

ASIA-PACIFIC WEALTH REPORT 2017



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Preface

Asia-Pacific maintained a commanding growth trajectory in 2016 and, despite deceleration from 2015, held on to its first-place position for high net worth individual (HNWI)¹ population and wealth. The region is tracking to surpass US\$40 trillion in HNWI wealth by 2025, as we projected in last year's *Asia-Pacific Wealth Report*.

Another identified high note was the return on investment delivered by wealth managers for Asia-Pacific HNWI clients. HNWIs in Asia-Pacific (excl. Japan) self-assessed a world-leading 33.0% return on their investments held with wealth managers during 2016.² This strong performance was driven by Asia-Pacific emerging markets, use of credit to leverage returns, focus on growth, and international holdings. Equity performance was also pivotal and helps to illuminate why Asia-Pacific (excl. Japan) equity allocations hit a five-year high in Q2 2017.

But the upbeat Asia-Pacific news was mixed with risk concerns. Cash holdings hit a five-year high as HNWIs fretted about economic and political volatility and worked to safeguard their portfolios in the face of elevated valuations. As a result, many Asia-Pacific HNWIs are looking abroad to safeguard their wealth, with Singapore and Hong Kong representing the largest offshore markets. Moreover, a noteworthy business model disruption may be in the works for wealth managers as HNWIs seek value beyond investment returns and look for more modular, transparent fee models.

As in many dynamic environments, opportunities are cropping up for those wealth managers prepared and able to respond as the client-expectation bar is raised. Hybrid advice³ (our spotlight topic, page 24) offers an opportunity for firms to re-design their business model to better meet the overall needs of HNWIs in the region and achieve revenue, efficiency, and compliance gains for themselves. Asia-Pacific (excl. Japan) HNWIs show the world's highest demand for hybrid advice over the wealth management client lifecycle (an average of 49.6% across stages). This year's spotlight provides practical guidance for firms looking to implement hybrid solutions, and it delineates areas in which HNWIs value the self-service approach, services where they prefer wealth manager-led initiatives, and areas where they favor an optimal mix of the two approaches. The section also measures acceptance of hybrid advice among HNWIs and firms and tracks progress and client satisfaction.

Disruption is shaping the Asia-Pacific wealth management industry and is likely to increase in the face of increasingly active BigTech⁴ firms such as Alibaba and Tencent and keen interest from regional HNWIs in using non-traditional players for their wealth management needs.

We hope you find the 2017 *Asia-Pacific Wealth Report* useful in charting your strategic course.



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

² According to *APWR* 2016, wealth managers oversee 30.6% of HNWI wealth in Asia-Pacific. The rest is generally held as cash and in retail bank accounts, businesses, real estate, and self-directed investments

³ We define hybrid advice as "Putting clients in the driver's seat by allowing them to tap into life-stage and need-based wealth management and financial planning capabilities in a modular, personalized pay-as-you-go manner. These capabilities will be delivered through: the amalgamation of (1) a cognitive-analytics-driven, automated/self-service delivery (such as for basic investment management); (2) a human-led delivery (such as for complex wealth structuring); or (3) a wealth manager-assisted hybrid approach – as preferred by the client"

⁴ This is a general term to cover data-driven technology firms not traditionally present in financial services, such as Alibaba, Amazon, Apple, Facebook, Google, and Tencent



Executive Summary

Despite Headwinds, Asia-Pacific Remains Leading HNWI Market

- Asia-Pacific held its spot as the world's leader in high-net-worth individual (HNWI) population and wealth, but lost some growth momentum in 2016.
- China and Japan were the engines that powered 2015 Asia-Pacific HNWI population growth, but a slowdown in their growth affected the overall Asia-Pacific region in 2016.
- After leading global growth from 2008 to 2015, Hong Kong's 2016 growth was tempered, with muted progress for a second consecutive year.
- Our projection that Asia-Pacific would surpass US\$40 trillion in HNWI wealth by 2025 still holds, but to reach this milestone key clusters in the region must accelerate.

Asia-Pacific Wealth Managers Led the World in Investment Performance, but HNWI Demand More Holistic Value

- Led by emerging markets, Asia-Pacific (excl. Japan) HNWI saw the performance of their investments held with wealth managers soar 33.0% in 2016, compared with 24.6% for HNWI in the rest of the world.
- Investment performance helped to drive HNWI allocations toward equities to a five-year high, although cash allocations increased as well.
- HNWI satisfaction remains muted in Asia-Pacific (excl. Japan), partially driven by concerns regarding fee structures.
- Trends point to significant business model disruption on the horizon in Asia-Pacific, as HNWI seek value beyond investment returns and Net Promoter Score® (NPS®)⁵ lags in key wealth markets.

Economic and Political Uncertainty Drives HNWI Holdings Offshore

- Asia-Pacific (excl. Japan) HNWI lead the world in wealth held offshore with Hong Kong being home to the most internationally minded HNWI.
- There are a wide variety of favored offshore destinations for Asia-Pacific HNWI, with Hong Kong and Singapore most preferred overall.
- Concerns about economic/financial markets and political risk are driving offshore wealth for both emerging and mature markets in Asia-Pacific.
- The industry, especially in Hong Kong and Singapore, will need to invest further in talent, product, risk and compliance, and technology to meet the HNWI demand for offshore wealth management and face the challenge of a potential increase in localization of wealth management.

Hybrid Advice is the Future for Asia-Pacific Wealth Management

- Asia-Pacific (excl. Japan) HNWI show the world's highest demand for hybrid advice in wealth management.
- Hybrid advice preferences vary depending on a number of factors. Asia-Pacific (excl. Japan) HNWI prefer a hybrid approach for four out of the five client lifecycle stages, with the 'Profile' stage being the exception.
- Wealth management executives in Asia-Pacific welcome hybrid advice and many have begun their transformation, though objectives differ from those of global counterparts.
- Despite compelling drivers toward hybrid services, hybrid transformation effectiveness in Asia-Pacific has so far been limited.
- Asia-Pacific wealth management firms will need to accelerate hybrid advisory transformation, in order to improve HNWI client satisfaction, unlock financial benefits, and protect themselves from BigTech disruption.

⁵ Net Promoter, Net Promoter System, Net Promoter Score, NPS®, and the NPS®-related emoticons are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.



Despite Headwinds, Asia-Pacific Remains Leading HNWI Market

- **Asia-Pacific held its spot as the world's leader in high-net-worth individual (HNWI) population and wealth, but lost some growth momentum in 2016.** Although the region recorded a healthy 7.4% increase in HNWI population and 8.2% in HNWI wealth, numbers were down slightly from 2015.
- **China and Japan were the engines that powered 2015 Asia-Pacific HNWI population growth, but a slowdown in their growth affected the overall Asia-Pacific region in 2016.** China was only the world's 33rd fastest-growing market, up 9.1% compared with 16.2% in 2015. Japan was the 41st fastest-growing market, growing only 6.3% compared with 10.9% in 2015.
- **After leading global growth from 2008 to 2015, Hong Kong's 2016 growth was tempered, with muted progress for a second consecutive year.** Having set the pace as the world's fastest-growing market for the 2008 to 2015 period, with 21.1% and 22.1% annualized growth in HNWI population and wealth respectively, Hong Kong's HNWI population and wealth growth rates slumped to 4.1 and 4.7% in 2016, leading to a one-place drop in global HNWI population rank.
- **Our projection that Asia-Pacific would surpass US\$40 trillion in HNWI wealth by 2025 still holds,** but to reach this milestone key clusters in the region must accelerate.

Asia-Pacific Remains Largest in HNWI Population and Wealth, But Growth Slows

Asia-Pacific remains the global leader in HNWI population and wealth, outperforming all other regions, but its explosive pace of growth has decelerated over the past year. The region's HNWI population and wealth increased 7.4% and 8.2%, respectively, down from 9.4% and 9.9% in 2015.

The Asia-Pacific HNWI population increased by approximately 400,000 to 5.5 million, representing an expansion of 7.4% (Figure 1). HNWI wealth in the region grew by 8.2%, increasing from US\$17.4 trillion to US\$18.8 trillion (Figure 2). These growth rates are lower compared with the annualized HNWI population and wealth growth of 9.1% and 10.0%, respectively over 2010–2015.

Asia-Pacific also recorded the slowest annual HNWI population and wealth growth in comparison with the last three years. It was hampered by sluggish equity market performance, with only 0.7% market capitalization growth in Asia-Pacific (excl. Japan) compared with a 5.7% global average. GDP growth also dragged the numbers down, remaining stagnant at 5.4% for Asia-Pacific (excluding Japan) in 2016 compared with the previous year (Figure 6).

Despite these challenges, Asia-Pacific continues to drive global wealth generation, leading North America by 360,000 HNWIs and US\$863 billion in HNWI financial wealth. It remains the world's largest HNWI market.

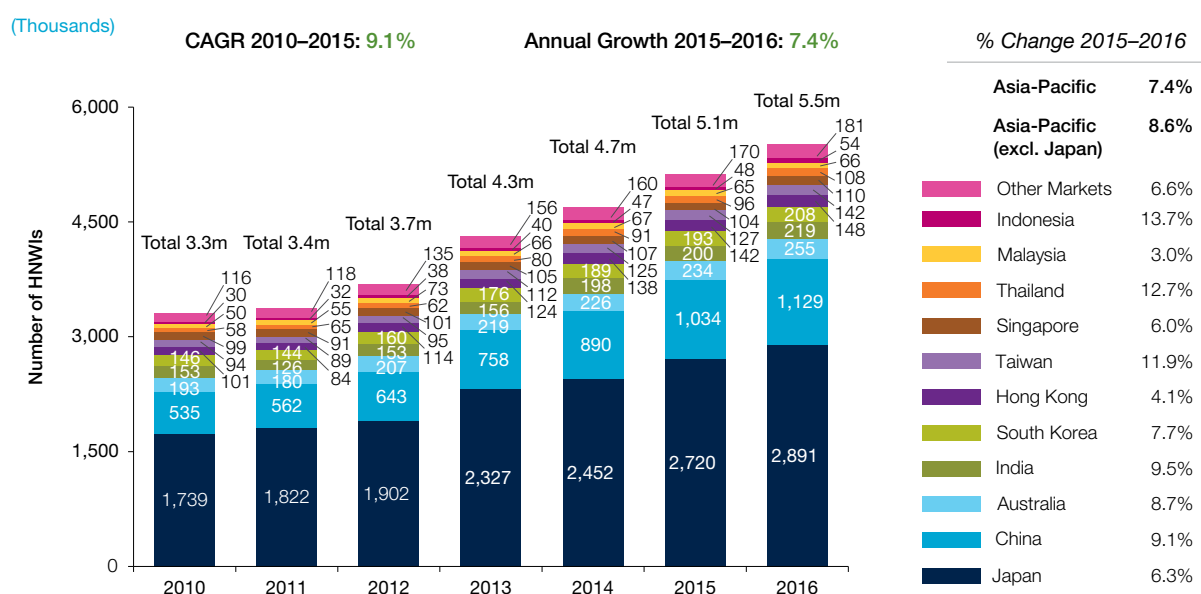
Last Year's HNWI Growth Drivers, China and Japan, Fall Back

China and Japan had fueled 2015 Asia-Pacific HNWI population growth but lost momentum in 2016. China came in as the 33rd fastest-growing market globally, up 9.1% compared with 16.2% in 2015. Japan was the 41st fastest-growing market, growing just 6.3% compared with 10.9% in 2015. The slowdown is significant because China and Japan are the two largest markets in the region, together accounting for 73.0% of HNWI population and 68.0% of HNWI financial wealth in 2016.

China witnessed its lowest HNWI population and wealth growth, 9.1% and 9.8% respectively, since 2011. In fact, it was lower than the annualized 2010–2015 HNWI population and wealth growth rate of 14.1% and 14.6%, respectively. The slowdown can be explained by China's equity market performance, which also witnessed a significant decline of 10.6% in 2016, impacting overall HNWI wealth. China's GDP expansion in 2016 held steady at 6.7%, compared with 6.9% in 2015. However, a bright spot for China was its real estate market, which expanded 21.3% — a significant increase over 9.1% growth the previous year.

After powering Asia-Pacific's wealth in 2015, Japan's contraction in the real estate sector (down 1.2%) and slowdown in equity markets (to 3.4%) dampened its 2016 wealth generation. Japan's HNWI population grew by 6.3% and wealth at 6.7% in 2016, compared with 10.9% and 11.4%, respectively, in 2015.

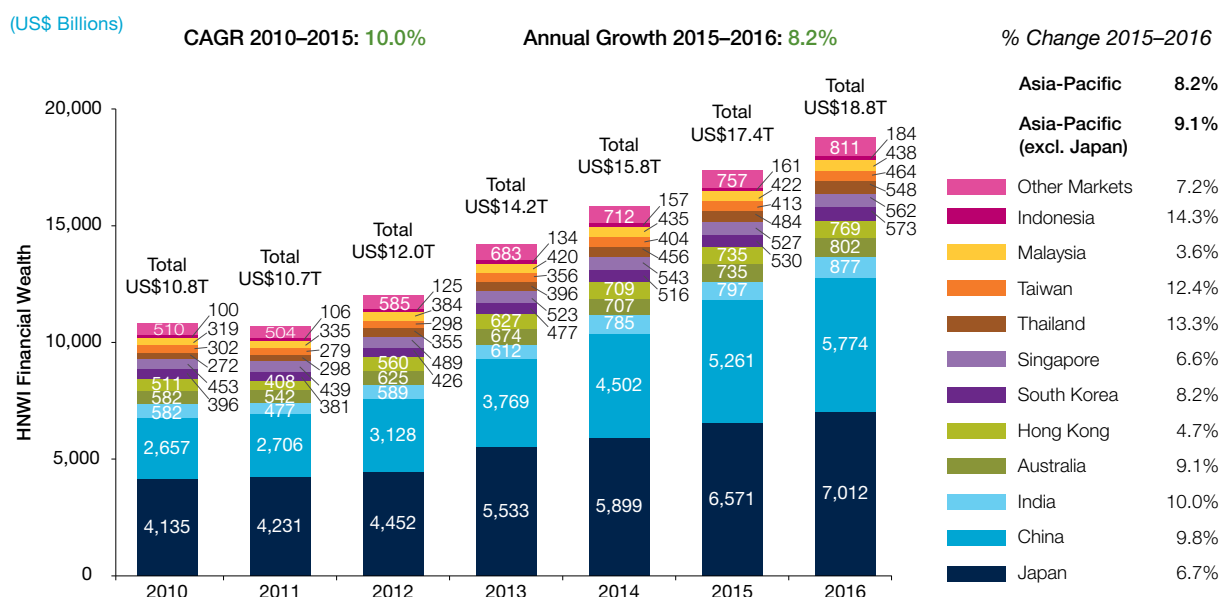
Figure 1. Asia-Pacific HNWI Population, 2010–2016, by Market



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

Source: Capgemini Financial Services Analysis, 2017

Figure 2. Asia-Pacific HNWI Wealth, 2010–2016, by Market



Even with these setbacks, given their overall large share in HNWI wealth and population, Japan and China HNWI growth was robust in absolute terms. *Only the United States added more HNWIs (337,000) than Japan (171,000) and China (95,000) in 2016.*

Hong Kong Loses Steam, but Emerging Asia Growth Offsets Any Chance of a Slowdown

Hong Kong also put a damper on Asia-Pacific growth, with muted progress for a second consecutive year.

From 2008 to 2015, Hong Kong was the world's fastest-growing market at 22.1% annualized HNWI wealth growth. However, in 2016, its HNWI population (4.1%) and wealth (4.7%) growth (Figure 3), fell far below the 2010–2015 annualized average of 7.0% and 7.5%, leading to its drop by one place in global HNWI population rankings.

Hong Kong has close ties to China and was affected by the latter's muted performance. However, Hong Kong's market is far smaller than those of Japan and China, so it had less overall impact on the region's results.

Hong Kong's economy slowed, with GDP growth expanding only 2.1% in 2016 compared with 2.6% in 2015. The recent downturn in the economy hit all sectors: tourism, retail, trade, financial services, and property development. This slowing of growth has highlighted Hong Kong's dependence on China, which accounts for 40% of its trade.⁶

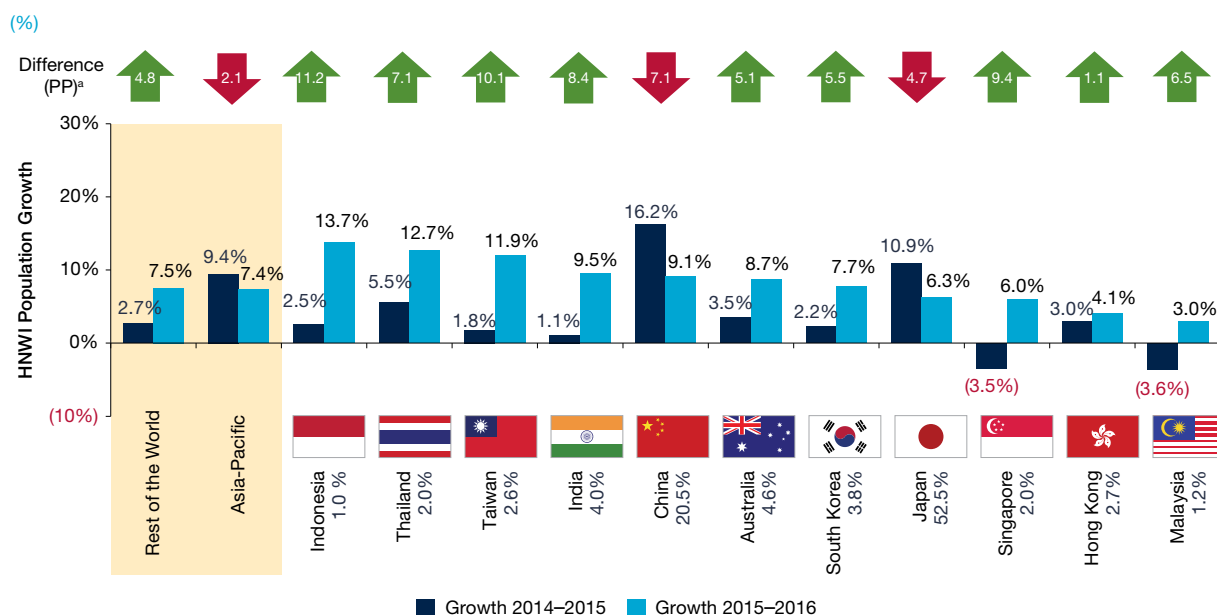
Meanwhile, Hong Kong's financial rival Singapore grew faster for the first time in three years. In 2016, Singapore saw HNWI population and wealth annual growth of 6.0% and 6.6%, respectively, after declines of 3.5% and 2.9%, respectively, in 2015. This recovery was driven primarily by a significant improvement in equity market performance, with a market capitalization growth of 1.5% in 2016 compared with the 15.0% decline the previous year.

The picture across Asia-Pacific was not all disappointing. Emerging Asia markets, including Indonesia, Thailand, and India — as well as ultra-HNWIs,⁷ with US\$30 million or more in investable assets — helped offset some of the region's sluggishness elsewhere. Three markets saw significant double-digit growth from 2015. Indonesia was up 13.7% and 14.3% for HNWI population and financial wealth, Thailand was up 12.7% and 13.3%, and growth in India was up 9.5% and 10.0%. All three markets posted growth that was higher than their individual annualized 2010–2015 rates.

