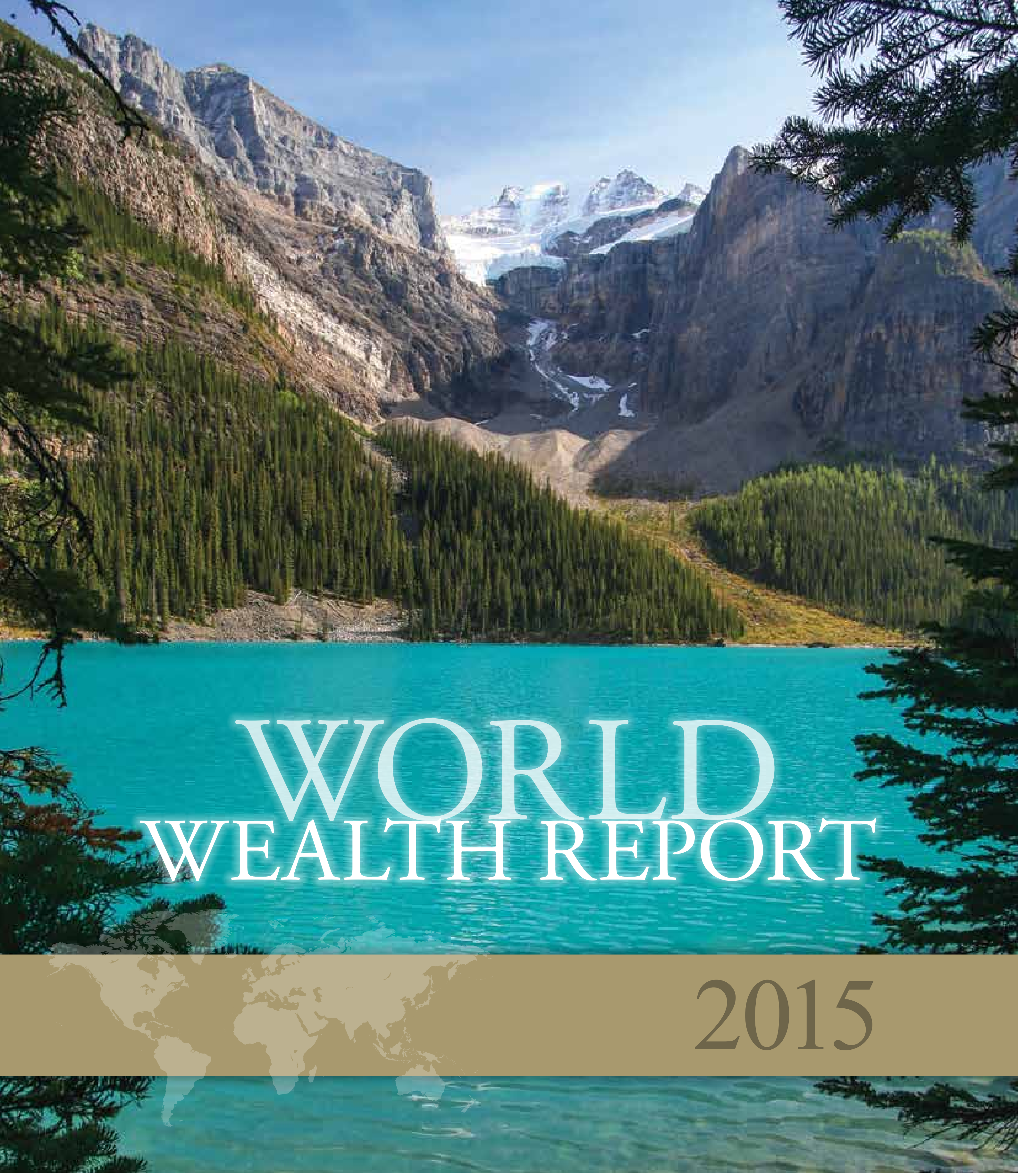

WORLD WEALTH REPORT

2015

Capgemini
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RBC Wealth Management

Preface

Capgemini and **RBC Wealth Management** are pleased to present the 2015 *World Wealth Report* (WWR), offering detailed insight into high net worth individuals (HNWIs[1]) across the globe and the shifting dynamics of the wealth management industry. The normally steady wealth management business is entering an era of change. Trends related to shifting client demographics, evolving expectations from HNW clients regarding their needs (including driving social impact), technology, and disruptive competition are converging. New challenges are afoot for wealth managers and firms—but so are pockets of opportunity.

Drawing on the industry's largest HNWI experience survey, a newly introduced wealth manager survey, as well as in-depth executive interviews and empirical research, this 2015 report illuminates critical insights about HNWIs. Who and where are they? How much wealth have they amassed? How do they allocate this wealth? What are their preferences, their most pressing concerns and needs with regard to wealth management? Are they satisfied with their current wealth managers, the firms, and the status quo? The unprecedented level of detail regarding HNWI attitudes and behaviors—by region, age, gender, and wealth level—paints an insightful picture of HNWIs today and the characteristics that will define them in the future.

This year's report found that HNWI population and wealth grew more modestly in 2014 than in most of the past five years, indicating that wealth managers and firms are challenged with working harder to develop and nurture new relationships. In another challenge facing the industry, we quantified growing HNWI demand for advice related to the nascent, but increasingly important, investment area of social impact. HNWIs are putting wealth managers to the test to provide them greater access to credit, particularly for HNWIs who are under 40, wealthier, and living in emerging market regions.

The final section of our report highlights factors that are leading to a major evolution in the traditional value proposition of the wealth manager. Wealth managers are confronted by increasingly demanding clientele in the form of younger HNWIs who ascribe higher importance to all needs and concerns compared to older HNWIs. At the same time, wealth managers and firms have to respond to existing issues around regulations and cost pressures, while addressing the challenges posed by new technology-based entrants disrupting the wealth management landscape. The full impact of this new environment will require wealth managers to reorient their role toward delivering goals-based financial planning, while also acting as a gateway into the firm's full-service capabilities.

We hope you find our latest report useful in understanding the changing landscape of the wealth management industry. We expect the detailed data in this report to help various industry stakeholders determine the best strategies for responding to the new wealth management environment.

Andrew Lees
Global Sales Officer
Global Financial Services
Capgemini

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

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

Executive Summary

Global HNWI Population and Wealth Expanded, though at a Slower Pace

- Global HNWI population and wealth expanded at moderate rates of 6.7% and 7.2% respectively in 2014, the second slowest rates of the last five years.
- Asia-Pacific and North America drove the majority of growth, and Asia-Pacific overtook North America to become the region with the largest HNWI population at 4.69 million.
- Global HNWI wealth is forecast to cross US$70 trillion by 2017, growing at an annualized rate of 7.7% from the end of 2014 through 2017.

Equities Lead HNWI Allocations, and Credit Emerges As a Key Demand and Opportunity

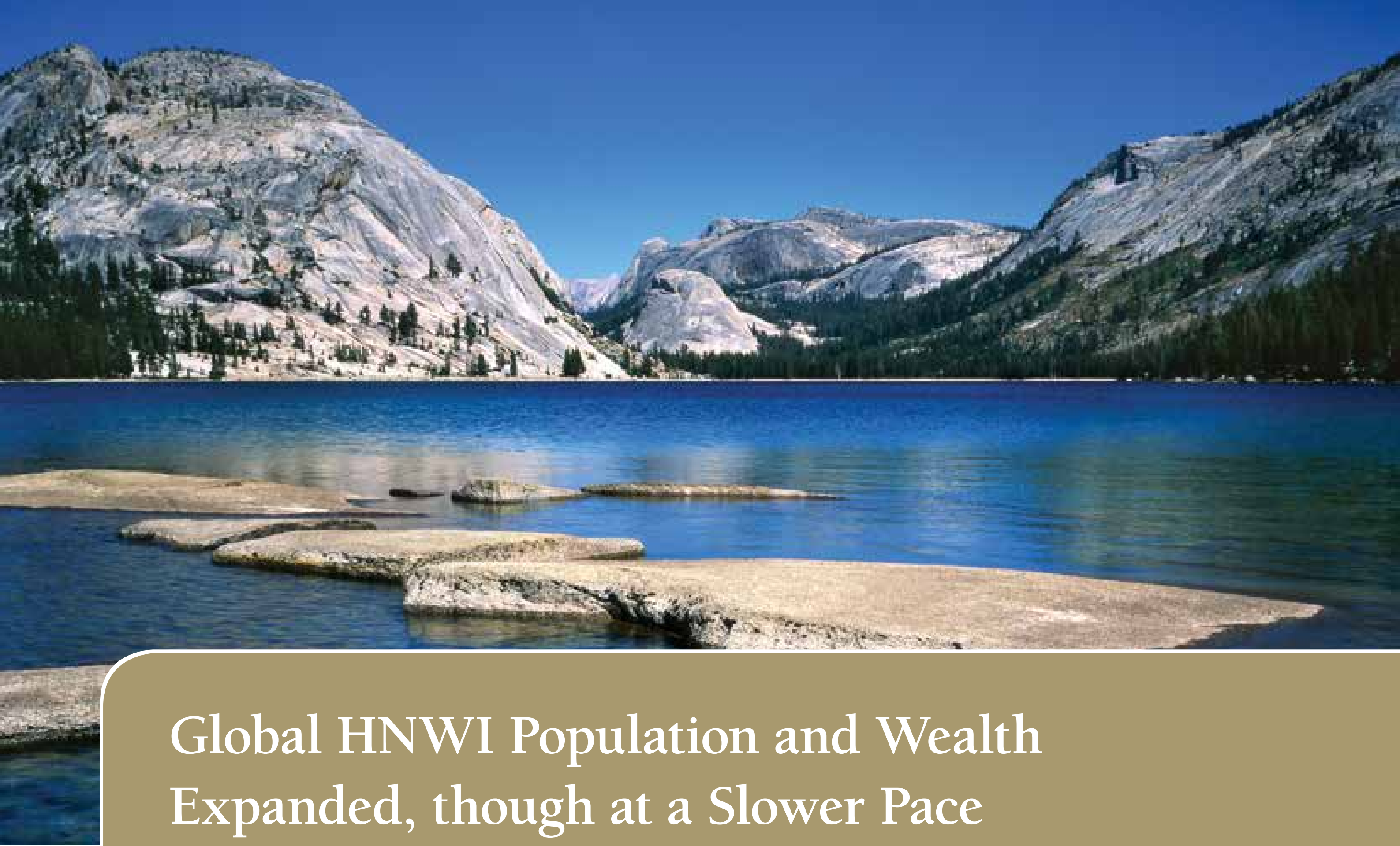
- Equity allocations moved slightly ahead of cash as the dominant asset in HNWI portfolios, with HNWIs in Japan and Latin America expanding their equity holdings the most.
- Allocations to international investments remained at a high level, holding steady at 35.8%. This compares to 36.6% a year earlier, with Asia-Pacific and Latin America HNWIs investing the most internationally.
- Credit figures prominently in HNWI portfolios, and its availability is a big selling point for some HNWIs, although demand varies by region and demographic.

Social Impact: A Great Opportunity for Wealth Managers

- Despite their interest in driving social impact, HNWIs do not have a single preferred source to help them navigate its complexities, with near-equal support currently received from wealth managers and families/friends.
- Wealth managers, who are the most sought-after professionals on driving social impact, are best positioned among all professionals to capitalize on the fragmented advice landscape, and to fulfill HNWI demand for greater guidance across all areas of social impact.
- To overcome challenges related to social impact and to keep up with HNWI demand for guidance, wealth management firms need to develop more sophisticated in-house capabilities, starting with embedding social impact discussions into the overall wealth management approach.

Wealth Manager Role and Value Proposition Undergoing Major Evolution, Requiring Service Model and Capability Re-Think

- While all HNWIs are generally satisfied with their wealth managers, younger HNWIs have a wide range of specific needs and expectations that are not being met.
- Firms and wealth managers face a host of industry challenges, including ongoing issues and more recent threats from new entrants, all of which are driving the evolution of the wealth manager's role.
- To compete in the new environment, wealth managers can reorient their roles and value proposition to deliver goals-based financial planning and act as a conduit to a full range of capabilities, both inside and outside of the firm.
- Wealth management firms have a major role to play in the transition by setting a clearer strategic direction, communicating with wealth managers, and empowering them by investing in key capabilities and resources.



Global HNWI Population and Wealth Expanded, though at a Slower Pace

- **Driven by robust growth in Asia-Pacific and North America, global HNWI population and wealth expanded at moderate rates of 6.7% and 7.2% respectively in 2014, the second slowest rates of the last five years, and more modestly than 2013 HNWI population and wealth growth (14.7% and 13.8% respectively).** Asia-Pacific and North America were the only regions in 2014 to outpace their five-year (2009 to 2014) annualized growth rates of HNWI wealth.
- **Asia-Pacific overtook North America to become the region with the largest HNWI population at 4.69 million.** While the two have traded places before, Asia-Pacific is expected to retain and extend its leadership position.
- **Ultra-HNWIs,[2] who make up only 1.0% of all HNWIs, but account for roughly 35% of HNWI wealth, were again significant drivers of global HNWI population and wealth growth.** Asia-Pacific grew ultra-HNWI wealth and population the most, while slow expansion for Latin American ultra-HNWIs continued to constrain overall wealth growth for both HNWIs and ultra-HNWIs globally.
- **The HNWI population became increasingly concentrated in 2014.** The U.S. and China helped drive more than half the global HNWI population growth, while other top-10 markets expanded less than the global average. India was the fastest growing market in 2014, climbing 26% and jumping five places to be ranked 11th globally.
- **Global HNWI wealth is forecast to top US$70 trillion by 2017, growing by 7.7% annually from the end of 2014 through 2017.** Having already overtaken North America in terms of HNWI population, Asia-Pacific is forecast to surpass North America in HNWI wealth in 2015.

2 For the purpose of our analysis, we separate HNWIs into three distinct 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)

Asia-Pacific, North America Drove HNWI Growth in 2014

Both the number of global HNWIs and the amount of their investable wealth expanded in 2014, although at a slower pace than in both 2013 and the five-year period prior to 2014. HNWI population and wealth grew at the second slowest rate of the last five years (2009 to 2014), though the global population of HNWIs increased for the sixth consecutive year, expanding at a rate of 6.7% during 2014 to 14.6 million (see Figure 1) compared to growth of 14.7% in 2013. HNWI wealth expanded by 7.2% to US$56.4 trillion (see Figure 2) compared to growth of 13.8% in 2013. While the global economy expanded and equity markets rose in 2014, their growth was constrained by Eurozone concerns, decelerating emerging-market economic performance, and ongoing geopolitical tensions in the Middle East and Ukraine.

As in previous years, robust growth in Asia-Pacific and North America helped drive global HNWI population and wealth.

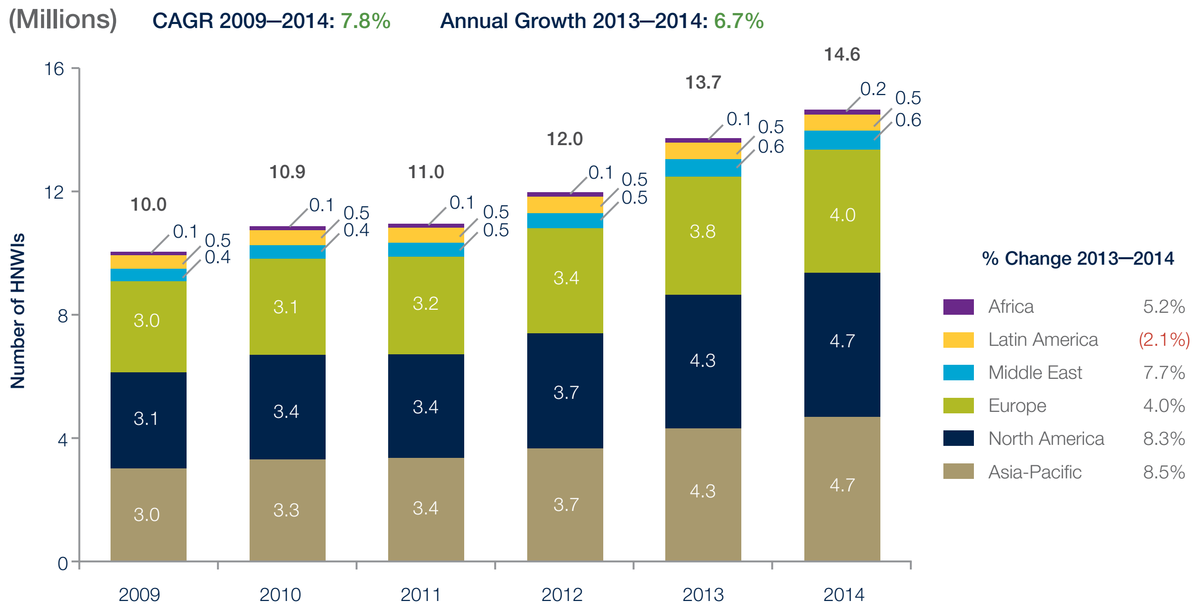
Asia-Pacific recorded the highest HNWI population increases in 2014 (8.5%) and, as predicted, edged past North America to become the region with the most HNWIs (4.69 million, compared to North America's 4.68 million).

On the wealth front, North America continued to have the greatest amount of HNWI wealth (US$16.2 trillion, compared to Asia-Pacific's US$15.8 trillion), but Asia-Pacific registered the greatest gain (11.4%, compared to North America's 9.1%).

Asia-Pacific and North America were the only regions to outpace their five-year (2009 to 2014) annualized wealth growth rates (10.4% and 8.8%, respectively) in 2014. North America was helped by strong equity market performance (10.3% vs. a global average of 2.9%), while Asia-Pacific benefited from superior economic performance. Asia-Pacific's GDP growth, led by the region's emerging economies, reached 5.8% vs. 2.5% globally (see Figure 6).

