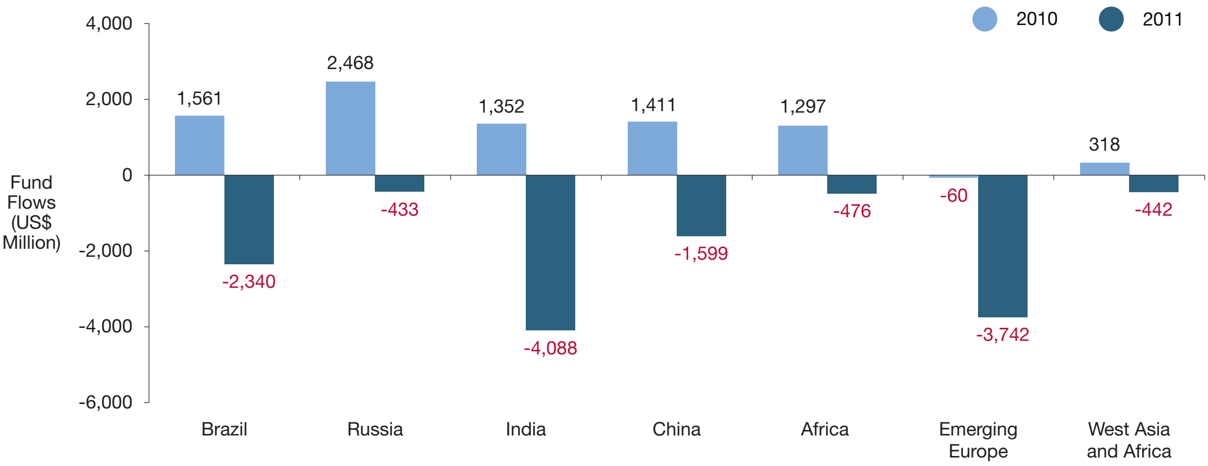
FIGURE 5. Asia-Pacific Economies: Condition and Major Events in Key Markets, 2011 and Q1 2012



Source: Capgemini Analysis, 2012

FIGURE 6. Emerging Market Fund Flows, 2010–2011

(US$ Million)



Note: Negative numbers represent FII fund outflows; positive numbers are inflows
Source: Capgemini Analysis, 2012; EPFR Global January 2012

PERFORMANCE OF CERTAIN BUSINESS SEGMENTS DROVE FORTUNES OF MANY ASIA-PACIFIC HNWIs

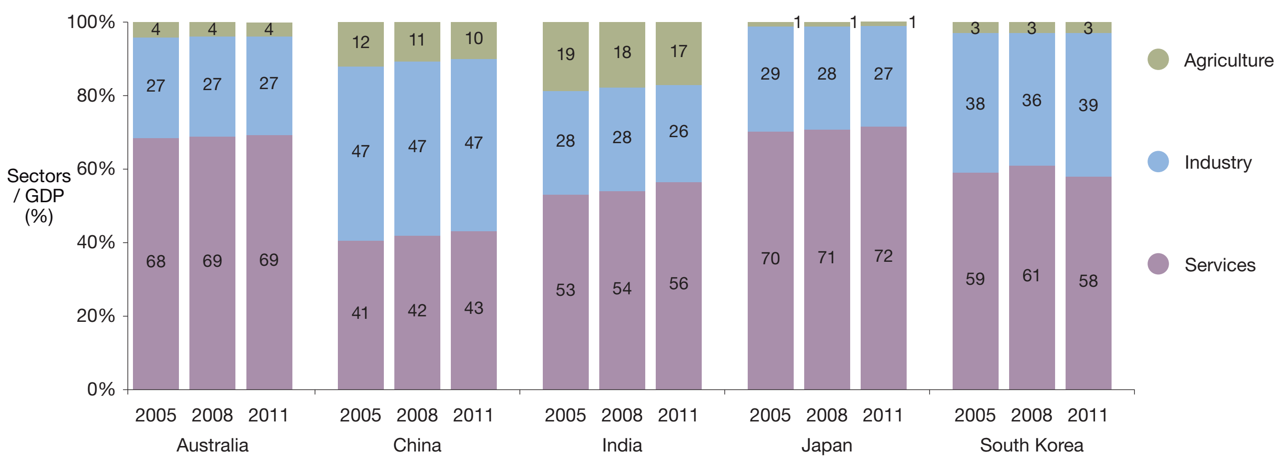
As reported in the *Asia-Pacific Wealth Report 2011*, business ownership is the single largest source of wealth for HNWIs in Asia-Pacific excluding Japan—accounting for 57% of HNWI wealth in 2010, far more than in North America (32%), where salary is a big source of wealth, or Europe (52%). In Asia-Pacific, entrepreneurialism is evident across business segments, and even industries dominated by mammoth state-owned enterprises attract entrepreneurs into ancillary small and medium-sized businesses. The performance of key industries therefore has a significant impact on the fortunes of HNWIs in the region—for better or worse.

In 2011 in China, for example, key industrial sectors remained strong relative to developed markets, but were weaker than in the recent past, which helped to constrain growth in the HNWI population and its wealth. In major Asia-Pacific economies overall, the Services sector remains the biggest contributor to GDP (see Figure 7), followed by Industry, which includes mining, energy production, and construction, as well as manufacturing, which is generally the greatest contributor to the Industry sector.

In China, Services and Industry together accounted for 90% of GDP in 2011, but the growth rate of consumption slowed down for items such as household appliances, furniture, and building materials (which are all closely related to the property industry, which weakened in 2011). Domestic demand also fell for certain industrial products, while steel, building materials, automobile, and some other industries faced growing pressure from overcapacity. The weaker performance in these business segments helped to explain why the population of HNWIs in China grew less in 2011 (5.2%) than in 2010 (12.0%). Weaker demand from China in turn put pressure on the Australian economy, especially the mining industry, helping to explain why HNWI wealth there contracted by 6.9% after growing well (by 12.1%) in 2010.

FIGURE 7. Sector Contribution to GDP, Select Asia-Pacific Markets, 2005, 2008, 2011

(%)



Note: Numbers may not add due to rounding
Source: Capgemini Analysis, 2012; Economist Intelligence Unit, June 2012; World Bank, August 2012

In India, the dynamic was much the same as in China, with growth in the HNWI segment negatively affected by the poor performance of key industries such as information technology, retail, and healthcare. In Japan, by contrast, growth in the automobile manufacturing and electronic goods industries might have helped to support the wealth of Japan's HNWIs, however these industries faced stiff competition from South Korean firms thereby lowering their potential to support wealth growth in Japan for 2011.

South Korea's HNWI wealth declined by 3.9%, but that was less of a decline than some of the region's other export-oriented markets, as some key industries did relatively well, including automobiles, consumer electronics, machinery, textiles, and parts and materials. However, shipbuilding, semiconductors, and steel were negatively impacted by the global slowdown.

HNWIs in Singapore and Hong Kong were heavily affected in 2011 by the poor performance of the financial services industry, which is a major contributor to GDP in both countries.

Going forward, Industry and Services will continue to drive the next wave of growth in Asia-Pacific HNWI wealth, though within those categories, different sub-segments may feature among the top performers, depending on the economic maturity of the country. As emerging economies progress, for example, the industrial focus may shift toward sectors that can distribute wealth and welfare more widely throughout the population. In such cases, segments such as financial services (credit cards and insurance), education, and healthcare are all likely to feature, as well as value-added manufacturing. Expansion in these segments will contribute directly to growth in the HNWI population and its wealth.

EQUITIES AND REAL ESTATE, KEY ASSET CLASSES FOR MANY ASIA-PACIFIC HNWIs, DECLINED IN VALUE IN 2011

Equities and real estate are critical asset classes for Asia-Pacific HNWIs, accounting for about 50% of aggregate HNWI portfolios in Asia-Pacific including Japan each year from 2007 to 2010[11]. After excluding relatively more conservative Japanese HNWIs, this number is even higher for the rest of Asia-Pacific. The value of these assets declined across much of the region in 2011.

Benchmark indices of major Asia-Pacific equity markets sank, largely due to concerns about the European economy, but also because regional and domestic challenges, such as inflation, weighed on investor sentiment and confidence. Natural disasters in Thailand, Japan, and New Zealand also contributed to fears that corporations and economies would feel the effects of supply chain disruptions, especially in the auto and electronics business segments. In aggregate, the region's MSCI index sank 17.3%, but the worst performance was in India, where the MSCI India index ended the year down by 38.0%.

The regional decline in equities also demonstrated that emerging markets are still very susceptible to external forces, and have not decoupled themselves from the performance of developed economies. The outlook for the region's equity markets remains hinged on a thorough resolution of the sovereign debt crisis in Europe and the economic recovery of Europe as a whole, as well as the efficacy with which the region's policymakers are able to manage domestic issues such as inflation and slowing growth.

Asia-Pacific's real estate markets were similarly affected by both local and global factors, and real estate prices declined in most major markets (except Hong Kong, India, and South Korea), especially in Q3 2011.

Caution prevailed among risk-averse investors amid the turmoil, and investors headed into bonds and cash-equivalents for safety, driving yields to near zero in 2011. Yields could remain at these very low levels for some time if the global economy does not improve, and country issues linger.

The following were among the developments in some of the key asset classes that drove HNWI wealth levels in 2011:

Equity markets declined in most Asia-Pacific markets. The benchmark indices of most Asia-Pacific equity markets declined in 2011, and the regional MSCI Index for Asia-Pacific sank 17.3%, compared to a drop of just 2.9% in the Americas. India's index was the worst performing in the region (down 38.0%, see Figure 8), as domestic inflation, debt, policy paralysis, and infrastructure bottlenecks shook investor confidence in the Indian growth story—which, in turn, had a devastating impact on the Indian stock market. But the percentage loss in many other country indices was also in the double digits.