6 Ben Bland, "Hong Kong: One country, two economies," July 19, 2016, Financial Times, accessed August 4, 2017 at <https://www.ft.com/content/eb0e795a-3d17-11e6-9f2c-36b487ebd80a>

7 For the purposes of our analysis, we separate HNWIs into three discrete wealth bands: those with US\$1 million to US\$5 million in investable wealth (millionaires next door); those with US\$5 million to US\$30 million (mid-tier millionaires) and those with US\$30 million or more (ultra-HNWIs)

Figure 3. HNWI Population Growth Rates, 2015–2016, Select Asia-Pacific Markets



a. PP difference denotes the percentage change in 2015–2016 over 2014–2015

Note: Numbers below the flags represent the individual market's share (%) of HNWI population in Asia-Pacific

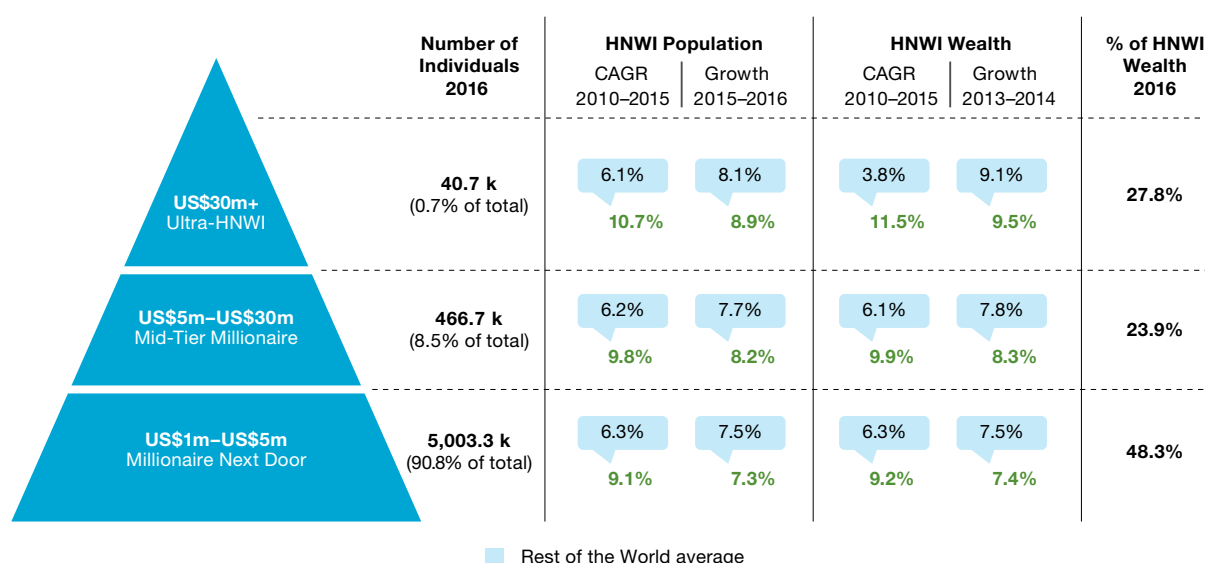
Source: Capgemini Financial Services Analysis, 2017

A mixture of local economic dynamism and financial markets spurred the growth. Indonesia saw strong GDP growth of 5.0%, plus outstanding 22.8% equity market expansion, compared with 2015's 16.3% decline. Thailand's equity markets also bounced back to post a significant 25.4% gain combined with a GDP expansion of 3.2% to further power Asia-Pacific HNWI growth. India overachieved as well. After a sedate HNWI wealth expansion of 1.6% in 2015, India posted double-digit HNWI wealth growth of 10.0% in 2016. This jump was propelled mainly by a rebound in its equity markets and real estate witnessing a growth of 3.1% and 2.7%,

respectively, compared with declines of 2.5% and 10.4%, respectively, in 2015. More good news may be on the horizon, with improved GDP forecasts for 2017 and 2018 expected to drive further economic growth.

Other mature markets such as Taiwan, Australia, and South Korea also experienced strong HNWI growth in 2016, with HNWI population for these three markets growing 11.9%, 8.7%, and 7.7%, respectively (Figure 3), while HNWI wealth grew 12.4%, 9.1%, and 8.2%, respectively. HNWI population and wealth growth in all of these markets was faster in 2016 than the annualized

Figure 4. Number of Individuals per Wealth Band (2016) and Growth (2015–2016), Asia-Pacific (excl. Japan)



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

Source: Capgemini Financial Services Analysis, 2017

2010–2015 rates. Australia also rebounded with higher HNWI population and wealth growth compared with the previous three years.

Emerging Asia has been the powerhouse over the past few years in driving HNWI population and wealth growth. Stepping back to examine the trend from 2010–2016, all the leading growth markets (Indonesia, Thailand, and China), were from Emerging Asia. Over this period, China stands out as the biggest contributor to the region's growth, with the highest HNWI population (13.3% annually) and wealth (13.8% annually) expansion among the top global markets. In contrast, despite their contributions to growth, mature markets such as Singapore, Malaysia, and Australia grew at the slowest pace among all key Asian markets during this period.

While slower than in years past, Asia-Pacific ultra-HNWIs continued to be the fastest growing wealth band, in line with the global trend for 2016. In 2016, Asia-Pacific HNWI population growth (7.4%) was comparable to the 7.5% growth across the rest of the world. Nonetheless, ultra-HNWIs in the region continued to spur global growth despite some setbacks. After posting annualized double-digit ultra-HNWI population and wealth growth over 2010–2015, Asia-Pacific ultra-HNWI growth decelerated in 2016, with population growth of 8.9% and wealth expansion at 9.5%. At the same time, growth in the ultra-HNWI population and wealth across the rest of the world was very strong in 2016 (Figure 4), at 8.1% and 9.1% respectively, in comparison with the 2.3% and 0.1% growth recorded in 2015.

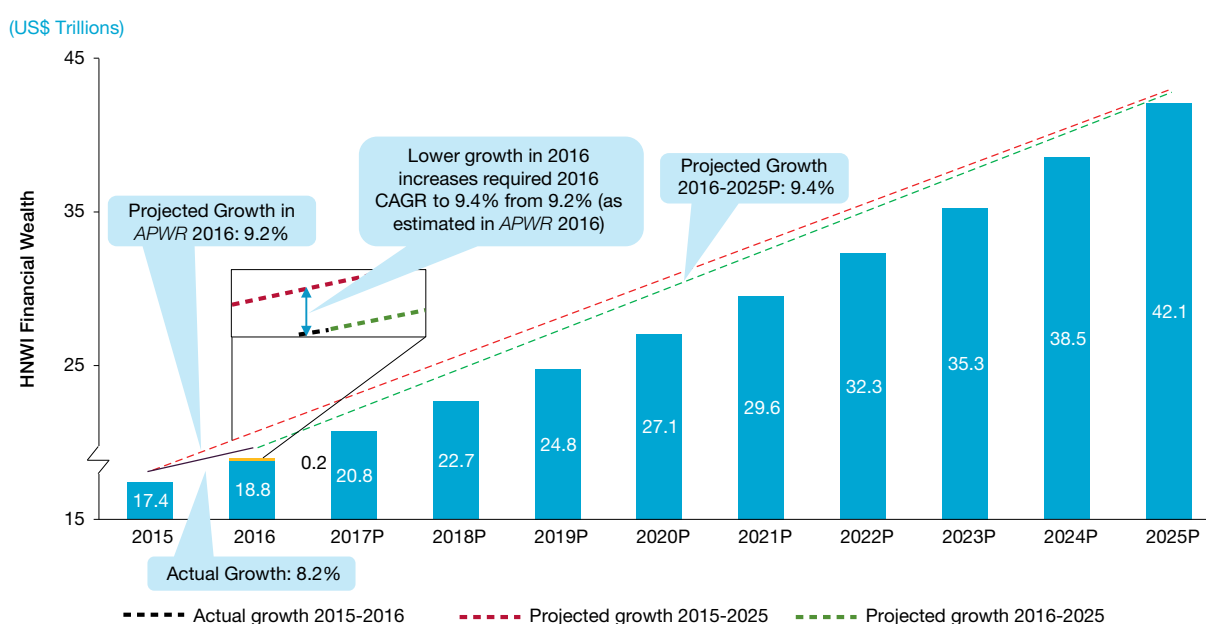
Asia-Pacific's mid-tier millionaires (with between US\$5 million and US\$30 million in financial wealth) were not far behind, posting 8.2% and 8.3% growth rates for population and wealth, respectively, in 2016. The millionaires' next door segment (with between US\$1 million and US\$5 million in financial wealth), representing 90.8% of Asia-Pacific HNWIs, saw robust 7.3% and 7.4% population and wealth expansion.

Asia-Pacific Expected to Lead HNWI Wealth Through 2025

We anticipate our projection for 2025 will hold, with Asia-Pacific surpassing US\$40 trillion in HNWI wealth, but some growth rates must nudge upward to reach this mark. Asia-Pacific (excl. Japan) remains on track to meet this aggressive target in the coming years but will need to accelerate its annualized growth to 9.4% over 2016–2025, rather than the 9.2% projected in 2015 (Figure 5).

The future is likely to be a tale of two regions within Asia-Pacific. Emerging Asia has tremendous potential to drive the region's growth but will need to gain momentum to grow at 12.9% annually over 2016–2025, exceeding the 10.2% rate in 2016. Mature Asia managed to exceed its projected annual average growth rate of 6.4%, achieving 6.9% growth in 2016. This cluster can help Asia-Pacific meet its target by simply growing at 6.4% or higher over 2016–2025. In contrast, the rest of Asia grew below its projected rate of 8.1%, managing just 7.6% in 2016 and will need to accelerate by growing at a rate of 8.2% from 2016–2025.

Figure 5. HNWI Financial Wealth, Actual vs Projected, 2015-2025P, Asia-Pacific



Note: 2025 data was projected by applying the market-level annualized growth rate from 2006-2015 for the 2015-2025 period; Projected data is for illustrative purposes; Chart numbers may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2017

Figure 6. Real GDP, Market Capitalization, and Real Estate Growth, 2015–18F, Select Asia-Pacific Markets

(%)


India	World	Asia-Pacific (excl. Japan)	China
2015 '16 '17F '18F	2015 '16 '17F '18F	2015 '16 '17F '18F	2015 '16 '17F '18F
GDP 7.3 7.1 7.3 7.6	GDP 2.4 2.3 3.0 3.0	GDP 5.4 5.4 4.8 4.6	GDP 6.9 6.7 6.6 6.3
Market Cap (2.5) 3.1 - -	Market Cap (1.5) 5.7 - -	Market Cap 9.7 0.7 - -	Market Cap 36.4 (10.6) - -
Real Estate (10.4) 2.7 - -			Real Estate 9.1 21.3 - -

Thailand	Japan
2015 '16 '17F '18F	2015 '16 '17F '18F
GDP 2.7 3.2 3.4 3.4	GDP 0.7 1.0 1.4 1.1
Market Cap (19.0) 25.4 - -	Market Cap 11.8 3.4 - -
Real Estate 2.0 (1.1) - -	Real Estate 7.1 (1.2) - -

Malaysia	South Korea
2015 '16 '17F '18F	2015 '16 '17F '18F
GDP 4.8 4.2 5.0 4.7	GDP 2.6 2.8 2.8 2.6
Market Cap (16.6) (5.2) - -	Market Cap 1.5 4.1 - -
Real Estate 2.7 3.8 - -	Real Estate 2.2 (0.5) - -

Singapore	Hong Kong
2015 '16 '17F '18F	2015 '16 '17F '18F
GDP 2.1 2.0 2.5 2.3	GDP 2.6 2.1 2.7 2.3
Market Cap (15.0) 1.5 - -	Market Cap (1.5) 0.3 - -
Real Estate (3.1) (3.3) - -	Real Estate 0.0 6.4 - -

Indonesia	Australia	Taiwan
2015 '16 '17F '18F	2015 '16 '17F '18F	2015 '16 '17F '18F
GDP 4.9 5.0 5.2 5.4	GDP 2.3 2.5 2.1 2.8	GDP 0.9 1.5 2.2 2.0
Market Cap (16.3) 22.8 - -	Market Cap (7.9) 10.9 - -	Market Cap (12.5) 15.7 - -
Real Estate (0.2) 0.0 - -	Real Estate 9.7 2.8 - -	Real Estate (4.4) (3.0) - -



Note: 2015 and 2016 GDP data from Economist Intelligence Unit; 2017 and 2018 GDP data from Consensus Forecasts; 2016 Real Estate Growth is based on Global Property Guide House Price Index, March 2017

Source: Capgemini Financial Services Analysis, 2017; Economist Intelligence Unit, July 2017; World Federation of Exchanges, May 2017; Global Property Guide House Price Index, March 2017; Consensus Forecasts, July 2017



Asia-Pacific Wealth Managers Led the World in Investment Performance, but HNWI Demand More Holistic Value

- **Asia-Pacific (excl. Japan) HNWI** saw the performance of their investments held with wealth managers soar 33.0% in 2016, compared with 24.6% for HNWI in the rest of the world.⁸

There was a divergence across the region's varied markets, with HNWI investments in emerging markets out-performing those in more developed markets. The primary reasons for the difference in returns were the prevalence of credit to leverage returns and a more growth-focused investment philosophy.

- **Investment performance helped to drive HNWI allocations toward equities to a five-year high, although cash allocations increased as well.** HNWI allocations to equities and cash increased significantly year over year, up 4.4 percentage points and 4.3 percentage points, respectively, and similar to trends in the rest of the world.
- **HNWI satisfaction remains muted in Asia-Pacific (excl. Japan), partially driven by concerns regarding fee structures.** Fee transparency and the value delivered were the two top concerns for HNWI in the region, above the overall level of fees.
- **Trends point to significant business model disruption on the horizon in Asia-Pacific, as HNWI seek value beyond investment returns and Net Promoter Score® (NPS®) lags in key wealth markets.** A more personalized approach to wealth management will be critical to firms' success.

⁸ Gross returns, not including fees charged by firms

Asia-Pacific (excl. Japan) Wealth Managers Delivered World-Leading Investment Performance in 2016⁹

Asia-Pacific wealth managers, not including those in Japan, led the world in delivering investment performance for HNWI clients in 2016. *A total of 30.6% of HNWI wealth in Asia-Pacific (excl. Japan) is managed by wealth managers, and investors saw their performance increase by an impressive 33.0% in 2016 — well above the 24.6% increase for HNWIs in the rest of the world* (Figure 7).^{10, 11}

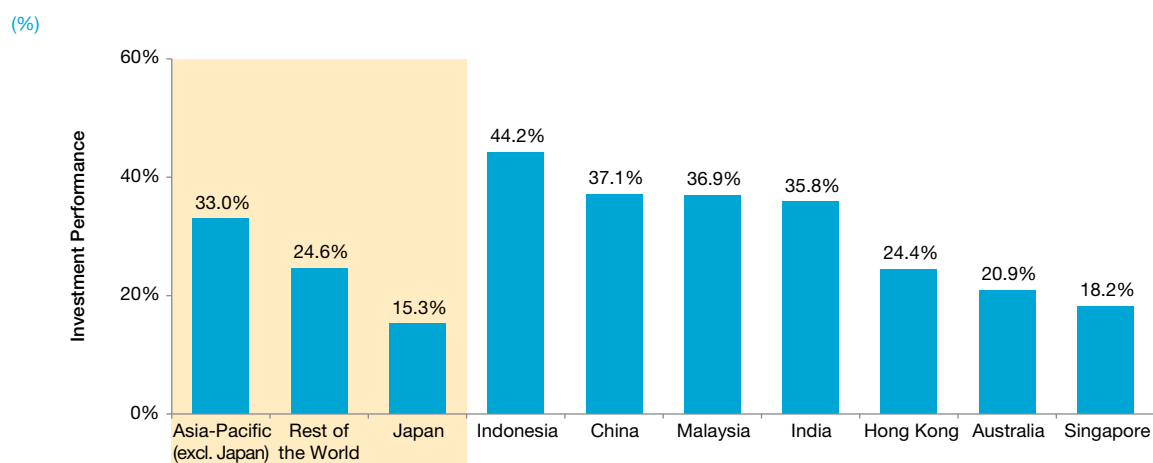
It is interesting to note that Asia-Pacific (excl. Japan) not only led the world in delivering investment performance for HNWIs but also outperformed key market benchmarks, with the MSCI¹² in Asia-Pacific (excl. Japan) returning only 3.8% — nearly 29 percentage points less than wealth management firms.

Performance varied across the region, with the investments of HNWIs in emerging markets outperforming those in more developed markets.

Asia-Pacific is composed of a wide variety of markets, and investment performance from market to market reflects the region's diversity. Emerging markets were big winners, largely due to higher levels of portfolio leverage and a prevailing philosophy toward asset growth. Indonesia, China, and India saw strong performance, with only Malaysia making this list from the mature markets of the region. Performance dropped steeply for the mature markets of Japan, Hong Kong, Australia, and Singapore, although these regions experienced positive growth.

Why did the emerging markets do so much better than mature markets in the region? As noted in the 2016 *Asia-Pacific Wealth Report*, HNWIs in Asia-Pacific (excl. Japan) have an outsized interest in **growth-oriented investments**¹³ compared with the rest of the world (54.6% versus 47.3% elsewhere). This focus on growth is strongest in the region's emerging markets of Indonesia, China, and India, and is key to driving their high investment returns. As a result, HNWIs will often invest in instruments and securities that have a higher risk/return characteristic than a simple equity benchmark.

Figure 7. Performance of HNWI Financial Assets Invested with Wealth Management Firms, Q2 2017



Note: Question asked: "Thinking about the financial assets that you have invested with wealth management firms, roughly how did they perform last calendar year?"

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

⁹ Annual returns for calendar year 2016 were self-assessed by HNWIs

¹⁰ While HNWI wealth in Asia-Pacific (excl. Japan) grew 8.2% to US\$ 18.8 trillion in 2016, this growth refers to all investable wealth including that which is not held with wealth managers. Hence, this growth rate differs from the 33.0% return obtained on managed investments

¹¹ According to APWR 2016, wealth managers oversee 30.6% of HNWI wealth. The rest is generally held as cash and in retail bank accounts, businesses, real estate and self-directed investments. Cash and real estate are not typically managed by firms and are not included here (but are in the overall HNWI market sizing figures). Some equities, fixed income, and alternative investments may also be self-invested, and are not covered here

¹² MSCI World is a market cap weighted index of 'world' stocks maintained by MSCI Inc. (<https://www.msci.com>), formerly Morgan Stanley Capital International. It is used as a common benchmark for 'world' or 'global' stock funds

¹³ Growth Focus implies that clients prioritize investments that seem to exhibit above-average return potential, even if the share price/purchase price appears expensive related to metrics such as the price/earnings (PE) ratio; Value Focus implies that clients prioritize investments that seem to trade below their intrinsic value, based largely on the belief that positive returns are possible when the market undervalues something; Blended Focus implies that clients take a blended approach, looking for investments with strong return potential but at a reasonable price

Credit and leverage is also key to Asia-Pacific (excl. Japan) portfolios. More than one-quarter (25.5%) of HNW assets in the region are financed through credit, compared with 18.2% in the rest of the world (Figure 8). Moreover, HNWs in the region are primarily interested in using credit and leverage for investment opportunities as well as to obtain better investment returns than the credit interest rate with 57.1% of HNWs saying that these factors are driving credit usage — the highest percentage across the globe (versus 37.8% for the rest of the world).¹⁴ This enables better returns as compared with rest of the world where credit is used more for areas such as real estate.