India emerged as a key driver of Asia-Pacific's growth in 2014. Following increases of only 2.0% in HNWI population and 4.0% in HNWI wealth in 2013, India recorded the highest

Figure 1. HNWI Population, 2009–2014 (by Region)



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

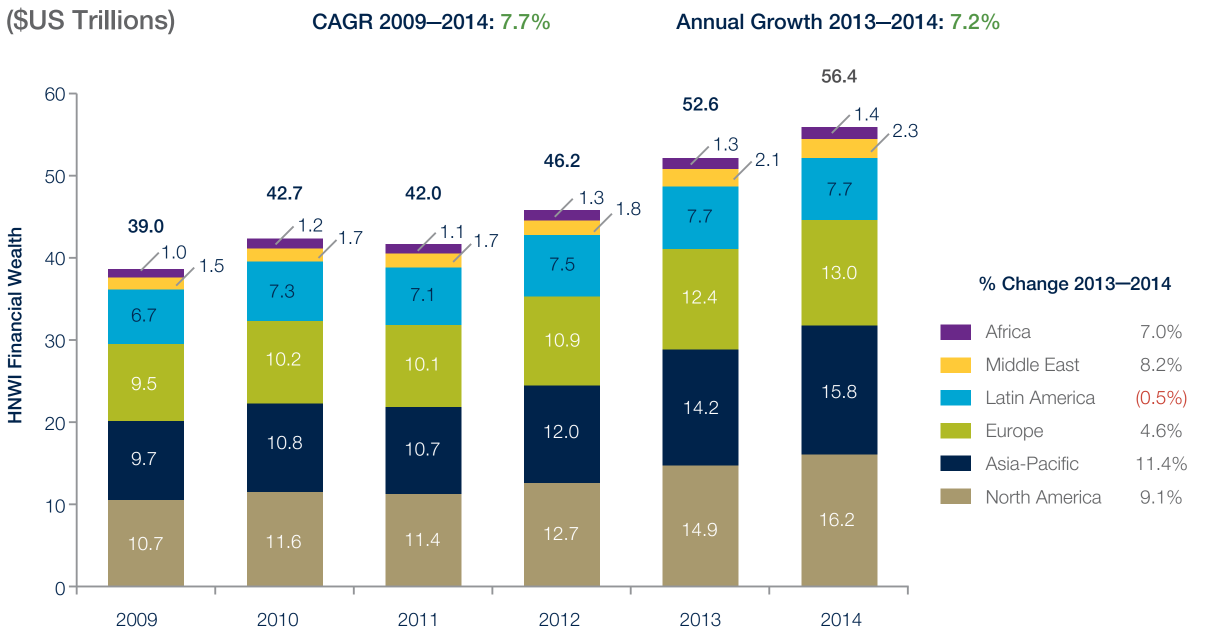
growth rates across the globe for HNWI population (26.3%) and wealth (28.2%) in 2014. A decisive mandate in the mid-2014 elections proved critical in creating a more business-friendly environment in India. That, combined with sound monetary policies, ushered in a wave of positive investor sentiment. This sentiment led the country's equity markets to new highs, including a 21.9% increase in the Indian MSCI Index. India also benefited from the global decline in oil prices, given that it imports about 70% of its oil.[3] Another positive was a reduction in the retail inflation rate from double digits to mid-single digits.[4]

China was another engine of growth in Asia-Pacific, adding to HNWI population at a rate of 17.5% and HNWI wealth by 19.3%. Even though China's 7.4% GDP growth was lower than previous years, it remained relatively high compared to other major economies (see Figure 6). Additionally, Chinese equity markets performed better than in 2013, and the country benefited from an increase in overall exports in 2014.[5]

The strong performance from India, China, and other emerging economies in Asia-Pacific is expected to drive global HNWI growth over the next few years. North America and Asia-Pacific have gone head to head in HNWI population over the last few years, with Asia-Pacific surpassing North America in 2011 and falling back again in 2012. Now, despite possible near-term setbacks, Asia-Pacific is expected to pull ahead for the long haul.

The solid performance of Asia-Pacific and North America contrasted with below-par performance in Latin America and Europe. This led to constrained global HNWI growth, which fell far short of the double-digit rates recorded during 2013 when HNWI population increased 14.7% and HNWI wealth increased 13.8%. The 2014 rates were also below the annualized growth rates logged from 2009 to 2014, which were 7.8% for HNWI population and 7.7% for HNWI wealth.

Figure 2. HNWI Wealth Distribution, 2009–2014 (by Region)



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

3 http://finance.yahoo.com/news/india-oil-imports-rise-falling-194002785.html, Accessed March 2015

4 http://www.wsj.com/articles/indias-inflation-fight-pays-early-dividend-heard-on-the-street-1421313309, Accessed March 2015

5 http://www.tradingeconomics.com/china/exports, Accessed March 2015

Latin America was the key reason for the slower pace of global HNWI growth. It was the only region to experience declines in HNWI population (-2.1%) and wealth (-0.5%), largely due to a crash in commodity prices and the resulting 14.8% decline in the Latin American MSCI Index.

Brazil, which accounts for more than 50% of Latin America's HNWI wealth, was a particular drag. A fall in commodity prices, the slow pace of reforms by the re-elected government, and a corruption scandal at the country's state-owned energy firm brought equity markets down by 17.4%, contributing to declines of 6.4% in HNWI population and 1.4% in HNWI wealth.

Europe maintained a relatively slow and steady growth rate (approximately 4%) for both HNWI population and wealth as its economy continued to sputter. While the economy in Western Europe grew by 1.3% in 2014 (compared to 0.3% in 2013), aided by improved performance toward the end of 2014, the equity markets in most of these countries declined (see Figure 6). This led to HNWI population and wealth increases that were below the global average and less than the annualized rate of the last five years (2009 to 2014). Europe's fragile recovery continued to face challenges throughout 2014 as the European Central Bank attempted a number of measures to stimulate the economy and shore up the financial system before finally turning to quantitative easing in early 2015. Germany, the region's leading economic power, faltered in 2014 as ongoing tensions in Ukraine led to reduced exports to Russia, and business and consumer sentiment weakened. The Middle East and Africa, meanwhile, recorded higher growth rates than Europe, although their overall levels of HNWI population and wealth remained much lower.

Ultra-HNWIs Continued to Outperform, Despite Drag from Latin America

Ultra-HNWIs—those with more than US$30 million of investable assets—once again acted as a primary driver of growth for the overall HNWI population and wealth. The ultra-HNWI segment, accounting for only 1.0% of all HNWIs yet 34.7% of HNWI wealth, was the only one in 2014 to outperform its five-year annualized rates for population and wealth growth (see Figure 3). Ultra-HNWIs grew their population by 8.6% in 2014, surpassing the 7.7% rate for mid-tier millionaires (those with US$5 million to US$30 million of investable assets) and the 6.6% rate for millionaires next door (those with between US$1 million and US$5 million).

With an increase of 16.5%, Asia-Pacific experienced the greatest expansion in ultra-HNWI wealth, followed by North America with 10.7%. Significant growth in ultra-HNWI wealth in India (31.1%) and China (21.6%) contributed greatly to Asia-Pacific's strong ultra-HNWI performance. Together, India and China accounted for about two-thirds of Asia-Pacific's ultra-HNWI growth in 2014, and more than half the segment's overall wealth.

For the second year in a row, Latin America constrained global ultra-HNWI wealth growth. Ultra-HNWI wealth declined by 0.1%, spurred by a 0.6% decline in ultra-HNWI wealth in Brazil, which accounts for 57% of all Latin American ultra-HNWI wealth.

Latin America, in turn, accounts for 31% of all ultra-HNWI wealth globally (significantly more than the 22% for Asia-Pacific and the 23% for North America).

Excluding Brazil, global ultra-HNWI growth in investable assets would have reached 9.3%, surpassing the 7.8% for mid-tier millionaires and the 6.7% for millionaires next door. Slow expansion in Brazil and Latin America overall, however, caused global ultra-HNWIs to achieve a more modest increase in investable assets of 7.4%. Slow growth in Brazil and Latin America also constrained the annualized five-year expansion rate from 2009 to 2014 for ultra-HNWIs globally.

Top Four Markets Generated the Majority of HNWIs

As in previous years, most of the growth in the global HNWI population occurred in just a handful of markets. The U.S., Japan, Germany, and China accounted for more than two-thirds (67%) of HNWI population growth in 2014 (see Figure 4). Of the 0.92 million new HNWIs added globally, 0.61 million of them were added in these top markets. Currently, the four account for 60.3% of global HNWI population, a slow but steady increase from 59.9% in 2013 and 58.4% in 2012.

Of the four, the greatest increase in HNWI population occurred in China (17%) and the U.S. (9%).

Together, China and the U.S. drove more than half the global HNWI population growth. China benefitted from GDP growth of 7.3% (above both global and Asia-Pacific averages), strong export levels, and moderate equity performance.

The U.S. was among the best-performing mature markets across the globe, turning in equity market growth of 11.1% and improved GDP growth of 2.4% as it broke free from the post-financial-crisis malaise.

Another key market to experience strong HNWI population growth in 2014 was India, whose expansion of 26% helped it move up the market rankings by five places (to 11th globally). Additionally, Hong Kong, which witnessed strong growth of 11% in HNWI population, was helped by moderate increases in GDP, equity markets, and real estate. Three key countries that experienced declines in HNWI population were Brazil (-6%), Mexico (-4%), and Russia (-3%). The large decrease in Brazil, which caused it to fall three rankings to 16th place, was largely due to a 17% decline in the equity market.

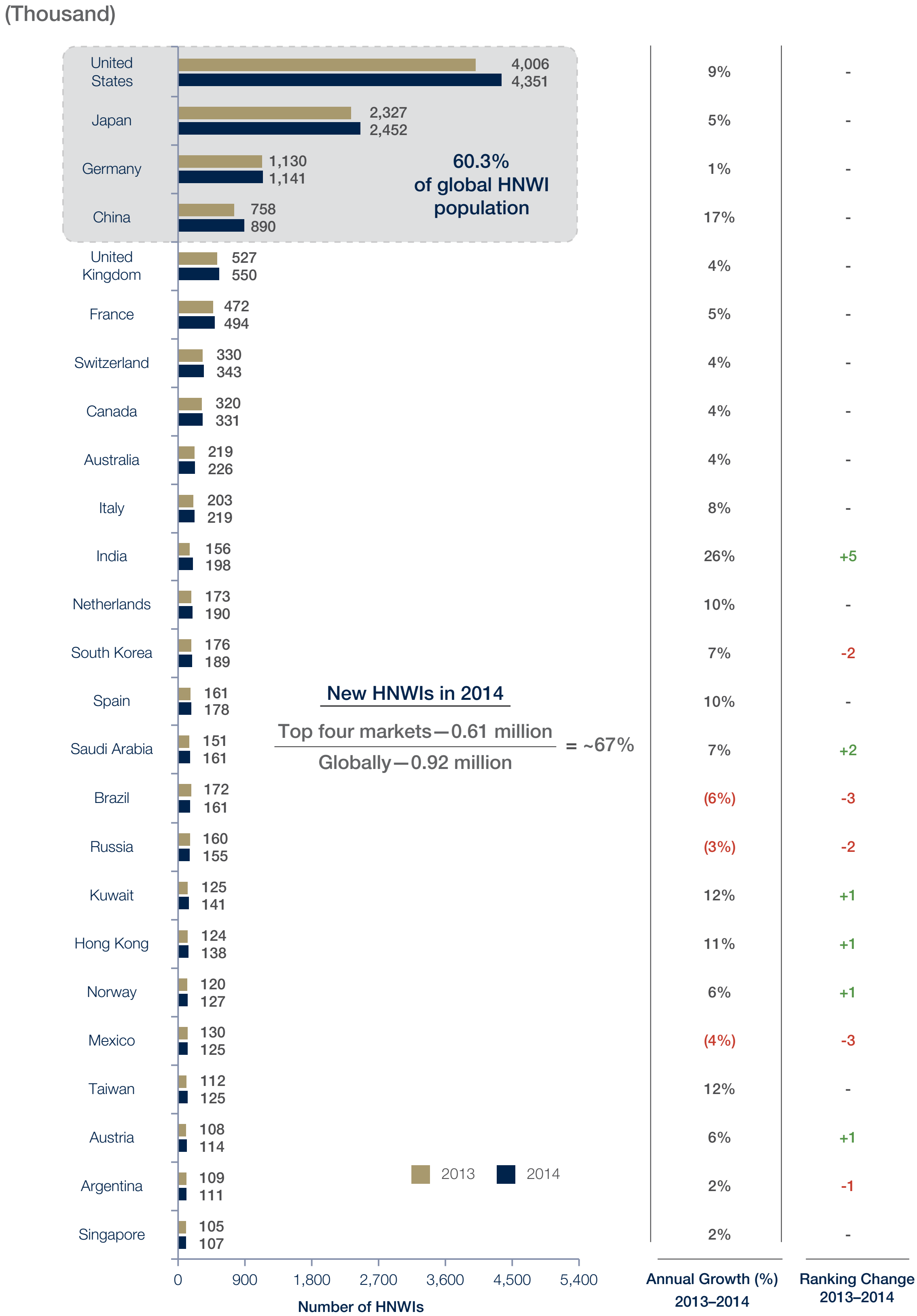
Overall, the top 10 HNWI population markets remained unchanged in 2014 compared to 2013.

Figure 3. Composition of Global HNWI Population by Wealth Bands, 2014

	Number of Individuals 2014	HNWI Population		HNWI Wealth		% of HNWI Wealth 2014
		CAGR 2009–2014	Growth 2013–2014	CAGR 2009–2014	Growth 2013–2014	
+US$30m Ultra-HNWI	139.3k (1.0% of total)	8.4%	8.6%	7.2%	7.4%	34.7%
US$5m–US$30m Mid-Tier Millionaire	1,325.0k (9.0% of total)	8.1%	7.7%	8.1%	7.8%	22.4%
US$1m–US$5m Millionaire Next Door	13,185.2k (90.0% of total)	7.8%	6.6%	7.9%	6.7%	42.9%

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

Figure 4. Top 25 HNWI Populations, 2014 (by Market)



Source: Capgemini Financial Services Analysis, 2015

Global HNWI Wealth Expected to Surpass US$70 Trillion by 2017

Fueled by expectations of an accelerating recovery in Europe and a generally improved global economy, HNWI wealth around the world is expected to grow at an average annual rate of 7.7% from the end of 2014 to 2017 (see Figure 5).

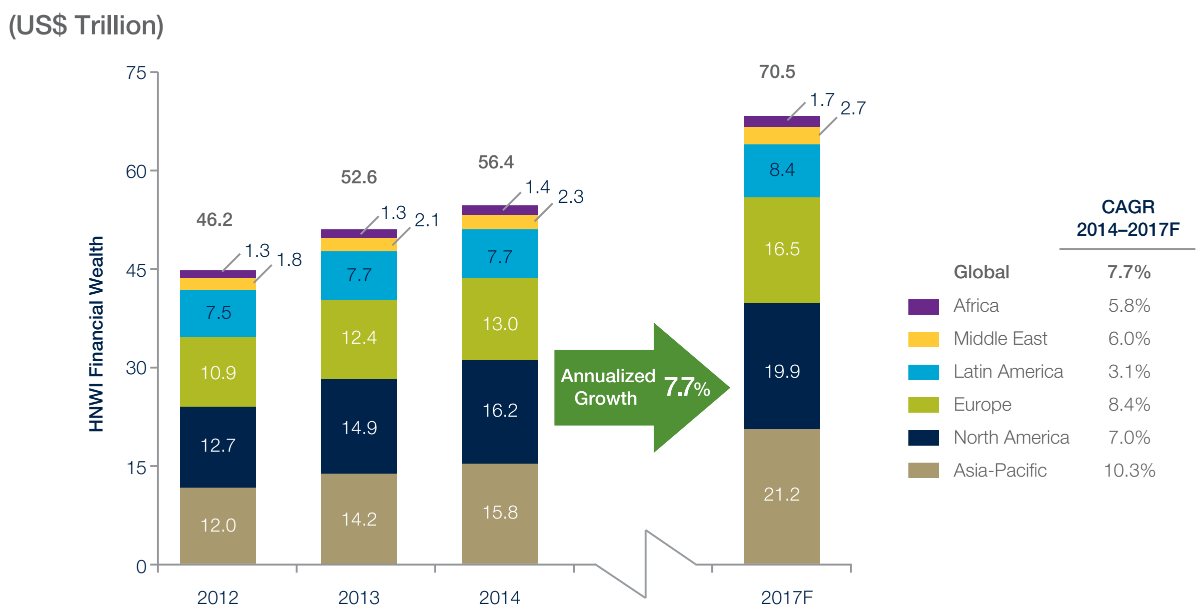
With an annualized growth rate of 10.3%, Asia-Pacific HNWIs are expected to be a major driver of global HNWI wealth through 2017. With North American HNWIs likely to expand their wealth by a more modest 7.0%, Asia-Pacific is expected to surpass North America in 2015, and the gap between the HNWI wealth for these regions is on track to widen by 2017.

In a shift from recent years, Europe is expected to act as a more prominent engine of HNWI expansion. It is anticipated that HNWI wealth will grow at a rate of 8.4% annually, substantially higher than the 7.0% rate for North America and the 6.4% annualized rate for Europe from 2009 to 2014. The heightened growth reflects improved optimism for a more substantial recovery throughout the region.

Gains were already evident by the end of the first quarter of 2015, with the region's equity markets registering their best first-quarter performance in 17 years,[6] and business and consumer confidence indices ticking up to multi-year highs.[7]

In Latin America, expected HNWI wealth growth of 3.1% annually will continue to constrain overall global growth. Weak commodity prices and depressed equity markets throughout the region, as well as the faltering Brazilian economy, should contribute to the malaise in Latin America.

Figure 5. HNWI Wealth Forecast, 2012–2017F (by Region)



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

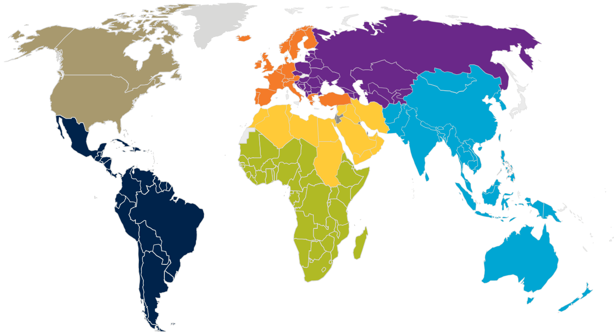
6 http://www.reuters.com/article/2015/03/31/markets-stocks-quarter-idUSL6N0WW2X320150331, Accessed April 2015

7 http://www.nasdaq.com/article/eurozone-business-confidence-jumps-in-march-20150330-00107, Accessed April 2015

Figure 6. Real GDP, Equity, and Real Estate Growth, 2013–2017F (World, Select Regions and Markets)

(%)

Real GDP and Equity Growth, World and Select Regions



North America

	2013	'14	'15F	'16F
GDP	2.2	2.4	2.8	2.8
Equity	27.6	10.3	-	-

Latin America

	2013	'14	'15F	'16F
GDP	2.7	1.3	0.8	2.3
Equity	(15.7)	(14.8)	-	-

Western Europe

	2013	'14	'15F	'16F
GDP	0.3	1.3	1.7	1.9
Equity	20.2	(9.6)	-	-

Eastern Europe

	2013	'14	'15F	'16F
GDP	1.6	1.5	(0.4)	2.1
Equity	N/A	N/A	-	-

Sub-Saharan Africa

	2013	'14	'15F	'16F
GDP	4.3	4.2	3.7	4.8
Equity	N/A	N/A	-	-

Middle East and North Africa

	2013	'14	'15F	'16F
GDP	2.3	3.0	2.5	3.5
Equity	N/A	N/A	-	-

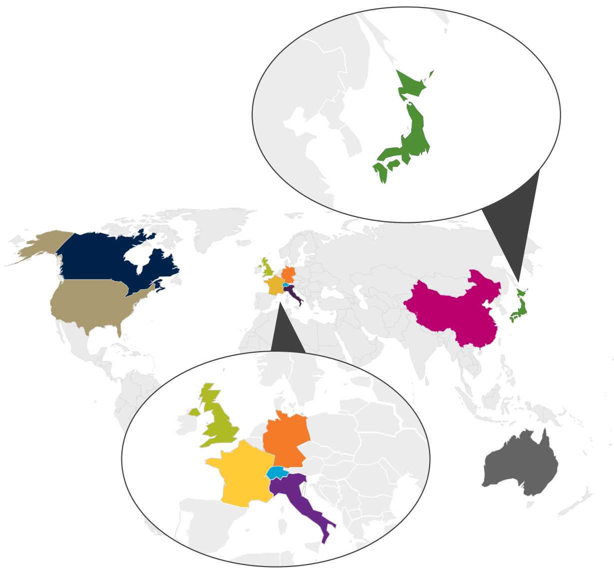
World

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

Asia-Pacific (excl. Japan)

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

Real GDP, Equity, and Real Estate Growth, Top 10 Markets



United States

	2013	'14	'15F	'16F
GDP	2.2	2.4	2.9	2.8
Equity	29.1	11.1	-	-
Real Estate	9.4	3.8	-	-

Canada

	2013	'14	'15F	'16F
GDP	2.0	2.5	2.0	2.1
Equity	3.3	(0.6)	-	-
Real Estate	2.5	3.5	-	-

United Kingdom

	2013	'14	'15F	'16F
GDP	1.7	2.6	2.6	2.5
Equity	16.2	(8.7)	-	-
Real Estate	4.9	7.3	-	-

China

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

Japan

	2013	'14	'15F	'16F
GDP	1.6	(0.1)	1.0	1.7
Equity	24.9	(5.7)	-	-
Real Estate	3.9	8.3	-	-

Australia

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

France

	2013	'14	'15F	'16F
GDP	0.4	0.4	1.1	1.6
Equity	23.3	(11.9)	-	-
Real Estate	(2.0)	(2.3)	-	-

Switzerland

	2013	'14	'15F	'16F
GDP	1.9	1.9	0.7	1.2
Equity	23.8	(2.3)	-	-
Real Estate	3.2	1.8	-	-

Italy

	2013	'14	'15F	'16F
GDP	(1.7)	(0.4)	0.6	1.2
Equity	16.9	(11.4)	-	-
Real Estate	(6.4)	(3.6)	-	-

Germany

	2013	'14	'15F	'16F
GDP	0.2	1.6	1.9	2.0
Equity	28.2	(12.2)	-	-
Real Estate	3.7	1.3	-	-

Note: 2013 and 2014 GDP data from EIU; 2015 and 2016 GDP data from Consensus Forecasts, except the Sub-Saharan Africa and MENA regions, which were taken from EIU; 2014 Real Estate Growth is based on Global Property Guide House Price Index, Mar 2015

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

Equities Lead HNWI Allocations, and Credit Emerges As a Key Demand and Opportunity

Our findings on HNWI behaviors and preferences are derived from the Global HNW Insights Survey the industry's largest and most in-depth examination of high net worth individuals. Now in its third year, the report surveyed more than 5,100 HNWIs in 23 major markets across the five regions of North America, Latin America, Europe, Asia-Pacific, the Middle East and Africa (see Figure M1 in Appendix).

