Luxury Daily®
The News and Intelligence You Need on Luxury

LUXURY MEMO SPECIAL REPORTS

# Financial services – Luxury Memo special report

August 10, 2018

*The growth and diversification of the world's wealthy has presented an opportunity for financial services. Image credit: World Gold Counci*

By DANNY PARISI

The world of financial services has undergone significant change over the past few years.



From the ways in which today's high-net-worth individuals control their assets, to how that wealth is passed on and what form that wealth takes, the industry has faced a number of disruptions. For luxury brands, keeping abreast of how wealth travels and is maintained is paramount to understanding the modern luxury consumer.

As affluents' habits of wealth transferal and asset management change, it becomes even more important for luxury brands to pay attention to the financial services sector.

"The new generation looks at banking differently than their parents do, especially with the rise of online banking," said Patrick Bischoff, president of commercial markets at WealthEngine, Bethesda, MD. "That means banks and advisors need to focus on effectively marketing their services in a way that relates to this new generation, and for that, personalization is key."

Top 5 trends in financial services

- Generational wealth transfer

  There is a massive generational wealth transfer on the horizon as much of the world's elder wealthy elite are expected to pass on trillions of dollars in assets to their heirs. This has created a massive new market for financial service companies to target millennials and other young people who will soon come into large amounts of wealth.

- Political upheaval

  Politics, particularly in the United States but elsewhere as well, have led to much uncertainty in the past few years. Between the election of President Donald Trump and Brexit referendum alone, two of the biggest luxury markets in the world have been thrown into turmoil. As Brexit negotiations continue and President Trump sparks a global trade war, the status of the world's wealth is in flux. Many wealthy elites will likely move their wealth around in response.

- Rising billionaire population

  Every year, the billionaire population across the world rises. China in particular is home to a massive number of newly-minted billionaires who are eager to work with financial service companies to manage their wealth. The rise in the billionaire population has added to the already growing market for financial services across the world's wealthy elite.

- Cryptocurrency

  Traditionally, wealth has been stored in cash, art, property or other tangible forms that stand in for the vast sums accumulated by the world's wealthiest. But the appearance of cryptocurrency such as Bitcoin has upended this notion with many wealthy investors, particularly those from the tech industry, using cryptocurrencies to store their assets.

- Mobile payments

  Mobile payments are usually leveraged for with smaller transactions than more established financial services, but they still constitute a significant shift in how money is transferred today. The rise of mobile payments has led to a shift in the retail landscape, giving customers a new way to shop and pay for products while having access to their money in a portable, digital format.

Wealth demographics

While in many ways most affluent and wealthy people in the world share similarities in terms of behavior, habits and interests, they also are a diverse set of individuals hailing from many different backgrounds with vastly different priorities.

As the overall population of billionaires increases, it is more important than ever that financial service brands be able to distinguish between different groups of wealthy consumers and discern exactly what their specific priorities are.

One of the biggest divides in the wealthy community is between younger affluents and older ones.

Young high-net-worth individuals differ from their more mature counterparts in key ways, from a greater emphasis on international holdings to placing less of an importance on financial education.

*The divide between older and younger consumers is critical for brands to understand. Image credit: The Loan Companies*

According to a new study from OppenheimerFunds, 50 percent of young investors hold international investments while older investors are far more biased towards their home countries, with only 38 percent having international investments. This data corresponds to the larger divide between the two generations (see story)

Luxury brands need to consider their social and environmental impact, not only for their own values but to attract affluents who are more concerned with social contributions in terms of legacy.

A report from The Economist shows that more than 66 percent of high-net-worth individuals in younger generations in the United States believe it is their duty to use their wealth for social benefit. They want their legacy to be more rooted in family and social contributions, says the survey commissioned by RBC Wealth Management (see story).

With each passing year, the millionaire population in the United States grows more diverse both in demographics and interests.

At the Luxury Marketing Council's Inner Circle Luncheon on Feb. 28, two executives from WealthEngine gave a presentation focusing on the ways in which today's millionaires are more diverse than ever. In response to this, luxury brands need to be able to leverage data to know exactly what their customers desire and when.

WealthEngine noted that $1 million can have more or less weight depending on where the person lives, with a significant difference between places such as New York and Wyoming.