Global investment was another critical driver, both for emerging markets in the region and for the region overall. Offshore investment rates tended to be elevated in the emerging markets of the region, such as China and India (see page 20), which spurred further opportunities to grow at rates above local benchmarks (which in some cases also grew strongly).

Mandates played a role in returns as well, and across all Asia-Pacific (excl. Japan), HNWs who tasked their wealth managers with buy and sell decisions achieved better returns compared with those who followed advisory or self-service approaches. HNW portfolios managed under discretionary mandates achieved a 42.3% return on average — higher than those of individuals who employed an advisory (32.1%) or self-service approach (28.8%). For example, HNWs in China achieved a 46.9% return on discretionary portfolios, beating advisory (36.2%) and self-service (31.5%) portfolios.

The difference in India was more modest, with HNWs achieving a 38.6% return on discretionary portfolios compared with 36.4% for advisory portfolios. Part of the reason behind the higher returns on discretionary portfolios may be that discretionary asset management is increasingly being offered only to higher segments of wealth, where more exclusive and institutional investment propositions are available.

Investor sentiment was another nuance related to HNW investment performance in 2016. An overwhelming 91.9% of Asia-Pacific (excl. Japan) HNWs expressed increased confidence in their ability to generate wealth on their own in 2016, compared with 70.5% the previous year. The most confident HNWs were those in China, with 96.1% expressing confidence in their wealth-generating ability. Indonesia (94.0%), India (93.4%), and Singapore (92.0%) also scored high on wealth sentiment.

A diverse mix of **financial instruments** affected HNW investment performance with equities being the biggest driver. In fact, 40.4% of HNWs in Asia-Pacific (excl. Japan) said equities were the most important asset-class performance driver, closely followed by fixed income at 29.6% (Figure 9). However, the performance-driving importance of equities in the region was 12.3 percentage points lower than in the rest of the world (40.4% versus 52.7% in the rest of the world), with fixed income and real estate more important by 9.1 percentage points (29.6% versus 20.5% for the rest of the world) and 8.4 percentage points (17.9% versus 9.5% for the rest of the world), respectively.

Figure 8. Performance of HNW Financial Assets and Level of Credit Held, Q2 2017, Asia-Pacific (excl. Japan) and Select Global Markets

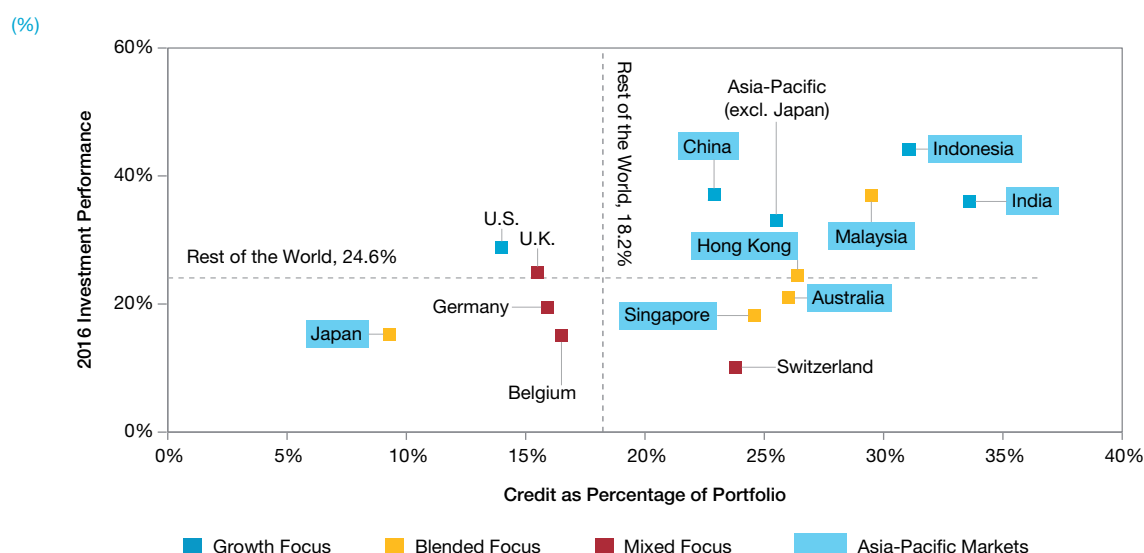
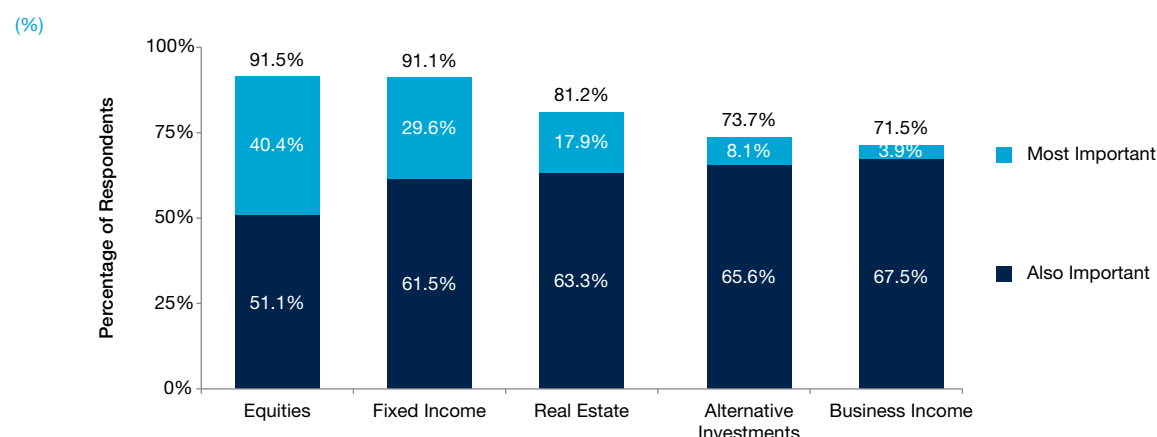


Figure 9. Contribution of Asset Classes to HNWI Investment Performance, Q2 2017, Asia-Pacific (excl. Japan)

Note: Question asked: "How important was the contribution of the following asset classes to investment performance?"

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

Each market uniquely viewed the impact of financial instruments on HNWI investment performance. Ten percent of Indonesian HNWIs (the highest number in the region) considered business income to be the most critical performance driver, in line with the country's high levels of entrepreneurship and the prevalence of first- and second-generation wealth creators in the market. Fixed income (38.0%) was the most important asset class in China, ahead of equities (34.4%). Conversely, Hong Kong emphasized equities, with 58.4% listing them as the most critical performance driver. In Singapore, alternative investments were unusually significant, with 14.0% listing them as the most important driver compared with only 8.1% for the Asia-Pacific (excl. Japan) region as a whole.

By age, Asia-Pacific (excl. Japan) HNWIs under 40 placed a greater emphasis on real estate (20.7% considering it the most important) compared with the rest of the world (9.8%). Older HNWIs, aged 60 or above, were more driven by fixed income (45.7%) compared with those in the rest of the world (16.7%).

Equities at Five-year High, but HNWIs also Building Cash Buffers

Investors have benefited from robust investment returns over the past year. In Asia-Pacific (excl. Japan), factors spanning areas such as improved investor sentiment, global investment desire, credit/leverage, growth-focus, and overall market performance growth drove allocations toward **equities**, which achieved a five-year high, although cash also increased.

HNWI allocations to equities and cash in Asia-Pacific (excl. Japan) increased significantly year over year, a trend similar to the rest of the world. The region saw a 4.4 percentage points and 4.3 percentage points rise in allocation to equities and cash respectively (Figure 10). However, the increase in allocation to equities was less than in the rest of world (8.5 percentage points).

Allocation to **equities** was similar across all age bands, ranging from 26% to 28% of portfolio holdings. HNWIs in the US\$1 million–US\$5 million and US\$20 million or more¹⁵ wealth bands had a similar allocation to equities at approximately 27%. Male HNWIs had a slightly higher exposure to equities at 28.3% of the portfolio, compared with 26.7% for women.

As with equities, **cash** holdings also increased significantly in Q2 2017, and the region's move to cash was greater than in the rest of the world, with a 4.3 percentage point jump to reach 24.9%, compared with a 0.8 percentage point increase in the rest of the world. One of the primary explanations is that HNWIs sought cash buffers to manage market volatility given elevated valuations and to have assets available for tactical investment if markets correct and present entry opportunities at favorable valuations.

For both **equities** and **cash**, Japan also stood out with some notable HNWI allocation trends as of Q2 2017. Investment preferences in Japan fluctuated as cash levels returned to 2013/2014 levels following a 15.4 percentage point decline over 2013–2016 (Figure 11). With Japanese equity markets having risen sharply over the past few years since the launch of Abenomics, Japanese HNWIs appear uncomfortable having more than 25% of their portfolio in equities and rearranged equity increases back into cash to ensure balance as overall wealth increases.

¹⁵ For survey purposes, we have used the bracket of US\$20 million and above in financial assets as our upper-wealth band. The definition of ultra-HNWI remains US\$30 million and above. For analysis purposes, the upper-wealth band for this survey serves as a reliable proxy for ultra-HNWIs

At the same time, there has been a relative (though not necessarily absolute) decline in holdings of alternative investments and real estate. Overall, it seems that Japanese HNWIs may have reached a temporary peak in their risk tolerance toward non-cash investments.

Asia-Pacific is highly diverse, so we were not surprised to find nuances in asset allocation across a variety of markets. For instance, Indonesian HNWIs registered an 8.7 percentage point spike in allocation to cash and those in Hong Kong exhibited a 7.4 percentage point hike — the highest increases in the region. China increased its allocation to equities (3.6 percentage points) and cash (3.5 percentage points) in 2016, while alternative investments dropped by 7.2 percentage points. Hong Kong also saw a 6.0 percentage point jump in allocation to equities.

By age, older HNWIs held higher levels of cash holdings (29.9% for those aged 60 and above), compared with 24.1% for those under 40. Older HNWIs also held fewer investments in real estate (12.8%) and **alternative investments** (8.4%), compared with younger HNWIs, with 19.5% and 10.6%, respectively. However, investments in equities were uniform across age bands.

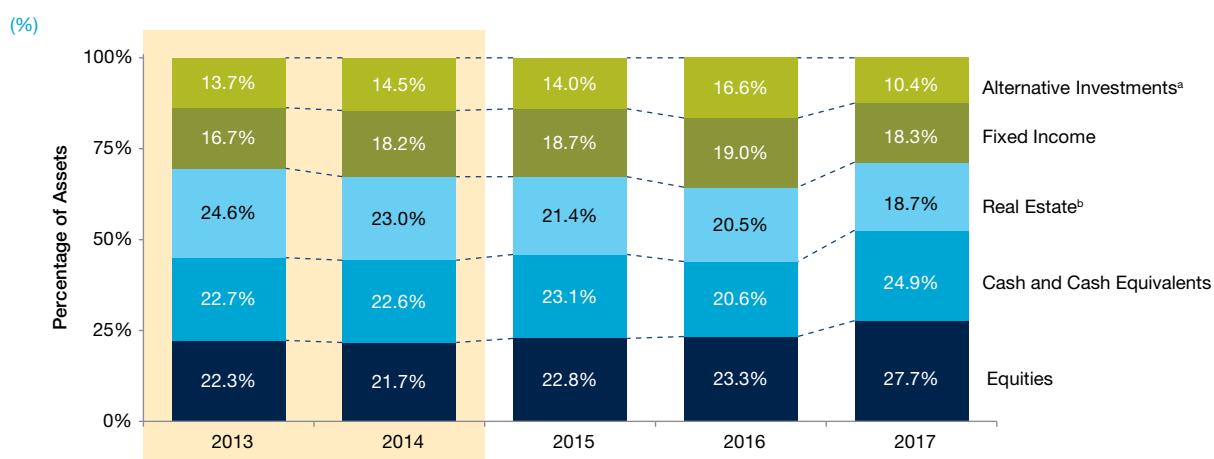
By wealth bands, investment allocation differed with ultra-HNWIs having higher cash allocation (29.0%) compared with only 24.3% for HNWIs with US\$1 million–

US\$5 million in assets. However, HNWIs in this wealth band allocated more (19.3%) to real estate than ultra-HNWIs (16.8%).

Across the globe, alternative investments declined in popularity last year, at least on a relative basis, and Asia-Pacific (excl. Japan) was no exception. The biggest decline among allocations in the region was a 6.2 percentage point shift out of alternative investments, similar to the rest of the world where allocation to this asset class fell 5.6 percentage points. Malaysia saw the region's most significant drop in allocation to alternative investments, down 12.4 percentage points, followed by Hong Kong at 8.1 percentage points, and China at 7.2 percentage points. In fact, all markets in the region saw a drop in allocation to this asset class.

Younger HNWIs were somewhat more receptive to alternative investments, allocating 10.6% to these assets, compared with 8.4% for older HNWIs. Wealthier investors took a more conservative approach toward alternative investments. HNWIs in the US\$1 million–US\$5 million band have a higher allocation of 10.9%, compared with the US\$20 million or more bands who hold 7.7% of their portfolio in this asset class. By gender, male HNWIs had a slightly higher exposure to alternative investments at 11.4% of their portfolio, compared with 9.3% for female HNWIs.

Figure 10. Breakdown of HNWI Financial Assets, Q1 2013–Q2 2017, Asia-Pacific (excl. Japan)



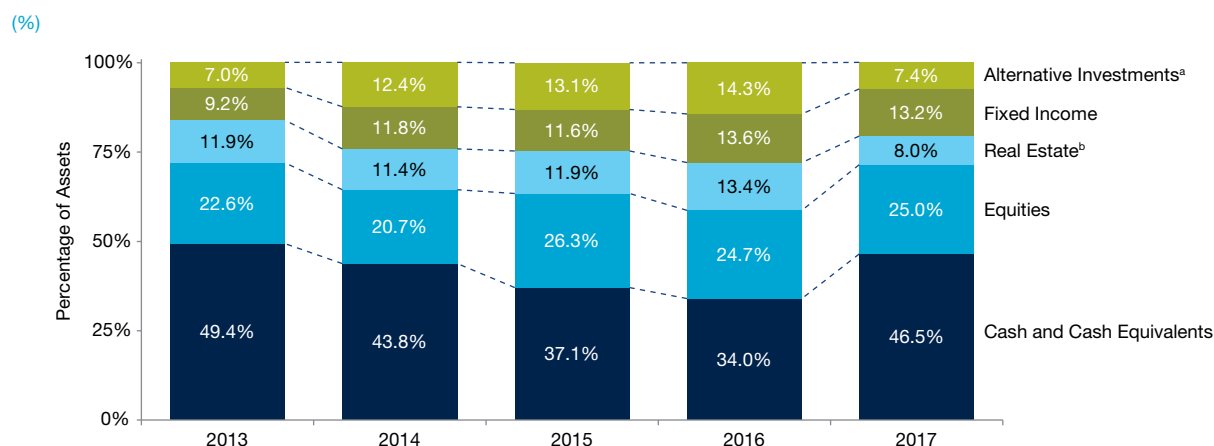
a. Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity

b. Excludes the market value of the primary residence

Note: Question asked: "What percentage does each of these asset classes approximately represent in your CURRENT financial portfolio?"; Chart numbers may not add up to 100% due to rounding

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2016, 2017; Capgemini and RBC Global HNWI Insights Survey 2013, 2014, and 2015

Figure 11. Breakdown of HNWI Financial Assets, Q1 2013–Q2 2017, Japan



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

b. Excludes the market value of the primary residence

Note: Question asked: "What percentage does each of these asset classes approximately represent in your CURRENT financial portfolio?"; Chart numbers may not add up to 100% due to rounding

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2016, 2017; Capgemini and RBC Global HNWI Insights Survey 2013, 2014, and 2015

Fee Concerns, Other Factors Dampen Overall HNWI Satisfaction

Asia-Pacific (excl. Japan) HNWI satisfaction scores are lower than in the rest of the world, though they varied significantly by market and by age. HNWI satisfaction scores with wealth managers and firms were about 57% and slightly lower than the rest of the world, which registered 62.3% satisfaction for firms and 59.9% for wealth managers. All Asia-Pacific markets — except Australia — witnessed lower satisfaction scores than HNWIs in the rest of the world.

HNWI satisfaction in Hong Kong was the lowest in Asia-Pacific (excl. Japan) with a 46.2% score for wealth management firms and 45.1% for wealth managers, despite a robust (13.5%) annualized HNWI wealth growth over 2011–2016.

In terms of age, older HNWIs in Asia-Pacific (excl. Japan) stood out as less satisfied with wealth managers (only 40.0%) and firms (45.5%), compared to 52.5% and 53.4% respectively for the younger HNWIs. This trend contrasted with the rest of the world, where older HNWIs were more satisfied with wealth managers at 67.1% and firms at 69.3%, compared with only 46.9% and 48.7% for younger HNWIs.

Discomfort with fee structures negatively impacted overall HNWI satisfaction in Asia-Pacific (excl. Japan).

While fee comfort was muted, Asia-Pacific (excl. Japan) HNWIs were more content with fees (57.4%) compared with rest of the world (53.3%). Managed wealth has delivered higher performance to HNWIs in this region than elsewhere, so it follows that their comfort level with fees would be slightly higher.

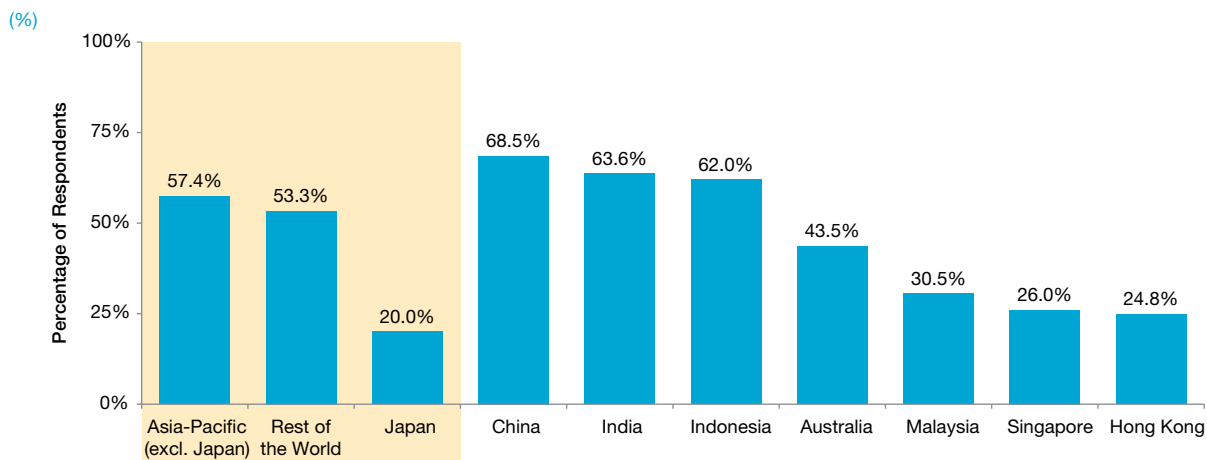
However, HNWIs in mature Asia-Pacific markets such as Australia, Hong Kong, and Singapore, appeared less comfortable than those in emerging markets (Figure 12), while their concerns about fees varied depending on age, wealth band, and other factors.