- **Equity allocations pulled slightly ahead of cash as the dominant asset in HNWI portfolios in Q1 2015 (compared to Q1 2014), following a five-year global bull market.** A 2.0 percentage-point increase pushed equities up to 26.8% of HNWIs' portfolios globally, while cash declined by 1.0 point to 25.6%. HNWIs in Japan and Latin America expanded their equity holdings the most (by more than 5.0 percentage points each) compared to Q1 2014.
- **Allocations to international investments remained high, holding steady at 35.8%, compared to 36.6% a year earlier.** HNWIs in Asia-Pacific and Latin America invested the most in opportunities beyond their regional borders.
- **Credit figures prominently in HNWI portfolios, and its availability is a big selling point for some HNWIs, although demand varies by region and demographic.** For the under-40, wealthier, and emerging market HNWIs, credit is a must-have. HNWIs are mostly turning to credit as leverage for investment opportunities or to invest in real estate.

Equity Investments Narrowly Overtake Cash in HNWI Portfolios

Approximately five years into a steady rise in global stock markets, equities have overtaken cash as the dominant asset in HNWI portfolios. The shift was relatively minor, with equity holdings expanding by 2.0 percentage points to make up 26.8% of holdings, and cash declining by 1.0 point to 25.6% (see Figure 7). This slight rebalancing implies that it may be the result of a passive increase in underlying asset values rather than an active reallocation. Even so, the current holdings indicate a slowly expanding appetite for risk as HNWIs indicate they are open to equities becoming a larger part of their portfolios as asset values rise.

The biggest jumps in equity holdings occurred in Japan and Latin America, implying more of an active decision on the part of HNWIs in those regions.

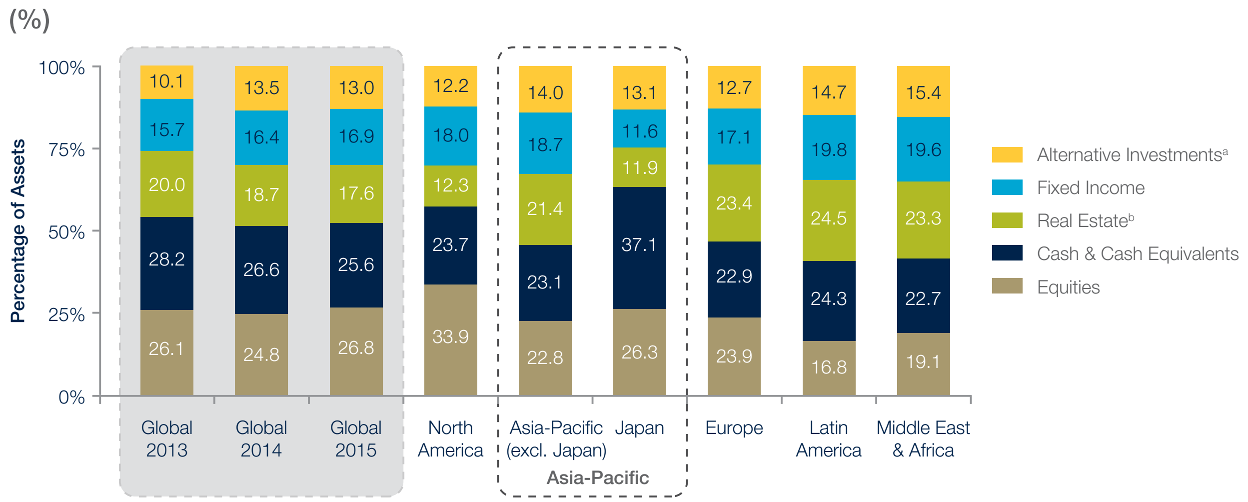
Although Japanese HNWIs continue to favor cash over all other assets and hold more of it than HNWIs in any other region (37.1%), their cash allocation has declined by 12.3 percentage points since Q1 2013, and fallen by 6.7 percentage points from Q1 2014 to Q1 2015. Part of this drop stemmed from an increase in equity holdings of 5.6 percentage points to 26.3% in Q1 2015. Latin American HNWIs, who hold real estate in nearly equal levels to cash, boosted their equity allocation by 5.1 points to 16.8%. This might indicate some level of active reallocation, despite poor equity market performance in Latin America in 2014, as evidenced by a 14.8% decline in the MSCI Latin America Index.

The wealthiest HNWIs (those with US$20 million or more in assets) kept their year-to-year equity holdings almost exactly the same—at nearly 24%. A 2.7 percentage point increase in alternative investments, to 15.2% for these HNWIs, came mostly from reduced holdings in cash and real estate. Female HNWIs, meanwhile, were more inclined to hold cash (28.1% vs. 23.9% for males), while male HNWIs preferred equities (29.6% vs. 23.4% for females). HNWIs over 60 exhibited the highest preference for both equities (29.6% vs. 23.6% for under-40 HNWIs) and fixed income (18.2% vs. 17.2% for under-40s).

Globally, HNWIs maintain more than one-quarter of their wealth in cash, and 35.1% of them claim the primary reason they hold cash is to maintain their lifestyle, while 30.7% say ensuring financial security is the core reason (see Figure 8).

Japanese HNWIs—who hold the highest amounts of cash—were the most likely to hold cash to maintain their lifestyle (38.7%), followed by North American HNWIs at 37.3%. Compared to HNWIs in other regions, those in

Figure 7. Breakdown of HNWI Financial Assets (by Region)



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

b. Excludes primary residence

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

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2013, 2014, 2015 emerging markets kept greater amounts of cash on hand to invest in unique financial opportunities, with 26.0% of HNWIs in Latin America doing so, followed by 18.7% of those in Asia-Pacific (excl. Japan).

No matter their wealth level, HNWIs have similar motivations for maintaining cash, although those at lower levels are more oriented toward security. Older HNWIs tend to be more interested in using their cash to meet lifestyle needs and ensure protection against market volatility. Men are slightly more interested than women in maintaining cash for financial protection.

Cash levels have remained fairly stable over the past three years despite the very strong global stock market performance. Since HNWIs primarily hold cash for lifestyle requirements, the evidence points to a potential structural floor for HNWI cash levels.

Such a floor poses a challenge to firms, given that average HNWI cash levels are significantly more than the 5% to 15% often recommended by the industry.

A potential reason for the apparent disconnect is that wealth managers may have too narrow a view of overall HNWI portfolios, only taking into consideration client assets held at the firm. The heavy focus on cash for all types of HNWIs should encourage wealth managers to discuss each client's total wealth picture, including their cash needs. This financial planning approach is covered in more detail on page 36.

Allocations toward international investments remained high at more than one-third of portfolios, helped by expanding appetite in the emerging markets of Asia-Pacific and Latin America (see Figure 9).

Globally, international exposure held steady at 35.8% compared to 36.6% the year before. Regional trends diverged, however, with HNWIs in North America, Middle East/Africa, and Europe retrenching, and those in Asia-Pacific and Latin America continuing to look abroad.

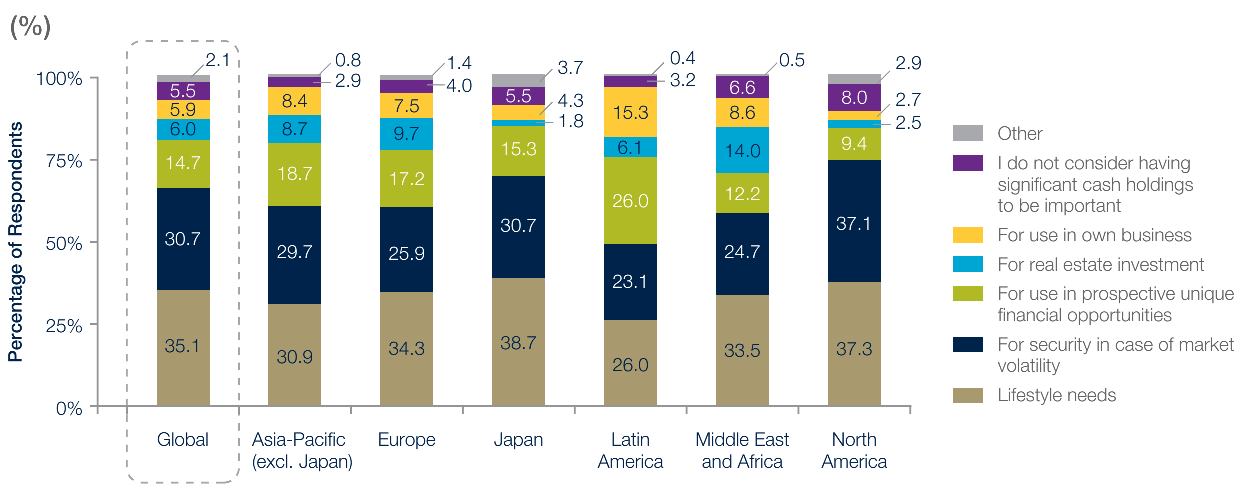
HNWIs may have been reacting to more positive economic news coming out of North America and Europe, compared to the relatively poorer economic and market performance in emerging markets, particularly in Latin America (see Figure 6).

Strong Credit Demand Provides Opportunity for Firms

The use of credit in HNWI portfolios is widespread across the globe, at an average of 17.8% as a percentage of assets. It is even higher in certain regions and demographics (see Figure 10).

HNWIs in emerging markets borrow the most, with those in Latin America having the highest amount of credit (28.6%), followed by Asia-Pacific (excl. Japan) at 25.5%.

Figure 8. Reasons Why HNWIs Hold Cash (by Region)



Note: Question asked: "On a scale of 0%–100%, what is the primary reason for holding the cash?"
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

Six of the top ten countries with high credit usage are in the emerging markets, including India, Indonesia, and Malaysia.

Bucking this trend are HNWIs in the mature Netherlands market, where credit usage is highest of all the countries (39.4%), surpassing second-ranked India by 5.8 percentage points.

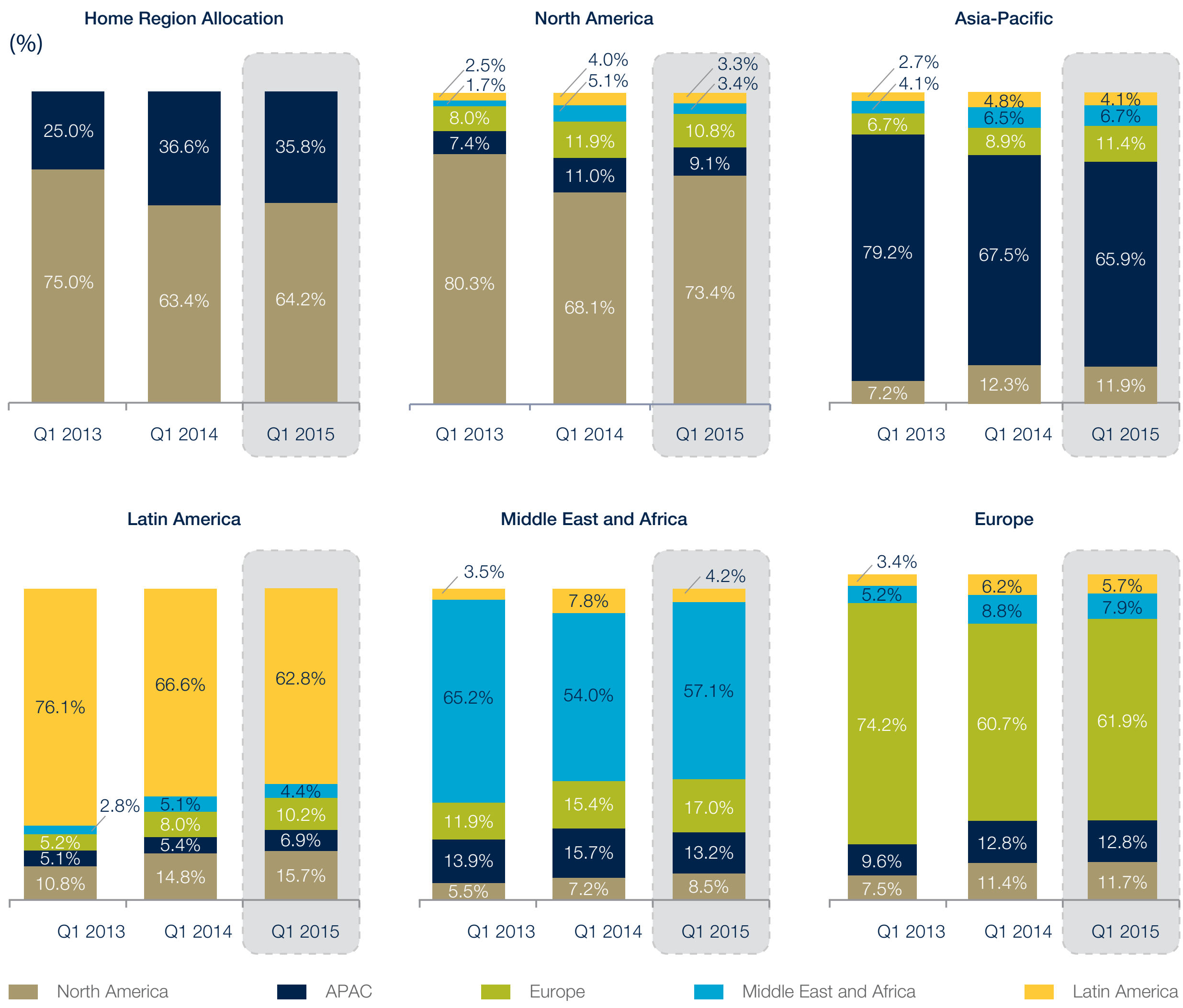
Demographically, HNWIs who are younger, wealthier, and female use more credit. HNWIs under 40 have a much greater tendency to use credit than those who are over 60 (26.6% vs. 9.7%).

HNWIs with more than US$20 million of assets report higher usage of credit than those with US$1 million to US$5 million (22.1% vs. 16.3%), and women use more credit than men (18.9% vs. 16.9%).

Despite the robust tapping of credit in different markets, the use of credit declined globally by 2.5 percentage points from a year earlier. Russia recorded the largest decrease (11.9 percentage points), likely due to economic turmoil fanned by the Ukraine crisis and related sanctions. The only countries where HNWIs increased their use of credit were France and the Netherlands (by 1.6 and 1.0 percentage points, respectively).

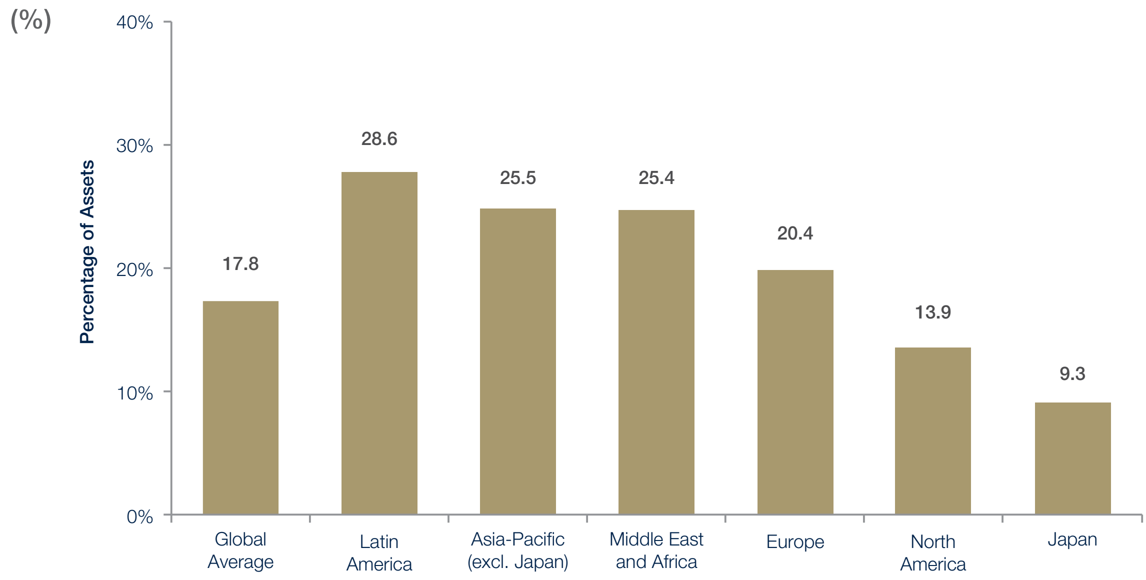
Even more than they actually use credit, HNWIs like to know it is available. More than 37% of HNWIs globally indicated that the availability of credit is a critical factor when making decisions about initiating relationships with wealth management firms (see Figure 11).

