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FINANCIAL SERVICES

High-net-worth individuals' assets to pass $100tn by 2025: Capgemini

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Image courtesy of Michael Kors

By SARAH JONES

Asia Pacific's high-net-worth individuals have the greatest collective wealth of any region globally, putting them ahead of North America's affluent for the first time, according to Capgemini's World Wealth Report.

While the rest of the world saw slowed growth in high-net-worth wealth, Asia Pacific, particularly Japan and China, made up the difference, leading to a global net growth in wealth of 4 percent over 2015. Rather than a blip on the radar, Asia Pacific is expected to continue its dominance into the next decade, by which point Capgemini projects it will account for two-fifths of total HNW individuals' wealth.

"Asia-Pacific surpassed North America for the first time on HNWI wealth, and the trend of Asia-Pacific driving HNWI wealth growth is expected to continue over the next decade or so," said Chirag Thakral, lead strategic analyst at market intelligence, Capgemini.

"While we did not analyze this area in detail, as majority of new HNWI wealth continues to be generated in Asia-Pacific and especially from emerging markets such as China, luxury firms are expected to focus on these emerging markets to drive future revenues," he said. "It would be important for luxury firms to understand the spending patterns and key cultural and societal differences while targeting or shifting focus to these markets."

Capgemini's World Wealth Report 2016 covers 71 countries. In addition to financial data, Capgemini surveyed 5,200 HNW individuals from 23 countries and 800 wealth managers across 15 markets.

Slowed growth

Japan and China combined contributed about 60 percent of the HNW population growth. Asia Pacific in general was the only region that retained its growth rates seen between 2010 and 2014.

Brazil, on the other hand, lost wealth in the same time period, with its HNW population down by 7.8 percent and the total wealth of these individuals decreasing by 5.9 percent. This decline was driven by a difficult political climate and faltering equity markets.

Partly due to a struggling Brazil, the global population of UHNW individuals, defined as those with net assets of at least $30 million, grew 4.2 percent, with their wealth increasing 2.5 percent. Typically, these ultra-affluent are the driving forces behind general HNW growth.

Asia Pacific doubled its HNW population between 2006 and today. If growth rates hold, barring any political or economic upheaval, by 2025 Asia Pacific will have 11.7 million HNW individuals, far surpassing North America's projected 7.6 million.

Wealth managers surveyed by Capgemini identified China, the United States, India and the United Kingdom as the biggest drivers of wealth growth into 2025.

Globally, HNW consumers on average keep about a third of their assets essentially liquid, split between bank accounts and cash, as a way to fund their lifestyles and guard against any market instability. Another third is invested with a wealth manager, either their primary advisor or another firm.

The remainder is split between other liquid assets, such as real estate, and their own businesses.

Among the under-40 crowd, assets are less likely to be handled by a wealth manager, since they prefer banks and cash.

HNW individuals' trust in wealth management firms has grown 17 percentage points since 2015, and their confidence in financial markets doubled. However, their trust of individual wealth managers barely rose and client satisfaction with their wealth advisors dipped 1.7 percentage points.

Even with this flatlining support of wealth managers, affluent individuals show an interest in investing more of their money, presenting an opportunity for advisors. Providing hope for the financial services industry, 63 percent of those under 40 say they are likely to consolidate more of their wealth with a wealth manager.

Creating an appealing proposition for affluent clientele involves relationship building. These potential investors value expertise as well as access and advice, which should be key components of a wealth manager's consolidation strategy for a client.

HNW individuals' investment strategies generally fall into two categories. The 47.6 percent who have a growth focus seek investments that are projected to have higher than average returns, even if it means paying more for a share.

On the other side is the value focus, employed by Warren Buffett and 19.3 percent of HNW individuals, in which clients go for stocks that they believe have a greater value than their list price. The remaining third use a mix of both strategies.

Growth-focused clients are more apt to be investing with a long-term outlook, making this approach more favored among those under 40.

Globally, 31 percent of HNW individuals tie their attempts at monetary gain with doing social good. About half of all the world's wealthy say they plan to increase the percentage of investments in social impact causes in the next two years.

Crossing borders, 53.9 percent of HNW individuals have assets invested outside of their home country. The main reasons for this global approach include chasing a specific investment, wanting to diversify their portfolio and trying to safeguard against volatility at home.