Both Asia-Pacific (excl. Japan) and global HNWIs said fee transparency and value delivery are their primary concerns (Figure 13). Nearly a quarter (24.4%) of Asia-Pacific (excl. Japan) HNWIs focused on transparency, with 19.6% citing value delivered as their top concern. Interestingly, the overall level of the fee itself was only the fifth-highest concern cited. HNWIs in China (28.5%) and Hong Kong (25.7%) are the most concerned about fee transparency, whereas HNWIs in India and Singapore are the most concerned about value delivered (25.6% and 28.0%, respectively). 28.2% and 23.7% of HNWIs in Australia and Malaysia, respectively, cite "fees relative to performance" as their primary concern.

Younger HNWIs were more concerned (26.4%) about fee transparency than older HNWIs (6.0%), indicating that wealth managers should consider fee structures that cater to younger individuals and seek ways to eliminate hidden charges. At the same time, younger HNWIs were less concerned (13.1%) by the overall level of fees than older HNWIs (42.0%). They are willing to pay but expect fees that are transparent, modular, and reflective of the service value delivered.

Concerns about fees vary depending on wealth band as well. HNWIs in the US\$20 million or more range are more concerned (37.2%) with transparency than HNWIs in the US\$1 million–US\$5 million band (24.3%). Wealthier HNWIs are more concerned (25.1%) about fee levels, compared with only 12.5% in the lowest wealth band.

Figure 12. HNWI Comfort Level with Fees, Q2 2017



Note: Question asked: "Given the performance of your assets and the service you received from your primary wealth management firm, how comfortable were you with the fees you were charged in 2016? Please indicate your response on a scale of 1 – 7. 1 = Not at all comfortable, 4 = Neither comfortable nor uncomfortable, 7 = Extremely comfortable"; Ratings of 6 and 7 have been shown in the chart above

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

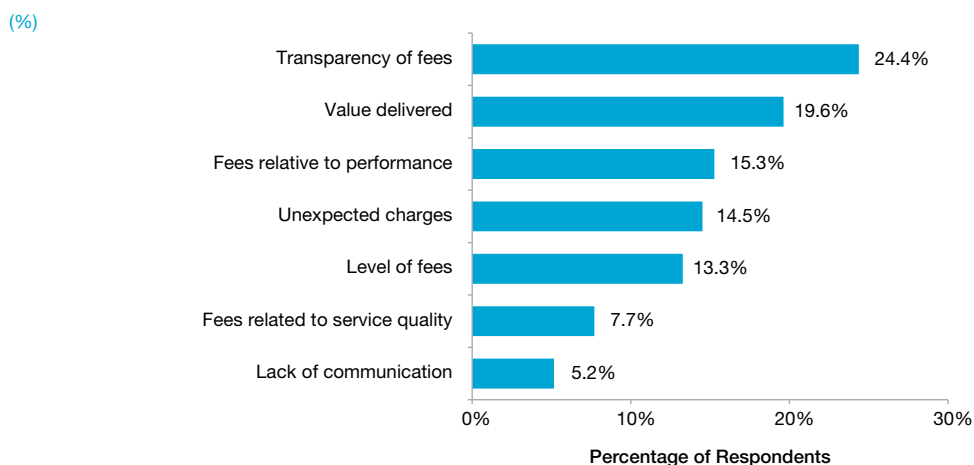
HNWIs in the lower wealth band focus more on accountability for their money than on fee levels. Their top concerns are unexpected charges, value delivered, and fees relative to performance.

As investor expectations change, fee models will need to change with them. More than ever, HNWIs expect more choice, personalization, and flexibility from their wealth managers. Many clients showed an increasing preference for modular fees. This approach is the second favorite mode of payment, used by 18.0% of HNWIs. While investment performance is currently the most used basis of payment for HNWIs, used by 32.5% of investors, 20.1% of HNWIs say, ideally, they would like modular fees.

Fee expectations also vary according to age. Both younger (34.8%) and older HNWIs (30.9%) would ideally like to pay based on investment performance. *However, younger HNWIs prefer modular fee models, with 22.4% demanding modular fees compared with 9.4% for older HNWIs.* Additionally, 15.1% of younger investors expressed a preference to pay based on overall service quality, compared with 2.0% for older HNWIs. Older HNWIs (43.6%) prefer to pay fees as a percentage of assets.

Investor wealth also influences fee expectations. At 32.8%, wealthier HNWIs would ideally like to pay fees as a percentage of assets, compared with only 14.1% of HNWIs in the US\$1 million–US\$5 million band.

Figure 13. Most Important Fee Concerns for Asia-Pacific (excl. Japan) HNWIs, Q2 2017



Note: Question asked: "How concerned are you about the fees charged by your primary wealth management firm for each of these parameters?"; Respondents were asked to rate on a scale of "most concerned"/"also concerned"/"not concerned"; Numbers in the chart indicate responses for "most concerned"

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

The takeaway here is that wealth firms could differentiate themselves by offering more customized and modular fee models to HNW clients based on preferences that vary significantly across age and wealth levels. As illustrated in the spotlight beginning on page 24, hybrid advice models may offer firms a means to build a new, more modular proposition (including fees) for HNWIs.

HNWIs' Expectations Grow, Shaking Up Business Models

More broadly, significant business model disruption is on the horizon as HNWIs in the region seek value beyond investment returns. At the same time, firms are battling to retain their existing clients and attract new ones — a battle many firms appear to be losing when we look at the key metric of Net Promoter Score® (NPS®).

Investment performance is certainly critical to HNWIs, but they also seek value beyond investments from wealth managers. This is especially important for firms, considering that above-benchmark investment performance is difficult to sustain year after year. A broader set of goals-based and contextualized advice and expertise can offer HNWIs continuous value independent of market fluctuations.

While investment management remains the most valued wealth management service for 34.0% of HNWIs, firms must deliver a variety of other outstanding services to meet HNW expectations. For example, financial planning is still one of the top wealth management services, valued by 90.9% of HNWIs in the region, and most valued by 21.1% of HNWIs. To stay competitive, wealth firms and wealth managers must deliver a holistic set of services that go beyond niche offerings.

NPS® in Asia-Pacific highlights issues in delivering the service that HNWIs desire. Asia-Pacific (excl. Japan) Net Promoter Score® varied across the region. On the surface, HNWIs showed a high NPS® (31.4), but this positive metric masked underlying problems in specific markets. *Negative scores in key markets such as Japan (-51.3), Hong Kong (-19.8), Singapore (-11.0), and Malaysia (-14.4) may become worrisome for the industry.*

On the other hand, high NPS® scores in emerging markets such as China (51.5), India (37.2), and Indonesia (22.0) indicated that client acquisition opportunities are available in these regions through referrals and recommendations. However, these were some of the markets where HNW investment performance was strongest in 2016 — it remains to be seen whether NPS® levels would remain as high in a period of more subdued investment performance.

As with satisfaction scores, we are also seeing some differences in Net Promoter Score® that vary widely by demographics. Younger HNWIs in the region are far more likely to recommend their wealth service providers than older individuals, with an NPS® of 32.0 for HNWIs under 40, and an NPS® of 1.0 for HNWIs aged 60 and above. This presents an issue given that it is widely believed that the majority of HNW wealth in the region is still with first- and second-generation wealth creators, especially in emerging markets.

Ultra-HNWIs in Asia-Pacific have a low NPS® of 21.7, compared with ultra-HNWIs in the rest of the world, with an NPS® of 58.1. However, lower wealth band HNWIs also have a relatively subdued NPS®, with those in the US\$1 million–US\$5 million band having an NPS® of just 26.6. More striking, the NPS® of Asia-Pacific (excl. Japan) HNWIs in the US\$1 million–US\$5 million band drops to -8.6 when excluding China, Indonesia, and India (where NPS® appears relatively healthy in the lower wealth band).

These low scores for the lowest wealth band suggest that wealth providers have not been able to deliver the complex solutions their clients demand. In addition, the general trend of wealth management firms towards increasing minimum financial wealth levels in order to qualify for private banking services, risks exacerbating the issue.

Changes Create Opportunities in Hybrid Advice

Today, every industry is facing disruption, and this is especially true for Asia-Pacific. However, disruption not only poses challenges but also opens doors to significant opportunities for wealth management providers who quickly acknowledge and leverage change.

HNWIs have delivered a clear mandate for a broader range of services for which they are willing to pay. Investors, especially younger individuals looking to the future, are willing to pay for value, and they are not uncomfortable with higher fees for wealth managers who can deliver it.

A major opportunity is for wealth management firms to build out their hybrid advice model to offer the personalization, flexibility, and choice that today's investors demand.

A hallmark of the hybrid advice approach is “pay-as-you-go” modular service that is based on sophisticated, data-enabled understanding of an individual. We explore this topic in detail in the spotlight section (see page 24).

Economic and Political Uncertainty Drives HNWI Holdings Offshore

- **Asia-Pacific (excl. Japan) HNWI lead the world in offshore-held wealth.** Hong Kong has by far the most internationally minded HNWI, although HNWI from all markets within the region hold at least one-third of their financial wealth abroad.
- **There are a wide variety of favored offshore destinations for Asia-Pacific HNWI, with Hong Kong and Singapore most preferred overall.** Hong Kong is preferred by Chinese HNWI, while Singapore attracts HNWI wealth from Southeast Asian markets of India, Indonesia, and Malaysia. New York and London also are favored offshore centers for HNWI in several markets, most notably Japan, Australia, and Hong Kong.
- **Concerns about economic/financial markets and political risk are driving offshore wealth for both emerging markets and mature markets in Asia-Pacific.** Emerging-market HNWI cited economic/market risk as the number-one driver, an 11.5 percentage point increase over Q1 2016. Both emerging and mature market HNWI had political risk concerns as the number-three driver, representing a 7.2 and 9.8 percentage point increase, respectively, over Q1 2016.
- **The industry, especially in the key financial centers of Hong Kong and Singapore, will need to invest further in talent, product, risk and compliance, and technology to meet the HNWI demand for offshore wealth management.** At the same time, an early trend is developing towards increased localization of wealth management. The established offshore centers will need to anticipate and compete with such localization via ongoing investment in key capabilities.

HNWI in Asia-Pacific (excl. Japan) Hold the Highest Levels of Offshore Wealth

In an increasingly uncertain economic and political environment, Asia-Pacific HNWI are looking abroad to safeguard their wealth. Asia-Pacific (excl. Japan) HNWI hold 44.7% of assets outside their home market as compared to 41.8% offshore assets held by HNWI in the rest of the world. The HNWI in the region hold the highest levels of offshore wealth followed by North America (42.8%) and Japan (42.4%).

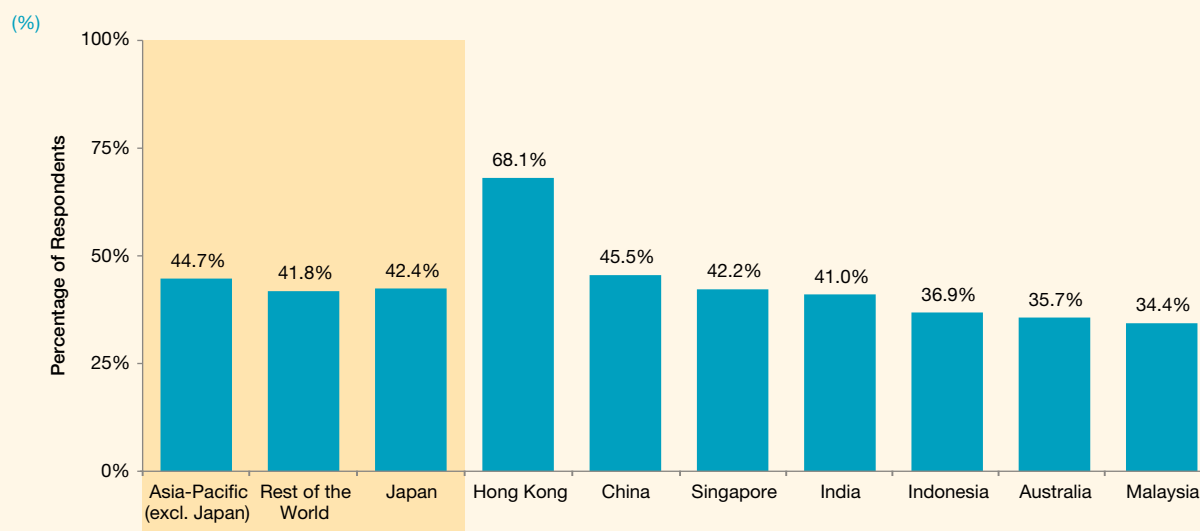
HNWI in Hong Kong (68.1%), China (45.5%), and Singapore (42.2%) have allocated more of their wealth outside their home markets compared with the rest of the world (41.8%) (Figure 14). Singapore and Hong Kong are the largest offshore markets for these investors, closely followed by New York and London.

HNWI have traditionally sought attractive opportunities abroad, but over the past year there has been a significant uptick in international holdings as a protective measure. Despite strong investment performance and a move toward equities in asset allocation, HNWI are

displaying caution and investing significant amounts internationally, outside their home markets. Wariness over political and economic risks at home might also be driving more HNWI holdings toward highly-liquid assets such as cash and cash equivalents, to mitigate negative systemic impact on their wealth (see page 15).

Political risks, in particular, are a high concern in markets such as Indonesia and Hong Kong, where 31.3% and 29.6% respectively say it is the most important consideration. For example, in Hong Kong, protests and blockades by pro-democracy activists over perceived constraints on democracy and interference from mainland China seem to have increased over recent years. In Indonesia, the political environment has included unanticipated election results, a trend toward religious unrest, and the potential for more populism in the run-up to the 2019 presidential elections. In India, while investor sentiment has remained cautiously confident in the wake of the election of the reformist Prime Minister Narendra Modi, the unannounced demonetization initiative, challenges in dealing with significant issues such as unemployment, and the ongoing use of retrospective tax grabs on foreign multi-nationals may have caused some trepidation.

Figure 14. HNWI Financial Assets held Outside the Home Market, Q2 2017



Note: Question asked: "Approximately what percentage of your financial assets is held (booked) in your home market?"; The numbers above were calculated by deducting the total financial assets held in the home country from the total HNWI assets (100%)

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNW Insights Survey 2017

Hong Kong and Singapore are Primary Offshore Destinations, but New York and London also Feature

There are significant variations in preferred offshore investment destinations across markets in the region. For example, Indonesian and Malaysian HNWI have 43.3% and 37.8% of their international wealth in their close regional neighbor Singapore. Hong Kong is considered a safe haven by many investors, attracting 26.4% of Asia-Pacific (excl. Japan) HNWI offshore investments, followed by Singapore (17.3%), New York (15.8%), and London (13.7%) (Figure 15).

Indian HNWI also prefer Singapore with 22.2% of their international wealth allocated to this market. Chinese HNWI, on the other hand, have most of their offshore wealth (36.0%) in the Chinese Special Administrative Region of Hong Kong, while HNWI in Hong Kong mostly prefer to look outside the region, with London preferred overall (33.0%). Japanese HNWI prefer New York as the most attractive offshore investment destination, with 35.8% of their international wealth held there.

Switzerland, arguably the world's most renowned offshore investment destination is only the fifth favorite for Asia-Pacific (excl. Japan) HNWI, while Monaco is the fourteenth favorite.

The drivers behind HNWI's preferred destinations vary across proximity, cultural and linguistic alignment, perceived proactivity of regulatory authorities, access

provided to investments in developing but highly regulated Asian markets (such as India and China), and the overall sophistication of non-investment expertise that may be difficult to find locally.

Economic and Political Risk Increase as Drivers of Offshore Wealth

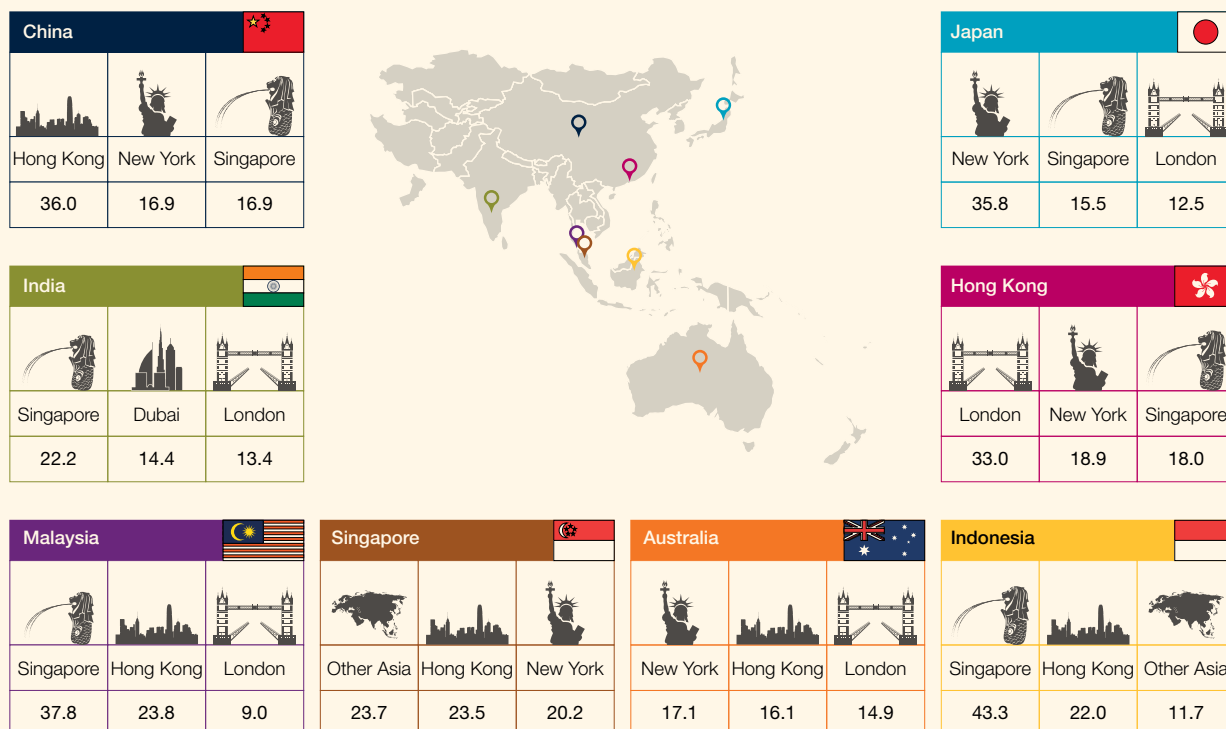
Investors are looking to minimize risk and diversify their portfolios, driving today's increasing acceptance of offshore markets.

We have seen a dramatic shift in the importance of international investments as protection against economic and financial market risk, with 24.5% of investors citing it as the most important driver in Q2 2017 (compared with 15.5% in 2016). Another 16.8% of investors cited political risk as the most important driver, up from 8.7% in 2016. At the same time, 28.4% of emerging-market HNWI are concerned about avoiding economic and financial risks in their home markets, compared with only 15.3% for those in mature markets (Figure 16).

Diversification is another top driver of investments outside home markets. HNWI in mature Asia-Pacific economies indicated interest in diversifying their portfolios away from their home markets (26.8% compared with 14.9% for those in emerging markets).