"Here in New York, we are seeing a shift towards more women millionaires, more people of color, more LGBTQ millionaires," said JB Rauch, vice president of channels at WealthEngine, during the presentation. "As we've seen more consolidation of wealth in this country, affluence is no longer just older white men, it's much broader."

*There are 16 million millionaires in the U.S., and each one is a valuable asset for brands. Image credit: WealthEngine*

Not only will targeting millionaires help in that brands will capture their sales, but these ultra-wealthy consumers also act as guides for the rest of consumers, who look up to them for inspiration and a source of ideas about what to buy and where to spend (see story)

Understanding the differences in wealthy consumers is paramount, especially considering that there are more billionaires than ever before.

In 2017 the number of billionaires and their wealth grew at a faster rate than the overall ultra-high-net-worth population.

According to Wealth-X's Billionaire Census, after declining in 2016, the population of billionaires rebounded last year, climbing 15 percent to a record 2,754 individuals. The world's wealthiest saw their fortunes rise 24 percent to a total $9.2 trillion, aided by positive corporate earnings, resilient equity markets and growth in the global economy.

The average billionaire has a net worth of $3.3 billion. The richest 15 percent of billionaires hold more than half of this population's total assets, with wealth concentrated among a few at the top.

Billionaires are largely older, with half of the population in the United Kingdom and U.S. over the age of 70. These individuals also tend to be self-made, with 57 percent having created their own wealth (see story).

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.

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

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 (see story).

These wealthy affluents are also concerned about security, making it a major priority across demographics.

"Cyber security protection – making sure you are at the right firm that protects your data and assets," said Will Sinclair, head of the Financial Institutions Group at J.P. Morgan Private Bank, New York. "At J.P. Morgan Chase we spend over $700 million per year on cyber security alone."

Chinese wealth
No discussion of the current luxury business is complete without mentioning China.

The country has swiftly become one of the most important markets in the world for luxury consumption, and that is partially because of the massive influx of new billionaires being created yearly in China.

Last year saw a massive explosion in global growth of billionaires, with China seeing an average of four new billionaires a week.

This growth is not limited to China alone, however, with the entire world seeing 437 new billionaires over the course of 2017 alone. This data comes from Hurun's annual Global Rich List report, which found that China was increasingly pulling away from its nearest competitors in terms of total wealth.

From 2016 to 2017 the number of billionaires in the United States grew from 535 to 571. In the same period, the number of Chinese billionaires grew from 534 to 819, massively dwarfing the U.S.

China's billionaire wealth has also been bolstered by huge earnings from Chinese affluents such as Tencent's Pony Ma. Overall, China created $4.3 trillion in wealth in 2017 compared to $3.3 trillion in wealth from the U.S. (see story).

The population of affluent consumers in China is continuing to grow at an impressive rate, with the collective wealth of the top 100 consumers in China growing 60 percent year-over-year.

*As China's share of the world's billionaires grows, so too does its luxury market. Image credit: Peninsula Hotels*

Hurun's annual "Richest People in China Index" categorizes and ranks the ultra-wealthy in China as well as analyzes the state of affluent consumers in the country. This report shows that China is continuing to be a hub for newly affluent consumers who will be a valuable customer base for luxury brands (see story).

China's spectacular growth in luxury consumption recently is primarily driven by Chinese women buying ready-to-wear fashion, jewelry and cosmetics, according to Bain & Company report.

Per Bain's "2017 China Luxury Market Study," China's luxury consumption is outstanding and outpaces much of the world. In addition to the value of Chinese consumers traveling outside of Asia, Bain's report also notes that Chinese domestic spending has outpaced overseas purchases in the last year.

Additionally, 93 percent of Chinese millennials either agreed or strongly agreed that they would spend more on luxury and fashion goods in the next three years with only 7 percent disagreeing. The growth in wealth and in spending on expensive goods will make financial services even more necessary in China (see story)

Wealthy Chinese consumers are also interested in international arrangements. The United Kingdom's European Union referendum vote caused the pound to decline in value and, as a result, affluent Chinese are finding the country an attractive travel destination, according to a report by Hurun.