[11] See *Asia-Pacific Wealth Report 2011*, http://www.capgemini.com/insights-and-resources/by-publication/asia-pacific-wealth-report-2011-english/

The MSCI China Index fell 20.3% as prospects of declining consumer demand from the U.S. and Europe, and conservative policy measures tied to the domestic inflation fight, fueled fears that the Chinese growth engine may experience a slowdown, which undermined investor sentiment. Markets such as South Korea and Taiwan, which are among the more liquid markets in the region but also have high levels of foreign stock ownership, were the worst hit by capital outflows. The MSCI Taiwan Index sank 23.3%, and the MSCI Korea Index dropped by 12.8%.

The declining value of shares, combined with the loss of net new capital, sent the value of share trading down sharply in many markets. On the Taiwan Stock Exchange, for example, the value of share trading (the number of shares traded multiplied by the stock price) was down 54.5% in 2011, and the value was down 49.6% on India's exchanges.

Asia-Pacific's equity markets were also highly volatile, notably in late-2011 when concerns about the European slowdown and Eurozone debt crisis reached their heights. Volatility in Asia-Pacific markets abated somewhat through August 2012 (though there were some extremely volatile periods in the interim), but remains a risk with high inflation and slow growth plaguing certain regional markets, and with Eurozone issues still in flux. Still, lower commodity prices are helping to ease inflation concerns, aiding profit margins, and enabling monetary easing to begin in some markets, making Asia-Pacific markets attractive over the medium-term despite these shorter-term concerns.

Asia-Pacific's real estate market followed global cues and declined, as reflected in the negative returns on the Asia-Pacific Select REIT index. The housing market in Asia-Pacific performed below par in 2011, as caution gripped investors amid the global slowdown, intensifying Eurozone concerns, weak consumer confidence, and high unemployment rates. In Australia, where house prices were quite resilient in 2010, average inflation-adjusted home prices fell 7.7% in 2011. In Japan, there is still no end in sight to the 20-year-long slump in property prices, which fell 3.7% on an average inflation-adjusted basis in 2011.

India was the standout exception to the real estate declines, despite the country being riddled by both high inflation and high interest rates. Housing prices there rose in all major cities, and aggregate housing prices ended the year up 25.3%. In Hong Kong, housing prices also continued to rise, and were up 5.3% in 2011, but the gains were subdued by government efforts to curb market speculation. Developers in Beijing and Shanghai have also adjusted prices downward, with the price of prime residential units in those cities reportedly down by as much as 30% in late 2011.

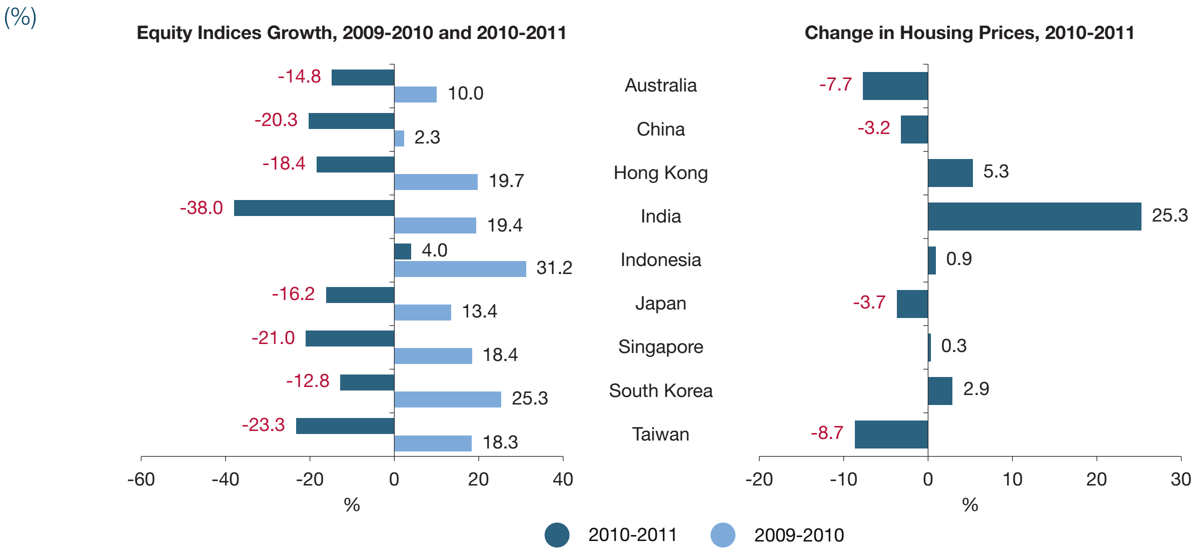
Local-currency government bond markets in Asia-Pacific saw strong demand from foreign institutional investors. Foreign holdings of local currency sovereign bonds rose, in particular, in Malaysia, South Korea, and Thailand. Bonds outstanding in the Emerging East Asia[12] bond market totaled US$5.7 trillion as of December 2011, up 7% from a year earlier. Robust growth in corporate bond issuance was the main driver for overall bond-market growth. Corporate-bond issuance grew fastest in Vietnam (up 16.5%), Singapore (13.1%), Malaysia (10.4%), and South Korea (9.5%). By contrast, government-bond issuance in the Emerging East Asia region fell 12.4% in 2011 as most government agencies either reduced or terminated fiscal stimulus programs begun soon after the 2008-09 global financial crisis to offset its effects.

Yields on cash/deposits (and equivalents) were pushed down to rock-bottom levels as policymakers in many major markets, including those in the U.S. and Europe, pursued monetary easing amid weak economic growth. Demand from risk-averse investors for capital-preservation instruments exerted further pressure on yields. If the economic situation in Europe and the growth prospects of Asia-Pacific do not improve significantly, yields could remain near Q4 2011 lows for some time.

Performance of other investments was mixed. The performance of other investments, such as Asia-Pacific currencies, commodities, and hedge funds witnessed divergent trends. Again, the rapid decline of Asia-Pacific currencies against the U.S. dollar highlighted that Asia-Pacific markets are susceptible to the outflow of hot money. Emerging-market currencies depreciated significantly against the U.S. dollar, especially in the second half of the year when the Eurozone crisis worsened, prompting banks and corporations based in developed economies to liquidate emerging-market assets to repatriate funds and shore up their balance sheets. The Indian National Rupee (INR) was hit the hardest, depreciating against the U.S. dollar by 16.9% in 2011, due both to the global economic trends, and a combination of domestic issues like widening trade and current account deficits, high inflation, declining growth,

[12] Emerging East Asia includes China, Hong Kong, Indonesia, South Korea, Malaysia, Philippines, Singapore, Thailand, and Vietnam

FIGURE 8. Growth in MSCI Equity Indices, 2009-2011, and Change in Housing Prices (Inflation-Adjusted), 2010-2011, Select Asia-Pacific Markets



Note: Equities and Real Estate together accounted for around 50% of HNWI portfolios in Asia-Pacific including Japan every year from 2007 to 2010. This number was much higher for Asia-Pacific excluding Japan due to the conservative nature of Japanese HNWIs

Source: Capgemini Analysis, 2012; http://www.msci.com/products/indices/country_and_regional, accessed June 26, 2012; Global Property Guide, July 2012

and policy paralysis. The yen, however, rose 5.1% against the dollar, mainly due to buying from Japanese firms repatriating profits from overseas investments and sales.

Waning growth in markets like India and China played a major role in the decline of many commodities markets in 2011, when demand from those economies was not as robust as expected. Demand for gold remained robust, however, with buying from China staying strong, and gold being widely sought as a hedge amid weakening global economic conditions. Gold prices rose 10.1% in 2011, extending their bull run to 11 years, as turmoil in the Middle East and the ongoing European debt crisis further burnished gold's appeal as a safe haven.

Among other commodities:

- **Silver** hit a new high (of US$48.3 per ounce) in April 2011, extending 2010's strong gains, but corrected over the remainder of the year to end down 10% for the year as a whole, mainly due to a decline in industrial demand for this precious metal.
- **Oil** prices rose on geopolitical tensions in the Middle East, and despite signs of an economic slowdown. Crude prices may rise further in 2012 as Middle East tensions remain, including the standoff surrounding Iran's nuclear ambitions.
- Prices of **agricultural commodities** such as corn and wheat initially rose significantly on expectations of shortages, which had driven up prices in 2010. Corn prices continued to rise throughout 2011 amid poor weather affecting U.S. output, rising Chinese demand, and demand from ethanol producers. Wheat prices eventually declined in 2011 due to bumper harvests (though they were spiking again in mid-2012 amid concerns about drought in the U.S. Midwest, and a lack of monsoon rains in India).

Hedge funds turned in a negative performance in 2011, after two consecutive years of positive growth. On average, hedge funds globally lost 5.0% in value in 2011,[13] mostly due to the market volatility that was largely precipitated by the European debt crisis. A lack of liquidity in Asia-Pacific helped to undermine Asia-Pacific hedge funds, though they were still relatively resilient compared to the global average. According to the global alternatives research firm Preqin, Asia-Pacific investors continue to view hedge funds positively, with 37% planning to increase their allocations in 2012.[14] In a Preqin survey, 23% of Asia-Pacific investors also stated they would focus solely on adding new funds to their portfolios; more than double that of their global peers (10%) in 2012.