Figure 15. Top Three HNWI Offshore Investment Locations by Average International Wealth Allocation, Q2 2017, Select Asia-Pacific Markets

(%)



Note: Question asked: "What percentage of your overseas assets do you hold in these locations?"

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNW Insights Survey 2017

It is interesting to note that tax concerns are not a serious driver for HNWI in this region. For these wealthy individuals, tax is an afterthought, with only 4.8% citing it as the most important reason they invest outside of their home market.

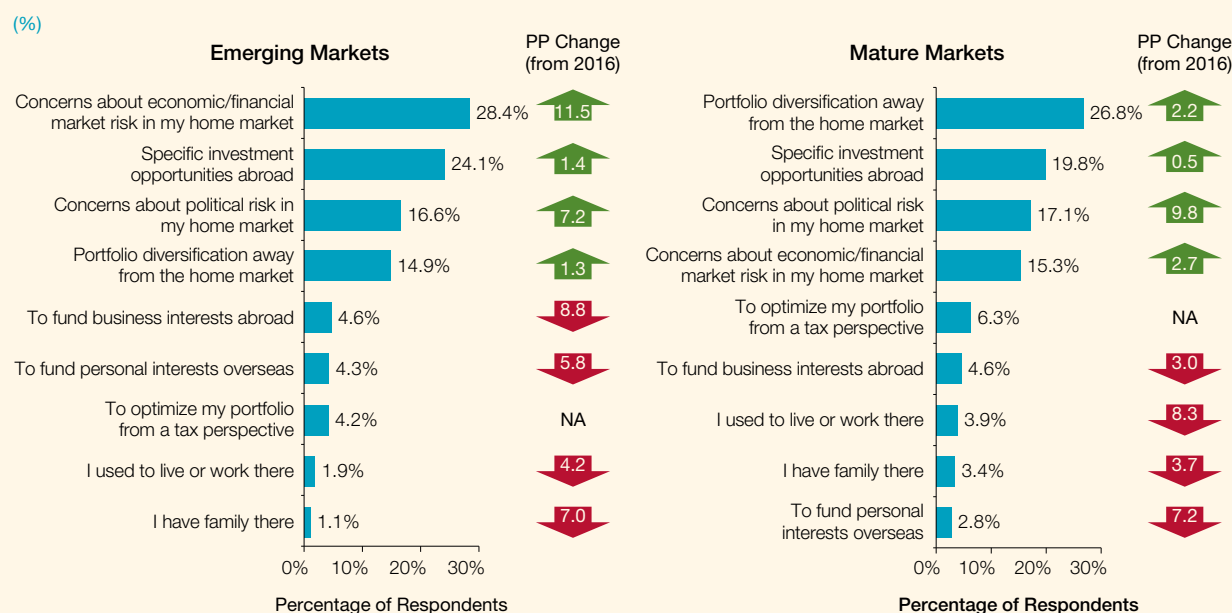
Investment patterns outside home markets vary tremendously across Asia-Pacific, depending on age, wealth, and other demographic factors.

Younger HNWI (under 40) tend to focus on economic and financial market risk in their home markets. Of these investors, 25.8% cited economic concerns as a key driver for investments abroad, compared with 17.4% for older HNWI (60 years or more). Younger HNWI are also more inclined to fund business interests abroad (small overall though), at 5.2% compared with just 1.1% of older HNWI. Older HNWI, on the other hand, are

more concerned (34.7%) about political risks at home, compared with only 21.9% of younger HNWI. In addition, 6.2% of older HNWI invest abroad because they have lived or worked there, compared with 2.7% for younger HNWI.

The wealthiest HNWI, those with US\$20 million or more, are more concerned (20.5%) about political risks at home, compared with those in the US\$1 million–US\$5 million band (16.0%). They are also more inclined to invest abroad to fund business interests, with 10.8% moving funds abroad, compared with 3.8% in the lower wealth band. Of the wealthiest individuals, 38.6% cited specific opportunities around the world as their primary reason for holding assets outside their home countries, compared with 24.1% of HNWI in the US\$1 million–US\$5 million wealth band.

Figure 16. Most Important Reasons for Asia-Pacific (excl. Japan) HNWI to Hold Assets or Accounts in Markets Outside of Home Country, Q2 2017



a. PP difference denotes the percentage change in 2015–2016 over 2014–2015

Note: Question asked: “What are your main reasons for holding assets or accounts in markets outside of your home country?”; “Emerging Markets” refers to China, India, and Indonesia while “Mature Markets” refers to Australia, Hong Kong, Malaysia, and Singapore

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

Offshore Wealth Demand Generates Implications for the Industry

Asia-Pacific (excl. Japan) HNWI are looking for offshore wealth solutions to manage political, economic, and market risks in their home countries, as well as to tap into investment opportunities not available locally.

At the same time, localization¹⁶ of wealth management is an emerging theme within the region, given the pace of home-grown wealth creation, governmental efforts to encourage repatriation of wealth, and the challenges in increasing the scale of business models in leading wealth centers such as Singapore and Hong Kong. While wealth management localization remains nascent, it is something to monitor over the coming years.

Meanwhile, industry bodies, regulators, and firms in centers such as Hong Kong and Singapore will need to continue to invest in order to increase the scale and sophistication of their offerings to HNWI from across the region. Investment areas span the **talent base** (the need for a broader and deeper base of expertise across the front, middle, and back office), **product offerings**

(especially an ongoing need to increase the penetration of discretionary portfolio management, which while having improved in recent years, still lags the rest of the world),¹⁷ **risk and compliance** (the need to continually anticipate and adapt to regulations, and maintain a global standard to such efforts), and **technology and operational infrastructure** (increasing the use of open platforms, and delivering compelling propositions via digital innovation).

At the same time, each financial center differentiates itself along certain lines. Traditionally, Singapore has stood out for its perceived political independence, single and forward-thinking regulator, and its trust services, among other capabilities. For its part, Hong Kong has deep cultural and linguistic ties to Chinese HNWI clients and has deeper capital markets that are attractive to entrepreneurs and investors. Both centers have a strong network of intermediaries in law, accounting, and other professional services.

Staying true to these local core strengths, while increasing capability in the other areas will be key for success in the offshore wealth arena of Asia-Pacific going forward.

¹⁶ The potential increase in onshore wealth management delivered in local markets, rather than this HNWI wealth being booked and serviced offshore in a center such as Hong Kong or Singapore

¹⁷ DPM in Asia 2017: The State of Delegation, 2017, Asian Private Banker, accessed October 5, 2017 at <https://asianprivatebanker.com/insights/dpm-asia-2017-state-delegation-single-page>



Hybrid Advice is the Future for Asia-Pacific Wealth Management

- **Asia-Pacific (excl. Japan) HNWI's show the world's highest demand for hybrid advice in wealth management.** Hybrid advice is preferred by 49.6% of high net worth individuals in the region, compared to Europe (49.1%), Japan (47.6%), Latin America (45.6%), and North America (35.1%). Japanese HNWI's are also demanding hybrid advice, at 47.6%.
- **Hybrid advice preferences vary depending on a number of factors, including the stage of the client lifecycle as well as individual characteristics.** Asia-Pacific (excl. Japan) HNWI's prefer a hybrid approach for four out of the five client lifecycle stages, with the 'Profile' stage being the exception. Chinese HNWI's have the highest inclination toward a hybrid approach at 52.1%, while Singapore has the highest preference in Asia-Pacific for an automated/self-service approach at 10.1%.
- **Wealth management executives in Asia-Pacific welcome hybrid advice and many have begun their transformation, though objectives differ from those of global counterparts.** Compared with firms in the rest of the world, Asia-Pacific wealth management firms place the greatest emphasis on achieving operational efficiency and regulatory compliance. Revenue objectives, while still important, are a more modest goal — potentially reflecting the reality of the still-nascent starting point faced by many firms.
- **Despite the compelling drivers toward hybrid services, hybrid transformation effectiveness in Asia-Pacific has so far been limited.** Asia-Pacific wealth management firms lag peers in both North America and Europe in terms of effectiveness, an issue compounded by lower satisfaction with hybrid advice from HNWI's within the increasingly under-served US\$1 million–US\$5 million segment.
- **Asia-Pacific wealth management firms will need to accelerate hybrid advisory transformation, in order to improve HNWI client satisfaction, unlock financial benefits, and protect themselves from BigTech disruption.** To do so, firms will need to adapt their people, processes, and propositions in order to drive the most value from hybrid advice efforts.

A Primer on Hybrid Advice

Capgemini seeks perspectives from a wide range of sources to obtain the deepest possible insight into current trends that impact our clients. After extensive research on hybrid advice, covering digital disruption in wealth management, we noticed some significant coverage gaps. Many sources lacked empirical data on what HNWI clients want to do with a human-led approach, compared with a fully digital, automated approach. We also observed a lack of research into current firms' hybrid advice capabilities and a lack of analysis of where we are in today's digital disruption wave in wealth management.

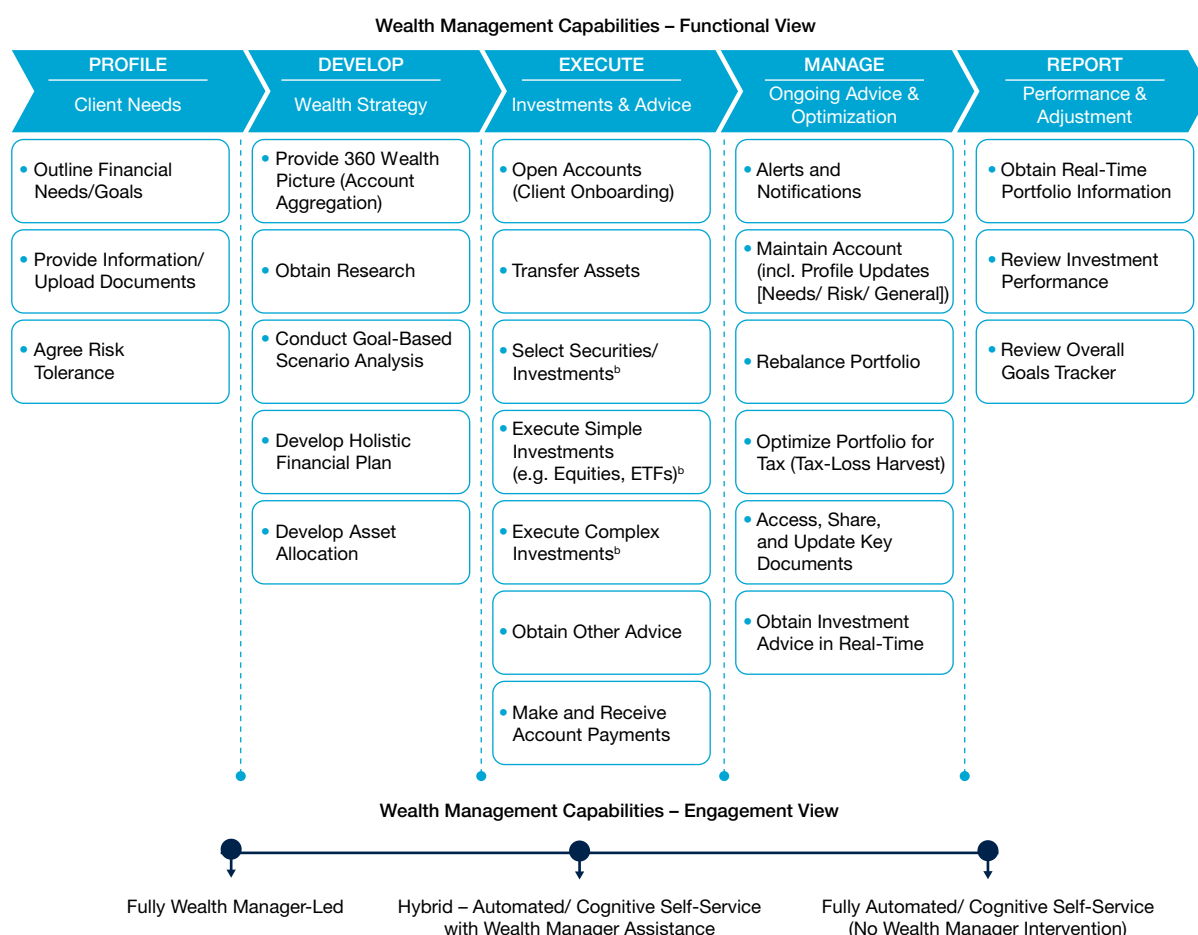
Research for the 2017 *World Wealth Report* and *Asia-Pacific Wealth Report* aimed to fill these gaps and provide better insight into the current state of wealth

management. The reports expand our significant 2014, 2015, and 2016 coverage of digital disruption and build our reputation as a digital transformation reportage leader in the wealth management sector.

As discussed in the 2017 *WWR*, hybrid advice is gaining wealth management traction but lacks a universally-accepted definition with its meaning often colored by the organization defining it. For example, some analysts focus on the technical and collaborative capabilities enabled by hybrid-advice solutions, and their ability to synthesize input from the client and wealth manager to deliver a holistic view. In contrast, a U.S. regulatory body focused more on the analytical capabilities enabled by hybrid tools.¹⁸

In Capgemini's definition, the hybrid business model relates to enhancing the client journey through personalization.¹⁹ Hybrid advice puts HNWI in charge

Figure 17. Capgemini Hybrid Advice Framework^a



a. "PROSPECT" is not shown but forms the beginning of the client lifecycle

b. Exact approach depends on whether the discretionary, execution, or advisory mandate is in effect

Source: Capgemini Financial Services Analysis, 2017

18 Report on Digital Investment Advice, FINRA, May 2016, accessed September 2017 at <https://www.finra.org/sites/default/files/digital-investment-advice-report.pdf>

19 Capgemini defines the hybrid-advice model as, "Putting clients in the driver's seat by allowing them to tap into life-stage and need-based wealth management and financial planning capabilities in a modular, personalized pay-as-you-go manner. These capabilities will be delivered through: the amalgamation of (1) a cognitive analytics-driven automated/self service delivery (such as for basic investment management); (2) a human-led delivery (such as for complex wealth structuring); or (3) a wealth manager-assisted hybrid approach — as preferred by the client"

by allowing them to tap into financial planning services in a modular, pay-as-you-go manner. Depending on their needs and life stages, HNWI's can choose from self-service delivery, a wealth manager-led approach, or a combination of the two — the hybrid business model.

Although these definitions provide a good start in showing how firms can deploy digital tools, one of the gaps in current research around hybrid advice is the lack of specifics about which specific capabilities HNWI's want to have served through different interaction types. Their requirements will vary, depending on whether these interactions are wealth manager-led, digital or automated, or a hybrid approach.

To address these gaps, we went directly to HNWI's and wealth management firm leadership teams to uncover what they believed the future may hold. To enable these dialogues, we designed the Capgemini Hybrid Advice Framework (Figure 17). This framework helps identify the specific ways HNWI's prefer to interact with their wealth managers, and firms, based on the particular service being rendered. The framework covers the five lifecycle stages: 'profile client needs,' 'develop wealth strategy,' 'execute investments and advice,' 'manage ongoing advice and optimization,' and 'report performance and adjustments.' Through our *Global HNWI Insights Survey 2017*, the framework offers a three-dimensional view of how HNWI's approach wealth management, deconstructed in detail by the type of interaction, the delivery method, and a variety of HNWI characteristics.

Hybrid Advisory Model Gains Traction with Asia-Pacific HNWI's

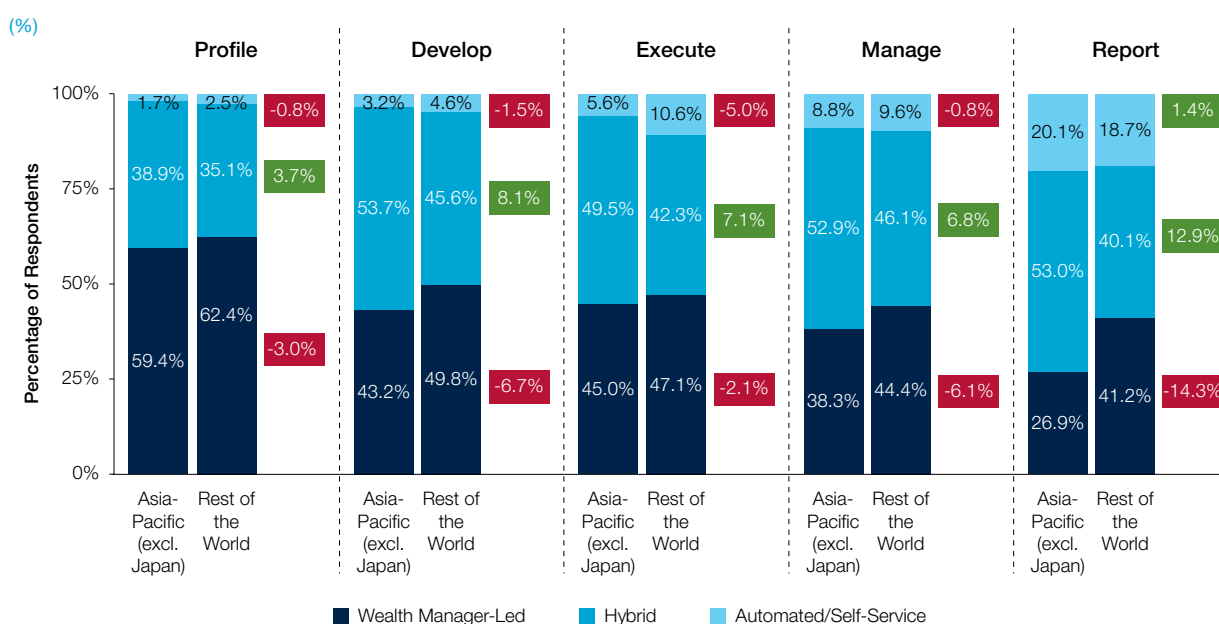
Our findings indicate that Asia-Pacific (excl. Japan) HNWI's lead demand for hybrid advice at 49.6%, compared with Europe (49.1%), Japan (47.6%), Latin America (45.6%), and North America (35.1%).

The region's hybrid advisory model preference extended to four of the five stages of HNWI client lifecycle, with the 'Develop,' 'Execute,' 'Manage,' and 'Report' stages, at 53.7%, 49.5%, 52.9%, and 53.0%, respectively (Figure 18). On the other hand, the wealth manager-led approach dominates in the earlier stages of the Asia-Pacific (excl. Japan) HNWI client lifecycle, especially at the 'Profile' stage, where 59.4% of HNWI's prefer human-intensive services. This preference is understandable because relationships are first formed and priorities set during this phase.

As the client lifecycle progresses, the preference for wealth manager-led models tapers off. By the time Asia-Pacific (excl. Japan) clients reach the 'Report' stage, only 26.9% of HNWI's want a wealth manager-led approach.

Asia-Pacific HNWI's' preference for a hybrid advisory approach in all five lifecycle stages surpassed that of other global regions. The lowest average preference for hybrid services among Asia-Pacific (excl. Japan) HNWI's is 38.9% for the 'Profile' stage of the client lifecycle

Figure 18. Interaction Preference for Wealth Management Capabilities^a, Q2 2017, Asia-Pacific (excl. Japan) vs. Rest of the World



a. Respondents with experience with the interaction in the past year have been analyzed

Note: Question asked: "How would you like to interact with your primary wealth manager or wealth management firm for each of the following services?"; HNWI's were asked to choose their preferred interaction between 'Fully Wealth Manager-Led', 'Hybrid' and 'Fully Automated' for 24 capabilities, and the values represent the average of the capabilities in the 5-stages shown above; Values in red and green boxes represent the percentage point difference by which Asia-Pacific (excl. Japan) HNWI preference is lower and higher respectively, compared to Rest of the World HNWI preference for that approach

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

and is greater than 50% for the 'Develop,' 'Report,' and 'Manage' stages. The rest of the world expresses a lower average preference for hybrid services, with 46.1% preferring it for 'Manage' capabilities, followed by 'Develop' (45.6%), 'Execute' (42.3%), 'Report' (40.1%), and 'Profile' (35.1%) capabilities.