Figure 9. Breakdown of HNWI Geographic Allocation (by Region)



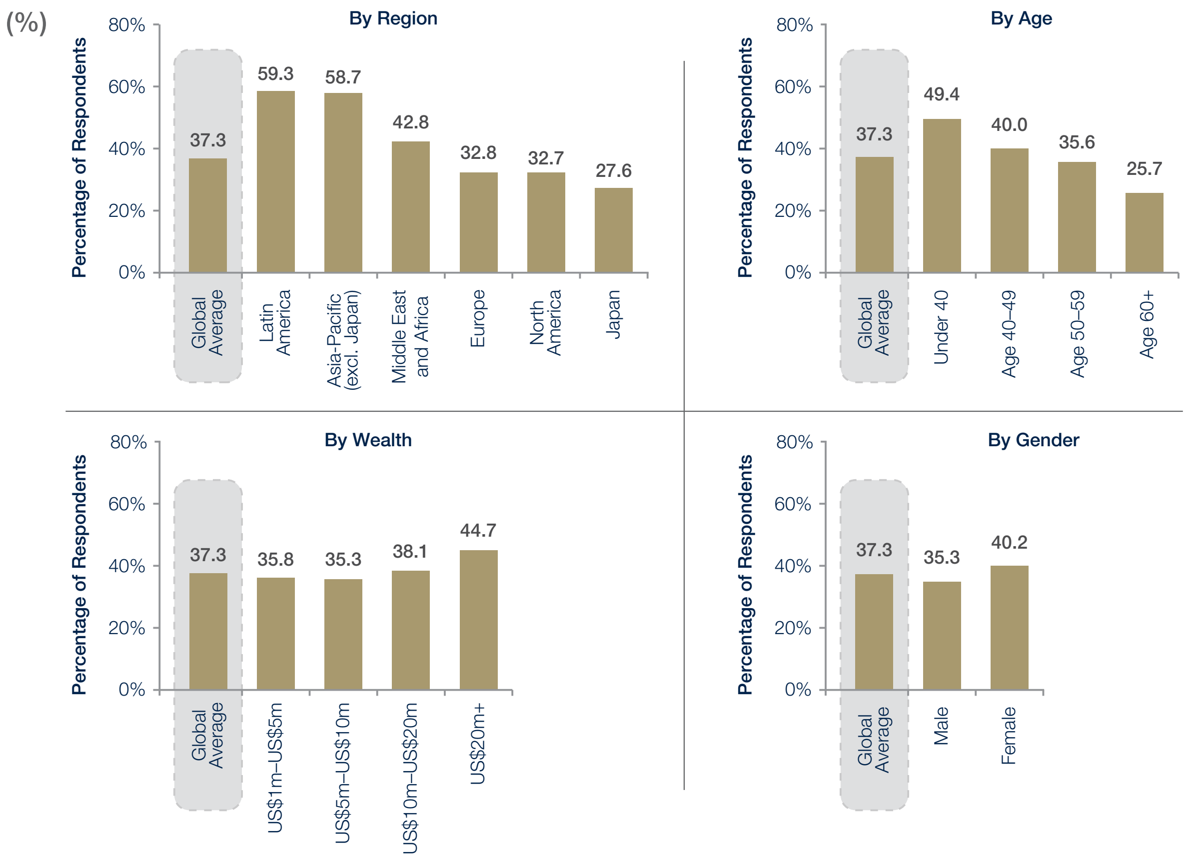
Note: Question asked: "Can you please indicate the approximate geographical allocation of your investments CURRENTLY?"; Chart numbers may not add up to 100% due to rounding
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2013, 2014, 2015

Figure 10. HNWI Credit Levels (by Region)



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

Figure 11. HNWI Importance of Availability of Credit When Selecting a Firm



Note: Question asked: "On a scale of 1–7, how important is the availability/ease of availing sufficient credit when making a choice on beginning a relationship with a wealth management firm?"; Above values in graphs represent a rating of 5, 6, or 7
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

This is especially critical for HNWIs in emerging markets, and who are under 40, wealthier, and female. Of HNWIs in these groups, 40% to 60% demand credit from their firms.

Credit is most important to HNWIs in Latin America (59.3%) and Asia-Pacific (excl. Japan) (58.7%). Demographically, HNWIs who are under 40 are far more interested in credit than those over 60 (49.4% vs. 25.7%). Those with more than US$20 million of assets are more interested than those with US$1 million to US$5 million (44.7% vs. 35.8%), and women are somewhat more interested in it than men (40.2% vs. 35.5%).

Globally, 40.2% of HNWIs indicated they use credit for investment opportunities and returns, followed by 22.1% who use it for real estate (see Figure 12). Asia-Pacific (excl. Japan) HNWIs lead the trend of using credit for investments (57.1%), while European HNWIs seek leverage for real estate (38.7%), more than HNWIs in any other region. Although Japanese HNWIs use credit the least, their primary reason is to fund investments of passion[8] (30.9%), a key difference from HNWIs in any other region.

Leveraging credit for investment purposes is the primary focus of HNWIs in the lower wealth bands of US$1m to US$5m (41.0%).

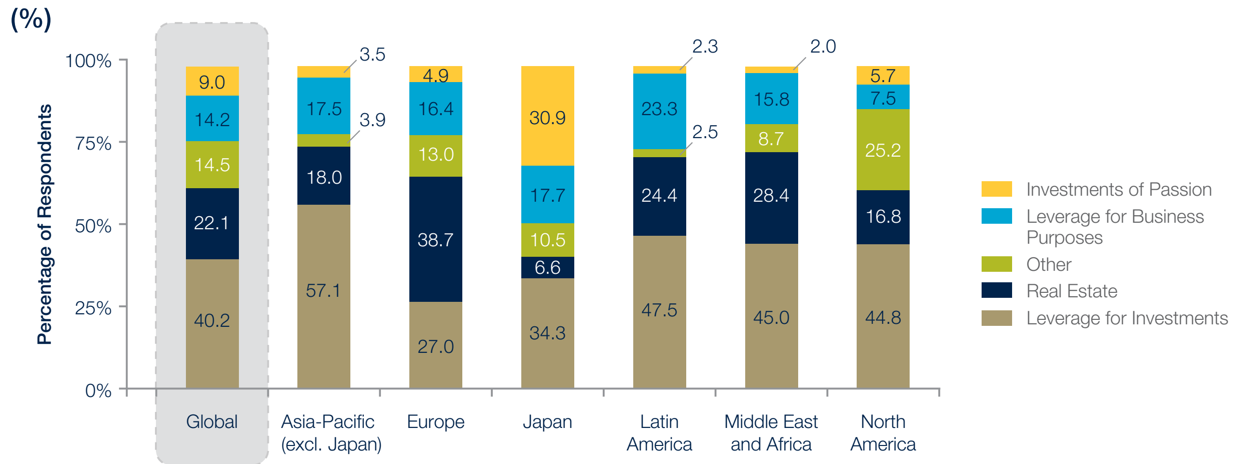
Conclusion

Cash and credit are two major themes related to HNWI asset allocation behavior. HNWIs continue to keep large amounts of cash on hand, primarily as a way to fund their lifestyles and ensure financial security. This inclination has prevented HNWIs from taking greater advantage of a five-year run-up in equities.

Credit is also important to HNWIs. Nearly one-fifth of HNWIs use it, and up to 60% consider it a key criterion in choosing a wealth management firm. Specific demand for credit, however, varies across regions and demographics, with HNWIs who are younger, wealthier, or in emerging markets expressing the greatest interest.

These cash and credit trends offer important clues for understanding HNWI needs and concerns. Wealth managers need to initiate discussions with clients to ensure they have a complete view of their wealth, including all cash holdings and related needs. By being aware of regional and demographic differences in HNWI attitudes toward credit and cash, wealth managers can bring a more effective, customized approach to advice and solutions.

Figure 12. Reasons Why HNWIs Hold Credit (by Region)



Note: Question asked: "What is the primary reason for holding the credit?"
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

8 Investments of passion includes investments in areas such as art, jewelry, gems, watches, luxury cars, boats/yachts, wine, coins, and sports teams

Social Impact: A Great Opportunity for Wealth Managers

- **Despite their interest in driving social impact, HNWIs do not have a single preferred source to help them navigate its complexities.** In near-equal measure, HNWIs turn to two distinct groups—wealth managers and families/friends—for advice on social impact.
- **Of all the professionals who serve HNWIs, wealth managers are best-positioned to capitalize on the fragmented advice landscape and fulfill HNWI demand for greater guidance across all areas of social impact.** Wealth managers are the most sought-after professionals with regard to driving social impact. Of HNWIs who currently receive advice on social impact, global HNWI demand for more advice from wealth managers reached 54.0%, and is even higher for HNWIs under 40 years old (63.5%) as well as those who are female (57.8%).
- **To overcome challenges related to social impact and keep up with HNWI demand for guidance, wealth management firms need to develop more sophisticated in-house capabilities.** A crucial first step is to embed social impact discussions into the overall wealth management approach.

No Single Source of Social Impact Expertise for HNWIs

Driving social impact refers to making a positive impact on society by way of thoughtful investments of time, money, or expertise. The concept holds high appeal for HNWIs. According to the 2014 *World Wealth Report*, 92% of HNWIs ascribe some level of importance to driving social impact. At the same time, the report found a 14.6 percentage point shortfall between the support HNWIs receive in the area of social impact and what they say they would like to have, indicating more must be done on the part of the industry.

Despite their interest in social impact, HNWIs have not identified one specific preferred source of advice. While wealth managers are the most sought-after social impact advisors of all the professionals who serve HNWIs, family and friends also play a significant role.

Globally, family members (31.5%) are about as likely as wealth managers (31.3%) to provide insight on the types of opportunities[9] to consider (see Figure 13). Meanwhile, wealth managers (28.3%) are somewhat more likely than family members (23.4%) to advise on the specific mechanisms[10] that can be used to execute social impact.

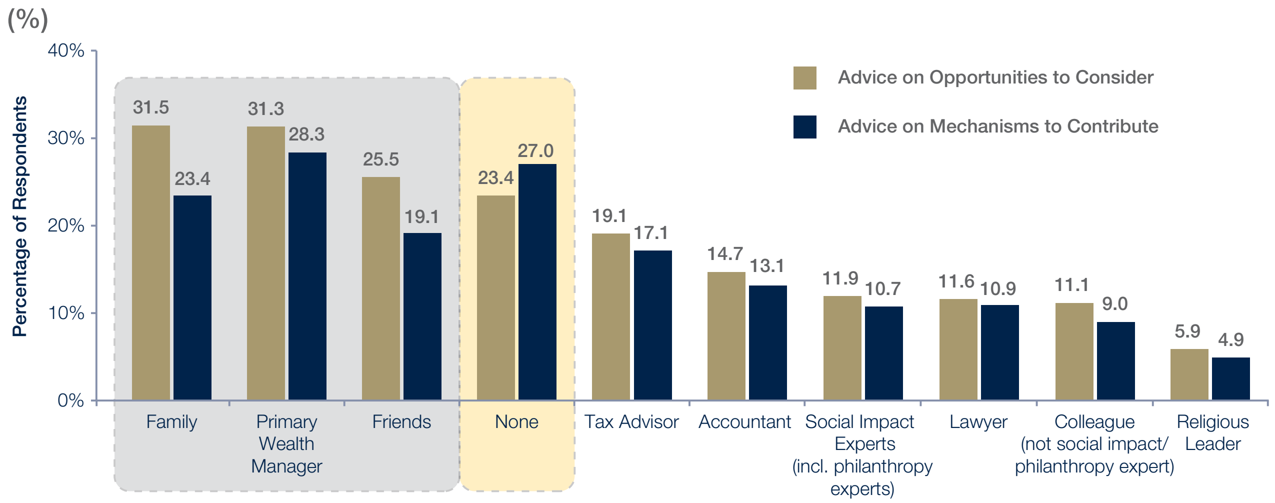
HNWIs also turn to friends for advice on which social impact opportunities to consider (25.5%) and ways of executing them (19.1%).

Often, HNWIs have no one advising them with regard to driving social impact. Globally, 23.4% indicated that no one advises them on social impact opportunities, and 27.0% said that no one advises them on specific social impact mechanisms. This trend is more prominent in North America where large segments of HNWIs are not receiving advice on social impact opportunities (37.7%) or how to execute them (43.6%).

Regionally, North American HNWIs turn most often to family (30.8%) and friends (21.2%) for advice on impact opportunities rather than to their wealth managers (20.5%). Like North Americans, European HNWIs also rely more on family (32.8%) than any other advice source. The HNWIs who turn to wealth managers most often, for advice on both impact opportunities (54.2%) and mechanisms (45.8%) are those from Asia-Pacific.

In addition to HNWIs from Asia-Pacific, those HNWIs who are younger, female, and on the lower end of the wealth range (US$1 million to US$5 million) tend to seek social impact advice from wealth managers. Given that firms

Figure 13. HNWI Source of Advice for Driving Social Impact



Note: Questions asked: "For the time, money, and expertise that you give to social impact causes, who is advising you on the opportunities to consider (e.g., translating causes into opportunities, selecting organizations, due diligence, etc.)?"; "Who is advising you on the different mechanisms to make the contribution to social impact (e.g., donation vs. investment, appropriate structures, etc.)?"; Percentage means proportion of HNWIs who take advice from an individual in order to make a social impact; Percentages will not add up to 100, as the respondents can choose multiple sources of advice

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

9 Social impact opportunities refer to areas of support such as translating causes into opportunities, selecting organizations, and due diligence

10 Social impact mechanisms refer to areas of support such as donation vs. investment, and appropriate structures for social impact

and wealth managers are constantly challenged to reach these demographic groups, social impact may represent an effective way of reaching out to these segments. Of HNWIs under 40, 36.0% obtain advice on social impact opportunities from wealth managers, compared to 29.2% of those aged 60 and above. Female HNWIs obtain more wealth manager advice on social impact opportunities (33.3%) and mechanisms (31.3%) than males (30.3% and 26.5%, respectively). Similarly, more HNWIs with assets between US$1 million and US$5 million get advice on social impact opportunities from wealth managers (32.5%) compared to those with assets more than US$20 million (28.6%).

HNWIs Look toward Wealth Managers for a Wide Range of Assistance

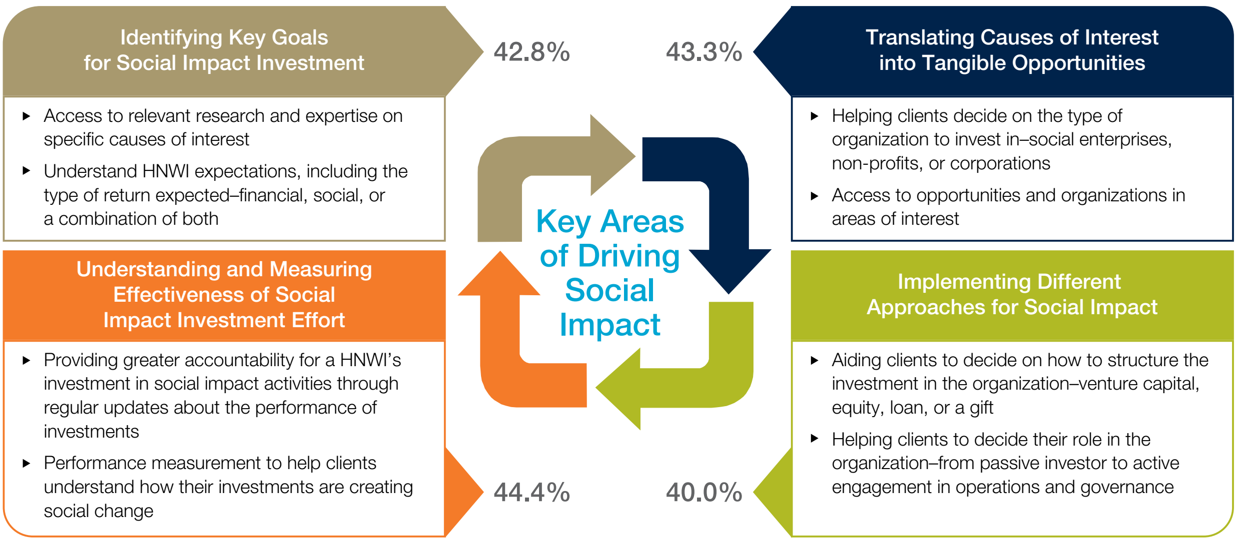
Driving social impact has the potential to become a larger part of HNWI wealth strategies. Even though it remains less understood than traditional methods of investing, wealth managers are well-positioned to deliver the guidance HNWIs are seeking.

One opportunity is for wealth managers to serve as trusted advisors for complex needs and gateways for meaningful social impact interactions, especially given the fragmented nature of the professional advisory social impact landscape.

Not only do wealth managers have insight into the needs of HNWIs, they are the most sought-after source of advice. Of HNWIs currently advised on social impact, 54.0% say they would like more social impact advice from their primary wealth managers. Female HNWIs and those under 40 years old, who are currently being advised, give much greater importance to receiving advice from wealth managers (63.5% and 57.8%, respectively).

A considerable portion of the approximately one-quarter of HNWIs who do not receive advice would like advice (19.1%), particularly from their primary wealth managers, as opposed to other types of financial professionals. Of the HNWIs not currently advised about social impact, the demand for wealth manager advice is particularly significant for those who are younger (28.4%) as well as those who are female (27.5%). This set of female as well as younger HNWIs constitutes a natural engagement opportunity for wealth managers.

Figure 14. Key Areas Where HNWIs Seek Advice on Driving Social Impact



Note: Question asked: "Please indicate the importance of the key areas where you are looking for advice on driving social impact."; Respondents rated their importance on a scale of 1–7; Ratings of 5–7 have been combined to form "Important"; The percentages in the figure refer to the importance of advice for HNWIs on driving social impact in these four areas

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015; Executive Interviews, 2015

To help overcome the many impediments to more effective social impact, HNWIs are looking to their wealth managers for support, placing nearly equal importance (an average[11] of 42.6%) on all key areas of support. Most importantly, they want help in setting goals related to financial returns and social outcomes, deciding which types of investments will effect the greatest change in their area of interest, as well as guidance in structuring investments and defining their personal role in the investment effort, and measuring and understanding the outcomes of their social impact efforts (see Figure 14).

Regionally, HNWIs in Latin America expect the highest levels of support across all areas (an average of 67.9%), while those in North America have far lower expectations (an average of 36.2%), although not as low as those in Japan (an average of 26.8%).