*Burberry saw a decline in interest among Chinese affluents. Image credit: Burberry*

In its "UK Luxury Brands in China" report, a focused summary based of the "Best of the Best Awards 2017" survey and the "Chinese Luxury Consumer 2017" study, Hurun explored the impact British brands are having on China's luxury consumer. British brands and culture, in many ways, represent the old guard of luxury due to dedication to heritage, quality and craftsmanship, concepts that align with Chinese sentiment (see story).

As China's share of global high-net-worth individuals grows, the country's wealthy elites increasingly believe that in the next 10 years it will overshadow the United States as the country with the most ultra-affluent consumers.

Last year, only 30 percent of Chinese affluents believed the country would outpace the U.S. in the next decade, but now that number is up to 37 percent. China's importance in the luxury business has been well-known, and as more HNWIs are created in China or migrate to China, its central place in the luxury world will grow.

Chinese HNWIs have begun throwing this newfound wealth around considerably, with Hurun reporting that 14 percent of HNWIs said that they will be increasing their overseas investments in the next three years (see story).

Financial service firms need to be prepared to facilitate the influx of Chinese investments overseas in the next three years.

The crypto revolution
One of the most striking new trends in wealth management today is the emergence of cryptocurrencies, the most popular of which is Bitcoin. These are virtual currencies mined from servers and held entirely on digital.

One way in which cryptocurrency has entered the mainstream for luxury buyers is through a number of luxury brands beginning to accept it as payment.

From yachts to fine art, using cryptocurrencies as payment for high-priced items has gained traction among the world's affluent.

The most mainstream of the cryptocurrencies, Bitcoin's valuation recently rose significantly to more than $10,000 per "coin," a growth spurt of 1,000 percent in just 11 months after beginning 2017 at $963 each. According to the International Business Times, at the start of the year, the cryptocurrency market was valued at $18 billion, but it is now worth a reported $300 billion, with Bitcoin representing more than half of that figure.

*Royal Yacht Charters has begun accepting cryptocurrencies. Image credit: RYB*

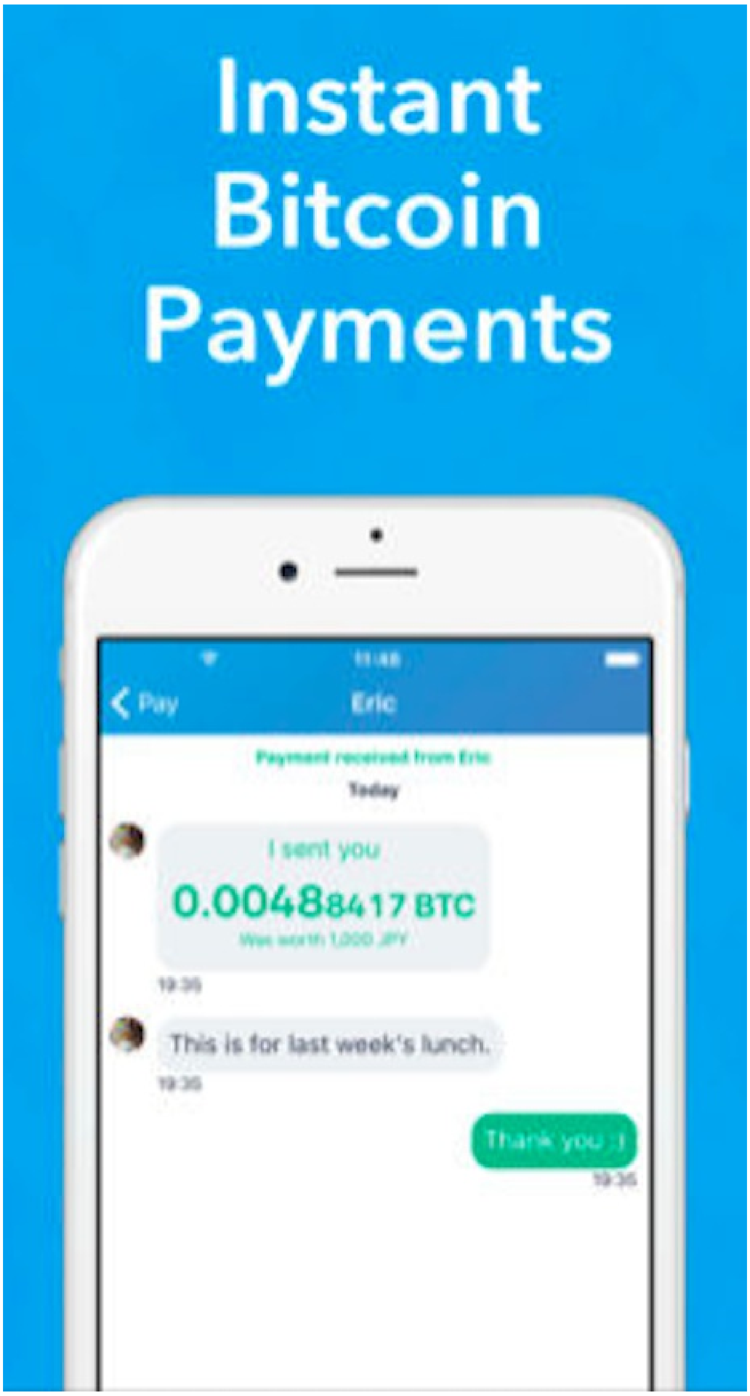
Affluent consumers are intrigued by the concept of buying a high-ticket item anonymously, making services such as those provided by The White Company all the more attractive.

