New York, September 28, 2010 – Asia-Pacific’s population of high net worth individuals (HNWIs1) rose 25.8 percent to 3.0 million in 2009, catching up with Europe’s HWNI population for the first time, according to the 2010 Asia-Pacific Wealth Report released today by Merrill Lynch Global Wealth Management and Capgemini. Asia-Pacific HWNI wealth also surged 30.9 percent to US$9.7 trillion in 2009, erasing losses seen in 2008 and surpassing that of Europe’s HWNI wealth in 2009. The number of ultra-HNWIs2 in Asia-Pacific rose 36.7 percent to 19,600, while ultra-HNWI wealth jumped 42.6 percent in 2009.

“Asia-Pacific’s HNWI population matching Europe’s for the first time highlights the region’s growth potential, with China and India at the forefront and Japan remaining an important market,” said Wilson So, interim Head of Asia-Pacific Wealth Management at Merrill Lynch Global Wealth Management. “The region holds much promise and is a strategic focus for every wealth management firm with global aspirations.”

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

2 Ultra-HNWIs are defined as those having investable assets of US$30 million or more, excluding primary residence, collectibles, consumables, and consumer durables
Asia-Pacific HNWI Wealth and Population Still Highly Concentrated

The top three countries—Japan, China and Australia—accounted for 76.1 percent of the Asia-Pacific HNWI population and 70.0 percent of its HNWI wealth in 2009. Japan and China together were home to 70.4 percent of HNWIs in the region and 64.6 percent of regional HNWI wealth, up from 51.8 percent and 62.8 percent respectively a year before.

Japan is by far the single largest HNWI market in Asia-Pacific. Alone it accounted for 54.6 percent of the Asia-Pacific HNWI population and 40.3 percent of its wealth at the end of 2009. At the same time, growth in Japan was less than in other markets due to the slowdown in Japan’s macroeconomic growth and the relatively weak performance of its stock markets.

China remained the second-largest HNWI base in the region, and fourth-largest in the world, with 477,000 HNWIs, up 31.0 percent from the previous year.

“Asia-Pacific proved to be the most resilient region in the economic crisis,” added Bertrand Lavayssière, Managing Director Global Financial Services, Capgemini. “The region’s aggregate growth is likely to outpace the world economy in 2010 and 2011, as domestic demand and intra-regional trade help to offset any ongoing weakness in exports to advanced economies.”

Growth Abounds for HNWIs in Asia-Pacific

Hong Kong’s HNWI population had the highest percentage gain in the world, up 104.4 percent to 76,000. This growth, however, did not fully recoup the large declines Hong Kong saw in 2008. Despite significant gains in key market drivers of wealth, particularly equities and real estate, the number of HNWIs in Hong Kong at the end of 2009 was still only 79 percent of the number at the end of 2007.

India also saw strong growth in 2009 with its HNWI population and wealth increasing 50.9 percent and 53.8 percent respectively. Helping drive this recovery in India were resurgent stock-markets, as well as strength in the underlying economy, allowing the country to fully recover its HNWI wealth and population to pre-crisis levels.

The Future for Asia-Pacific HNWIs

Faster economic growth, coupled with improving business conditions, should fuel expansion in the HNWI segment as business ownership and income account for 73 percent of all HNWI wealth in Asia-Pacific, excluding Japan. Moving forward, China and India will lead the way in the region with economic expansion and HNWI growth likely to keep outpacing more developed economies.
Asia-Pacific HNWIs Increase Allocations to Equities and Real Estate

In 2009, Asia-Pacific market drivers of wealth, particularly equities and real estate, regained significant ground after hefty losses in 2008. Asia-Pacific HNWI investors ended 2009 with 27 percent of their assets held in equities, up from 23 percent a year earlier, as they headed back into the equity markets and equity-asset values rose, especially in emerging markets. The share of Asia-Pacific HNWI assets dedicated to real estate rivaled that of equities – rising to 26 percent from 22 percent, as real estate prices recovered across major markets in the region. This brought allocations back to pre-crisis levels and reversed the crisis-driven flight to cash-based instruments.

The proportion of Asia-Pacific HNWI assets allocated to cash-based instruments dropped to 22 percent in 2009 from 29 percent in 2008 and fixed-income investments accounted for only 20 percent of assets, unchanged from 2008. In addition, Asia-Pacific HNWIs remained primarily invested in their home regions in 2009, though the proportion invested outside the region rose to 36 percent from 33 percent a year earlier.

Looking toward the future, Asia-Pacific HNWIs’ allocations to equities and fixed-income instruments are expected to increase by 2011 and relative holdings of cash-based and real-estate holdings are expected to decline as HNWIs seek to rebalance their portfolios. In addition, home-region allocations are expected to decline as Asia-Pacific HNWIs pursue returns and opportunities elsewhere, especially in the emerging markets of Latin America and Africa.

Still, real estate will remain a key financial asset class for HNWIs in Asia-Pacific, given that other investment options are more limited than in developed markets. Real estate also provides Asia-Pacific HNWIs with an opportunity to invest in familiar markets, while still diversifying their holdings.

New Traits Emerge in Asia-Pacific HNWIs Post-Crisis

In the aftermath of the financial crisis, Asia-Pacific HNWIs, much like their counterparts globally, were forced to re-evaluate their investment goals, strategies, asset allocations and risk profiles. But despite financial-market recovery and a positive economic outlook for the region, Asia-Pacific HNWIs remain cautious. They want a choice of suitable products and services that will properly align to their risk profiles and help achieve a more balanced asset allocation across their portfolios. They want to better understand exactly what they are investing in, where it is held and how it is valued, and are demanding more value-added advice and investment options that properly align with their investment goals.

However, as wealth management firms in the region try to adapt their strategies to meet the new needs of Asia Pacific HNW clients, issues of investor diversity, industry maturity, market evolution, and regulations present challenges to implementing strategic change.
Key to Success is Holistic Management of Client Demands and Resulting Operational Impact

Post-crisis, Asia-Pacific wealth management firms will need to work hard to satisfy the new and evolving needs of their HNW clients. Truly implementing their chosen client strategies, while also navigating the operational and regulatory hurdles, also highlights the shrinking margins and talent shortage that currently accompany the wealth management industry in Asia-Pacific.

The path each firm takes will naturally depend on its identity (size, geographic footprint, and target segments). As Firms embrace product and service diversity, innovative client servicing models and the build out of their capabilities to help capture the longer-term opportunities in this expanding market are important. The key will be to take a holistic approach to managing these moving parts while creating effective and strategic operational change.

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Merrill Lynch Global Wealth Management (GWM) is a leading provider of comprehensive wealth management and investment services for individuals and businesses globally. With more than 15,100 Financial Advisors/Private Wealth Managers and approximately $1.4 trillion in client assets as of June 30, 2010, it is among the largest businesses of its kind in the world. More than two-thirds of GWM relationships are with clients who have a net worth of $1 million or more. Within GWM, the Private Banking & Investment Group provides tailored solutions to ultra high net worth clients, offering both the intimacy of a boutique and the resources of a premier global financial services company. These clients are served by Private Wealth Managers, along with experts in areas such as investment management, concentrated stock management and intergenerational wealth transfer strategies. Merrill Lynch Wealth Management is part of Bank of America Corporation.

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Note to Editors/Reporters: To download the 2010 Asia-Pacific Wealth Report, please visit www.capgemini.com/worldwealthreport.

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