FINANCIAL SERVICES

HNW wealth climbs to record $70tn: Capgemini

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Affluents feel favorably about luxury hospitality. Image credit: Michael Kors

By SARAH JONES

Reflective of an improving global economy, the wealth held by high-net-worth individuals grew 10.6 percent this past year, according to data from Capgemini.

The consulting firm's World Wealth Report 2018 found that the population of wealthy consumers and their collective wealth both rose for the sixth consecutive year. Since the last edition of the report, 1.6 million more individuals gained high-net-worth status, led by wealth creation in Asia and North America.

"We do believe HNWI wealth will continue to grow in the future," said Chirag Thakral, deputy head of market intelligence strategic analysis group at Capgemini, New York. "In the 2016 World Wealth Report, we had estimated that global HNWI wealth is expected to reach $106 trillion by 2025 and it is still on course to hit or exceed that target.

"The required 2017-2025 compound annualized growth rate of global HNWI wealth has dropped nearly a percentage point to 5.3 percent," he said. "However, based on 2017's 10.6 percent HNWI wealth gains we believe there will be a continuation of HNWI wealth growth in the future."

Capgemini's report is in its 22nd year. The research is based on surveys of 2,600 HNWIs who hail from almost 20 different markets.

Wealth trends

Asia and North America accounted for about three quarters of all HNW population growth in the past year. These two regions also saw almost 70 percent of the total wealth creation during the same time frame.

The fastest mover, Asia's HNW population increased 12.1 percent last year, while its wealth rose 14.8 percent. North America's population grew by 9.9 percent, while its wealth was up 10.3 percent.

Meanwhile, third place Europe saw 7 percent growth in its HNW-held wealth.

Financial advisors helped to drive HNWI wealth, with returns on investments managed by these professionals up 27 percent last year. Equities are also the largest asset type for these consumers, followed by cash and real estate.

Financial services firms are adding more innovation. Image credit: Capgemii

However, despite the investment success, consumers did not show a strong satisfaction level towards their advisors, with most markets falling below 70 percent. The United States was the only one to surpass 70 percent, with a satisfaction level of 75 percent.

Additionally, high-net-worth individuals do not feel a strong connection to their wealth advisors, with 55.5 percent saying they have a personal relationship.

Capgemini notes that this shows that financial advisors have to do more than drive returns on investments to please clients.

"HNWIs are unsatisfied with wealth management fee levels and poor customer service," Mr. Thakral said. "To improve satisfaction levels, financial advisors will need to go beyond solely providing good financial returns, which is contingent on market performance to a large extent, and provide holistic value addressing concerns around fee transparency and personalized services, such as credit solutions and business expertise.

"The relationship between a HNWI and their financial advisor is key for satisfaction levels," he said. "In the 2018 World Wealth Report, only 55.5 percent of HNWIs globally said they connected strongly with their wealth manager despite substantial investment returns over the past two years.

"It will be really critical for financial advisors to improve the quality of the personal connection with clients, especially at a time of wealth transfer to the next generation and encroachment of digital tools and BigTechs."

Financial advisors also have to grapple with technology, which is poised to further change the business. Amid speculation that technology companies will enter the financial services game, firms are investing in innovations such as artificial intelligence and automation.

Cryptocurrency is also a hot topic, with 29 percent of HNWIs showing strong interest in blockchain assets. While these investments are not common today, about seven in 10 of those under the age of 40 consider it important to get cryptocurrency information from their wealth advisor.

However, consumer expectations are not often met, as only about 35 percent of consumers getting details on blockchain from their financial manager.

"Despite HNWI interest, cryptocurrency penetration into wealth management has not made much headway, driven by HNWI concerns with security and market volatility, as well as a lack of focus from wealth management firms," Mr. Thakral said. "While the future for cryptocurrencies as a viable investment tool remains far from certain, especially as cryptocurrency values slumped in late 2017 and early 2018, HNWI demand for information on cryptocurrencies is set to force wealth management firms to develop related expertise.

"The World Wealth Report 2018 found that 42.2 percent of global HNWIs and 71.1 percent of younger HNWIs said that it is extremely important to receive information about cryptocurrencies from their wealth manager," he said. "Ultimately it is a case of when, not if, wealth management firms will have to begin offering insights and information related to cryptocurrencies."

Relationship management

Building a strong connection with the affluent segment on a one-on-one basis for brands could potentially help consumers overlook other issues.

According to an Altiant report on the sentiments of affluents and high-net-worth individuals, luxury hospitality is drawing in well-off consumers and could alter the high-end travel industry as a whole. The sector saw the highest performance in terms of sentiment from survey takers, while wealth management saw the worst metrics (see story).

The financial services industry has found itself under mounting pressure to yield immediate investment results as consumer behavior continues to gravitate toward instant gratification.

From shopping at a beauty counter to booking a five-star hotel property stay, consumers' demand for personalized attention and instantaneous results is growing, and artificial intelligence has emerged as a popular response. But, for the financial sector, which relies heavily on a one-on-one personal relationship to invest an affluent's wealth, the technology is poised to disrupt the traditional role of a financial advisor (see story).

"Looking at technology and innovation, the hybrid advice model which incorporates a mix of human touch and digital technology, forms a critical top-line growth enabler for immediate the future," Mr. Thakral said. "Sixty-nine percent of global HNWIs indicated that hybrid advice would be very or somewhat significant in their decision to increase assets with their wealth management firm over Q1 2018 to Q1 2020.

"Wealth management firms appear to have made substantial progress in advancing hybrid advisory business model transformation compared with Q2 2017, with more than 61.1 percent of firms globally saying they had a hybrid transformation program underway," he said. "However, this has not translated to HNWI satisfaction as HNWI hybrid advice satisfaction levels have declined.

"To be ready to deal with hybrid advice model challenges and to protect business models from BigTech threat – the entry of players such as Google and Amazon in the wealth management space – firms must shift their investment and budgeting approaches from traditional methods toward a more holistic 'Budget 2.0' approach focusing on system maintenance and new acquisitions and tools within the FinTech space. In terms of specific investments in technologies, AI and intelligent automation are the emerging technologies that are expected to see the most investment over the 24 months."