Not surprisingly, HNW individuals are focused on the results of their portfolio, with the size of their returns the number one reason they invest with their primary wealth manager. Across regions and age groups, affluent individuals are showing a preference for trading in the more common payment arrangement, in which an advisor's compensation reflects the percent of assets under her jurisdiction, for a payment plan based on the results of investments.

Subhed 2

Consumers are becoming more demanding, which will require firms to step up. Digital channels enable them to be their own researchers, suggesting that they will look to wealth managers more as advisors than the final decision makers.

Nearly half of HNW individuals check into peer-to-peer investment advice forums at least once a week.

Other key transactions that clients will need help with include transferring wealth between generations and retirement planning.

Family disputes are the largest hurdle for achieving financial goals, but communication can make things easier, according to a recent report by SEI Private Wealth Management and Scorpio Partnership.

Working through financial decisions in isolation or failing to communicate effectively can disintegrate a family's wealth far more quickly than it was accrued. As the luxury market continues to globalize and make the economy more volatile and interdependent than ever before, ultra-high-net-worth individuals will need to be smart and confident with money (see story).

Financial firms will also have to contend with the growing competition from financial technology, or FinTech firms, which have developed ways to automate parts of the advisory process.

"As we saw from World Wealth Report 2016, digital capability is crucial to maintaining and growing profits, but very few firms have built differentiated digital maturity into their businesses," Mr. Thakral said. "Additionally, the overall digital maturity of the wealth management firms is low. As a result, HNWIs are increasingly embracing new financial technology or FinTech capabilities, as FinTechs are making inroads along the entire expanse of the wealth management lifecycle.

"A large number of firms have developed new ways of performing standard wealth management functions, encompassing everything from client acquisition, to advice, to compliance," he said. "Advice, once the cornerstone of the wealth manager-HNWI relationship, is a prime example of a function that has also become susceptible to incursion."

Picking up speed as alternatives to the traditional face-to-face meeting are FinTech's automated advice platforms, open investment communities and plug-ins. Whereas 48.6 percent of UHNW individuals desired automation in 2016, 66.9 percent show an interest in the tech platforms today.

Rather than looking at them as a threat, Capgemini suggests a possible mutually beneficial collaboration, as more consumers show interest in automated services. For instance, Santander has created a $100 million fund that will go toward FinTech companies, while other banks have established startup accelerator programs.

"As a result of increasing popularity of FinTechs, several of the world's largest firms are exploring accelerator programs designed to attract startups interested in collaborating," Mr. Thakral said. "Other firms are investing in or acquiring FinTechs in an attempt to jumpstart their digital capabilities, especially in the areas of automated advice and investment management services.

"Wealth management firms should follow the lead of other financial institutions by exploring collaborations with FinTech players."

Eighty-one percent of wealth managers see the value in digital tools and their attraction for HNW clients, but more than half are unsatisfied with what their firm provides. With more than two-thirds of HNW consumers saying they would leave a firm over a faltering digital experience, finance has an incentive to adapt.

Financial firms will have to adapt to the desires of tomorrow's wealthy, as wealth moves from other generations down the line.

According to a recent report by Luxury Institute, millennial investors have different preferences compared to their baby boomer parents when it comes to wealth management.

While baby boomers and older generations prefer to work with full-service brokerage firms, wealthy millennials and members of Generation X are showing an increased preference for working with private advisors. Independent financial advisors can offer a more individual approach that is often appealing to younger investors who are accustomed to personalization (see story).

"Wealth managers can improve their odds of attracting more HNWI assets by building a consolidation strategy that blends overall holistic financial planning with a sophisticated view on investments," Mr. Thakral said. "We found that financial planning expertise is among the most important elements HNWIs seek in a wealth management providers, along with deep investment access and investment advice.

"Wealth management delivered with a human touch is well suited for meeting all of these diverse HNWI needs," he said. "Financial planning, for example, requires greater deft and nuance than the typical automated advisor can currently provide, particularly when it comes to bigger, more complex portfolios.

"Human advisors are also currently more skilled at understanding HNWIs' personal and financial goals, and matching them up with suitable investments. However, we believe that innovative digital technologies and wealth managers will be most effective when they co-exist and collaborate."