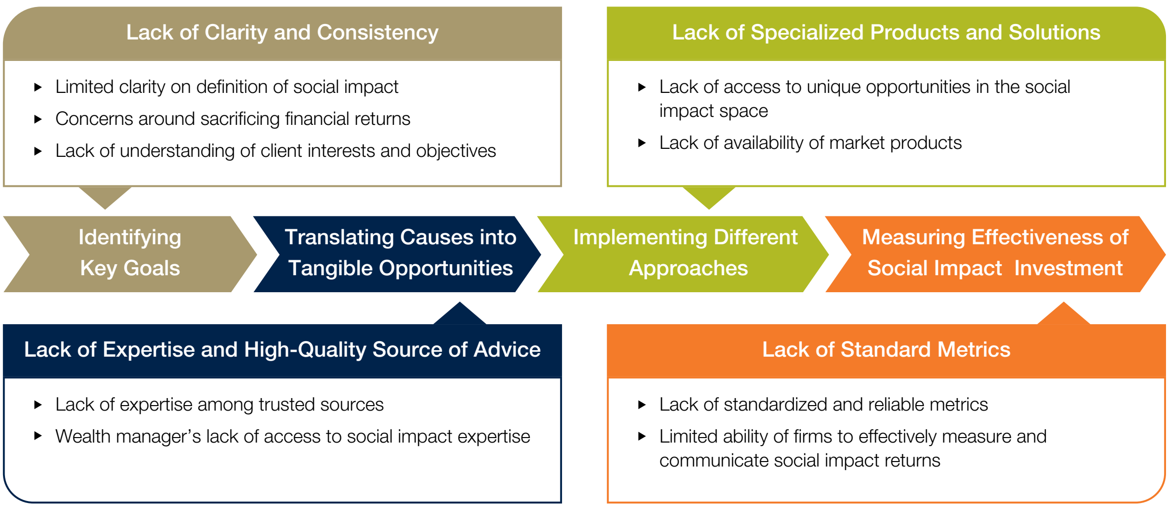
HNWIs under 40 expect far higher average levels of support (53.5%) than those over 60 (30.3%). Female HNWIs want more support (46.5%) compared to male HNWIs (39.6%), and wealthier HNWIs (with US$20 million or more) expect more support (46.3%) than those with US$1 million to US$5 million (40.9%).

Key Challenges Faced While Designing a Social Impact Plan

The trend toward helping HNWIs address their social impact needs is part of a broader industry transition toward giving holistic wealth advice. Yet firms and wealth managers still need to address challenges at each stage of the social impact process (see Figure 15).

- **Lack of clarity and consistency on social impact.** The very definition and ultimate goals of social impact are sometimes debatable. HNWI and industry understanding of the term varies widely across the globe, oftentimes due to cultural and regional differences. HNWIs are also wary of sacrificing financial returns, which, as many experts and executives point out, is often not a valid concern. Additionally, HNWIs may deem wealth managers as slow to embrace social impact, given their limited access to expertise.
- **Lack of highly qualified expertise.** Faced with a dearth of information and expertise about social impact, HNWIs regularly turn to family and friends for advice, even though these groups may lack knowledge in this area. Individual wealth managers often do not have the expertise to recommend specific social impact areas, nor fully explain how financial or social returns are generated. In addition, many firms are not organized to provide wealth managers access to a team of experts, such as tax and philanthropy specialists, who can offer insight on driving social impact.

Figure 15. Key Challenges across the HNWI Social Impact Process



Source: Capgemini Financial Services Analysis, 2015; Executive Interviews, 2015

11 Refers to the simple average of HNWI respondents indicating high importance (rating 5–7) for the four key areas of driving social impact listed in Figure 14

- **Lack of specialized products and solutions.** Driving social impact is a new and developing space. The current shortage of market products, including investment vehicles and third-party expertise and solutions, hampers greater adoption of social impact strategies. Driving social impact is still nascent and HNWIs do not generally have access to unique social impact investment opportunities, as they might do in traditional financial investing.
- **Lack of standard metrics.** The track records of many social impact investment products and funds are limited, making it difficult to understand the viability and effectiveness of the investments. For example, when wealth managers are conducting due diligence on asset managers, the asset manager may not have an Environmental, Social and Governance (ESG) track record but may very well have a track record in the non-ESG space. Therefore, wealth managers must assess which skills are transferable to the ESG space. Additionally, the emergence of third-party aids, such as Addepar's investment management and advisory tool, can help move the industry toward standard measurements.

Social Impact Should Be Embedded into the Overall Wealth Management Approach

Despite the many challenges of providing effective guidance on driving social impact, wealth management firms must accelerate their response to HNWI demand.

Embedding social impact discussions into the overall wealth management approach is the starting point to address the challenges, in addition to more tactical efforts, such as fortifying in-house capabilities to support wealth managers.

Firms are far from consistent in their approach to social impact, as these selected quotes from wealth management executives indicate:

"Currently, there is no specific demand or success for these types of products in our geography. Only a few clients are interested."

– Head of Marketing at a wealth management firm

"At the moment, this aspect is marginal with regard to our global consulting offer to customers, but could in the future become an interesting service to be added to our wealth and estate planning activity."

– Group Head of Private Banking at a wealth management firm

"There is an increasing interest expressed by clients around social impact. This is an example of an area where the firm needs to innovate and provide unique solutions to clients as they seek our expertise."

– Chief Platform Officer at a wealth management unit within a universal bank

"We are talking to clients about social impact through our philanthropy and education work. We are also conducting an education seminar series for awakening or creating awareness. Impact investing is incorporated as a goal within a wealth plan."

– Chief Operating Officer at a wealth management unit within a universal bank

With younger HNWIs expressing the greatest interest in driving social impact, the need for advice is poised to become even stronger in the years to come. Wealth managers that move quickly can take advantage of expanding demand as younger HNWIs gain greater wealth and influence. Leading firms, recognizing the importance of social impact, have already started investing in innovative initiatives and educating clients through seminars and discussions.

Most important, a change in mindset is needed on the part of wealth managers.

It will be important to recognize that HNWIs are increasingly focused on giving back to society, as well as generating a financial return on investment. Given the growing importance of social impact initiatives, wealth management firms must seek to truly embed social impact discussions and advice into an overall goals-based planning approach.

To help overcome the lack of industry infrastructure, wealth management firms can seek to build in-house capabilities to support wealth managers. Having a core team of experts on social impact, including tax and philanthropy specialists, will aid in improving and scaling social impact initiatives, as well as help wealth managers plug their own knowledge gaps. Many leading firms have dedicated philanthropy advisory teams to provide advice on social impact. Some leading firms are ramping up training to ensure wealth managers are prepared to work with clients on their social impact needs. Training efforts should include a focus on the wide range of risk/return options available, especially in social impact investments, and address any misinformation related to sub-par financial results. Training should also emphasize the non-financial returns of social impact, which encompass a return to society, and how to access additional expertise, both inside and outside of the firm.

Through educational campaigns and seminars, and by making social impact part of holistic wealth planning, firms can help create awareness for driving social impact among clients. Leading firms are working to bolster their understanding of the broad range of HNWI needs. A leading bank in North America, for example, uses a detailed questionnaire to understand client expectations regarding social impact. Some firms are also collaborating with social welfare organizations to, not only create an impact themselves, but also provide opportunities in which their clients can participate.

Product development is another avenue that some firms are embracing to strengthen their social impact offerings. Sustainable investing, socially responsible funds, and private equity investments in for-profit businesses that address social and environmental challenges are among the solutions being explored.

Given the lack of effective measures to rate investment results, some firms are taking steps to increase client understanding of social impact returns. Specialist firms continue to emerge with the goal of establishing social impact measurement as part of their client reporting services. Wealth management firms may choose to build in-house expertise, or outsource to these specialist providers.

Conclusion

HNWIs, particularly younger ones, are increasingly interested in directing their investment dollars according to their personal or family values. Yet they lack a solid source of information regarding social impact opportunities and investment methods. Wealth management firms are best-positioned to provide the type of impact advice HNWIs are seeking, but need to overcome numerous challenges. The industry is lacking a broad set of social impact platforms and products, as well as a standard set of tools to define strategies and measure returns. Some firms are moving ahead despite the low level of professional infrastructure. They are training advisors, creating social impact funds, and partnering with social and government agencies to create new products.

Most important, firms and wealth managers can make a conscious effort to embed social impact discussions into overall wealth management plans. These efforts should not be viewed as add-ons in response to a specific need, but should be incorporated into the general up-skilling of firm and wealth manager capabilities as part of the evolving role and value proposition of the wealth manager (see section "Wealth Manager Value Proposition is Evolving" on page 36). Collectively, the expertise gained through these initiatives will aid wealth managers as they seek to keep up with growing HNWI demand for social impact advice and bolster their reputations as trusted advisors.

Wealth Manager Role and Value Proposition Undergoing Major Evolution, Requiring Service Model and Capability Re-Think

- **While HNWIs are generally satisfied with their wealth managers, younger HNWIs have a wide range of specific needs and expectations that are not being met.** Wealth managers are consistently underestimating the needs of younger HNWIs who, compared to older ones, reveal not only higher levels of concern about all aspects of their financial lives, but also exhibit lower levels of satisfaction and a higher propensity to leave firms and wealth managers if their needs are not met.
- **Firms and wealth managers face a host of industry challenges, including ongoing issues, such as regulatory and cost pressures, and more recent threats from new entrants— all of which are driving the evolution of the wealth manager's role.** While long-standing issues are well-known to firms, the disruption from new entrants, particularly automated advisory services, presents a significant challenge as well as an opportunity.
- **To compete in the new environment, wealth managers must continue to reorient their role and value proposition toward delivering goals-based planning and wealth management, and act as the conduit to a full range of capabilities, both inside and outside of the firm.** Certain services, such as investment management, are increasingly becoming commoditized, creating a need for wealth managers to adapt.
- **Wealth management firms have a major role to play in this transition by setting a clear strategic direction to realign their model, communicating it to wealth managers, and empowering them by investing in key capabilities and resources.** Specifically, firms must take action along four key dimensions: understanding HNWI needs and industry dynamics, evolving the overall service model, investing in key high-demand capabilities, and engaging and empowering wealth managers.

HNWIs are Largely Satisfied with Wealth Managers and Firms

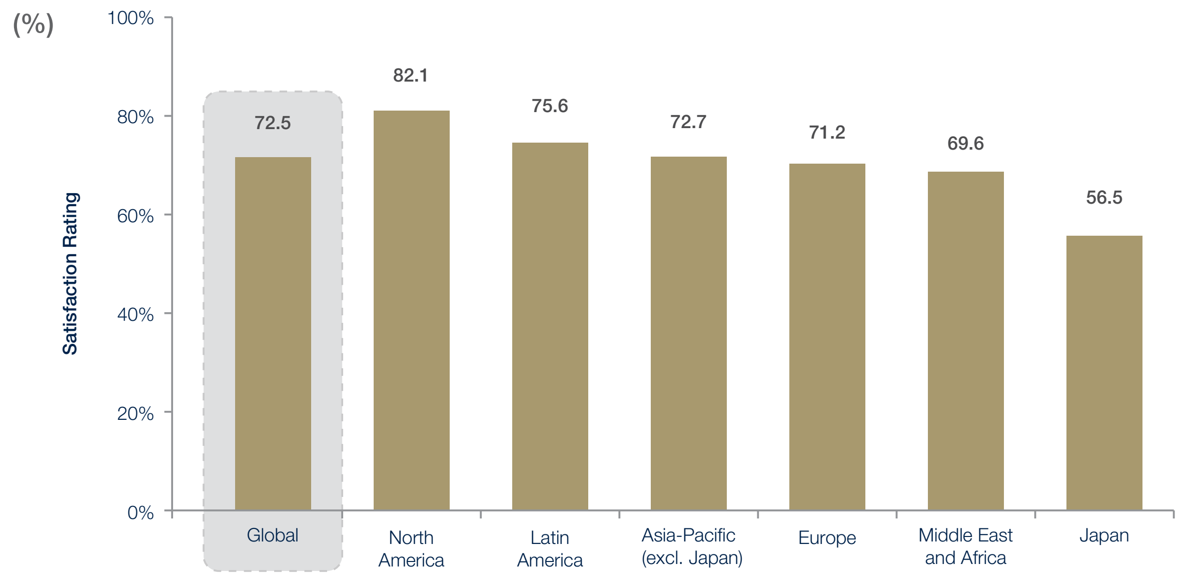
HNWIs are mostly satisfied with the service they receive from their wealth managers, giving them a satisfaction rating of 72.5% globally (see Figure 16). HNWIs who have been with their primary wealth managers the longest (at least 21 years) are the most satisfied, registering a satisfaction rating of 84.3%. Regionally, HNWIs in North America are the most satisfied (82.1%) followed by those in Latin America (75.6%), and Asia-Pacific (excl. Japan) (72.7%). Japanese HNWIs are the least satisfied, recording satisfaction scores of only 56.5%.

When HNWIs entrust their financial planning activities to their wealth managers, they are counting on them to fulfill a wide range of wealth needs. Some of these, identified as advice-related wealth needs,[12] have to do with specific actions around providing advice, such as how wealth managers endeavor to understand HNWI needs, concerns, and risk tolerances; how efficiently they use HNWI's time and resolve problems; and how well the investment decisions wealth managers make actually perform. Responsibility for better meeting these advice-related wealth needs falls on the wealth manager.

Other wealth needs, defined as platform-related wealth needs,[13] relate more directly to the firm platform that supports wealth managers. This includes areas such as the range and quality of solutions, on-boarding, the quality of research and statements, the ubiquity of channels, and fee transparency. For these needs, the firm assumes responsibility for improving service delivery.

While some of these needs are more essential than others, HNWIs rank the importance of nearly all of them within a narrow band of 61% to 73% (see Figure 17). Most critically, wealth managers must have a clear understanding of risk tolerance (73.2%), provide fee transparency (73.1%), deliver strong investment performance (72.5%), and understand HNWI concerns (72.0%). Only having a wide geographic reach was deemed as being relatively less important (52.6%).

Figure 16. HNWI Satisfaction with Wealth Manager (by Region)

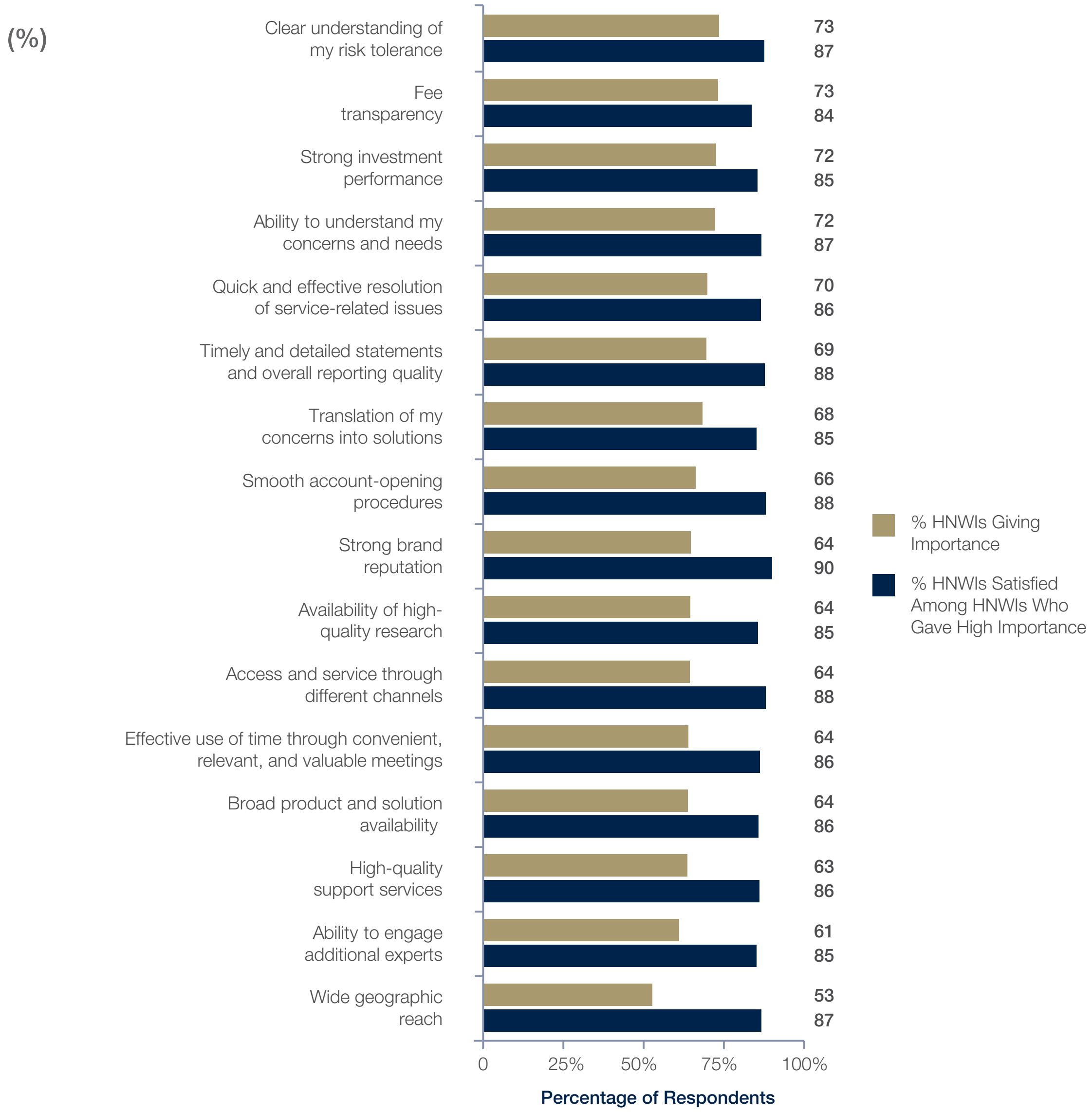


Note: Question asked: "On a scale of 0%–100%, how satisfied are you with your primary wealth manager?"
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

12 Includes the ability to understand concerns and needs; translation of concerns into solutions; ability to engage additional experts; effective use of the HNWI's time through convenient, relevant, and valuable meetings; strong investment performance; clear understanding of risk tolerance, and quick and effective resolution of service-related issues

13 Includes the availability of high-quality research and support services; fee transparency; strong brand reputation; access and service through different channels; broad product and solution availability; timely and detailed statements and overall reporting quality; smooth account-opening procedures, and wide geographic reach

Figure 17. HNWI Importance and Satisfaction on Wealth Needs



Note: Questions asked: "On a scale of 1–7 (where 1 = Not at all important and 7 = Extremely important), please rate the importance of the following wealth management needs."; "On a scale of 1–7 (where 1 = Not at all Satisfied and 7 = Extremely Satisfied), how satisfied are you with the ability of your wealth management provider to cater to these needs?"; Ratings of 5, 6, and 7 have been shown for satisfaction only for HNWIs who gave importance to a need (ratings of 5, 6, and 7 on importance)

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

When it comes to achieving satisfaction on the measures that matter most to HNWIs, wealth managers and firms appear to be doing a great job. Among HNWIs who place high importance on their wealth needs, the average satisfaction level with the ability of wealth managers and firms to fulfill these needs is 86.4%.

Despite this solid track record, wealth managers may still benefit from a more nuanced approach to meeting HNWI needs. For example, age plays a role in determining the importance of wealth needs. While younger HNWIs place higher importance on having a wide geographic reach (58.5% vs. 48.7% for older HNWIs), older HNWIs give greater importance to the need for wealth to be managed with a clear understanding of risk tolerance (75.5% vs. 68.9% for younger HNWIs).

There was also a marginal difference by gender. Male HNWIs exhibit slightly less satisfaction (84.8%) than female HNWIs (88.1%), although the satisfaction levels were generally high for both.

There are some important differences between tenured and less-seasoned wealth managers, in terms of their understanding of the importance HNWIs place on their wealth needs.

Wealth managers who have been in the business fewer than 20 years appear much more attuned to HNWI needs, both on advice-related and platform-related needs. Wealth managers with longer tenures (20 years or more) were less aligned.[14]

Wealth managers with less than 20 years of experience placed higher importance levels[15] on advice-related needs (75.3%), such as understanding HNWI concerns and risk tolerances, compared to the wealth managers with longer tenures (58.3%), making the less tenured wealth managers more aligned with HNWI needs. The biggest gaps between HNWIs and more tenured wealth managers occurred in the areas of investment performance, managing wealth with a clear understanding of risk tolerance, and understanding client concerns and needs. More tenured wealth managers seem to be underestimating how important these needs are to HNWIs.