The preference for hybrid wealth management capabilities is high in Japan as well, where 59.1% of HNWIs prefer hybrid for 'Manage' capabilities, 52.5% for 'Develop,' and over 40% for 'Profile,' 'Execute,' and 'Report' tasks (Figure 19).

Fully automated services are less popular compared to the other two models but are still important, especially in the latter stages of the client lifecycle. Like the rest of the world, Asia-Pacific (excl. Japan) HNWIs most prefer an automated/self-service model for the 'Report' stage (20.1%). Less than 10% of HNWIs prefer such services in the other four stages with the numbers being the lowest for the 'Profile' and 'Develop' stages at 1.7% and 3.2%, respectively.

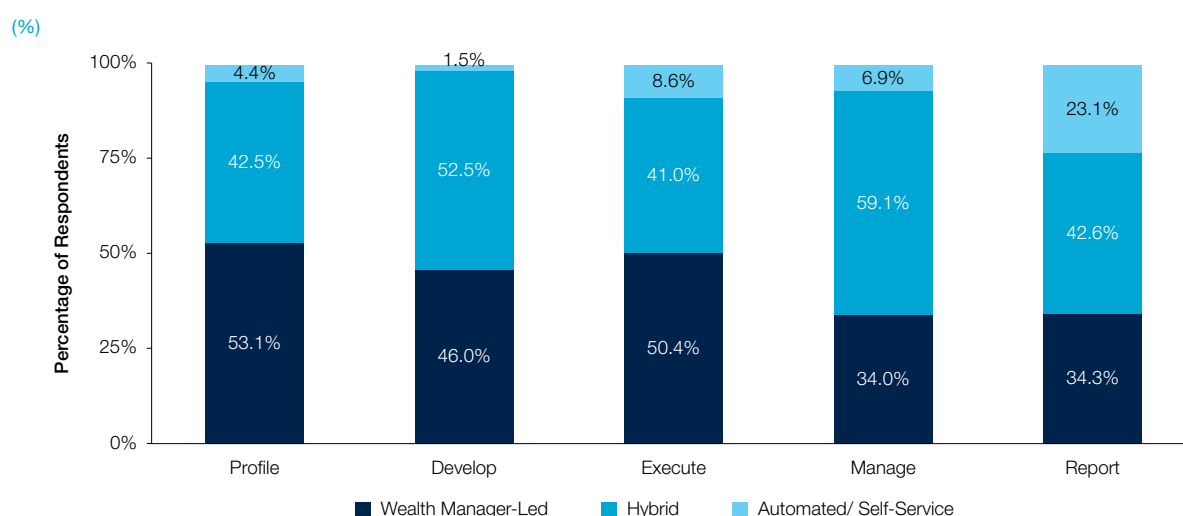
Hybrid Advice Demand Varies Across Lifecycle Stages and Demographics

The Capgemini Hybrid Advice Framework provides detailed views of HNWI delivery preferences, depending on a number of factors, including the stage of the wealth management relationship, as well as a variety of HNWI characteristics such as age, location, and wealth segment.

First, we examined how HNWIs prefer to receive services related to each of the five stages of the wealth management lifecycle:

- **PROFILE** — All three capabilities skew toward a wealth manager-led approach. For 'outline financial needs/goals,' 63.9% of Asia-Pacific (excl. Japan) HNWIs state that this approach is their preferred way to interact, although this is a significant 7.8 percentage points lower than the rest of the world (71.7%). HNWIs also look primarily to their wealth managers to 'agree risk tolerance' (57.6%) and 'provide information/upload documents' (56.8%) to set up the account.
- **DEVELOP** — HNWIs prefer a mixture of hybrid and wealth manager-led advice across all five capabilities within the 'Develop' stage. They prefer a wealth manager-led strategy for two of the five service capabilities, including 'provide 360 wealth picture (account aggregation)' of their wealth and accounts (50.6%); as well as to 'develop holistic financial plan' (51.7%). These individuals prefer a hybrid strategy to 'obtain research' (67.4%), which is 11.0 percentage points more than the rest of the world (56.4%). HNWIs also choose a hybrid approach for 'conducting goal-based scenario analysis' (56.0%), and 'develop asset allocation' strategy (52.8%) — 9.5 percentage points and 9.4 percentage points higher, respectively, than their peers in the rest of the world.
- **EXECUTE** — For the seven capabilities explored during the 'Execute' stage, Asia-Pacific (excl. Japan) prefers wealth manager-led approach for three capabilities — 'transfer assets' (63.5%), 'obtaining other advice' (51.2%) such as estate planning and philanthropy, and 'execute complex investments' (49.9%).

Figure 19. Interaction Preference for Wealth Management Capabilities^a, Q2 2017, Japan



a. Respondents with experience with the interaction in the past year have been analyzed

Note: Question asked: "How would you like to interact with your primary wealth manager or wealth management firm for each of the following services?"; HNWIs were asked to choose their preferred interaction between 'Fully Wealth Manager-Led', 'Hybrid' and 'Fully Automated' for 24 capabilities, and the values represent the average of the capabilities in the 5-stages shown above

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNW Insights Survey 2017

These individuals express a hybrid preference for ‘execute simple trades and investments (e.g., equities, ETFs)’ (60.4%), ‘select securities/ investments’ (55.1%) relevant to their wealth needs as well as to ‘open accounts (client onboarding)’ (53.6%). Nearly half (49.9%) prefer a hybrid model to ‘make and receive account payments.’

Automated and self-service capabilities emerge more prominently in the ‘Execute’ stage compared with other areas of the value chain. For ‘execute simple trades and investments (e.g., Equities, ETFs),’ 10.0% of HNWIs prefer a solely automated or self-service approach, while some also choose this model to ‘make and receive account payments’ (8.7%).

- **MANAGE** — HNWIs prefer a hybrid model for each of the seven capabilities of the ongoing management of their wealth and strategy, including receiving ‘alerts and notifications’ (54.1%), as well as ‘maintain account (incl. profile updates [needs/risk/general])’ (56.6%). They also prefer hybrid services to ‘obtain investment advice in real time’ (55.1%) and ‘access, share, and update key documents’ (50.6%) related to account changes.

These individuals prefer wealth manager-led features for ‘optimize portfolio for tax (tax-loss harvest)’ (43.5%), which is 8.7 percentage points less than in the rest of the world. They prefer to work primarily with wealth managers to ‘rebalance portfolio’ (43.1%). However, wealth manager-led approaches for these two capabilities are still below hybrid at 48.4% and 52.6% respectively.

HNWIs express a preference for digital capabilities mainly for ‘alerts and notifications’ (14.2%) and ‘access, share, and update key documents’ (10.1%).

- **REPORT** — For reporting functions, HNWIs prefer a hybrid service approach for all three primary capabilities. Most choose hybrid for ‘obtain real-time portfolio information’ (50.4%), which is 7.5 percentage points more than the rest of the world (42.8%). Hybrid is also the model of choice to ‘review investment performance’ (54.7%), as well as to ‘review overall goals tracker’ (54.0%) including progress of financial and non-financial goals, which is 19.1 percentage points more than the rest of the world (34.9%).

The automated and self-service approach was preferred for ‘review investment performance’ (21.8%), ‘review overall goals tracker’ (21.2%), and ‘obtain real-time portfolio information’ (17.2%). However, it is interesting to note that ‘obtain real-time portfolio information’ was not the preferred automated/self-service approach in this region, as it is across the rest of the world at 30.9%

Next, we analyzed which interaction preferences HNWIs preferred for particular services, depending on their location, age, wealth segment, and type of mandate.

Capability Preferences by Location

For ‘Profile’ capabilities, HNWIs across all the markets in Asia-Pacific clearly prefer a wealth manager-led model. Hong Kong HNWIs have the highest propensity toward hybrid (44.4%) as well as the highest preference for an automated/self-service approach at this stage (6.3%) compared with other Asia-Pacific markets.

At the ‘Develop’ stage, HNWIs across all the markets in Asia-Pacific prefer accessing these capabilities through a hybrid approach, except for Australia, which is inclined toward wealth manager-led models. Indian HNWIs have the highest predilection toward a hybrid approach (60.3%) among all Asia-Pacific (excl. Japan) markets while Singaporean HNWIs have the highest demand for the automated/self-service approach (6.1%) in this stage.

For ‘Execute’ capabilities, HNWIs across all markets in Asia-Pacific demand access through a hybrid approach except Hong Kong, which is more balanced between wealth manager-led and hybrid models. Indonesian HNWIs are the most skewed toward hybrid (53.8%), while those in Australia express a very high preference for digital at 10.2%. Hong Kong HNWIs have the highest demand, relative to other markets in the region, for a wealth manager-led approach at 48.9%. Singaporean and Australian HNWIs show the highest demand at this stage for automated/self-service at 10.2% each.

For ‘Manage’ capabilities, HNWIs across all markets in Asia-Pacific (excl. Japan) preferred hybrid models, except Australia, where most select the wealth manager-led model; and Malaysia, which is more balanced between wealth manager-led and hybrid approaches at 46.7% and 46.5%, respectively. Singaporean HNWIs have the highest demand for automated/self-service capabilities in this stage at 13.6%

For ‘Report’ capabilities, there is a strong preference for the automated/self-service approach with Hong Kong leading at 23.3%. The hybrid approach is preferred by all markets except Australia and Indonesia while HNWIs in China are the most inclined toward it (60.6%). Preference for a wealth manager-led approach at this stage is at 55.2% for Indonesian HNWIs, the highest in Asia-Pacific (excl. Japan).

Differences by Age

Age also had a distinct influence on clients’ wealth management preferences. Younger HNWIs (under 40) prefer wealth manager-led approaches in the ‘Profile’ and ‘Execute’ stages, likely due to their lack of familiarity with investment options or time constraints. For ‘Manage’ capabilities, younger individuals are the most inclined toward hybrid-advice models, compared with HNWIs aged 60 or more (54.9% versus 48.8%, respectively).

The preferences of older individuals also vary depending on client lifecycle stages. For ‘Profile’ capabilities, older HNWIs are most inclined toward wealth manager-led models, compared with those under 40 (68.6% versus 59.9%).

For 'Develop' capabilities, older individuals slightly prefer a hybrid approach compared with their younger counterparts (63.2% versus 58.5%). In the 'Execute' stage, HNWIs aged 60 or older are much more inclined toward a digital model compared with younger individuals (19.2% versus 4.5%). Older HNWIs also greatly prefer automated or self-service approaches in the 'Manage' stage, compared with their younger counterparts (18.4% versus 7.3%). While in the 'Report' stage, 61.6% of older HNWIs prefer a hybrid approach, higher than 55.8% of HNWIs under 40.

Wealth Level Impacts Preferences

Individuals in different wealth bands showed distinct preferences in how they prefer to have their wealth managed. In the 'Profile' stage there is a clear preference for the wealth manager-led approach across all wealth bands. Although all wealth bands prefer a hybrid approach for 'Develop' capabilities, the wealthiest HNWIs (with more than US\$20 million in assets) showed the strongest preference (69.0%). For 'Execute' capabilities, HNWIs in the upper wealth bands (over US\$ 20 million) prefer hybrid solutions compared with the lower-wealth band (US\$1 million–US\$5 million) at 59.8% versus 49.0%, respectively. This contrasts with the rest of the world, where wealthier individuals prefer a wealth manager-led approach (60.8%).





For 'Manage' capabilities, HNWIs in the upper-wealth band (over US\$ 20 million) have a higher propensity for hybrid (61.8% versus 51.6%) as well as automated/self-service approaches (9.8% versus 8.7%), when compared with individuals in lower-wealth bands (US\$1 million–US\$5 million). For 'Report' capabilities, HNWIs across all the wealth bands have the highest preference for automated/self-service approaches. In fact, wealthier individuals (over US\$20 million) show a higher preference for automated approaches (18.3%) than wealth manager-led approaches (10.1%) in this stage.

Variation by Mandate

Individuals' wealth management mandates influenced their preferred delivery methods. For 'Profile' and 'Manage' capabilities, it is not surprising that HNWIs with a discretionary mandate have a higher demand for a wealth manager-led approach compared with hybrid services. However, for 'Manage' capabilities, those with a self-directed (56.4%) or advised (54.0%) mandate are more inclined toward a hybrid approach.

For 'Develop' capabilities, we see the highest preference for hybrid approaches for all three mandates, HNWIs with discretionary (7.5%) and self-directed (8.4%) mandates are slightly more skewed toward digital, compared with individuals with an advised mandate (2.2%).





Figure 20. Top Three HNW Interaction Preferences, Q2 2017, by Market

Market	Wealth Manager-Led	%	Hybrid Model	%	Automated/Self-Service	%
 Australia	Outline financial needs/goals	71.4%	Obtain research	69.7%	Obtain real-time portfolio information	31.8%
	Agree risk tolerance	70.2%	Execute simple investments (e.g. equities, ETFs)	60.0%	Access, share, and update key documents	25.0%
	Executing complex investments and rebalance portfolio	66.7%	Transfer assets	56.3%	Review investment performance	22.2%
 China	Transfer assets	74.4%	Obtain research	69.2%	Review investment performance	27.3%
	Outline financial needs/goal	62.7%	Review overall goals tracker	65.4%	Review overall goals tracker	23.1%
	Provide information/upload documents	58.1%	Maintain account (incl. profile updates [needs/risk/general])	62.6%	Alerts and notifications	15.5%
 Hong Kong	Open accounts (client onboarding)	66.7%	Conduct goal-based scenario analysis	75.0%	Review overall goals tracker	45.5%
	Select securities/investments	64.7%	Obtain research	69.6%	Optimize portfolio for tax (tax-loss harvest)	17.6%
	Outline financial needs/goals	61.8%	Executing complex investments	66.7%	Review investment performance	16.7%
 India	Provide information/upload documents	61.7%	Select securities/investments	70.2%	Alerts and notifications	17.3%
	Outline financial needs/goals	60.7%	Develop asset allocation	68.3%	Obtain real-time portfolio information	17.1%
	Agree risk tolerance	59.3%	Access, share, and update key documents	67.6%	Review overall goals tracker	16.7%

Note: Question asked: "How would you like to interact with your primary wealth manager or wealth management firm for each of the following services?"; Numbers may not add up to 100% as respondents could select more than one option

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNW Insights Survey 2017

Figure 21. Top Three HNWI Interaction Preferences, Q2 2017, by Market

Market	Wealth Manager-Led	%	Hybrid Model	%	Automated/Self-Service	%
 Indonesia	Transfer assets	70.0%	Execute simple investments (e.g. equities, ETFs)	75.0%	Review investment performance	6.5%
	Outline financial needs/goals	69.1%	Executing complex investments	72.7%	Conduct goal-based scenario analysis	6.3%
	Obtain real-time portfolio information	60.9%	Select securities/investments	65.5%	Transfer assets	6.0%
 Japan	Executing complex investments	66.7%	Alerts and notifications	73.1%	Review overall goals tracker	50.0%
	Agree risk tolerance	61.8%	Rebalance portfolio	71.0%	Making and receiving account payments	19.6%
	Provide 360 wealth picture (account aggregation)	59.4%	Develop asset allocation	66.7%	Access, share, and update key documents	17.4%
 Malaysia	Outline financial needs/goals	71.4%	Execute simple investments (e.g. equities, ETFs)	63.2%	Review overall goals tracker	30.0%
	Agree risk tolerance	68.6%	Develop holistic financial plan	61.5%	Execute simple investments (e.g. equities, ETFs)	21.1%
	Provide 360 wealth picture (account aggregation)	61.0%	Executing complex investments	61.5%	Open accounts (client onboarding)	16.7%
 Singapore	Agree risk tolerance	67.3%	Review overall goals tracker	66.7%	Obtain real-time portfolio information	32.3%
	Outline financial needs/goals	60.0%	Rebalance portfolio	64.2%	Making and receiving account payments	23.1%
	Transfer assets	57.1%	Open accounts (client onboarding)	63.2%	Optimize portfolio for tax (tax-loss harvest)	20.0%

Note: Question asked: "How would you like to interact with your primary wealth manager or wealth management firm for each of the following services?"; Numbers do not add up to 100% as respondents could select more than one option

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNW Insights Survey 2017

For 'Execute' capabilities, HNWI with a discretionary mandate are the most wealth manager-led (53.7%), while HNWI with self-directed and advised mandates prefer a hybrid approach.

In the 'Report' stage, there is a steep rise in demand for automated approaches across the three mandates, with the highest being for self-directed HNWI, 23.5% of which prefer this approach, more than the human-intensive wealth manager-led approach at 14.9%.

Nuances Influence Advice Preferences by Market

Capgemini closely examined interaction preferences in Asia-Pacific and found significant market-level variations. *HNWIs in Indonesia, Hong Kong, and Japan have the most demand for hybrid advice, while Japan, Hong Kong, and Australia are among the global leaders regarding demand for outright automation of some wealth management capabilities.*

A close look at interaction preferences by markets reveals distinct variations in terms of the number of unique capabilities for each approach. For example, for the **wealth manager-led approach**, there are 10 (out of 24) unique interaction capabilities that feature in the top three interaction preferences across the region's markets

(Figures 20 and 21). For example, HNWI in seven of eight Asia-Pacific markets seek a wealth manager-led approach to 'outline financial needs/goals.' Another capability where the wealth manager-led approach is preferred is to 'agree risk tolerance' regarding wealth and investments — this is one of the top three capabilities for five of eight Asia-Pacific markets. It is pertinent to note that both the capabilities are part of the 'Profile' stage of the HNWI client lifecycle.

The demand for **hybrid-led capabilities** in wealth management is more varied compared to wealth manager-led capabilities, with 14 (out of 24) interaction capabilities featuring at least once in the top three across the eight Asia-Pacific markets. Most prevalent, with HNWI in three of eight Asia-Pacific markets desiring a hybrid approach, is to 'obtain research,' 'executing simple investments (e.g. Equities, ETFs),' and 'executing complex investments.' Four other capabilities — 'select securities/investments,' 'developing an asset allocation,' 'rebalance portfolio,' and 'review overall goals tracker' feature in the top three hybrid capabilities for two out of eight Asia-Pacific markets. All of these hybrid oriented interactions fall in the middle stages of the HNWI client lifecycle — 'Develop,' 'Execute,' and 'Manage' — except for the final interaction capability, which is a part of the 'Report' stage.

For the **automated approach**, 11 (out of 24) major interaction capabilities stand out among the top three interaction preferences. Among these interaction capabilities, 'review overall goals tracker' is sought by HNWIs in five of eight Asia-Pacific markets. 'Review investment performance' is in the top three automated capabilities for four of eight markets, while 'obtain real-time portfolio information' is a key capability to automate for three of eight of these markets. The first two capabilities that HNWIs want as a self-service are a part of the 'Report' stage of the client lifecycle, while 'obtain real-time portfolio information' is part of the preceding 'Manage' stage.