[13] As measured by the Hedge Fund Research Inc. (HRFI) Fund Weighted Composite Index

[14] Preqin Survey, http://www.preqin.com/blog/101/4952/asia-pacific-hedge-investors, 2012

Interest in Investments of Passion Grows Among Asia-Pacific HNWIs

Many Investments of Passion (IoP), including certain categories in Art, Jewelry, and Collectibles, have delivered higher returns than equities since the global financial and economic crisis, and have emerged as an important component of the overall investment strategy for Asia-Pacific HNWIs.

The growing buying interest from emerging-market HNWIs, including those from Asia-Pacific, has prompted the creation of more specialized funds. For example, independent advisory firm Artvest[15] values the Art funds industry at US$700 million to US$750 million globally, with Asian funds accounting for about one third of that total.

The IoP category does not count toward our calculations of HNWI investable wealth, but it does offer an indicator of spending by HNWIs—many of whom deploy at least some of their investable wealth toward a variety of pursuits and collectibles. In Asia-Pacific, the attraction of many types of IoP is enhanced by the aesthetic appeal and esteem value for the young and newly wealthy, and HNWIs from the region's emerging markets are making their presence known in all the major categories of IoP.

Art

China (including Hong Kong) has overtaken the U.S. as the world's largest market for art and antiques,[16] but the breed of young HNWIs from emerging markets is especially inclined to purchase artifacts with which they share a cultural connection. That interest is pushing up the value of indigenous works, as evidenced by the 20.6% increase in 2011 in the World Traditional Chinese Works of Art Index.

Asia-Pacific has also become a very high-end Art market, with 12.1% of works sold in the region selling for between $100,000 and US$1 million in 2011, versus 2.2% in the rest of the world.[17] Those high revenues-per-sale put the region's sales values above those of North America and Europe, even though those markets are bigger in terms of sales volume. China, for instance, accounted for just 10.8% of global Art sales volume in 2011, compared with nearly 15% in the U.S. and nearly 16% in France, but in revenue terms, China's market share is nearly twice that of European Art auctions.[18]

China is certainly a booming market: It posted 774 auction sales of more than US$1 million in 2011, compared with 377 in the U.K., and 426 in the U.S., and registered a 49% growth in Art auction revenues. China also accounted for six of the top ten selling artists and five of the top ten cities for art sales in 2011, but other markets in the region are also strong. For example, Singapore's Art auction revenues increased 22% in 2011, and Indonesia's by 39%.

[15] http://artvest.com/

[16] "The International Art Market in 2011: Observations on the Art Trade over 25 Years," commissioned by TEFAF Maastricht, published March 16th, 2012

[17] Art Market Trends 2011, Artprice.com, 2011

[18] Ibid

Luxury Collectibles

Asia-Pacific is also emerging as a large market for Collectibles, especially luxury cars, with China and India driving the growth in sales. In some markets at least, demand is especially strong among women—who bought nearly 30% of the 300 Porsches sold in Singapore in the first half of 2011, and account for one in three of the Maseratis and one in five of the Ferraris sold in China.[19]

Besides, China has become a large market for luxury cars and yachts overall. Bentley's export sales to China almost doubled to 1,839 units in 2011, for example, representing 95% year-on-year growth. And according to a 2011 survey by the Hurun Report, China's version of the Forbes Rich List, nearly half of China's 875,000 millionaires want to buy a boat.

Luxury car demand is also surging in India, where the market is now sized at a billion US dollars, and is expanding at a rate of 40% a year. [20] Lamborghini's Aventador LP 700-4 (priced at 36.9 million rupees, or US$796k) was introduced into India recently, and received more than 20 orders and hundreds of queries despite a waiting period of 18 months.

Gems and Jewelry, Fine and Rare Watches

The 20% rise in diamond prices during 2011 was underpinned by demand from China and elsewhere in Asia-Pacific while diamond production levels remained flat. Gold is the only other investment asset that posted such double-digit price increases, up 15% in 2011.

Demand was also strong for other Jewelry, including Fine and Rare Watches. For instance, Sotheby's Hong Kong held a sale of Important Watches in October 2011 totaling US$7.1 million. The auction was 79.9% sold by lot and 85.8% by value, establishing Sotheby's highest-ever total for such a sale.

Sports Investments

Asia-Pacific HNWIs continue to buy into professional sports, despite the lack of purely financial returns. In August 2011, Malaysian businessman and Air-Asia owner Tony Fernandes teamed up with India's Mittal family to acquire the newly promoted Queens Park Rangers Football Club in the U.K. In April 2011, Dempo SC entered into a partnership with Danish Superliga side FC Midtjylland, and then bought a 34% stake in the Danish club. These acquisitions took place even though the STOXX Europe Football Index, which covers exchange-listed soccer clubs in Europe, fell by 38.2% between January 2011 and January 2012.

Other Collectibles

Asia-Pacific HNWIs have also shown strong interest in Fine Wine and Collectible Coins. For example, an Indian gold dinar coin sold for five times its pre-sales estimate at a Baldwin auction in October 2011, and a collection of Japanese and Korean coins sold for US$6.8 million at Heritage Auctions in September 2011. A Hupeh Province silver "Ben Shen" coin was sold for US$150,000 (three times its pre-sale estimate) to a Chinese bidder at a Baldwin's auction in Hong Kong, and a rare Chinese coin depicting the Great Wall of China sold for US$115,000 at a Goldberg's auction in 2011 (when the pre-sale estimate was just US$7,000-US$9,000). A Qing Dynasty Bank of Honan Province banknote was sold for a record price of US$300,000 at a Spink's auction in Hong Kong (its pre-sale estimate was US$38,500).

[19] http://www.channelnewsasia.com/stories/singaporelocalnews/view/1149586/1/.html

[20] "New found wealth fuelling demand for flashy cars in India," Pratish Amin, Arabian Biz, January 5, 2012

OUTLOOK FOR ASIA-PACIFIC ECONOMY AND HNWI WEALTH REMAINS POSITIVE FOR 2012 AND BEYOND

Asia-Pacific will likely continue to face domestic challenges such as high inflation and declining property prices, and global factors such as the weak economy in Europe and fear of financial contagion, but the diverse nature of Asia-Pacific exports and economies means the outlook for the region as a whole remains strong. The economic fundamentals are expected to remain robust overall, though export-based economies, such as China, Singapore, Hong-Kong, and Taiwan, will be more vulnerable to external risks.

Assuming the Eurozone remains intact, and no new systemic crises emerge, GDP growth in Asia-Pacific excluding Japan is forecast at 6.1% for 2012 and 6.6% in 2013, while Japan is expected to post growth of 1.7% in 2012 and 1.2% in 2013 (see Figure 9).

China and India, despite their challenges, are likely to remain the fastest-growing economies in the world in the near future, with China's GDP forecast to grow by 8.5% in 2013, and India by 7.4%. Recent data suggests growth is slowing in both of these major economies, but the second half of 2012 is expected to be stronger, with expectations for inflation to decline in India, infrastructure spending to rise in China, and domestic demand to be strong in both. In the case of China, analysts believe the economy is transitioning past the bottom of its cyclical trough, and sequential growth seemed to be improving in April/May 2012, after a very difficult Q4 2011 and Q1 2012.

The balance sheets of Asia-Pacific banks are also generally strong, due to the region's conservative banking regulations, though banks in China face increased levels of non-performing loans. Since 2009, the Chinese government has required banks to support the local government debt market with purchases and refinancing. Chinese banks were reportedly holding around 9.1 trillion yuan of outstanding loans issued to local government financing vehicles as of September 30, 2011,[21] and many local governments are still not in a position to repay their debts even as their maturity dates draw closer. In most economies, capital adequacy ratios are above regulatory minimums, so even if a sharp deleveraging occurs at European banks, major banks should remain solvent. In addition, most policymakers in the region should have ample room for aggressive action in the form of counter-cyclical policies and monetary easing, because, in general, benchmark interest rates are high and sovereign debt levels are low.

Going forward, global, regional, and local macroeconomic conditions will remain critical drivers of the HNWI segment in Asia-Pacific.