A similar phenomenon plays out when it comes to service-related needs, such as accessing research, delivering statements, and resolving problems. Wealth managers with more than 20 years of experience place lower importance on these aspects (60.2%), compared to the higher importance given by the more junior wealth managers (73.6%), again resulting in the more experienced wealth managers not being as aligned with HNWI needs. The biggest gaps were in fee transparency, smooth account-opening procedures, timely and detailed statements, and overall reporting quality.

The gap in the perception of importance of needs between HNWIs and tenured wealth managers may have to do with shifting priorities of HNWIs. While in the past, one of the main goals of wealth managers and HNWIs was to achieve relative investment outperformance, goals-based wealth management has now become a priority, particularly among younger HNWIs. Goals-based wealth management differs from traditional wealth management by taking into account the short, intermediate, and long-term personal them of HNWIs and helping them prioritize their goals by providing insight into the trade-offs required to achieve goals. Lastly (and most importantly), goals-based wealth management measures success based on how clients are progressing toward their goals versus the traditional approach of measuring performance against index benchmarks. The gaps could also be due to generational differences between younger HNWIs and older wealth managers, combined with limited access to newer approaches to training and development.

Beyond the specific service capabilities of wealth management firms, HNWIs have core concerns, which managers tend to underestimate, in some cases significantly.

Globally, HNWIs are more concerned than their wealth managers[16] *about their health and that of their family (68.7%), whether their assets will last throughout their lifetime (66.2%), the rising cost of health care (63.8%), and the ability to afford the lifestyle they want in retirement (62.8%).*

Of these top four concerns, wealth managers are generally underestimating the level of HNWI concern, with a more than 15 percentage point gap between the percentage of HNWIs and wealth managers citing these concerns as important. Regionally, HNWIs in Latin America have the highest levels of concern, while those in Europe have the lowest. Younger HNWIs are particularly concerned compared to older ones. Given the prominence of young HNWIs going forward, wealth managers cannot afford to ignore them.

Wealth Managers not Fully Attuned to Younger HNWI Needs

While wealth managers are delivering satisfactory service to most HNWIs, they are not always aligned with the needs and concerns of younger HNWIs, particularly in how they approach their wealth management relationships. To fortify the ongoing trust, satisfaction, and loyalty of younger HNWIs, firms may need to reassess the traditional ways of nurturing and growing these relationships.

Awareness of the preferences and expectations of younger HNWIs (under 45 years of age) is increasingly important, given the heavy influence they will have in coming years. Within the U.S. alone, an estimated US$59 trillion of wealth is expected to be transferred to heirs, charities, estate taxes, and estate closing costs from 2007 to 2061, with an estimated US$36 trillion going to the heirs.[17]

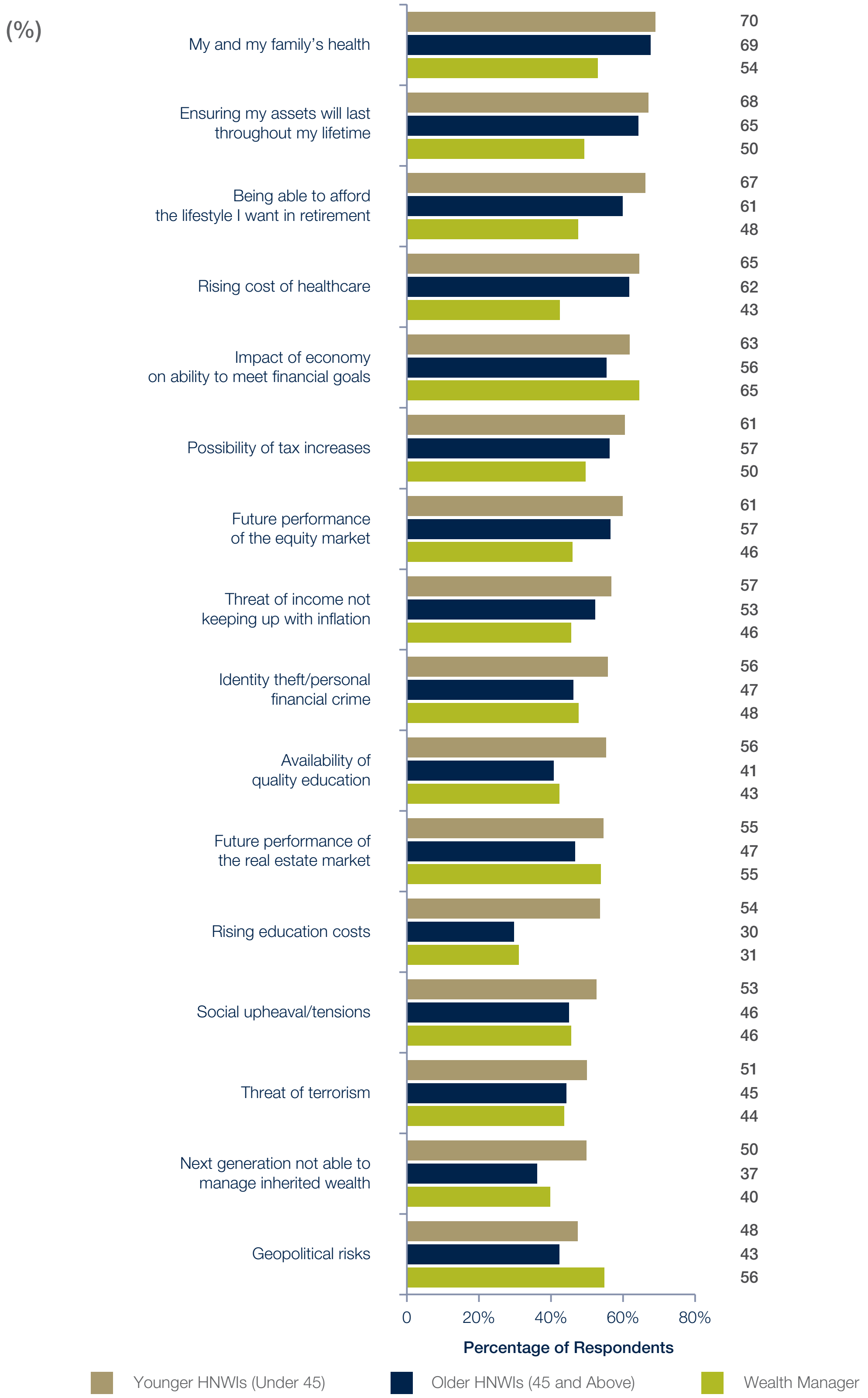
14 The alignment gap refers to the difference between the percentage of HNWIs who classified these needs as important, compared to the percentage of wealth managers who indicated that these needs will be important to their HNW clients

15 "Higher importance levels" refer to the percentage of wealth managers indicating these needs will be important to their HNW clients

16 The higher concerns of HNWIs than their wealth managers refers to the difference between the percentage of HNWIs indicating these concerns are important, compared to the percentage of wealth managers indicating these concerns will be important to their HNW clients

17 http://www.bc.edu/content/dam/files/research_sites/cwp/pdf/Wealth Press Release 5.28-9.pdf, Accessed April 2015

Figure 18. HNWI Wealth-Related Concerns and Wealth Manager Assessment of Those Concerns (by Age)



Note: Questions asked: "On a scale of 1–7 (where 1 = Not at all a concern and 7 = Very high concern), please indicate to what extent the following issues cause concern in general."; "On a scale of 1–7 (where 1 = Not at all a concern and 7 = Very high concern) which of the following most concerns your clients?"; Ratings of 5, 6, and 7 have been shown in the chart above

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

Along with their expanding wealth, younger HNWIs have consistently higher levels of concern about all aspects of their financial lives, compared to older HNWIs. This higher level of worry dovetails with a growing preference for professional advice.

For all HNWIs, preference for seeking professional financial advice from wealth managers leapt from 33.7% in Q1 2014 to 51.9% in Q1 2015, led primarily by Asia-Pacific (excl. Japan) HNWIs (71.0% in Q1 2015).

For younger HNWIs, the preference for professional advice was even higher, reaching 53.6%, compared to 49.5% for older HNWIs. The keen interest younger HNWIs have in receiving professional advice represents a natural engagement opportunity for wealth management firms. Yet wealth managers run the risk of missing this opportunity.

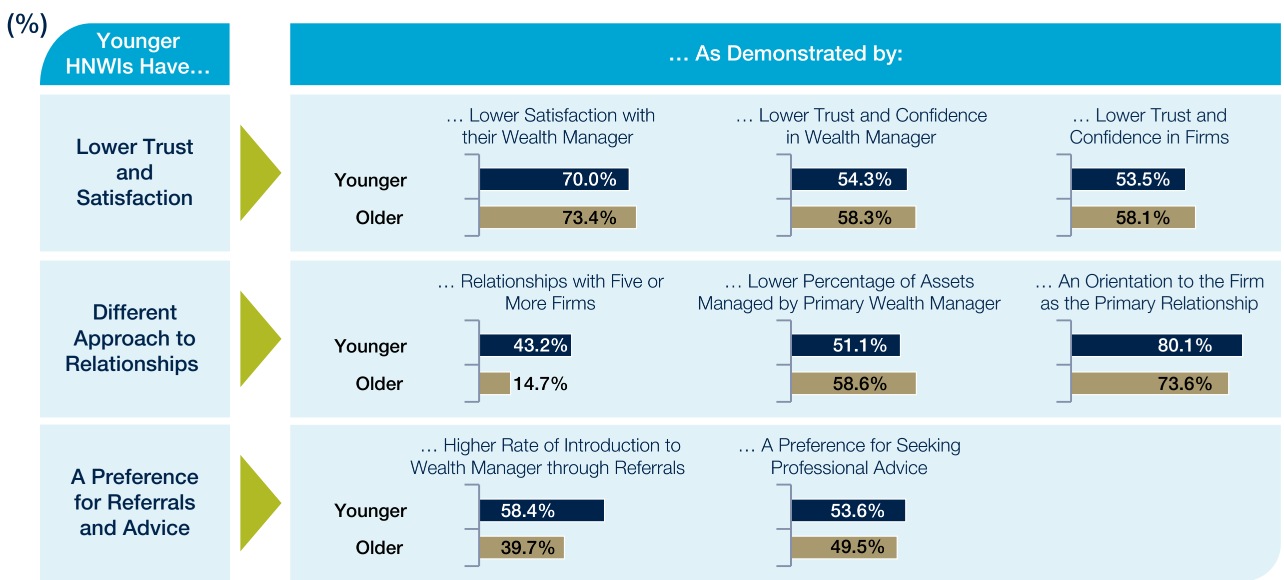
Virtually across the board, wealth managers are underestimating the core concerns of younger HNWIs—in some cases significantly—compared to older HNWIs.

Younger HNWIs are more worried in general about all the core concerns, at an average of 58.5%, compared to older HNWIs at 50.9%. In contrast, only 47.9% of the wealth managers indicate importance for these core concerns (see Figure 18).

Primary concerns of younger HNWIs revolve around health and financial planning, including their own and their family's health (69.9%), fears around assets lasting through their lifetime (67.9%), being able to afford the lifestyle they prefer in retirement (67.1%), and the rising costs of health care (65.2%). In contrast, wealth managers' assessment of the importance of these HNWI concerns is much lower, with a gap of 16 percentage points regarding family health; 18 percentage points with respect to assets lasting a lifetime; 22 points regarding rising healthcare costs; and 19 points with respect to maintaining their lifestyle in retirement.[18] In addition, there is also a considerable gap of 23 percentage points in the percentage of younger HNWIs expressing high concern about rising education costs, compared to the percentage of wealth managers indicating that it is an important concern for clients.

This gap in the importance of primary concerns between younger HNWIs and their wealth managers is leading to further challenges for wealth managers and firms. Compared to older HNWIs, younger ones are slightly less

Figure 19. Preferences and Wealth Management Approach of Younger HNWIs



Note: Questions asked (in order of appearance of graphs in each row): "On a scale of 0%–100%, how satisfied are you with your primary wealth manager?"; "Currently, to what extent do you agree or disagree with the following statement?—I have trust and confidence in the wealth managers and firms." Results were analyzed based on agreement and disagreement to arrive at the percentages for HNWI trust and confidence. Respondents were asked to rate on a scale of 1–7 and the above percentage represents the sum of rating from 5–7; "How many wealth management firms do you work with?"; "What percentage of your financial assets are managed by your primary wealth manager?"; "Thinking about your primary wealth manager, as well as the wealth management firm, please indicate which of them most influences your decision to hold assets with your current wealth management firm."; "How were you introduced to your primary wealth manager?" The above values represent the sum of HNWIs choosing the response as referral by a friend or business contact; "Which statement best describes the way you currently work with wealth managers?—I seek professional financial advice vs. I do not seek professional financial advice."

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

18 The percentage point gap on the concerns refers to the difference between the percentage of HNWIs that indicated these concerns as important as compared to the percentage of wealth managers indicating that these concerns will be important to their clients (HNWIs)

satisfied (70.0% vs. 73.4% for older HNWIs) with their wealth managers, and they have less trust and confidence in them (54.3% vs. 58.3% for older HNWIs) (see Figure 19). While marginal, the gap, which, when combined with all the other differences, creates an imperative for wealth managers to focus more on younger HNWIs. A higher proportion of younger HNWIs hold relationships with five or more firms (43.2% vs. 14.7% for older HNWIs) and keep a lower percentage of assets with their primary manager. Finally, they view their relationship as primarily with the firm (as opposed to the individual wealth manager), even though they place higher value on referrals with respect to how they are introduced to wealth managers (58.4% vs. 39.7% for older HNWIs).

All of these nuances dictate a coming evolution in how wealth managers and firms should seek to develop relationships in the future. Wealth managers must also have a solid presence on both physical and online channels to take advantage of the strong preference of young HNWIs for word-of-mouth referrals. Working with other professionals, including those from other firms, will become more important for wealth managers, given the propensity of younger HNWIs to work with multiple institutions. To offer differentiating services, wealth managers must also act as conduits to a broad range of capabilities, both inside and outside of their firms.

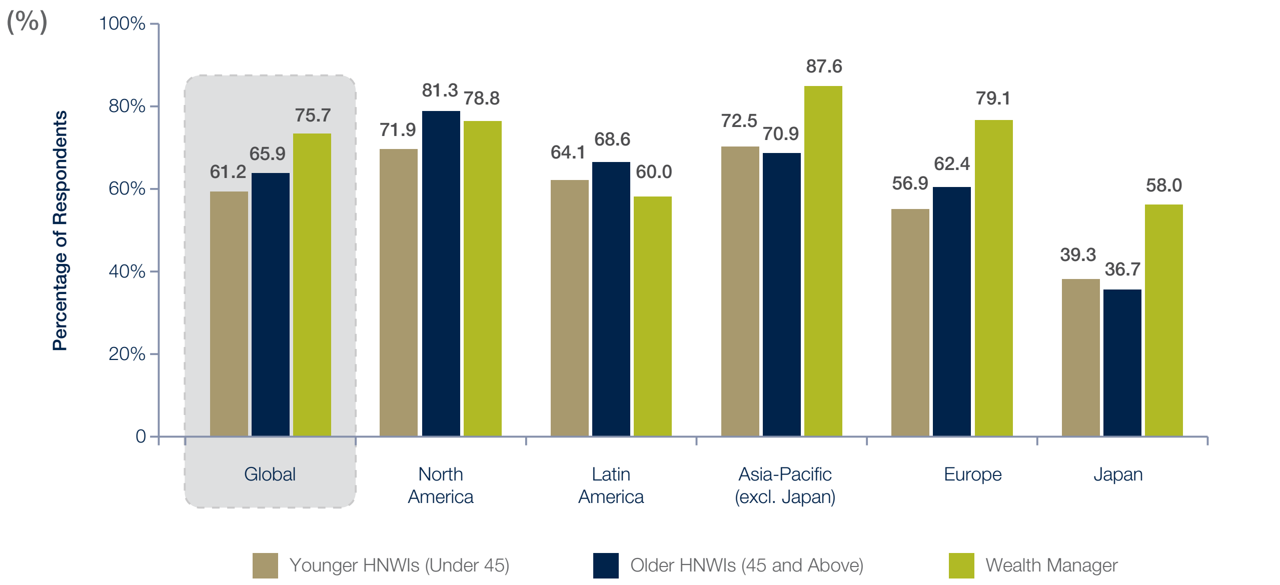
Tactically, wealth managers can take specific steps to better align their service capabilities to the needs of younger HNWIs.

Globally, wealth managers overestimate how well they understand the needs of HNWIs, especially those under 45, with 75.7% of wealth managers saying they have a good understanding of client needs, compared to only 61.2% of younger HNWIs who agree (see Figure 20).

The gap is especially large in Europe (22.2 percentage points), Japan (18.7 percentage points) and Asia-Pacific (excl. Japan) (15.0 percentage points).[19]

Younger HNWIs also show a greater propensity to leave their firms and/or wealth managers if their wealth needs are not being met, particularly for platform-related needs. Younger HNWIs are more likely to leave if a firm fails to address their platform-related wealth needs, with 80.4% admitting they would consider leaving compared to 74.7% of older HNWIs. In particular, smooth account-opening

Figure 20. Understanding of HNWI Wealth Needs from HNWI and Wealth Manager Perspectives (by Region)



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

19 The percentage point gap on HNWI wealth needs refers to the difference between the percentage of HNWIs indicating that wealth managers understand their wealth needs very well, compared to the percentage of wealth managers indicating that they understand the wealth needs of their clients (HNWIs) very well

procedures are important to younger HNWIs, with 77.4% saying they would consider leaving without them, compared to 68.3% of older HNWIs. A wide geographic reach is also more important to the under-45 group with a higher percentage indicating they will leave (68.4%, compared to 50.4% of over-45 HNWIs). When it comes to advice-related needs, the differences between younger and older HNWIs are not as pronounced. HNWIs of all ages say they are likely to leave if their advice-related needs are not being met, with 85.2% of younger HNWIs saying so, along with 83.9% of older HNWIs.

In addition to younger HNWIs, wealth managers must also pay greater attention to female HNWIs. Female HNWIs are becoming more prominent creators of wealth and will often be first inheritors, implying the first stage of attrition risk for a firm.

Wealth Manager Role Impacted by Existing Challenges and New Threats

The influences of younger and female HNWIs are just two examples of the disruptors facing the wealth management industry and affecting the role of the wealth manager. Additionally, as explored in the 2013 *World Wealth Report,* regulatory reform in the wake of the financial crisis has imposed significant new costs and impediments to the goal of providing an integrated client experience. By necessity, wealth managers are spending more time on activities that maintain compliance, but many times do little to add value to client relationships.

Another constraint comes in the form of increasing cost and profit margin pressures. Firm cost-income ratios have been on the rise,[20] driven by a general HNWI

Figure 21. Non-Traditional Players Disrupting the Industry

Automated Advisory Services

Context: Commoditization of some investment and portfolio management functions and increasing client demand for digital and do-it-yourself tools are driving increased prominence of automated services in wealth management (esp. among lower wealth levels, including non-HNWI).

Who: Non-traditional firms such as Betterment and Wealthfront, as well as in-house capabilities, such as Schwab Intelligent Portfolios.