Diving deeper into the HNWI preference data also reveals specific nuances by market. For wealth manager-led approaches, the highest demand for an individual capability was in China, for 'transfer assets' (74.4%). 'Outline financial needs/goals' is the most sought after wealth-manager led capability in Australia and Malaysia, preferred by 71.4% of HNWIs. In Singapore, 'agree risk tolerance' is the top capability (67.3%).

Among hybrid-led approaches, 'obtain research' is the top capability in Australia (69.7%) and China (69.2%). In Indonesia and Malaysia, 'executing simple investments (e.g., Equities, ETFs)' is the top capability at 75.0% and 63.2%, respectively.

For those considering a fully automated approach, 'reviewing the progress to my financial and non-financial goals' is a top capability in Japan (50.0%), Malaysia (30.0%), and Hong Kong (45.5%). 'Obtaining real-time portfolio information' is the top capability in Singapore (32.3%) and Australia (31.8%).

Asia-Pacific Firms' Hybrid Advice Transformation Progress Lags Rest of World

Like their counterparts in other regions, Asia-Pacific wealth management firms are pursuing hybrid advice transformation. But unlike their peers in the rest of the world, their focus is on operational efficiency and compliance gains versus revenue.

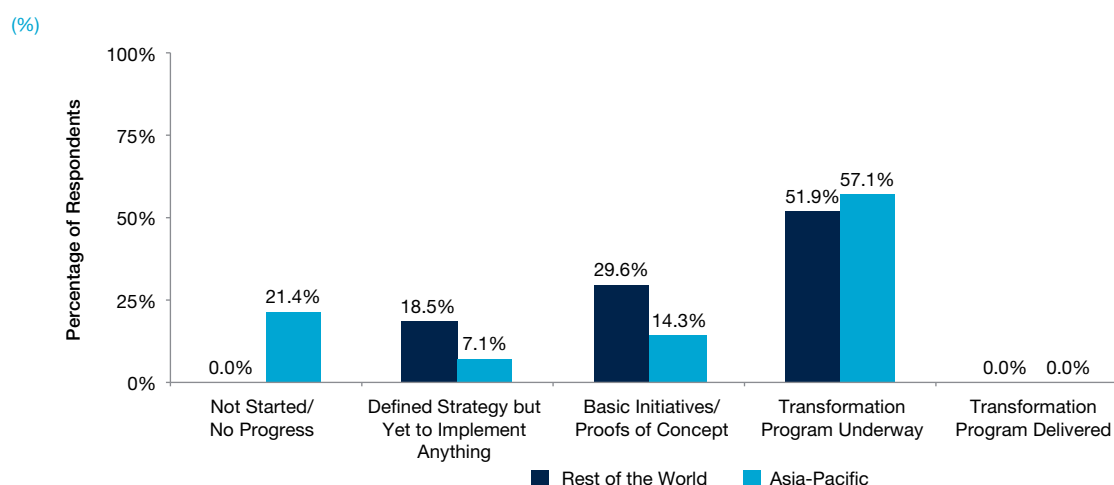
Many Asia-Pacific wealth management firms are well into their transformation journeys, but 42.8% have not progressed beyond the proof-of-concept stage, and 21.4% have not begun a hybrid advice initiative (Figure 22).

On the other hand, 57.1% of Asia-Pacific wealth management firms have initiated transformation programs, compared with 51.9% of wealth firms in the rest of the world. Globally, no firms believe they have fully delivered their programs.

Wealth management firms have been motivated to begin their hybrid advice transformation to achieve specific business objectives. In Asia-Pacific, wealth management firms are most interested in seeking regulatory compliance (Figure 23), which along with operational efficiency, was rated highly, 3.0 and 2.7 respectively, while improved revenue was rated a more modest 2.0.

In the rest of the world, revenue, operational efficiency, and regulatory compliance were considered equally significant objectives, all scoring approximately 2.3. As a result, it appears that Asia-Pacific wealth management firms are beginning their journeys with internal efficiency and compliance as extremely high priorities, and

Figure 22. Progress Made by Firms on Hybrid Advice Model Strategy by Hybrid Strategy Stage, Q2 2017, Asia-Pacific^a and Rest of the World









a. Asia-Pacific includes Japan

Note: Question asked: "Where is your firm with its hybrid advice strategy?"; Total 37 executive responses have been included; Rest of the world refers to the score given by all wealth management executives who were part of Executive Interviews in 2017 except those from Asia-Pacific markets

Source: Capgemini Financial Services Analysis, 2017; Executive Interviews, 2017

Figure 23. Asia-Pacific Firm Objectives for Hybrid Advice, Q2 2017

Functional View	Revenue	Operational Efficiency	Regulatory Compliance
Asia-Pacific (excl. Japan)	 2.0	 2.7	 3.0
Rest of the World	 2.4	 2.4	 2.3
Difference	(0.4)	0.3	0.7
Quotes	<p><i>"When you are the trusted advisor to your clients, you get more business. It is not because of an app or tool. It is good to be boring in this way,"</i></p> <p>CEO, Asia-Pacific Private Bank</p>	<p><i>"The main benefit is freeing up of wealth manager time (no longer has to book small trades and no longer has to hunt for information). They can now focus on deepening relationship and providing high-value and differentiated advice,"</i></p> <p>Head of Digital, Asia-Pacific Private Bank</p>	<p><i>"We are using this to conduct risk profiling for customers,"</i></p> <p>Global Head of Wealth Management, Asia-Pacific Private Bank</p>

Note: Question asked: "Please provide your views on the extent of positive benefits of hybrid advice on each area"; Total 37 executive responses included; Rest of the world refers to the score given by all wealth management executives who were part of Executive Interviews in 2017 except those from Asia-Pacific markets

Source: Capgemini Financial Services Analysis, 2017; Executive Interviews, 2017

potentially will be more phased and opportunistic with their revenue goals — once their own experience with hybrid advice efforts has increased.

However, revenue objectives still exist for several firms in Asia, and some firms have already achieved noteworthy success. A leading Swiss bank present in Asia, with a strong client footprint among ultra-HNWIs, launched a series of hybrid advice initiatives, combining digital offerings with wealth managers. Although enhancing efficiency and improving the client experience were top drivers, the firm also observed some uplift in areas that directly impacted top-line revenue. The bank noted an almost twofold difference between the average number of trades between non-users of the new hybrid platform and active users. It also observed a ninefold increase in volume of trades through the digitally-enabled hybrid platform from Q1 2016 to Q1 2017.

A close examination of the drivers for hybrid advisory models by the region's wealth management firms reveals some regional nuances (Figure 24). In general, wealth management firms in Asia-Pacific are motivated by goals that are similar to those in the rest of the world. They are primarily focusing on the need to grow the business, improve efficiency, and ensure compliance.

Regional characteristics also impact new service delivery initiatives. Asia-Pacific firms seek to scale up business in a very heterogeneous, geographically dispersed region. It is not possible to reach all HNWI in every city, and firms do not employ enough advisory talent to do it cost effectively.

Moreover, Asia-Pacific firms seek to serve the US\$1 million–US\$5 million segment, which is exceptionally large in this region, with more HNWI than in Europe, Latin America, and Africa combined. Hybrid service delivery can help wealth management firms engage more customers and fill potential coverage gaps more quickly and cost effectively.

Digital services are also key to these firms' value proposition because of the importance of digital penetration in Asia-Pacific. Contrary to conventional wisdom, sophisticated digital services are highly important for older HNWI (79.9%) as well as younger individuals. Among all age groups we are seeing acceptance of digital offerings and widespread adoption of e-commerce websites such as Alibaba.com, digital payment services like AliPay, and chat tools such as WeChat.

There are some caveats to Asia-Pacific wealth management firms' acceptance of hybrid advice as the industry's future model. For one thing, there is a strong belief among wealth management executives that a wealth manager must lead the asset allocation that follows initial client profiling and mapping of needs because it is complex and requires close linkage to the direction given by the Chief Investment Officer (CIO). Additionally, while core processes like client profiling and need mapping can increasingly be handled by algorithmically-driven automated advisors, it is believed to be difficult to automate these steps for people with more than US\$5 million in wealth given the inherent complexity of their needs. According to a head of investment services at a wealth management unit of a universal bank, "There is higher likelihood that investments for those in higher wealth segments are a complex matter and go into a lot of detail."

HNWI also have more anxiety about their wealth, which imposes more fiduciary demands on wealth managers who they perceive as more reassuring compared with digital systems. As consumers become more aware of their available investment options, wealth managers will have to demonstrate real expertise to prove their business case. This level of advisory is difficult for automated services to deliver given their current maturity level.

Figure 24. Drivers for Hybrid Advice, Q2 2017, Asia-Pacific

Bucket	Drivers	Description	Quotes
Regulatory Requirements	Legal and Compliance Requirements	Enhanced provisions by regulators around transaction reporting to safeguard client interests	"The risk will increase if the current trend of regulatory harmonization across different market sectors continues," Group Head of Wealth Management, Asia-Pacific Private Bank
	Safeguard Client Interests		
Efficiency Gains	Reduce Costs	Elevated cost to income ratios have increased focus on digitization of middle and front office to reduce cost and boost wealth manager productivity	<p>"Main driver for digital is productivity," Global Head of Wealth Solutions, Asia-Pacific Private Bank</p> <p>"Making everything more secure and the possibility to cut down product offerings and increase sales efficiency (in the front office)," Head of Investment Services, Asia-Pacific Private Bank</p> <p>"There is a need to manage cost-to-serve and increase wealth manager productivity," Chief Operating Officer, Asia-Pacific Private Bank</p>
	Improve Wealth Manager Productivity		
	Increase Conversions		
	Reduce Errors		
Growth Requirements	Personalization	Enhanced client expectation (especially the next-generation), increasing competition, and shareholder growth expectations make hybrid models a critical lever	<p>"1.7Bn Euros committed to digital transformation – we are working to align the customer journeys to leverage the technology we are building," Global Head of Wealth Solutions, Asia-Pacific Private Bank</p> <p>"These (BigTechs) are trusted brands for customers so they are a potential threat to our business," Global Head of Wealth Solutions, Asia-Pacific Private Bank</p> <p>"Being the bank for the global citizen," CEO, Asia-Pacific Private Bank</p>
	Protect Revenue from BigTech/Wealth Transfer		
	Access New Segments		
Other Considerations	Enhanced Agility	The need to be agile and provide differentiation are also key drivers	<p>"Realization that a large bank would never be very agile alone, so starting to shift to a more FinTech-led agile methodology," Head of Investment Services, Asia-Pacific Private Bank</p> <p>"Do believe FinTechs are key partners (two years ago this would not have been the case)," Chief Operating Officer, Asia-Pacific Private Bank</p> <p>"Hybrid is a major opportunity to reach more people, more easily," Global Head of Wealth Solutions, Asia-Pacific Private Bank</p>
	Get to Par with FinTechs		
	External Recognition		

The hybrid model often follows the wealth manager-led part of the process because automated advisors can complement wealth managers. According to the CEO of a private bank, "Automated advisors are ideal for tasks like rebalancing portfolios and generating alerts for the client and advisor on automated adjustments being made, based on pre-decided parameters."

Digital/automated processes are currently best suited for less sophisticated activities, although they are becoming more sophisticated. According to the Head of Investments at an Asia-Pacific wealth management unit of a universal bank, "Simple plain-vanilla investments can be handled by automated advisors because they are inherently low margin and have less stringent suitability requirements (cash and simple equities)."

Portfolio views can also be handled on-demand by digital systems. A Senior Vice-President at a regional banking giant noted, "We are currently implementing risk profiling as a priority digital capability, initially as a self-response offering, then using psychographic models." A Managing Director of a private bank predicts, "Cognitive Artificial Intelligence (AI) will play a key role for prospecting clients, and identifying those customers who can be better served by an automated self-advisory model." A Managing Director of a wealth management unit in Asia-Pacific within a universal bank advocates the use of automated services "to handle information-related tasks such as research, push mail, statement generation, performance reports, risk analytics, and alerts among others."

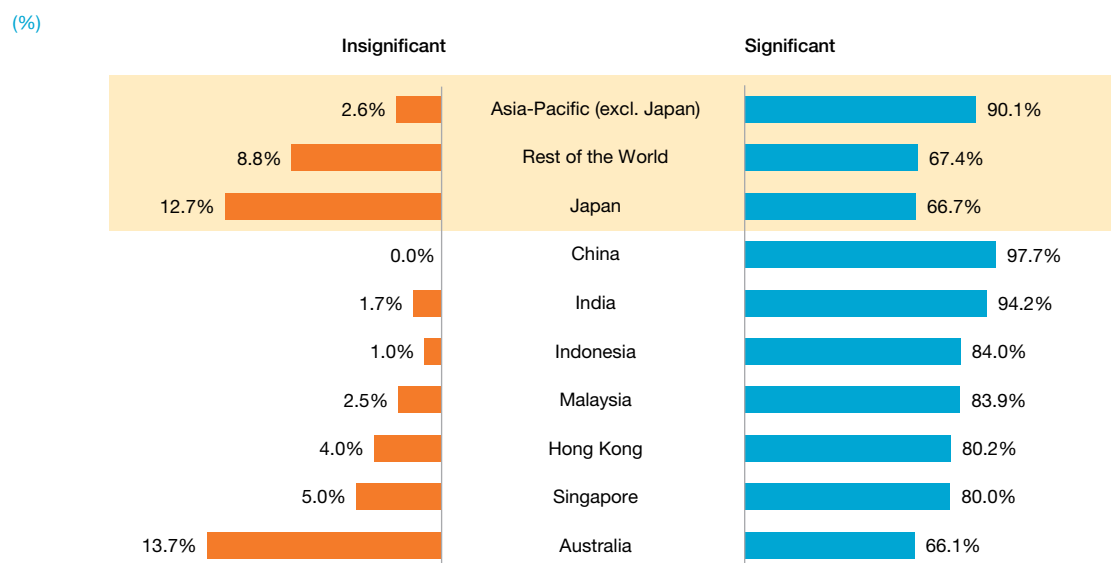
The Effectiveness of Hybrid Advice Has Been Limited

Despite the compelling drivers toward hybrid services, hybrid transformation efforts to date have met with only modest success. This issue has been compounded by lower satisfaction with hybrid advice from HNWLs within the under-served US\$1 million–US\$5 million segment.

Yet the effectiveness of hybrid advice has serious implications for HNWL client acquisition and retention (Figure 25). Among HNWLs in Asia-Pacific (excl. Japan), 90.1% say hybrid advice is significant in their decision to increase (or decrease) assets with a primary wealth management firm over the next 24 months, as compared with only 67.4% in the rest of the world. In Japan, 66.7% of HNWLs say hybrid advice is a significant factor in their decision to allocate assets.

The impact of hybrid advice on assets under management varies by factors like age, wealth band, and gender. HNWLs across all age bands in Asia-Pacific (excl. Japan) are serious about the role of hybrid advice when consolidating their assets with a hybrid advice provider, though the tendency of younger HNWLs to consolidate assets is slightly higher than those over 60 years old (91.7% versus 87.5%).

Individuals across all wealth bands in Asia-Pacific (excl. Japan) are open to consolidating their assets with a hybrid advice provider, although HNWLs in upper wealth bands of US\$20 million or higher tended to consolidate assets more than those in US\$1 million–US\$5 million range (96.3% versus 89.7%). Both male and female HNWLs say hybrid advice is significant in their decision to increase (or decrease) assets with primary wealth management firm over the next 24 months (89.4% versus 91.2%).

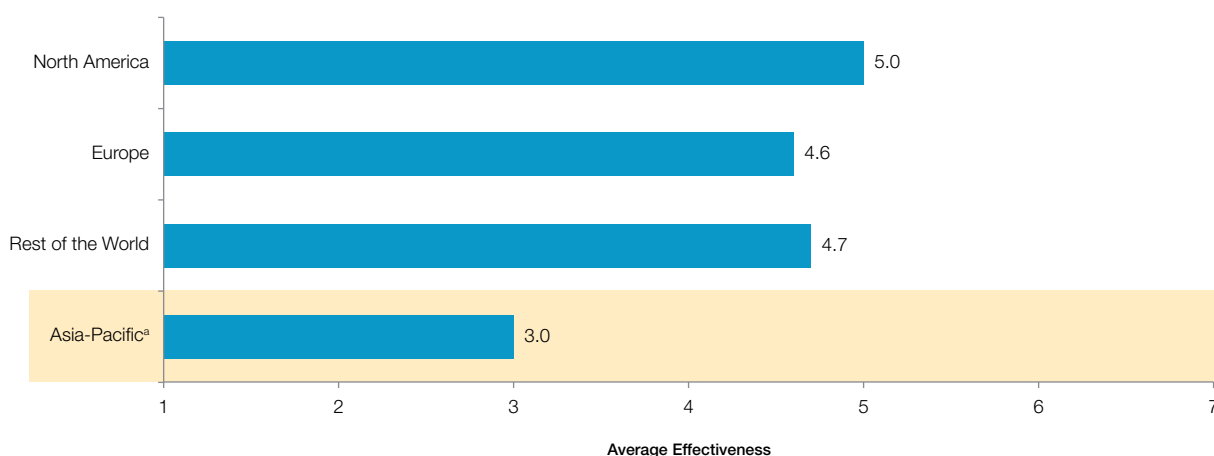
Figure 25. Role of Hybrid Advisory in Increasing/Decreasing Assets Over the Coming 24 Months, Q2 2017, by Market

Note: Question asked: "Thinking back to your responses on the digital services offered by your primary wealth management firm, how significant is your primary wealth management firm's ability to interact in-person and through automated channels as you prefer (i.e. hybrid advice), in your decision to increase or decrease assets over the next 24 months?"; Respondents were asked to rate on a five point scale ranging from 'Not at All Significant' to 'Very Significant'; The percentage values represent the sum of responses 'Somewhat Significant' and 'Very Significant' as 'Significant' and 'Not at All Significant' and 'Somewhat Insignificant' as 'Insignificant'

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNW Insights Survey 2017

When considering HNW satisfaction with hybrid advice, clients in the region are on a par with the rest of the world. As reflected in the limited effectiveness of firm efforts on hybrid advice, HNWs in Asia-Pacific (excl. Japan) show limited or modest satisfaction (70.6%) with hybrid advisory efforts, with the rest of the world at 70.5%. The exception is Japan, which shows very low satisfaction at 26.7%.

The satisfaction with hybrid advice is the highest in the emerging markets of China (80.0%), Indonesia (80.0%), and India (71.1%). However, given the stronger-than-average investment performance experienced by HNWs in the emerging markets of Asia-Pacific, it remains to be seen whether such satisfaction levels would be maintained during a down market. *Satisfaction is lowest in the developed markets of Australia (62.9%), Malaysia (48.3%), Singapore (47.0%), and Hong Kong (38.6%),*

Figure 26. Average Effectiveness of Hybrid Advice, Q2 2017, by Region

a. Asia-Pacific includes Japan

Note: Question asked: "How effective have your hybrid advice efforts been?"; Respondents were given a seven point ascending scale with 1 being the lowest and 7 being the highest; Total 37 responses included; Rest of the world refers to all wealth management executives who were part of Executive Interviews, 2017 except those from Asia-Pacific markets

Source: Capgemini Financial Services Analysis, 2017; Executive Interviews, 2017

most likely because of higher expectations in these areas. Singapore and Hong Kong register the lowest satisfaction, and are also the markets where most wealth is booked and where demand is highest.