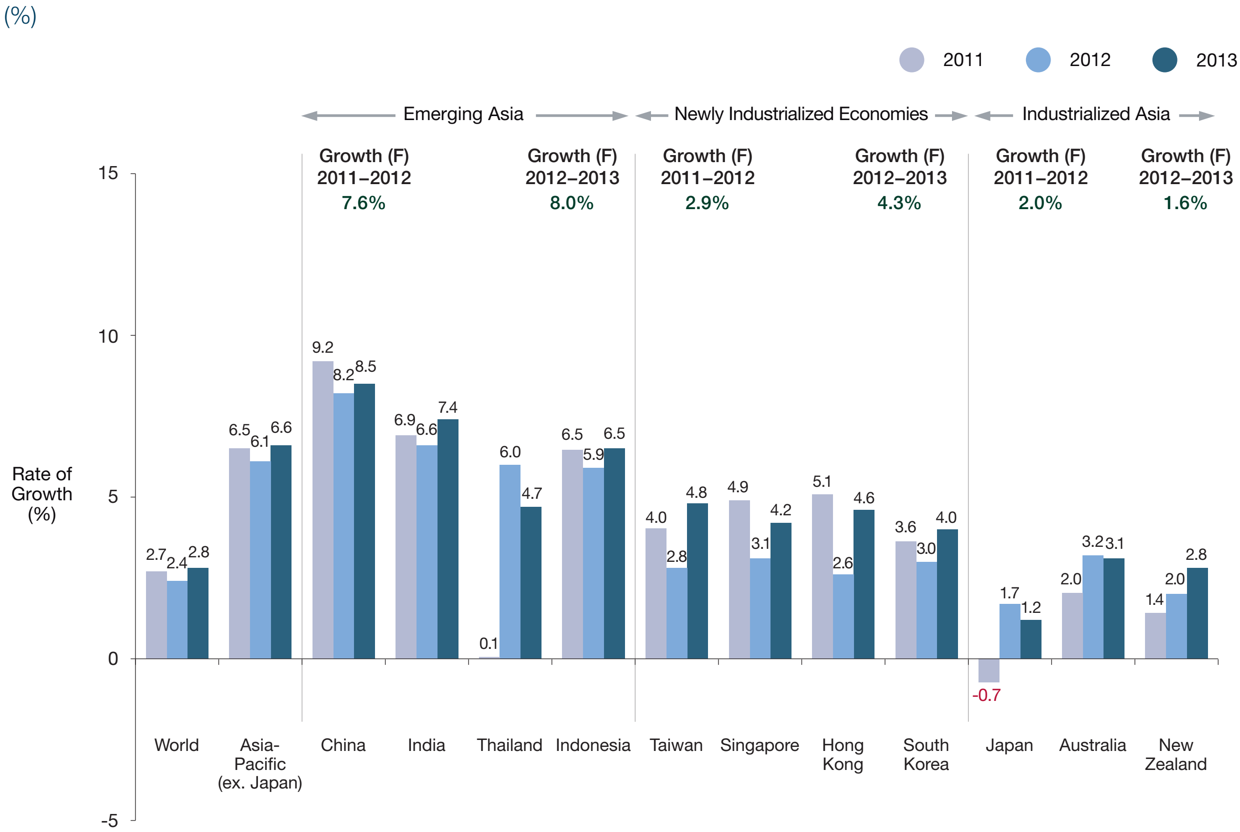
Domestic concerns in the region are already showing signs of abating. For example, inflation in China, which has been a major concern, has come down. Also, India has a new Finance Minister, who is expected to tackle policy issues more proactively to overcome the policy paralysis that has undermined that country's economic performance. Developed markets in Asia-Pacific, such as Australia, are expected to outperform developed economies in other regions, in part due to their relatively sound banking systems.

The performance of various asset classes will still drive Asia-Pacific HNWI wealth in the future, given the heavy reliance to date on equities and real estate in portfolio allocations. However, since entrepreneurs feature so markedly in the ranks of Asia-Pacific HNWIs, the condition of the business sector in each market will also have a direct and significant impact on the composition, growth and wealth of the region's HNWI population.

Japan and China, for example, are the region's two largest HNWI markets. The growth in Japan's HNWI population is expected to be driven by performance in the automobile and infrastructure segments, while services business segments such as financial services, healthcare and education will be critical for China's HNWIs. In India, HNWI wealth creation is expected to be driven by e-commerce and healthcare, while the financial services and mining industries will feature in Australia. In South Korea, government-led initiatives to focus on the growth of key industries could also support growth in the HNWI population and its wealth.

[21] "China to boost local government debt clean-up," China.org.cn, March 2, 2012

FIGURE 9. Real GDP Growth Rates, Select Asia-Pacific Markets, 2011–2013F



Note: Aggregate real GDP growth rates are based on GDP weights as calculated by the EIU, assuming a 'base case' scenario in which the Eurozone remains intact, and no new systemic crises emerge

Source: Capgemini Analysis, 2012; Economist Intelligence Unit, June 2012

Spotlight

ASIA-PACIFIC OFFSHORE WEALTH CENTERS ARE RISING AS REGION'S HNWIs GROW IN NUMBER AND INFLUENCE

- **Asia-Pacific offshore wealth centers, such as Singapore and Hong Kong, are coming to the fore as the number and wealth of HNWIs in the region expands** and their wealth needs become more sophisticated. Asia-Pacific centers offer the region's HNWIs geographic proximity, cultural and linguistic alignment, and access to investment in developing but highly regulated Asia-Pacific markets such as India and China. Proactive regulators have also worked to make these centers attractive to HNWIs from around the world at a time when traditional offshore wealth centers such as Switzerland and Luxembourg face increasing regulatory pressure.
- **Singapore and Hong Kong are attracting increasing amounts of offshore AuM**, and outscore other centers in the region on overall attractiveness. The centers offer relatively stable currencies and political environments, favorable tax policies, transparent regulatory and legal systems, and well-developed capital markets. Switzerland is still the largest offshore wealth center in the world, and our scoring methodology[22] shows it remains highly or moderately attractive on a range of key parameters (except the unpredictable regulatory burden for firms). However, Singapore and Hong Kong are gaining ground in terms of their ability to attract offshore wealth.
- **The scarcity of skilled talent is the most critical challenge for firms seeking to capitalize on the growth of Singapore and Hong Kong offshore wealth centers.** The shortage of talent constrains firms from effectively serving an increasing number of clients, potentially leaving HNWIs un-served or under-served. Other challenges include achieving product depth and service quality to meet global industry benchmarks, adapting to increasing client sophistication, and managing the cost of regulatory compliance. It is also difficult for many Asia-Pacific wealth management firms to make operations scalable when they face slim margins and low profitability levels.
- **To thrive in Asia-Pacific centers, firms will need to focus on and invest in several key areas** including advisory, legal and fiduciary expertise, product offerings, risk and compliance measures, and IT infrastructure. However, firms must continue to leverage their core competencies while building scalable business models. For example, fee/advisory-based models (as opposed to commission or transaction-based models), similar to those in regional offshore wealth centers such as the Channel Islands, could be winning propositions for firms in Asia-Pacific centers. Firms will also need to engage in regular open dialogue with regulators in order to better anticipate and implement changes in regulatory requirements, and drive market developments to the benefit of clients and the satisfaction of firms and regulators.

[22] See Methodology for more details

ASIA-PACIFIC HNWIs PERCEIVE MANY BENEFITS IN REGION'S OFFSHORE WEALTH CENTERS

Banks and other financial firms in traditional offshore wealth centers such as Switzerland and Luxembourg have managed wealth for non-residents for almost a century. HNWIs are drawn to these locations by the wide array of investment products, trust services, wealth structuring options, tax advantages, stable political environments, and financial confidentiality. These centers also feature a large number of skilled and experienced professionals.

Asia-Pacific offshore wealth centers have themselves existed for decades, but have historically had limited offerings and small client bases. However, these centers are now coming into their own amid the rapid increase in the number of HNWIs in the region, and an associated increase in demand for wealth management services. These centers are attractive to HNWIs in the region because of their proximity, cultural and linguistic alignment, proactive regulatory authorities, and the access they provide to investments in developing but highly regulated Asian markets such as India and China. Asia-Pacific HNWIs favor nearby offshore wealth centers like Singapore and Hong Kong just as many from the U.K. prefer the Channel Islands, and those from the U.S. often opt for the nearby Caribbean.

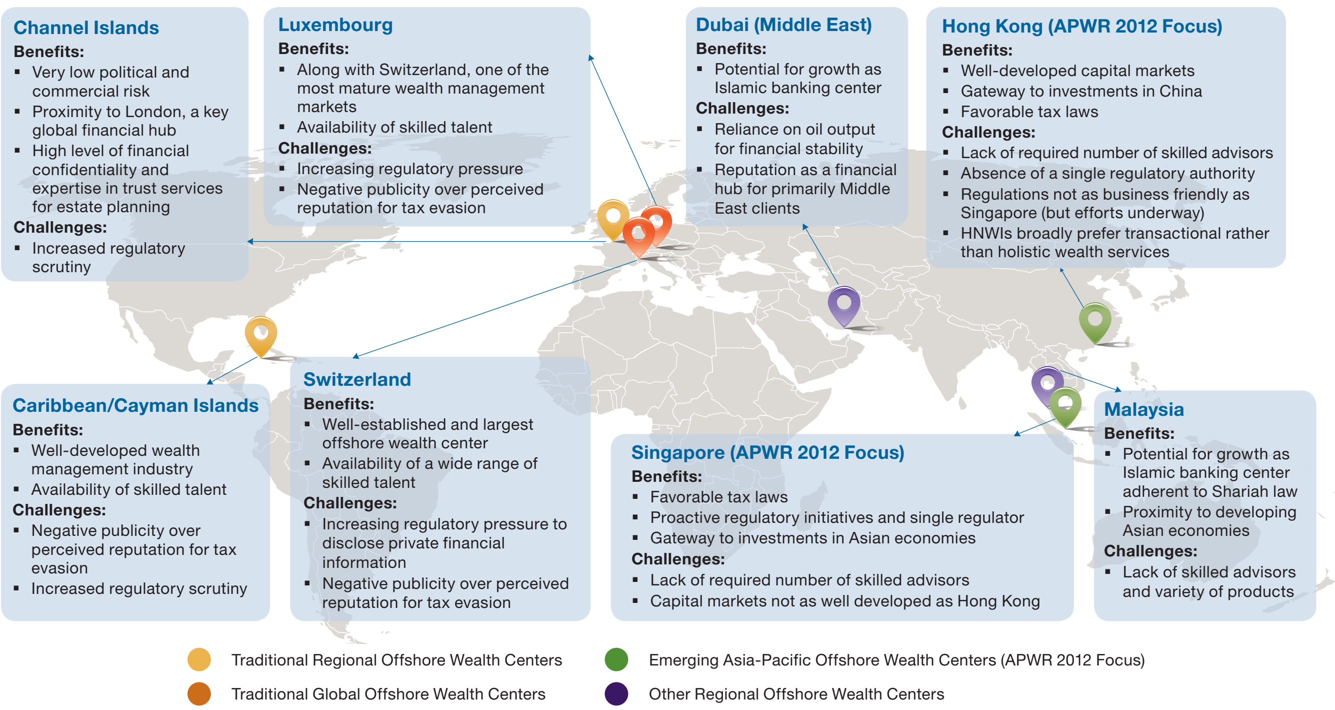
However, Asia-Pacific's offshore wealth centers will need to overcome certain obstacles as they elevate their offerings to the next level, especially challenges related to the expertise of their employees (advisory, legal, and fiduciary), product depth, and service quality in order to meet global industry benchmarks (see Figure 10).