Proposition: Non-human delivery of simplified investment and portfolio management.

Strengths: Low fees, slick interface, quick and convenient to use, tax-loss harvesting.[1]

Challenges: Have not yet been tested through a bear market, no advice (by design), fairly basic range of investments (ETFs), possible market consolidation.

Future Development: Currently basic, but opportunities to develop: Broader investment categories, broader geographic coverage, alliances with other new entrants to offset lack of advice, increasing presence in B2B market and partnering with asset/wealth management firms.


Open Investment Communities

Who: Firms such as Open Folio and eToro.

Proposition: Guide users to better investment decisions (loss-avoidance as the core), by harnessing data from portfolios/other users).

Strengths: Social validation, low cost, reliable and actionable insights built on users' actual portfolio performance, slick experience.

Challenges: No asset custody, so requires partners to make it work (how to avoid becoming a lead generator); need to find effective fee models; model still unproven.

Future Development: Could expand investment advisory networks into other areas, such as home buying and mortgages, which would eat into pure advice models; Can scale to a model that allows investors to make sense of a decentralized world in which traditional wealth managers have minimal expertise (e.g., cryptocurrencies); strong partnership potential (asset managers, independent advisors, automated advisors).


Third-Party Capability Plug-Ins

Context: Wealth industry not previously well-served by third parties specializing in individual wealth capabilities, and wealth firms that are hesitant to lose control of even non-core processes; now changing with several players bringing strong capabilities in this space (and firms receptive, due to cost pressures and the need to advance customer experience/client acquisition through new means).

Who: Firms such as Wealth Access for client reporting and Hearsay Social for social media, among others.

Proposition: Firm-specific.

Strengths: Firm-specific.

Challenges: Firm-specific. With regard to reporting, however, security concerns and control need addressing. In general, the need to train wealth managers (technical and mindset training) is important.


Threat Potential   Complement Potential

1. Tax-loss harvesting does not apply to all firms

Source: Capgemini Financial Services Analysis, 2015; Executive Interviews, 2015

20 http://www.scorpiopartnership.com/knowledge/report/global-private-banking-benchmark-2014/, Scorpio Partnership, accessed April 2015

preference for less risky products, combined with rising costs of technology and governance. Tighter regulations are resulting in higher legal, regulatory, and compliance costs. These are compounded by ongoing technology maintenance and infrastructure costs, as well as the need for new, transformational initiatives focused on improving the client experience.

As the wealth management industry strives to increase convenience through digital technology, the challenges of data security have also increased. Identity theft and personal financial crime pose risks to firms in the form of tarnished reputations, high costs, and the loss of business to other competitors.

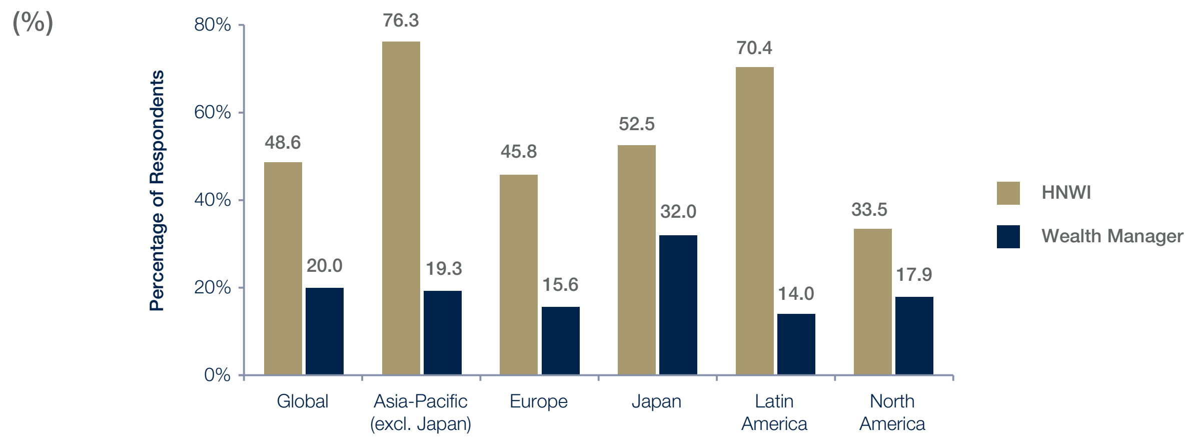
Increasing competition and commoditization of traditionally core services is another key disruptor.

Basic asset allocation and investment advisory services are becoming increasingly commoditized, driven primarily by a new brand of competition from non-traditional players, such as automated advisory service providers and open investment communities. Some enablers, such as third-party capability plug-ins, are also gaining footholds in the market (see Figure 21). Both wealth managers and their firms face the task of differentiating their services, standing out from the competition, and responding to these new threats.

The third-party firms and technologies are highly complementary to existing wealth managers. Through their expertise in systems and procedures, they can support firms and wealth managers that are struggling to manage costs, acquire clients, or deal with a specific capability requirement. One example of a third-party firm is Hearsay Social, based in Silicon Valley. Its Predictive Social Suite technology enables wealth managers to customize content and engage clients, particularly younger clients below 35 years of age, through its social media dashboard and mobile-first websites.[21] This can further help wealth managers negate the threat of disruptive players in the industry.

Open investment communities pose a risk, as well as offer collaboration potential to wealth managers. These communities offer guidance from fellow investors, rather than experts such as wealth managers. Users tap into a social network of investors to benchmark the performance of their personal portfolios and to help validate their decisions against the collective experience of their peers. Such services offer a source of investment knowledge and information that could validate, or compete with part of the traditional wealth manager value proposition, particularly in light of ever-arising niche opportunities. At a minimum, wealth managers need to be ready to respond to this new "voice" in the client advice discussion. Cryptocurrencies,[22]

Figure 22. HNWI and Wealth Manager Assessment of HNWI Propensity to Use Automated Advisory Services (by Region)



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

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

21 http://hearsaysocial.com/2015/02/unveiling-predictive-social-suite/, Hearsay Social, accessed May 2015

22 Cryptocurrencies refer to alternative currencies, particularly for digital currencies, and include exchanges using cryptography to secure the transactions and control the creation of new units of currency

which can act as a hedge against traditional fiat money or as a speculative investment opportunity, are one example of a niche opportunity in which wealth managers may not be well-versed. However, the long-term profit model of such firms is yet to be proven.

Arguably the most significant new disruptors are automated advisory services[23], which eschew personalized advice in favor of algorithm-based asset allocation and basic investments in low-fee index and exchange-traded funds (ETFs).

Such services tap into the growing prominence of digital and self-service[24] tools, which are of particular interest to younger, less wealthy individuals. While users are attracted to the convenience and low cost of such services, their value has yet to be tested through a bear market. Firms in this still-nascent industry face other uncertainties, such as possible consolidation, and the chance of having to expand their geographic coverage and business models to accommodate client demand for additional services.

Wealth managers underestimate HNWI interest in using automated advisory services. Globally, 48.6% of HNWIs, drawn to the low cost and convenience of such services, say they would consider using them for a portion of their portfolio, compared to only 20.0% of wealth managers who think HNWIs will consider using them (see Figure 22).

HNWI propensity to use an automated service is particularly high in Asia-Pacific (excl. Japan) at 76.3% and Latin America (70.4%), and lowest in North America (33.5%). In Europe, 45.8% of HNWIs say they would consider using such services, compared to only 15.6% of wealth managers who think HNWIs would consider them.

Wealth managers are skeptical of automated advisory services, noting that they forgo the personal relationships that enable wealth managers to build trust and deliver tailored advice and solutions. However, some forward-thinking firm executives are beginning to acknowledge that automated services will increasingly have a place in the wealth management industry (see Figure 23).

Automated advisory services do not appear to be a passing trend, given the degree of interest from younger HNWIs. In keeping with their preference for digital collaboration, as illustrated in the 2014 *World Wealth Report*, HNWIs under

Figure 23. Select Quotes from Wealth Managers and Firms Regarding Automated Advisory Services

Firm Executives	Wealth Managers
"In the future, every firm will need a robo-advisor." – Senior Executive at a U.S. Wealth Management Firm	*"Our clients do not trust automated advisors as they trust a human being, and they prefer an individual advisor."* – A Wealth Manager in Hong Kong
"Although a certain level of automation and online services are appreciated, in particular by the younger generation of HNWIs, the personal relationship and contact remains the main driver for customer satisfaction and retention." – Head of Private Banking at a Belgian Wealth Management Firm	*"I prefer individual advisory, because wealth management requires subject matter expertise to win the trust of customers. We cannot trust online advisors."* – A Wealth Manager in Germany
"Automated advisor services will gain traction in the future as one of the services, but not on a standalone basis." – Head of Wealth Management at an Indian Private Bank	*"I won't recommend it to our clients, as I think that clients should reach out to individuals for advice."* – A Wealth Manager in the U.S.
"Wealth managers provide a lot of personal services, which will be difficult to replace by the automated advisory services, but these players cannot be taken lightly." – Managing Director of National Wealth Management Business at a Leading Global Universal Bank	*"The automated advisor can be a good option for investors who are comfortable using online tools, but I think it is not as effective as human advisors."* – A Wealth Manager in Spain

Remarks on Automated Advisory Services: Positive Cautious Negative

Source: Capgemini Wealth Manager Survey, 2015; Executive Interviews, 2015

23 Automated advisory services refer to online-only firms (or divisions of traditional wealth firms) that offer automated portfolio management services (i.e. client inputs result in automated portfolio management recommendations). However, they are not typically equipped to offer more holistic and detailed financial product and planning services

24 "Self-Service in Wealth Management: Remaining Competitive," Capgemini, January 2015

45 are much more inclined to take advantage of automated advice (67.0%) compared to those over 45 (38.0%).

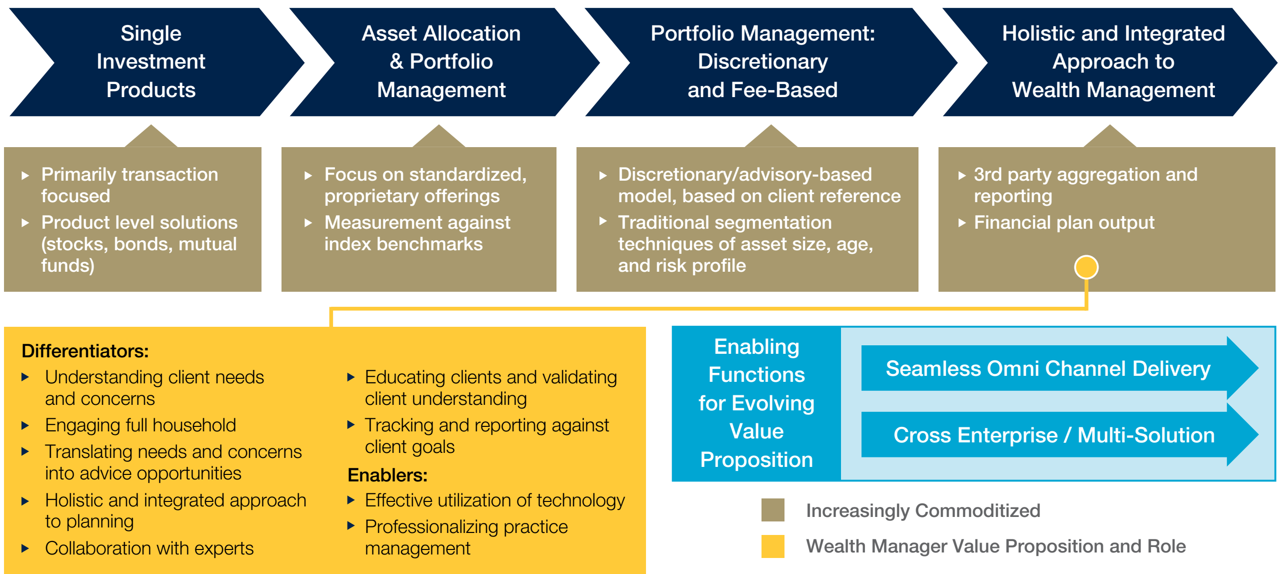
Wealth Manager Value Proposition is Evolving

In the emerging environment, where some client segments are placing less value on investment selection and management, wealth managers might have to view their value proposition differently than in the past. Many wealth managers in North America are undergoing a transformational journey from acting solely as investment advisors, while European wealth managers who are already generally following the private banking model are witnessing acceleration in embracing a wider spectrum of financial planning and wealth management advice and solutions, to deliver a more holistic offering to clients.

The wealth manager value proposition is evolving across multiple areas (see Figure 24). While some aspects have been in transition for several years, the difference now is in the convergence of areas and accelerated pace of change.

- **Growing prominence of fee-based and discretionary solutions.** Regulations and client demand have shifted the focus of many wealth managers and firms from commission or advice-based solutions toward fee-based or discretionary products.
- **Focus on behavior-based segmentation.** Segmentation of clients has evolved from traditional techniques based on HNWI age, wealth level, and risk profile, to advanced approaches based on HNWI behaviors.
- **Utilizing open architecture to offer varied products.** The adoption of open architecture is allowing wealth managers to offer HNWIs access to investments that were previously available only to institutional investors, rather than relying on the proprietary offerings of the firm.
- **Shift toward holistic approach to integrated wealth management.** Advice and solutions have evolved from suggesting plain and simple products (equities, bonds, and mutual funds) to adopting a goals-based, holistic and integrated approach to wealth management planning encompassing cash, credit, tax, estate planning, insurance, philanthropy, and succession planning, both for businesses and personal wealth.
- **Delivery of the full capability of the firm.** Along with the shift to delivering a more holistic approach to wealth management advice, the core focus of the relationship between the HNWI and the wealth manager has expanded to the extent that wealth managers increasingly act as conduits to provide HNWIs with access to a broad range of experts from across the firm.

Figure 24. Evolution of the Wealth Manager Value Proposition and Role



Source: Capgemini Financial Services Analysis, 2015

- **Use of multiple channels.** The traditional method of dialogue between HNWIs and firms has evolved from a single face-to-face channel, to a more integrated multiple channel experience, with the goal of providing clients a consistent, personalized, anytime/anywhere, seamless experience across all channels, including digital.
- **Increasing shift toward goals-based performance measurement.** The investment management process has evolved from a pure transaction-based model that measures success based on relative returns, to a financial planning model that measures success against the broad range of needs and concerns of HNWIs to achieve a more relevant and personalized goals-based performance measurement.

The imperative for wealth managers to embrace a holistic approach toward financial planning and wealth management is clear, and by adapting to the new environment, wealth managers can turn the disruption wrought by automated advisory services into opportunity.

As basic asset allocation, investment advisory, and risk profiling services become commoditized, the value proposition of wealth managers is transitioning. It is moving away from stock selection and investment management, toward more holistic financial planning.

With the transition already underway, leading wealth management firms are ramping up their investments in capabilities related to financial planning.

The evolution of the wealth manager role will encompass several areas.

Wealth managers have the opportunity to differentiate themselves on key parameters, including the breadth and depth of their understanding of client needs and concerns, their ability to translate those concerns into advice opportunities, facilitating the access to and leverage of the full power of the firm, and empowering clients through education, dialogue and/or validation of research clients may have done themselves.

To enable the transition, wealth managers can use technology more effectively, as well as take steps to professionalize their practice management.

Differentiators

- **Discovery of client needs:**
  - Wealth managers should strive to develop even greater capabilities to uncover and then understand a broader range of HNWI concerns and expectations, and be able to translate those concerns into opportunities to deliver relevant advice to clients (see page 29).
  - In a bid to provide clients with a greater sense of clarity and control over their financial lives, wealth managers can assist with the prioritization of client goals. Often, client goals are reviewed in isolation. Wealth managers can add value by discussing goals in relation to each other, and helping clients to understand potential trade-offs and make difficult decisions to prioritize needs and goals when required. Focused discussions on meeting near-term and long-term goals will help in gaining trust and building long-term client relationships.
  - While many wealth managers, notably in Europe, have already built financial planning models, they will need to add more knowledge of fiscal rules in all markets relevant to the client to better build financial plans, while also staying in full compliance. This applies to all wealth managers globally, but especially those with multi-jurisdictional clients.
  - Engaging their clients' entire household, including spouses and children, and perhaps even parents, with further adoption of next-generation tools, such as social networks and digital aids, to facilitate communication can be an important differentiator for wealth managers.
- **Addressing client needs:**
  - Wealth managers will benefit significantly from collaborating with experts and serving more as a conduit and integrator of an expanded set of firm (and external) capabilities and solutions, rather than trying to act as the sole provider of all products and services. Leveraging the full power of the firm is an important step in delivering a differentiated value proposition. and Wealth managers can overcome the disruptors that pose threats in more narrow and commoditized aspects of the business.
  - Wealth managers need to be open to technology-enabled investment services for clients who want them.
  - In general, wealth managers can develop one or two deep competencies, but otherwise can provide clients with access to other experts (spanning credit, trust, tax, estate-planning, and social impact) to be able to focus on relationship and trust building, and translating client needs and goals into actionable ideas and solutions.
  - They will also benefit from continuously monitoring and measuring financial and wealth management plans and performance against the life goals of HNWI clients.

- **Educating clients and validating client understanding:**
  - Wealth managers will need to work more closely with clients to translate the significance of current events to their clients' needs and goals, and recommend a course of action.
  - They can also embrace opportunities to validate and discuss client-driven research as a means of incorporating the client's point of view, and engaging in a dialogue that serves to deepen client understanding, trust and confidence, adding even more value to the relationship.

Enablers

Embracing certain enablers will assist wealth managers in differentiating their services.

- **Professionalizing practice management:**
  - Wealth managers can run their businesses more efficiently, targeting fewer households with higher average asset values, and shed less profitable accounts or pass them on to junior wealth managers.
  - Wealth managers can become more effective self-marketers, by identifying their unique proposition to clients and becoming more dynamic in how they communicate this message to prospective clients.
  - They can encourage and build inter-generational teams that serve to provide careers, rather than just jobs, to younger wealth managers and support staff, and importantly, assist in serving multi-generational client families.
  - Wealth managers should also contemplate new fee models (see page 39) and other strategies that support the utilization of firm-wide capabilities.
- **Effective utilization of technology:**
  - In today's digitized world, effective use of firm-provided technology and tools is a crucial enabler.
  - Wealth managers can overcome the fear of disintermediation in investment management by implementing an IT-enabled approach for client investments that complements the more tailored financial planning services, so they can respond to specific client demands and compete with the disruptive players more effectively.
  - Wealth managers can utilize next-generation digital tools (including social media networks) for functions such as prospecting and risk management, as well as wealth planning and aggregation tools to enhance overall service delivery.

To Enable Wealth Managers, Firms Need to Understand HNWI Needs and Adapt Accordingly

Achieving an industry transition to more holistic financial planning and management requires action on the part of wealth management firms, as well.

Firms can act as both guides and resources for wealth managers. Primarily, their actions can be directed at understanding HNWI needs and industry dynamics, redesigning advisory models in accordance with the shifting value proposition, investing in key capabilities, such as financial planning and account opening tools, and engaging and empowering wealth managers through a focus on training and guidance (see Figure 25).