Satisfaction with hybrid advice also varied by age and wealth bands, with older HNWIs in the region least satisfied at 54.6%. *HNWIs in the lower wealth band are also the least satisfied (69.8%). Nonetheless, this band will be increasingly consuming hybrid advice as clients are pushed out of core private banking services and into more commoditized wealth management services.* Standard Chartered Private Bank, for example, increased the threshold of investable client assets from US\$2 million to US\$5 million this year, and is redoubling its efforts to attract clients with at least US\$30 million.²⁰ Bank of Singapore is also likely to increase the threshold for its private banking services to US\$5 million in a few years' time, from its current level of US\$2 million.²¹

As we examine scores for hybrid program effectiveness, wealth management firms in Asia-Pacific (excl. Japan) report low results to date (Figure 26). The reason is most likely because these firms are still working their way through their transformation initiatives. Firms surveyed gave themselves an effectiveness score of 3.0 on a seven-point scale, compared with the rest of the world with a score of 4.7.

Analysts reported the same effectiveness score for these firms, indicating that most firms are aware of their actual performance, are not exaggerating their results, and are determined to move forward to transform their organizations.

Firms Face Several Challenges During Hybrid Advice Transformation

Although hybrid advice offers compelling benefits, plenty of challenges remain for Asia-Pacific wealth management firms seeking to transform their organizations with a hybrid advice model (Figure 27). Wealth management firms in Asia-Pacific face challenges similar to those in the rest of the world, including budgetary, regulatory, technology, cultural, client, and execution constraints, as well as local nuances.

Budget and focus are major constraints. For example, many banks still have a greater focus on “run-the bank” budgets and effort, compared with the relatively smaller “change-the-bank” side of budget and resource allocations. Additionally, marketing and R&D budgets pale in comparison with those of more nimble FinTechs (as a percentage of revenues) as well as very large BigTechs (at an overall budget level). Budget is only one part of

Figure 27. Challenges for Hybrid Growth, Asia-Pacific (excl. Japan)

Bucket	Challenges	Description	Quotes
Budgetary and Focus Constraints	Major Focus on Cost/ROI	Most budget is focused on operational expenses rather than looking at the long term focus	“The challenge is the marketing budget. Start-ups are spending 90% of what they have on marketing,” <i>Head of Advisory, Asia-Pacific Private Bank</i>
	Start-ups Outspending Banks		
Regulatory Constraints	Major Mindshare to Regulations	Preparing for upcoming regulations and optimizing costs pose major challenge	“Have to consider the regulatory environment as they are making the business very costly,” <i>Managing Director of Client Engagement, Leading Asia-Pacific Bank</i>
Data and Technology Constraints	Data Standards and Quality Constraints	Poor data quality, siloed operations, and legacy systems make the provision of seamless client experience a challenge	“There is a need for quality data (‘drain the data swamp’),” <i>Head of Advisory, Private Asia-Pacific Bank</i> “The complexity of our organization, siloed operation and legacy systems have held back adoption,” <i>Group Head of Wealth Management, Leading Asia-Pacific Bank</i>
	Changing Legacy Systems		
Cultural Transformation	Internal Culture Change Challenge	Large number of wealth managers and even employees are resistant to a shift/change in new models	“Just as they were getting used to adapting to ‘reg’, now have to adapt to ‘tech’,” <i>Head of Investment Services, Private Asia-Pacific Bank</i> “There are still a large group of relationship managers who are not supporters,” <i>Head of Investment Services, Asia-Pacific Bank</i>
	Lack of Stakeholder Buy-in		
Client Demand and Relevance	Varied Client Enthusiasm	Complying with varied hybrid preferences for all client segments seems difficult	“Several clients of the older generation resist digital technology and prefer traditional ways. The big question – What do you design for the clients who do not prefer going digital at all?,” <i>Group Head of Wealth Management, Leading Asia-Pacific Bank</i>
Business Model and Execution Challenges	Deployment and Time to Market Challenges	Constraints around focus on digital initiatives and time to market might not translate to smooth or speedy deployment of the complete system	“Firms can be good at proof of concept, still slow in go-to-market,” <i>Head of Investment Services, Asia-Pacific Private Bank</i> “There is poor viability and follow through of ‘digital programs’,” <i>Industry Analyst, Owner of Wealth Management Consulting Firm</i>
	Digital Initiative Overload and Poor Viability		

Note: Question asked: “What has enabled and/ or held back adoption of hybrid advice at your firm? If you have not yet begun, please comment on why this is the case.”

Source: Capgemini Financial Services Analysis, 2017; Executive Interviews, 2017

20 “StanChart to raise private banking asset bar to focus on ultra-rich”, Financial Times, April 4, 2017, accessed August 2017 at <https://www.ft.com/content/33fbd778-1857-11e7-9c35-0dd2cb31823a>

21 “Bank of Singapore to Raise Entry Threshold”, finews.asia, June 1, 2017, accessed October 2017 at <https://www.finews.asia/finance/24735-bank-of-singapore-bahren-shaari-jp-morgan-standard-chartered-asian-private-banking-asian-wealth-management-private-bank>

the challenge, however. General resource availability and timeshare are constraints, especially as many firms work within cost-optimization parameters, cope with changing regulations, and prepare for new rules.

Constraints around data standards and quality, as well as issues related to changing **legacy systems**, can make it difficult for firms to deliver superior customer experience. For instance, data transformation is often complex, time-consuming and costly because many banks have designed siloed data and information pockets that are not easily accessed across business lines. New approaches will be critical if firms are to deliver the analytics and personalized propositions to HNW clients that are the hallmark of hybrid advice models.

Driving **cultural transformation** internally is also a challenge. There may be resistance to forming cross-business and technology working teams (perceived lack of time), and technology teams may worry about opening up data and systems (perceived risk of system crashes), while wealth managers may not see an immediate need to offer more hybrid services to their HNW clients, particularly if concern about reduced-fee income exists.

Catering to all client segment demands via a hybrid approach can be difficult. For example, some firms have a wide prevalence of more traditionally minded HNW clients, which can mask the need to invest in hybrid solutions in order to remain relevant during wealth transfer. The CEO of one such private bank told us, “With our average client in his or her mid-70s, we do not see widespread demand for digital tools.” This executive went so far as to highlight the practical limitations of hybrid transformation, saying, “We once tried to remove paper

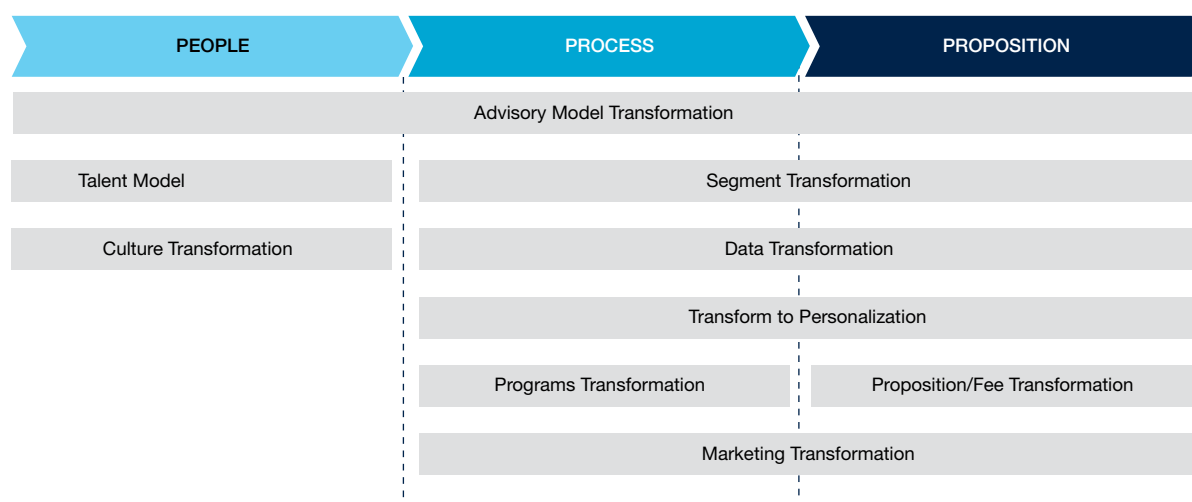
statements, and found that several members of the older generation resisted the initiative as they preferred to print out, circle, highlight and file their statements.”

Firms also face **business model and program execution challenges**. Even when they have articulated a hybrid advice strategy, many Asia-Pacific wealth management firms struggle with its execution. Sometimes the issue is related to a lack of clearly prioritized roadmap of initiatives. Other times the very nature of how programs are executed is a leading cause, such as a lack of more agile methodologies to quickly test, iterate, and launch new ideas.

Asia-Pacific also faces region-specific challenges. **Local decision making for new digital or hybrid programs can be slow**, especially for firms with offshore headquarters. As noted earlier, the transformation of many firms is still in progress, with multiple initiatives underway but not fully integrated into their processes. For example, one firm interviewed for the 2017 *APWR* identified hundreds of possible initiatives that make progress and prioritization both complex and confusing. Another firm reported launching a number of high-profile hybrid programs but had yet to bring them together for true value.

At the same time, **the ability of middle office teams to execute is more constrained**, mainly because regulatory compliance transformation is still a work in progress in Asia-Pacific, compared with North America and Europe where know your customer (KYC) and anti-money laundering (AML) regulatory work is mostly complete.

Figure 28. Hybrid Advice Transformation Framework



Source: Capgemini Financial Services Analysis, 2017

Transformation Can Be Accelerated Through People, Process, and Proposition Levers

As the pace of change accelerates, it is clear that wealth management firms in Asia-Pacific should look to speed their hybrid advisory transformation, adapting their people, processes, and proposition to drive the most value from investment.

Future demand for hybrid advice is on the horizon, and consumers who have not yet used these capabilities are far more likely to want hybrid or digital service options. A hybrid approach is preferred by more than 50% of Asia-Pacific (excl. Japan) HNWIs who have not used these capabilities. *Our research shows significant pent-up demand for automated and digital offerings in the 'Profile,' 'Develop,' 'Execute,' and 'Manage' stages of the client lifecycles.* HNWIs who have not used these capabilities express more demand than those that have used them. These preferences are leading indicators that hybrid service options, and even some elements of self-service, will increase in the coming years. To transform, firms will need to embrace strategic levers across people, process, and proposition (Figure 28).

The first step in the transformation journey is to clarify whether or not to offer a hybrid-advice model. Firms that choose to move forward with **advisory model transformation** will need to differentiate themselves with segmentation and showcase expertise in areas beyond simply automated advisory services. **Talent models** will also evolve as firms seek out more people with high emotional intelligence (EQ), and candidates with a strong digital affinity. To deliver the personalized experience that clients crave, wealth managers will need strong relationship-based selling skills to better engage and advise their clients. **Segmentation transformation** is another vital lever. Hybrid transformation will drive higher levels of standardization at the low end, and more customization at the high end. As hybrid models build momentum, wealth management firms will increasingly move toward a “segment-of-one” approach that is complemented by analytics-driven customized offerings.

As they move deeper into the process and proposition stages of the transformation framework, firms will want to consider **data and analytics transformation**, to gain insights from data that was inaccessible, siloed, or incomplete. For example, predictive analytics tools can help them identify behavior among prospects and clients that could help foster new or deeper relationships. Firms should also aim high when it comes to **personalization**, using the latest tools to build intimacy with clients through on-demand services and improved responsiveness.

The most significant priority in transforming **program execution** is to introduce flexibility and agility. Firms should adopt a policy of creating quickly and failing fast, to continually build on their knowledge. Implementing budget flexibility will also help firms respond more aggressively to external pressures like competition and

changing client demands. These changes will need to be accompanied by a long-term process of **culture transformation** that looks at digital investments as revenue generators that will deliver a real return on investment.

Moving to a hybrid-advice model gives firms an opportunity for **proposition and fee transformation** as well. They can introduce fee structures that are more transparent and in line with client attitudes and preferences, such as pay-as-you-go models or a-la-carte approaches. Wealth management firms can also take this opportunity to transform **marketing**, with more sophisticated targeting and onboarding programs to help ensure that clients are actively engaged.

Implications and the Future of Hybrid Advice

As hybrid advisory transformation matures, its implications will be felt across many areas.

From a **financial model** perspective, some wealth management firms will see lower pricing power and lower margins, at least in the more commoditized areas of their business such as basic investment management. They will also see an increased focus on the price/performance ratio, and more personalization of fees and solutions based on individualized pricing.

In **business models**, organizations will face increasing performance pressure, but also be able to take advantage of improved client segmentation. Wealth managers will travel less, collaborating more by video. Additionally, firms that were formerly competitors will increasingly become partners, as organizations like Alibaba, Google, WeChat team up with wealth managers to build solutions together.

The hybrid transformation is also driving changes to firms' fundamental **propositions**, promising broader access to solutions on a modular basis. Transactional selling will move toward more ongoing relationship management and service offerings, with a shift toward fee models. Some firms are targeting a migration to 100% online discretionary management. Wealth managers will increasingly offer automated advice at cost in order to gain market share and capture clients early in their journey, so they can later layer highly personalized fee-based services on top. The winners in these initiatives will be those with the best data and the most powerful analytics.

Wealth managers' workstyles will become more flexible as employees become less tethered to the office and increasingly work from home, at remote sites, and at more flexible times. Wealth managers will increasingly become conduits for collaboration, ceding some of their control and contact to remote experts and robots, and allowing their clients to meet directly with other professionals in their firms when needed.

Operations and technology models will change as well, as firms seek better customer relationship management (CRM) tools for tracking, segmentation, and analytics-driven management and engagement. Eventually, firms will migrate to entirely new user experiences (UX), moving toward voice solutions such as Amazon Echo. Voice-based interfaces will likely become the pervasive user interfaces in the near future, and incumbents should take notice. The industry also needs to stay abreast of the latest cutting-edge technologies like artificial intelligence (AI) and machine learning (ML), which are finding application throughout the wealth management landscape.

It is all happening against an industry backdrop of continued consolidation driven by banks, as well as the entry of Google, Apple, Facebook, and Amazon (GAFA) into the financial services industry. Like many industries, financial services is experiencing dramatic disruption that will drive non-competitive low-end banks out of business. The organizations that succeed will be those that can innovate quickly and successfully to take advantage of the many opportunities opened up by disruption.

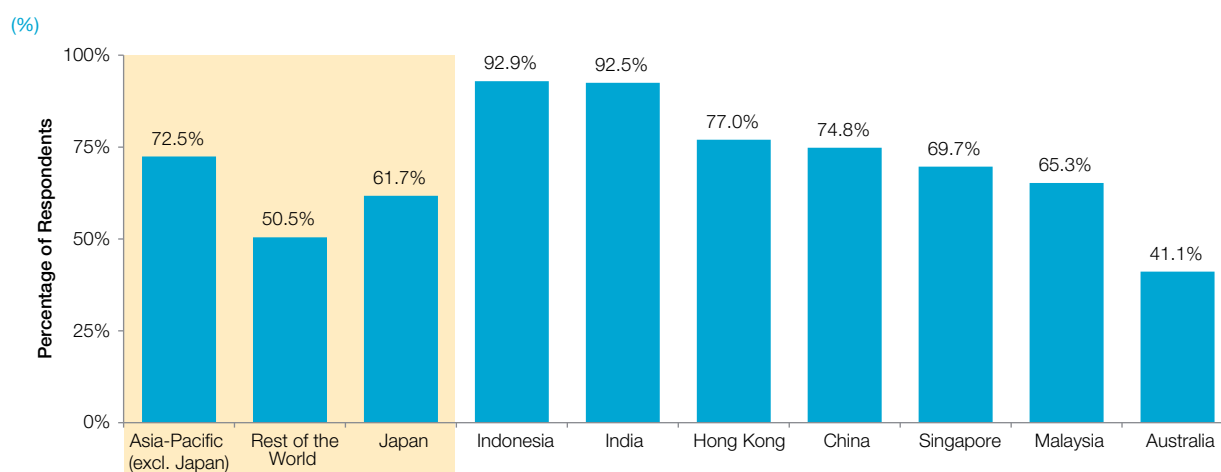
Asia-Pacific (excl. Japan) HNWI's show a higher proclivity towards wealth offerings from BigTech firms at 72.5% compared with their peers from the rest of the world at 50.5% (Figure 29). For young (under 40) HNWI's, 80.1% are keen on such offerings while their wealthier counterparts with investable assets of more than US\$20 million markedly less enthused at 28.5%. In

terms of gender, female HNWI's are more likely than male HNWI's to use these services at 75.4%, which puts them at more than five percentage points ahead of their male counterparts.

The reasons are varied, though the top three expectations of Asia-Pacific (excl. Japan) HNWI's from BigTech players are of transparency (66.2%), efficiency (64.4%), and reliability (60.0%). The expectation of the demand for reliability from BigTechs among HNWI's from the rest of the world was much lower (42.0%), indicating that getting a consistent level of service across the heterogeneous markets of Asia-Pacific (excl. Japan) is a pain point and as a result, a risk for traditional firms when faced with BigTech. HNWI's from the rest of the world shared the belief that efficiency and transparency, were high-priority expectations though the aggregate demand for the latter two expectations was higher for Asia-Pacific (excl. Japan) HNWI's.

Digital transformation is having a profound impact on every industry, and financial services are no exception. The wealth management firms that can deliver a superior client experience will be the ones that survive and thrive in this fast-changing environment. Building more in-depth insight into exactly how HNWI's prefer to manage their wealth is a critical step in enabling Asia-Pacific wealth managers to unleash the full potential of a dynamic marketplace.

Figure 29. HNWI Propensity to Use BigTech Firms for Wealth Management, Q2 2017



Note: Question asked: "If technology firms such as Google, Apple, Facebook, or Amazon were to offer wealth management services, would you consider becoming a client? Please indicate response as Yes or No"

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017



Appendix

Market Sizing Methodology

The 2017 *Asia-Pacific Wealth Report* focuses on 11 core markets: Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Thailand, and Taiwan. The market-sizing model includes 18 countries and territories (i.e., the 11 core markets and New Zealand, Kazakhstan, Myanmar, Pakistan, Philippines, Sri Lanka, and Vietnam) in its Asia-Pacific coverage.

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

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

Wealth distribution by country is based on formulized relationships between wealth and income.

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

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

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

2017 Global High Net Worth Insights Survey

The Capgemini 2017 Global HNWI Insights Survey queried more than 2,500 HNWIs across 19 major wealth markets in North America, Latin America, Europe, and Asia-Pacific. Close to 1,100 HNWIs were surveyed in Asia-Pacific across eight major markets of Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, and Singapore.

The Global HNWI Insights Survey was administered in May and June 2017 in collaboration with Scorpio Partnership, a firm with 19 years of experience in conducting private client and professional advisor interviews in the wealth management industry.

The 2017 survey covered key areas around HNWI investment behavior including asset allocation, fee models, and investment preferences. The survey measured current HNWI investment behavioral patterns of global HNWIs, including their asset allocation preferences as well as the geographic allocations of their investments. The survey also covered various fee models and HNWIs comfort and concerns with fees.

In addition, the survey focused on understanding customer interactions (through an advisor or digital channels) with the firms.

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

For more interactive and historical data at a regional and country level for market sizing and the Global High Net Worth Insights Survey, please visit www.worldwealthreport.com.

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Capgemini's Financial Services

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

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To learn more about how Capgemini can help wealth management firms with their business model, operations, and digital transformation, please contact:

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