Underlying Demand for Offshore Wealth Center Services Is Growing Broadly

HNWIs around the world are seeking greater control over their assets and want more options for preserving and growing capital, diversifying and restructuring their portfolios, hedging risks, and establishing succession plans for business and family wealth. Offshore wealth centers specialize in providing such services, while assuring client confidentiality. Internationalization of wealth has also occurred over the last decade with individuals and entrepreneurs increasingly developing business and personal interests in various countries. These HNWIs increasingly form a substantial part of the client base for offshore wealth centers, looking, for example, for trusts in multiple locations.

Traditional offshore wealth centers such as Switzerland and Luxembourg are facing significant challenges to their operating conditions. Regulators are requiring these centers to disclose more financial information about their

FIGURE 10. Key Offshore Wealth Centers: Benefits and Challenges from Client and Firm Perspective



Source: Capgemini Analysis, 2012; www.lowtax.net; Datamonitor; Swiss Bankers Association clients and adhere to new and/or tighter tax regimes. A number of banks have even shut down their European offshore-wealth desks and restructured their operations amid the scrutiny, and at least some of that business is now going to independent asset managers operating in the Asia-Pacific region. HNWIs have also moved funds out of these traditional centers after tax amnesties by several western governments, including Germany, the U.K., and U.S., provided an incentive for them to pay manageable fines on untaxed wealth that had been invested in traditional centers. Those funds have often then been repatriated.

Banks in traditional centers are also suffering the effects of local currency appreciation against the US dollar, which has boosted operating costs, and made these centers less attractive to HNW investors from economies with weaker currencies. AuM and profits are down as a result, and the weakness of the European economy has also undermined portfolio performance.

At the same time, demand for wealth management services from within Asia-Pacific is growing rapidly due to the rising number of HNWIs within the region, and has led to the growth of offshore wealth centers such as Singapore and Hong Kong. (Japan is a minimal source of offshore funds, as it is a closed market, and most of the HNWI wealth is in pension funds, which are indirectly managed.)

SINGAPORE AND HONG KONG ARE ATTRACTING INCREASING AMOUNTS OF OFFSHORE AUM

Singapore and Hong Kong have existed as premier financial centers for decades, and already feature stable currencies and political environments, favorable tax policies, transparent regulatory and legal systems, as well as well-developed capital markets. In the last few years, these jurisdictions have also worked proactively to position themselves as leading offshore financial centers.

Regulators in the region are actively engaged in developing simple and transparent systems and processes to help attract fund flows from across the globe, and they have been quick to respond to events, such as the so-called Lehman 'mini-bonds' scandals in Hong Kong and Singapore, in which thousands of retail investors faced massive losses on structured products tied to bankrupt U.S. investment bank Lehman Brothers.

The scandals caused public outrage amid allegations of fraud and mis-selling by banks and other distributors, leaving regulators to act on issues of compensation and disciplinary action. However, regulators responded differently in each center.

In Hong Kong, the Securities and Futures Commission (SFC) and Hong Kong Monetary Authority (HKMA) required distributors to buy back the bonds, and make refunds to investors. The Monetary Authority of Singapore (MAS) barred distributors from selling or giving advice on structured notes for a period of two years but did not hold them liable for the financial losses incurred by investors. MAS did, however, outline a three-step process for compensating investors, thereby retaining the trust of both investors and firms. This trust, and Singapore's reputation as a highly ethical and law-abiding center, has helped make it more attractive to HNWIs outside Asia-Pacific, including those from Latin America.

Today, Singapore is broadly perceived to have modern and well-regulated trust laws, and provides the regulatory underpinnings for private-trust formation, allowing for increased client control over inheritance through estate planning. (Singapore does not yet allow for foundations, however.) It also has a single regulator (MAS), making it easier for wealth management firms to engage in dialogue over regulatory frameworks. MAS also differentiates in its regulations on servicing the mass affluent vs. HNWIs, making it easier for firms to offer specialized services to HNWIs. For example, firms are allowed to offer HNWIs certain types of investment products and discretionary accounts that are off-limits to those with less net worth (e.g., in the mass affluent category). Singapore also has simple and transparent tax regimes, sets individual and corporate tax rates below rates in developed regions, has no capital gains or inheritance (estate) tax, and provides additional tax incentives for firms to shift operations (and headquarters) to Singapore. (Singapore has vowed, however, not to tolerate tax evasion.) Singapore also facilitates resident status for entrepreneurs with requisite qualifications through its Global Investor Programme (GIP).

On the capital markets side, Singapore launched its Global Depository Receipt (GDR) program in line with American Depository Receipts (ADRs) to enable foreign companies to access funds from Singapore. Several global companies issue IPOs through this exchange.

Hong Kong also has lower tax rates than other developed regions, and has abolished the inheritance (estate) tax. Authorities are in the process of modernizing trust laws and other regulations to match those of Singapore and other traditional wealth centers, and make it easier to attract AuM. Hong Kong has also made it easier to obtain residency status under the Capital Investment Entrant Scheme (CIES).

The capital markets segment has been well developed in Hong Kong for years, positioning it well to capture investment funds. Hong Kong accounted, for instance, for more new listings than any other market in 2010 (with IPOs worth US$57.4 billion), and many of those listings are from companies in mainland China. Hong Kong's capital markets therefore provide more investment options for HNW clients, and easier access to investments, such as IPOs from China-based companies, which may be more difficult to secure through traditional offshore wealth centers. At the same time, Hong Kong is able to book assets denominated in yuan, making it an easier option for Chinese investors.

These technical improvements add to the appeal of Asia-Pacific wealth centers at a time when the region's HNWI population is growing quickly, and an increasing proportion of that growing group is opting for offshore wealth centers closer to home.

While Switzerland remains the world's largest offshore wealth center, accounting for more than a quarter of the world's offshore AuM,[23] industry analysts generally concur that the amount held in Singapore and Hong Kong combined has been steadily rising—a trend confirmed in our interviews with wealth-management executives in the region.

ASIA-PACIFIC HNWI GROWTH AND DEMAND FOR DIVERSIFICATION OF COUNTRY RISK ARE KEY DRIVERS OF SUCCESS FOR THE REGION'S OFFSHORE WEALTH CENTERS

Asia-Pacific has been leading the expansion in HNWI wealth in recent years, and now has more HNWIs than any other region. Most of these HNWIs hail from economies that are far outperforming developed nations (GDP in China and India, for example, grew at a compound annual growth rate (CAGR) of 10.5% and 7.7% respectively between 2006 and 2011), and a large proportion of Asia-Pacific HNWIs are keen to keep their assets in their home region. In 2010, for instance, forecasts showed that 57% of Asia-Pacific HNWIs' assets are expected to be held in their home region in 2012, and at the height of the financial crisis (2008), 67% of their assets were held close to home.[24]

Singapore and Hong Kong are well placed to take advantage of this preference to invest closer to home, since these two centers offer increasingly high-quality financial services, and a stable political and economic environment. This stability is important during times of global volatility, but is also especially important to HNWIs from Asia-Pacific, whose home countries may be less stable. Asia-Pacific offshore wealth centers therefore provide HNWIs from that region with some insulation against the currency volatility and political risk inherent in many Asian countries (including India, China, Taiwan, Indonesia, and Malaysia), and offer country-level diversification similar to portfolio diversification. For example, while the majority of Chinese HNWIs still favor offshore wealth services provided by firms from Hong Kong, some have started to invest in Singapore with an eye to diversifying (as investing in Hong Kong is perceived by many to be the same as investing in China).

[23] http://mobile.bloomberg.com/news/2012-03-27/switzerland-s-finma-sees-no-tragedy-in-offshore-wealth-decline

[24] See *World Wealth Report 2011*, http://www.capgemini.com/insights-and-resources/by-publication/world-wealth-report-2011/

HONG KONG AND SINGAPORE OUTSCORE MANY OTHER OFFSHORE WEALTH CENTERS ON ATTRACTIVENESS

To gauge the overall attractiveness of various offshore wealth centers, we analyzed a range of parameters from the client, firm, and market[25] perspectives. All of the following parameters were given equal weighting in the analysis,[26] although we consider those in italics to be most significant:

- **Client attractiveness:** *Financial confidentiality, favorable tax laws, access to structured products*, the number of wealth management firms, quality of living, and ease of obtaining residency/citizenship.
- **Firm attractiveness:** *Growth in HNWI wealth, ease of doing business, availability of experienced advisors*, interaction between industry and regulatory bodies, and corporate tax rates.
- **Market attractiveness:** *Regulatory burden, depth of capital markets, maturity as a financial center* (in terms of liquidity, breadth of product choice, market infrastructure, and regulatory environment), global ranking of the local asset management industry, capitalization of the local stock exchange, country risk, and overall business environment.