As a first step, firms can clearly identify HNWI concerns, needs and behaviors, relying increasingly on data and not on assumptions. A simple assessment of younger HNWIs, for example, might hold that they have simple needs and are only interested in utilizing online services to fulfill their wealth management needs. In fact, the financial planning needs and concerns of younger HNWIs are acute, running much deeper than those of older HNWIs, resulting in high demand for professional advice. They are more worried than wealth managers realize about affording retirement (67% vs. 48% as assessed by wealth managers), managing education costs (54% vs. 31% as assessed by wealth managers) and passing down their wealth (50% vs. 40% as assessed by wealth managers), just to name a few examples.[25] Today's online investment services are simply not built to address the depth and variety of concerns facing younger HNWIs.

Figure 25. Path Forward for Firms

Source: Capgemini Financial Services Analysis, 2015

25 Percentages refer to the percentage of HNWIs who indicated these concerns as important, vs. the percentage of wealth managers who indicated that these concerns will be important to their clients (HNWIs)

Despite any shortcomings of online services, younger HNWIs remain interested in using them. As noted earlier on page 35, under-45 HNWIs are much more likely to use automated advisory services. At the same time, however, most of their diverse wealth-related concerns remain unmet as wealth managers continue to underestimate their needs (see page 30).

In effect, the typical HNWI is evolving into a highly demanding client, desiring high-end financial planning and professional advice, in addition to having interest in automated delivery of a few services. This is a key message that firms can communicate to wealth managers.

Another important message is the growing prominence of the firm in client relationships. Technology is partly behind this trend. Client relationship management systems have enabled firms to better track and retain client data in-house, while predictive surveillance algorithms have made it easier for firms to monitor theft of client data in the event that wealth managers leave the firm.

Besides technology advances, HNWI attitudes are changing and reflect the growing prominence of firms.

Globally, 36.0% of HNWIs believe that the firm is the reason to hold assets there, compared to 24.0% who say the wealth manager is the reason.

About 40% of HNWIs say the firm and the wealth manager play equally important roles in the overall relationship. All of these factors are causing the balance between wealth managers and firms to recalibrate. Wealth managers can take advantage of this trend by positioning themselves as gateways into all of a firm's capabilities, including their own valuable knowledge and expertise.

To respond, firms must work to understand the best ways of delivering on the new value proposition and evolve their advice models accordingly. The range of possible advice models spans a full spectrum.

- **Pure Automated Advisory Model.** Suitable for HNWIs with basic investment needs who do not require a personal touch, this model relies primarily on technology to generate guidance as well as act as a touch point. Because its main goal is to help manage investments, the model does not cover customized or comprehensive wealth management services.
- **Holistic Goals-Based Financial Planning and Wealth Management Model.** Characterized by a personal relationship between the client and wealth manager and frequent human interaction, this model provides holistic, customized advice, including business and personal needs, as well as assistance in the full range of risk management, cash and credit, charitable giving and legacy, and estate and tax planning. The wealth manager acts as a trusted advisor and gatekeeper to the information and expertise housed within the firm, and coordinates collaboration with a client's other external professional advisors.
- **Hybrid Advice Model.** Occupying the spot between automated advice and full financial planning, this model takes advantage of both technology-driven and traditional advice provided by a wealth manager. The wealth manager makes judgment calls on whether to steer clients toward digital or the firm's personal relationship-based services.

For the majority of firms, the sweet spot is likely to be the hybrid advice model. Already, several firms are moving toward variations of this model.

Relatively large firms serving a broad range of client segments will likely build their own automated advisory platforms or acquire existing technology-based services. Smaller firms serving targeted client segments (particularly in the lower wealth bands) are expected to partner with automated advisory services or utilize cost-effective cloud-based systems from third-party technology firms.

The diversity of strategies indicates that there is no single correct path for achieving greater interdependence between technology and the human touch.

- One leading North American universal bank is targeting mass affluent and do-it-yourself clients with an online tool that offers access to investment management, research, interactive chat sessions, and financial planning. Users of the service also have the opportunity to work with wealth managers on a less frequent basis. At the same time, the firm is continuing to offer holistic, in-person financial planning and wealth management to higher-value clients with more complex needs.
- A different North American private bank, seeking to improve retention and lower the cost of serving clients with less than US$1 million in assets, is considering white-labeling a third-party automated advice service. The service will become the standard offering for new clients and be available to existing clients who express interest. It serves as a complement to the existing advice-centric model.

Fee models will evolve to meet the requirements of the hybrid advice model. One scenario may be a standard asset-based fee for simplified online investment management, complemented by modular add-on fees for different services, such as tax support, robust financial planning, and philanthropic support.

Regardless of the advice model chosen, investing in specific capabilities that wealth managers have identified as necessary will be crucial to better cater to HNWI needs. The most important of these are wealth-planning tools, such as scenario planning and asset allocation, identified by 80.5% of wealth managers, as well as the ability to have access to experts, such as legal, tax, and philanthropy at the firm and through third parties (71.8%) (see Figure 26). Another key capability demanded by wealth managers is to have hassle-free account-opening procedures (71.3%), a development that could see innovative concepts such as e-signatures become more mainstream.

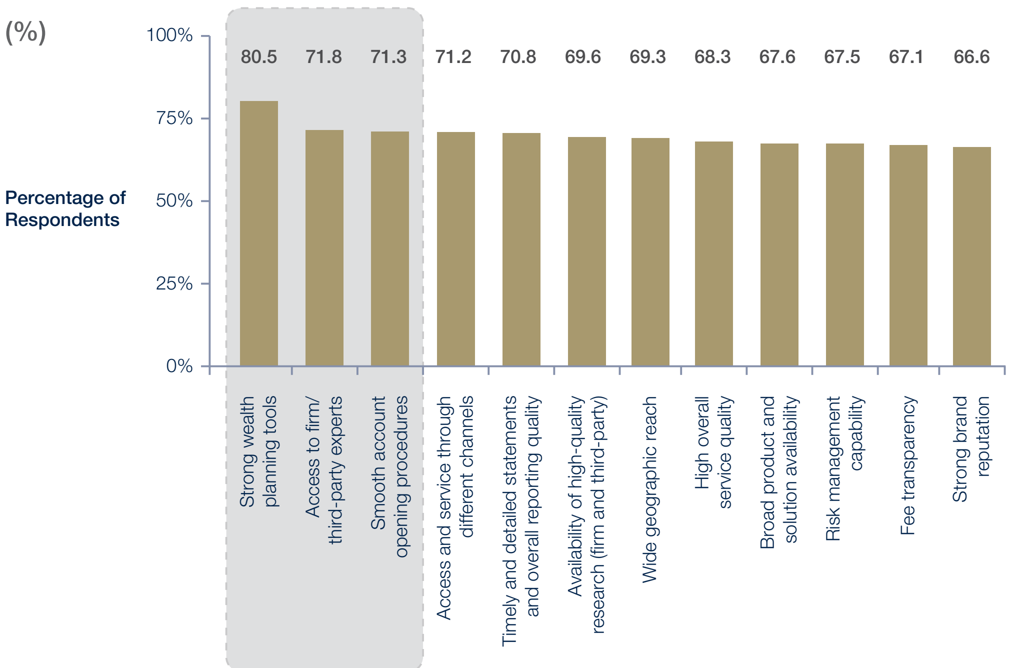
Many firms have already made significant investments in financial planning tools, though the approach and degree of complexity varies. Some firms are investing in relatively simple software solutions that allow wealth managers to help clients in areas such as cash-flow management and education planning. Others are turning to more robust solutions, such as hiring dedicated financial planners to join in early client discussions and work with wealth managers to deliver holistic solutions.

In the transition toward a more thorough financial planning approach, major training and change management initiatives are required. Wealth managers will benefit from understanding the importance of financial planning discussions as a key part of the advisory process, and how they will support their business growth and profitability. Coaching and support to segment clients into those who need relatively simple financial planning software solutions vs. more tailored approaches, such as dedicated financial planners, regardless of wealth level, will be an important part of changing wealth manager behavior.

One leading full-service private bank in Europe has been a front-runner in this area, having invested heavily in financial planning, but also incorporating the need for its wealth managers to have deep knowledge of multi-jurisdictional fiscal rules as part of the planning process. Over the past five years, this firm has delivered classes and ensured certification of all wealth managers on these topics, with each logging approximately 110 to 120 hours per year in such training.

One leading North American wealth management firm is investing in more efficient account opening procedures to avoid frustrating new clients, as well as deliver a highly positive experience. These goals are especially important given that the first 90 days of a client's interaction with a firm is a core period for client referrals, making first impressions a critical business lever.

Figure 26. Importance Placed by Wealth Managers on Capabilities Required to Fulfill HNWI Wealth Needs



Note: Question asked: "On a scale of 1–7 (where 1 = Not At All Important and 7 = Extremely Important) please rate the importance of HNWI needs related capabilities at your firm."; Ratings of 5, 6, and 7 have been shown in the chart above

Source: Capgemini Wealth Manager Survey, 2015

The firm has made investments into business process management tools to ensure clients are not asked for the same information twice during the on-boarding process, and to enable them to view the processing stage their documents are in within the firm (similar to the tracking mechanisms long used by logistics companies).

In the area of human resources, firms can direct their resources toward talent that is keenly aligned with the evolving value proposition. On the hiring front, firms should seek out younger wealth managers to round out inter-generational wealth teams and better navigate wealth needs at the household level, as well as increase the complement of female wealth managers to drive better engagement with spouses and female wealth creators. Some spouses present an attrition risk since the first level of wealth transfer is not inter-generational but rather between spouses, some of whom may have had little engagement with the firm previously. New hires should also have a demonstrated understanding of social media and digital networking to support more innovative prospecting methods. Beyond hiring dedicated financial planning specialists, many firms are planning to focus on hiring seasoned managers with expertise in the fields of tax, legal, philanthropy, and financial planning, so that these topics are front and center of all goals-based discussions.

As with any initiative aimed at bringing about significant change, empowering wealth managers through engagement and training will be critical to addressing their evolving role.

Wealth managers will need greater support on how to best serve clients according to the complexity of their needs. Clients with highly complicated financial needs should be served by dedicated financial planning professionals, while those with simple needs may be able to tap into online financial planning software or automated advisory services.

Wealth managers will also require more in-depth training on the use of digital tools and social media so they can better engage with clients, particularly the younger ones. Finally, they need guidance regarding how to become more creative in their discovery and prospecting efforts.

Wealth managers have a central role to play in moving the industry toward new advice models. Firms are generally satisfied with the progress wealth managers have made in adopting digital tools and seeking out opportunities to cross-sell products, including credit. But there remain several areas where firms would like to see greater wealth manager involvement. To deliver more comprehensive financial and risk management plans, firms would like wealth managers to leverage experts across various disciplines, including tax and philanthropy. Further, wealth managers themselves should consider developing differentiating specializations, such as insurance, as a way of targeting other important HNWI needs.

Conclusion

Like other profitable businesses, wealth management is facing increasing competition from providers offering similar services at lower cost, compounded by regulatory developments, such as the Retail Distribution Review (RDR) in the U.K. (2012), the Dodd-Frank Act in the U.S. (2010) and Client Relationship Model Phase 2 (CRM2) in Canada (2016), which are making the cost of services more transparent to clients. As in other industries, technology is largely behind the disruption. In the payments world, for example, entrants that were quick to develop online payment products have taken significant market share away from traditional payment types and providers. In retail banking, new entrants offering web- and mobile-based banking are threatening to leapfrog traditional banks still bogged down with aging infrastructures.

Wealth managers and firms, facing a similar crossroads between adapting to technological change or sticking to their traditional ways, have a choice—respond or get left behind.

There is precedence in both options. Disney, for example, has combined ongoing investment in digital technologies and data-driven operational and client experience improvements to stay at the forefront of the entertainment industry. By contrast, Blockbuster and Kodak failed to anticipate and respond to technological advances, and neither of them survived.

Some wealth management firms and wealth managers are well aware of the transition occurring in their industry, and have already taken the first steps of what promises to be a decades-long transformation.

Firms that have not yet embraced the coming wave of change have a limited amount of time—one to two years at most—to begin defining a strategic path that will carry them through the transition.

The most successful firms will be the ones that initiate and maintain an open dialogue with wealth managers and solicit input and feedback, while also providing guidance and resources.

Appendix

Market Sizing Methodology

The 2015 *World Wealth Report* covers 71 countries in the market-sizing model, accounting for more than 98% of global gross national income and 99% of world stock market capitalization.

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

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

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

2015 Global High Net Worth Insights Survey

The Capgemini and RBC Wealth Management 2015 Global HNW Insights Survey queried more than 5,100 HNWIs across 23 major wealth markets in North America, Latin America, Europe, Asia-Pacific, the Middle East, and Africa. Respondent demographics, as broken down by region, age, gender, and wealth band, are captured in Figure M1 and M2.

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

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

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

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

2015 Capgemini Wealth Manager Survey

The inaugural 2015 Capgemini Wealth Manager Survey queried more than 800 wealth managers across 15 major wealth markets in North America, Latin America, Europe, and Asia-Pacific. Respondent demographics, as broken down by region, age, and gender, are captured in Figure M2.

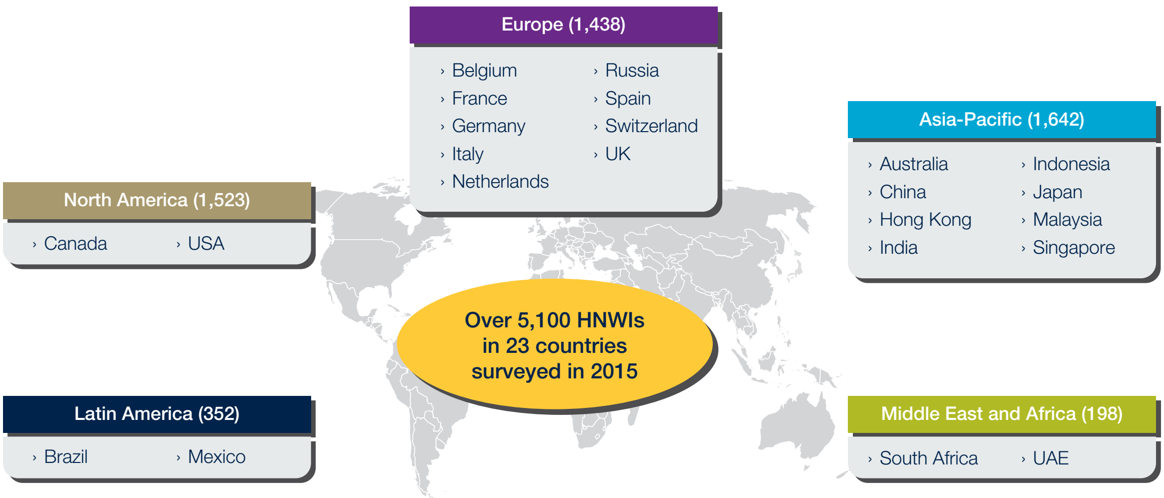
The survey was administered in January and February, 2015, in collaboration with Oxford Economics.

It focused on the evolving role of wealth managers, and emphasized analysis on four key areas: Wealth Managers' assessment of HNWI needs and concerns; wealth manager importance and satisfaction regarding key capabilities provided by the firm; wealth manager views on digital capabilities for clients, themselves, and automated advisory services; and wealth manager judgment regarding their firm's expectations from them.

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

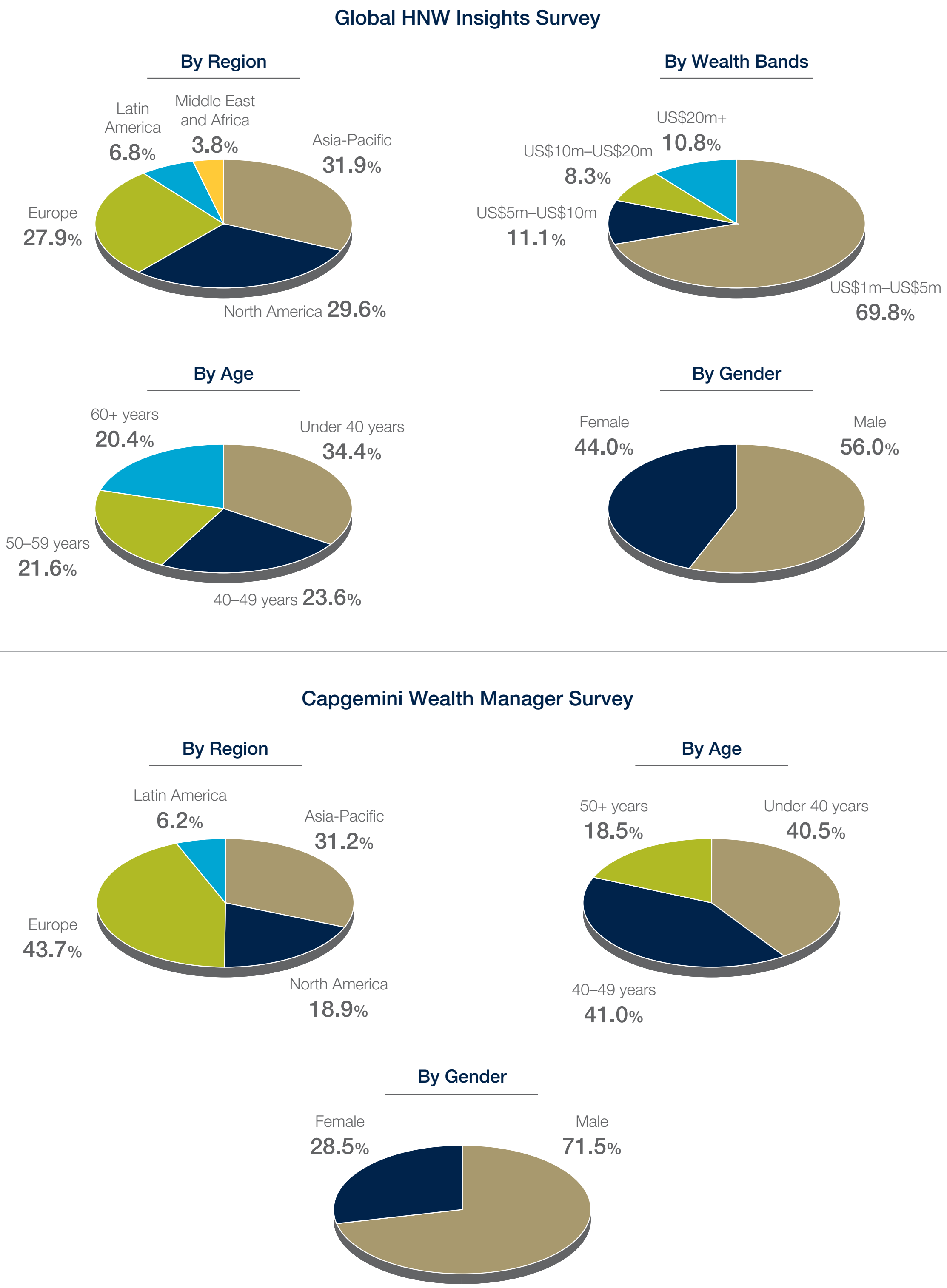
For more interactive and historical data at a regional and country level for Market Sizing and the Global High Net Worth Insights Survey, please visit *www.worldwealthreport.com.*

Figure M1. Global HNW Insights Survey, Q1 2015



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

Figure M2. Global HNW Insights Survey and Capgemini Wealth Manager Survey Demographic Breakdown, Q1 2015



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

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