The analysis confirms the strength of Switzerland (see Figure 11), which is deemed highly or moderately attractive on almost all key parameters, including financial confidentiality, though that perception may change as pressure mounts on banks there to disclose client information. That pressure also explains why Switzerland is now among the least attractive in terms of the regulatory burden, which has grown and become more unpredictable, presenting significant negative implications for firms planning to do business there—a parameter on which the country is now considered to be only 'moderately attractive'.

Singapore and Hong Kong are also starting to be seen as 'highly attractive' on many key parameters in our assessment, and outscore all other Asia-Pacific offshore wealth centers, suggesting that their ability to attract offshore wealth is increasing.

While both Singapore and Hong Kong emerged as highly attractive offshore wealth centers, there are certain features that differentiate one from another (see Figure 12). At present, the perceived overall benefits offered by Singapore slightly outweigh those of Hong Kong, but authorities in Hong Kong are taking steps to bridge any gaps. In terms of AuM, Singapore attracts wealth primarily from Southeast Asia (including the Indian subcontinent), while Hong Kong is the preferred center for those in China.

GROWTH OF OFFSHORE WEALTH CENTERS IN ASIA-PACIFIC HAS WIDE IMPLICATIONS FOR CLIENTS, FIRMS, AND REGULATORS

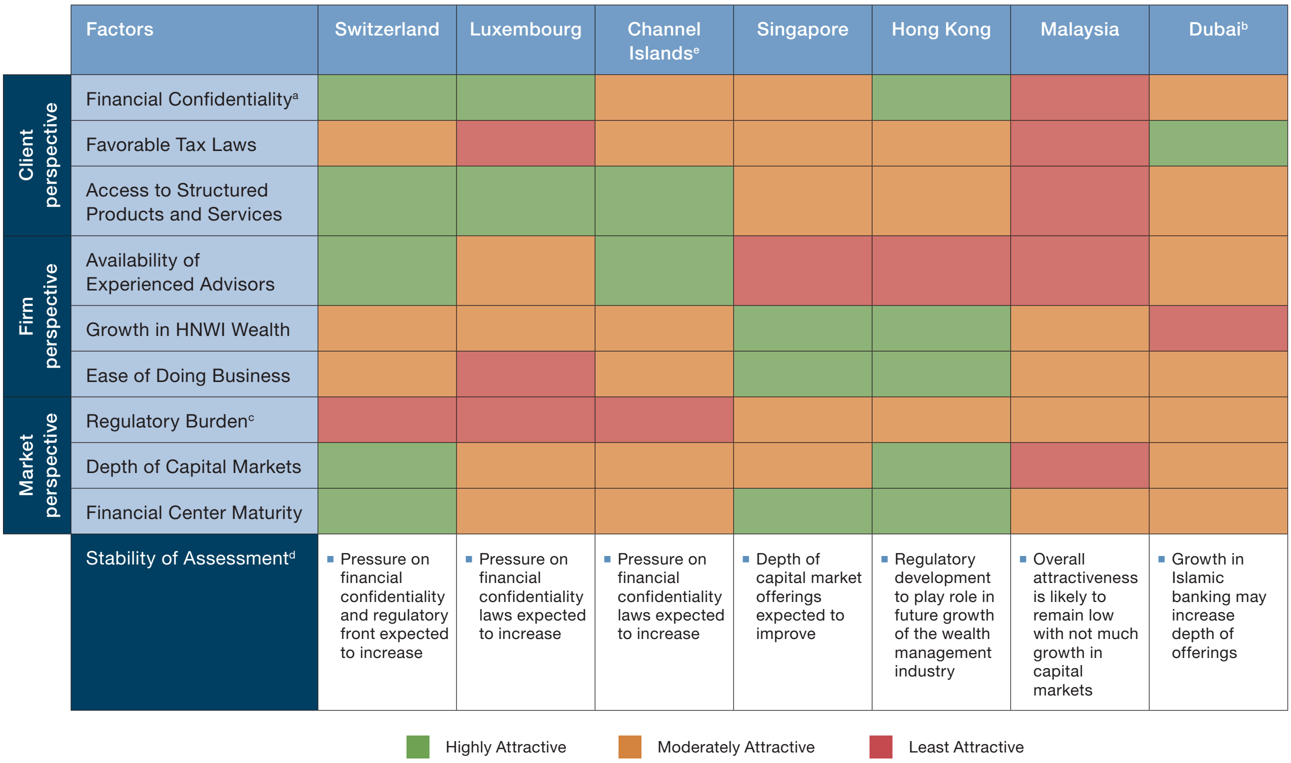
As offshore wealth centers in Asia-Pacific grow, HNW clients from the region stand to benefit the most as the offerings of firms in these centers are likely to become more closely aligned to their distinct needs. Asia-Pacific jurisdictions offer HNWIs alternative politically and economically stable locations in which to book some or all of their wealth. As noted, HNWIs can also use these locations for inheritance planning—for example through the private-client trust structures available in Singapore—and to gain access to unique investment options. Hong Kong, for instance, provides a gateway to certain investments in the Chinese economy, which may not be available via other offshore wealth centers. Entrepreneurs from other regions can also raise capital by tapping into the investment pools and wealth available in Asia-Pacific centers.

Regulators will need to be proactive in protecting the reputation and credibility of Asia-Pacific offshore wealth centers as comprehensive wealth management jurisdictions, and not just tax-efficient locales. Regulators will need to set and enforce a robust code of conduct for advisors and others in the sector, adhere to global standards, and implement zero-tolerance policies for improper business practices. Regulators will also need to move quickly to address any mismanagement that does emerge, such as the Lehman 'mini-bonds' scandal (discussed on p22).

[25] The 'market' perspective, or 'market attractiveness,' includes those parameters that are generally applicable to both clients and firms, and cannot be uniquely attributed to either clients or firms

[26] See Methodology for more detail

FIGURE 11. Attractiveness of Various Offshore Wealth Centers Based on Different Stakeholder Perspectives



a. Switzerland was ranked first in the financial secrecy index, however, this could change as Switzerland is forced to share client records with governments applying regulatory pressure
b. Dubai, though not being a part of Asia-Pacific, has been included in the analysis as it attracts investments from Asia-Pacific and other regions
c. Higher regulatory burden translates into lower scoring and low attractiveness
d. Stability of assessment gives an estimate of how stable the key parameters are likely to remain over next couple of years; any change in these parameters is likely to affect the attractiveness of the center
e. Scoring for the Channel Islands parameters was mostly done based on secondary research since it was not ranked by any agency, as Channel Islands is not an independent country

Source: Capgemini Analysis, 2012; Global Financial centers index, 2011; EIU; Financial Secrecy Index, 2011; World Bank

FIGURE 12. Key Differentiators of Singapore vs. Hong Kong in Attractiveness As an Offshore Wealth Center

Key Differentiators	Singapore	Hong Kong
Regulatory view of wealth management firms	▪ Clear distinction between firms servicing mass affluent and HNW clients	▪ This distinction was made clear only in 2009, after the regulatory revamp post the Lehman mini-bond scandal
Independence of the offshore wealth center	▪ Singapore is perceived to be an independent nation, not influenced unduly by outside forces	▪ Hong Kong is perceived to be under Chinese influence which could deter some HNWIs from investing there
Ease of dealing with regulatory bodies	▪ Singapore has a single regulatory body, making it simpler for firms to plan and implement regulations	▪ Multiple regulatory bodies exist in Hong Kong, hence there is a perception of complexity for firms
Target client base	▪ Many Asian HNWIs prefer Singapore as it provides investment avenues in several Southeast Asian countries	▪ Chinese HNWIs, the second largest base of Asia-Pacific HNWIs, often prefer to invest in Hong Kong (e.g. a local IPO) for cultural and business reasons
Level of regulatory pressure	▪ Though the regulatory pressure is slightly higher than in Hong Kong, the laws are transparent and straightforward	▪ Regulatory burden is lower, but the framework is not well developed and is subject to change
Trust services	▪ Singapore has modern and well-regulated trust laws offering advanced trust services	▪ Hong Kong still lags behind Singapore in trust services as existing laws are outdated
Other key beneficial features	▪ Singapore is perceived as a "White listed" jurisdiction, so can attract global HNWIs from regions such as Latin America and Russia	▪ Hong Kong was the most active exchange in 2010, with initial public offerings worth $57 billion providing many investment options for HNWIs

Source: Capgemini Analysis, 2012

On a macro level, regulators will need to support the preservation of stability in currency and capital markets, and set safeguards against systemic risk and volatility. As well, they will need to engage in dialogue with industry stakeholders to understand evolving client and market demands, and to design policies that enable the jurisdiction to be competitive with other offshore wealth centers, thus aiding growth in offshore AuM.

The growth of Asia-Pacific's offshore wealth centers also presents significant opportunities for regional and global wealth management firms, though there are challenges too—not least the potential for failure as local incumbents are often strong, and scalable business models are not easy to achieve. In particular, firms everywhere are grappling with how best to achieve profitable growth from new markets and products, without an outsized increase in costs.[27] In emerging markets and their offshore wealth centers, it will be especially critical for foreign firms to realistically assess how much AuM is really targetable, given stiff competition (especially from local firms), and the fact that many of the assets are in illiquid or unmanaged pools. Competing successfully against the local players to capture customer wallet share will make it even more important for firms to understand the cultural and behavioral specifics of each offshore wealth center in which they operate.

Firms will therefore need to be deliberate in their decision-making about how best to establish or expand their presence in these newly influential offshore wealth centers. Key decisions will include whether to develop presence and capability by opening branches or collaborating with local banks and firms, and identifying which products and services to offer now and in the future. Foreign firms will also have to navigate regulatory restrictions on products, such as limits on complex financial structures.

Asia-Pacific firms that are currently focused only on limited markets may be missing out on potential client AuM that is routed via offshore wealth centers. These firms can build scalable operations by focusing investment in Asia-Pacific economies in offshore wealth centers, provided essential core competencies exist. Regional firms that have a presence in these locations could establish operational hubs in offshore wealth centers for investments in various countries to help reduce overall costs.

Firms from outside the region with a limited presence could increasingly find their HNW clients demanding more exposure to emerging Asia-Pacific economies, and greater diversification of overseas holdings—both of which could be provided via offshore wealth centers in Asia-Pacific. Those already focused on Asia-Pacific will need to have a presence in emerging offshore wealth centers to support the needs of clients. These firms are in a good position to bring global best practices into emerging wealth centers, while also helping regulators to draft policies that could help to expand the wealth management industry in the region.

Opportunity Exists for All Stakeholders

The growth of Asia-Pacific offshore wealth centers creates opportunities for clients, firms, and regulators alike. These centers provide HNW clients with a greater choice of locations, products, and economies in which to invest.

Firms can leverage specialized business models, and/or specialize in specific segments of wealth management to capture greater market share and build a scalable business model. They will need to develop and enhance advisor expertise through investments in training, to help offset the market shortage of advisor talent. Advisors who can thoroughly understand the cultural nuances and local client needs in order to offer tailored wealth management advice and solutions will be in a good position to win client trust.

[27] See *World Wealth Report 2011*, http://www.capgemini.com/insights-and-resources/by-publication/world-wealth-report-2011/

Regulators will have the opportunity to enhance a center's reputation as a credible and compliant offshore wealth center. They will be able to learn from the experiences and mistakes of traditional offshore wealth centers, and help to develop and implement regulations effectively and efficiently through dialogue with stakeholders. This should help to reduce the costs of compliance significantly, and allay the apprehension of stakeholders.

To take advantage of the benefits, however, firms will need to overcome numerous challenges. Growth of offshore wealth is bound to attract greater regulatory scrutiny, and firms will inevitably incur substantial costs in identifying and reporting the source of funds (e.g., for anti-money laundering compliance). Regulations could also place limits on products and services offered, and regulators are already ensuring distinct separation exists between asset management and capital markets teams—relationships that have generated important client leads for wealth managers in the past. With these types of regulatory developments, there could be a direct impact on both the top and bottom lines of firms operating in Asia-Pacific's offshore wealth centers.

The most obvious challenge is the scarcity of skilled talent. The shortage of expertise could undermine the ability of firms to serve large numbers of clients, or spend adequate time with clients. Firms cannot simply import experts from developed markets, or other businesses such as retail banking, as those advisors will be unprepared for the cultural diversity and/or investment needs of the region's HNWIs. The skills shortage could also push up operating costs as remuneration rises for experienced advisors, and the cost of finding and educating new talent increases. There is also a danger of losing experienced advisors to competing firms, threatening existing client relationships.

Firms may continue to face slim margins and profitability levels as many Asia-Pacific wealth management operations are only just breaking even, but continue to operate largely due to the increase in the HNWI population and wealth.

To be successful, firms will also need to manage effectively a diverse set of client backgrounds and expectations. For example, the majority of Asia-Pacific HNW clients are entrepreneurs, who require liquid or near-liquid investments and simpler products to meet their short-term business needs. At the same time, many of the region's wealthy have only recently qualified as HNWIs, and expect a highly hands-on approach to managing their portfolios.

There is no doubt that an increasing proportion of HNWI assets is going to be held in Asia-Pacific offshore wealth centers as the number of HNWIs in the region grows, and the attractiveness of the centers themselves increases. However, for wealth management firms to thrive in these newly influential offshore wealth centers, they will need to act on several fronts, improving their talent and product suites, investing in risk and compliance, and IT infrastructure, and aligning business models with core competencies.

Way Forward:

TO THRIVE IN ASIA-PACIFIC OFFSHORE WEALTH CENTERS, FIRMS CAN BORROW FROM MODELS USED IN OTHER LOCALES, BUT NEED TO LEVERAGE CORE COMPETENCIES

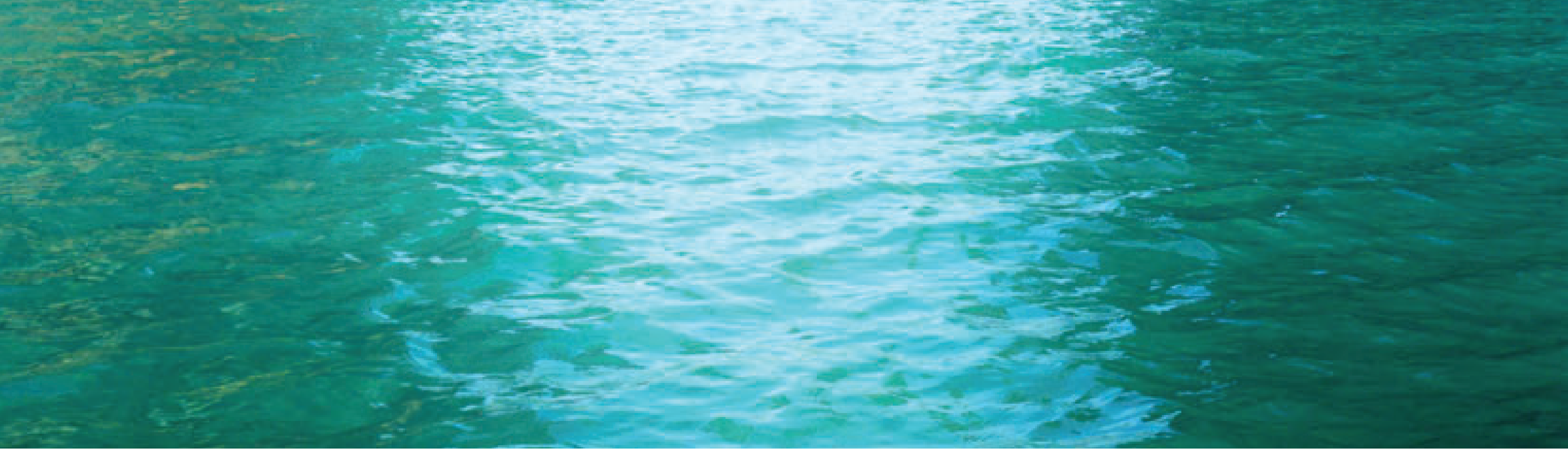
As wealth management firms plot a path to growth in Asia-Pacific offshore wealth centers, they will need to leverage the strengths of the jurisdictions in which they are operating, while making sure not to compromise their own core competencies. This is especially the case for global firms seeking to compete with local players, as they cannot succeed simply by establishing a local presence; they must establish trust through brand reputation or other capabilities to attract clients and wealth.

As an offshore location, Singapore already gets top marks for its maturity as a financial center, and has consistently been ranked highly for its ease of doing business. However, the scarcity of experienced advisors with wealth management expertise is likely to be a major challenge for Singapore going forward. At the same time, Singapore is expected to work on bringing regulatory standards up to global benchmarks in the near future, potentially changing conditions there somewhat.

Hong Kong has an established pool of talent, and is as attractive as Singapore in terms of financial-center maturity and ease of doing business, but lags to date in terms of being proactive on regulation. (Authorities are taking steps to improve, however.) Hong Kong is also perceived to be even more attractive than Singapore in terms of its capital-markets depth. However, there is still some uncertainty around the future of Hong Kong's growth as a leading offshore wealth center since there is perceived to be significant Chinese influence over Hong Kong, and it is not considered to be as independent as Singapore.

Nevertheless, Singapore and Hong Kong both seem well-positioned to become increasingly attractive to HNWIs relative to other offshore wealth centers, especially if they can emulate the appeal of regional offshore wealth centers, such as the Channel Islands.

Regional centers have succeeded by focusing primarily on providing wealth structuring services and capabilities to clients, and targeting HNW clients from neighboring countries. That approach is likely to work better for Asia-Pacific centers than the strategy of traditional centers, which aim to attract a wide range of HNWIs from around the world.



However, regional centers often specialize in niche services such as cross-border tax planning or certain trust services, and Asia-Pacific centers will need to offer the breadth and depth of services found in traditional centers in order to properly serve the diverse Asia-Pacific HNW client base, and its varied preferences and demands. (Foreign players might struggle to compete with established incumbents in an all-service approach, however.)

Given the operating realities and the intrinsic strengths and weaknesses of Asia-Pacific's offshore locations, many firms will need to increase their capabilities to thrive there. The following are among the areas that will need further attention and investment:

- **Expertise**. Firms will need to ensure they have sufficient expertise, not only in the front office, but also in back- and middle-office operations. This will mean continuous education of existing advisors to enable them to address changing client needs, and training of new or younger advisors, who may have local market experience, but will need more education on developing and maintaining successful long-term client relationships.
- **Product offerings**. Many firms will need to enhance their discretionary offerings in order to have more flexibility to customize portfolios tailored to the specific needs of their clients. In Asia-Pacific centers, discretionary products account for only about 5%-10% of all products, compared to about 30% in traditional wealth centers. However, investable wealth among Asia-Pacific HNWIs is often trapped in real estate and business ownership, so HNW clients will need to release more of that investable wealth before it can be deployed in discretionary products.
- **Risk and compliance**. Regulators in Asia-Pacific are gradually moving toward stricter standards in risk and compliance, in line with those prevailing in developed markets. Firms will need to ensure their risk and compliance frameworks are on a par with global standards.
- **IT infrastructure**. Different types of IT models exist, but open platforms are becoming the norm for global firms. Firms in Asia-Pacific centers could still opt for proprietary models, but they require far higher levels of investment, and offer less flexibility than more open models. Appropriate IT models will also be critical to enabling scalability.

Focusing on these areas will be critical to the ability of firms to thrive in Asia-Pacific offshore markets, but it is also important that firms do not compromise their core competencies while building scalable business models. For example, fee/advisory-based models, similar to those in regional offshore wealth centers such as the Channel Islands, could be more suitable to firms in Asia-Pacific centers. There is also a move away from subsidiary models to branch-based structures, but this is only a legal change to achieve greater control over costs than occurs in the subsidiary model. Joint ventures may also be a way for some global firms to leverage complementary strengths of industry expertise and local knowledge.

While developing their strategies, it will also be critical for all firms to engage in a continuous open dialogue with regulators so they are in a position to anticipate changes in regulatory requirements. Firms should also participate actively in discussions over how these markets can best develop to benefit clients and reassure regulators, while also creating opportunity for firms.

Methodology

The Asia-Pacific Wealth Report 2012 focuses on 10 core markets: Australia, China, Hong Kong, India, Indonesia, Japan, Singapore, South Korea, Thailand, and Taiwan. The market-sizing model includes 18 countries and territories in its Asia-Pacific coverage.

We estimate the size and growth of wealth in various regions using the Capgemini Lorenz curve methodology. It is updated on an annual basis to calculate the value of HNWI financial wealth at a macro level.

Our methodology involves three steps. We estimate total wealth by country, using national account statistics from recognized sources such as the International Monetary Fund and the World Bank to identify the total amount of national savings in each year. These are summed over time to arrive at total accumulated country wealth. As this captures financial assets at book value, the final figures are adjusted based on world stock indexes to reflect the market value of the equity portion of HNWI wealth.

We then estimate the distribution of wealth across the adult population in each country, based on formulized relationships between wealth and income. Data on income distribution is provided by the World Bank, the Economist Intelligence Unit and countries' national statistics. We use the resulting Lorenz curves to distribute wealth across the adult population in each country.

To quantify 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 region. We iterate our macroeconomic model each year to account for additional domestic economic factors that influence wealth creation. We also work with colleagues and partners around the globe to best account for the impact of domestic, fiscal and monetary policies over time on HNWI investable-wealth generation.

Our investable-wealth figures 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. The figures 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.

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

To score the overall attractiveness of offshore wealth centers, we employed a model that analyzes 20 sub-parameters (listed on p24). Each parameter was ranked on a scale of 1 to 5 (1 being the lowest and 5 the highest). To convert this score into attractiveness, we rated the center as highly attractive if it scored a 5 for that parameter; securing a score of 4 or 3 would give it a rating of moderately attractive whereas anything less than 3 would make it unattractive. The Final Center Attractiveness score is a simple average of all the parameter scores for each offshore wealth center. The analysis is based on a number of credible sources, including Mercer, the EIU, and the World Bank.

We would like to thank the following people for helping to compile this report:

William Sullivan, Karen Schneider, David Wilson, and Chirag Thakral from Capgemini, for their overall leadership for this year's report; Mahesh Bhattad, Saurabh Choudhary, Sivakanth Dandamudi, Santosh Ejanthkar, Rajendra Thakur, and Jackie Wiles for researching, compiling, and writing the findings, as well as providing in-depth market analysis; Claire Sauvanaud, Mark Wales, and members from the Capgemini Wealth Management Practice, for their insights and industry knowledge. Additionally, Matt Hebel, Sourav Mookherjee, Sunoj Vazhapilly, Mary-Ellen Harn, Vanessa Baille, Erin Riemer, and Unni Krishnan for their ongoing support globally.

Stuart Rutledge, Mark Fell, Kathy Engle, Aimee Wong, Patricia Crawford, Aishling Cullen, Paul French, Peter Hoflich, Claire Holland, and Yen To from RBC Wealth Management, who provided direction, access, industry perspective, and research to ensure development of topical issues being addressed in the Financial Services industry, as well as planning to support the launch of the report; Barend Janssens, John Montalbano, Paul Patterson, Andrew Turczyniak, Eric Lascelles, Alex Khein, Yoji Takeda, Hilary May, Jay Roberts, Mary Sumners, Janet Engels, Simon Ng, and other RBC Wealth Management senior executives, who provided expert advice on industry trends. Additionally we would like to thank: Sanam Alaghband, Jennifer Dela-Cruz, Edith Galinaitis, Bev MacLean, and Jamie Steiner for their support globally. We would also like to thank the regional experts from Capgemini, RBC Wealth Management and other institutions who participated in executive interviews to validate findings and add depth to the analysis.

We extend a special thanks to those firms that gave us insights into events that are impacting the wealth management industry on a global basis.

CAPGEMINI FINANCIAL SERVICES

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™. The Group relies on its global delivery model called Rightshore®, which aims to get the right balance of the best talent from multiple locations, working as one team to create and deliver the optimum solution for clients.

Present in 40 countries, Capgemini reported 2011 global revenues of EUR 9.7 billion and employs around 120,000 people worldwide.

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

For more information on how we can help you, please visit **www.capgemini.com/financialservices**

Select Capgemini Offices

Beijing	+86 10 656 37 388
Chennai	+91 44 6633 1000
Hong Kong	+852 3512 3888
Hyderabad	+91 40 2312 6000
Mumbai	+91 22 6755 7000
Pune	+91 20 2760 1000
Shanghai	+86 21 6182 2688
Singapore	+65 6224 6620
Sydney	+61 2 9293 4000
Taguig City	+63 2 667 6000
Taipei	+886 2 8780 0909

Capgemini Corporate Headquarters

Paris	+33 1 47 54 50 00
New York	+1 212 314 8000

Rightshore® is a trademark belonging to Capgemini

RBC WEALTH MANAGEMENT

RBC Wealth Management is one of the world's top 10 largest wealth managers.* RBC Wealth Management directly serves affluent, high-net-worth and ultra high net worth clients in Canada, the United States, Latin America, Europe, the Middle East, Africa and Asia with a full suite of banking, investment, trust and other wealth management solutions. The business also provides asset management products and services directly and through RBC and third party distributors to institutional and individual clients, through its RBC Global Asset Management business (which includes BlueBay Asset Management). RBC Wealth Management has more than C$560 billion of assets under administration, more than C$322 billion of assets under management and approximately 4,300 financial consultants, advisors, private bankers and trust officers.

ROYAL BANK OF CANADA

Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC. We are Canada's largest bank as measured by assets and market capitalization, and among the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management services, insurance, corporate and investment banking and investor services on a global basis. We employ approximately 80,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 51 other countries. For more information, please visit **rbc.com**.

Select Global RBC Wealth Management Offices

Canada
855-444-5152

Offices in over 140 locations

United States
800-759-4029

Offices in over 190 locations

Asia

Beijing	(+86-10) 5839 9300
Brunei	(+673) 2 224366
Hong Kong	(+852) 2848 1388
Singapore	+(65) 6230 1888

Caribbean

Bahamas	(242) 702 5900
Barbados	(246) 429 4923
Cayman Islands	(345) 949 9107

British Isles

Guernsey	(+44) 1481 744000
Jersey	(+44) 1534 283000
London	(+44) 20 7653 4000

Europe

Madrid	+ (34) 91 310 00 13
Geneva	+(41) 22 819 4242

Middle East

Dubai	+ (971) 4 3313 196

South America

Montevideo	+(598) 2 518 3200
Santiago	+(562) 956 4800
Sao Paulo	+ 55 11 3383 5200

* Scorpio Partnership Private Banking Benchmark 2012. This measurement includes all global RBC Wealth Management affiliates including the U.S. division. In the United States, securities are offered through RBC Wealth Management, a division of RBC Capital Markets, LLC, a wholly owned subsidiary of Royal Bank of Canada. Member NYSE/FINRA/SIPC.

Disclaimer:
The material herein is for informational purposes only and is not directed at, nor intended for distribution to or use by, any person or entity in any country where such distribution or use would be contrary to law or regulation or which would subject Royal Bank of Canada or its subsidiaries or constituent business units (including RBC Wealth Management) or Capgemini to any licensing or registration requirement within such country.

This is not intended to be either a specific offer by any Royal Bank of Canada entity to sell or provide, or a specific invitation to apply for, any particular financial account, product or service. Royal Bank of Canada does not offer accounts, products or services in jurisdictions where it is not permitted to do so, and therefore the RBC Wealth Management business is not available in all countries or markets.

The information contained herein is general in nature and is not intended, and should not be construed, as professional advice or opinion provided to the user, nor as a recommendation of any particular approach. This document does not purport to be a complete statement of the approaches or steps that may be appropriate for the user, does not take into account the user's specific investment objectives or risk tolerance and is not intended to be an invitation to effect a securities transaction or to otherwise participate in any investment service.

The text of this document was originally written in English. Translations to languages other than English are provided as a convenience to our users. Capgemini and Royal Bank of Canada disclaim any responsibility for translation inaccuracies. The information provided herein is on an "as-is" basis. Capgemini and Royal Bank of Canada disclaim any warranties of any kind concerning any information provided in this report.

40534 (09/2012)

For more information, please contact: **wealth@capgemini.com**

For Capgemini press inquiries, please contact:
Mary-Ellen Harn +1-704-490-4146 mary-ellen.harn@capgemini.com

For Royal Bank of Canada press inquiries, please contact:
Aishling Cullen +1-416-974-4826 aishling.cullen@rbc.com