The White Company acts as a fine art and luxury goods dealer that accepts payment by cryptocurrency. By leveraging The White Company's services, an affluent consumer can use their preferred currency and maintain their anonymity during a high-priced purchase (see story).

Responding to the rise of cryptocurrency use in other luxury sectors, Royal Yacht Brokers now accepts these digital payment methods for rentals and sales.

Global currencies such as Bitcoin and Ethereum and national currencies such as CryptoRubles, can now be used to charter or purchase the service's mega yachts (see story).

Luxury car dealership L'Operaio in Japan is ushering Bitcoin into the high-end auto industry, as the cryptocurrency becomes increasingly accepted across retail.




*Bitflyer's mobile app exchange. Image credit: Bitflyer*

BitFlyer, a Japanese cryptocurrency exchange platform, announced the partnership with the dealership that will allow customers to pay up to $1 million in Bitcoin. The cryptocurrency is growing exponentially since investments in Bitcoin have been paying off (see story).

One of the dangers of cryptocurrency however is that its value fluctuates far more quickly than traditional currencies.

Just as the luxury world was beginning to embrace Bitcoin, the cryptocurrency began experiencing wild swings in value.

Over the course of a few weeks in December, Bitcoin's value has fluctuated severely, dropping 50 percent in one day only to rebound to a greater price than ever before. While the fluctuations may make some wary of investing, luxury brands seem to be confident in the use of Bitcoin no matter what the headlines say about it (see story).

But many in the luxury world are unperturbed, such as Bob Denison, founder of the yacht dealer company, Denison.

"Bitcoin is not just a 'millennial' fad," Mr. Denison said in an interview with Luxury Daily. "There are Bitcoin users of all ages, across all continents buying and selling luxury goods, including cars and villas. There's absolutely no reason why a seller should be wary of accepting Bitcoin."

The wealth transfer

Currently, the majority of the world's wealthiest people are older. It makes sense, as the longer one lives, the more time he or she has to accrue assets and wealth.

There is an unspoken but important factor to this element though: what will happen when that wealth inevitably gets passed down to the heirs of those wealthy elites?

"It is crucial that companies learn as much about their next generation customers at the individual level," said WealthEngine's Mr. Bischoff said. "Leverage their affinities and those of their parents to engage in a personalized way.

"For example, if you know they are boat enthusiasts, invite them to the Annapolis boat show," he said. "Or if you know they are pro-animal rights, let them know that the company has a close relationship with the humane society and organize a private tour."

As older generations pass on, a new generation of young affluents will soon be inheriting their wealth, but few are prepared for what that entails.

*FIS expects $30 trillion to be transferred from old to young soon. Image credit: FIS*

A report from FIS looked at the upcoming mass wealth transfer from older generations to their younger heirs, aiming to find out what preparations young heirs were making. What it found was that many young heirs to large fortunes have few plans for what to do once the wealth of their parents or benefactors is transferred to them.

Additionally, FIS' own predictions show that $9 trillion is expected to be shifted in the next few years, while only 10 percent of respondents said they expect to receive an inheritance in the same time period.

That number was even lower for younger people – an alarming statistic given that they are the people who will most likely be in need of help to negotiate their new wealth (see story).

But some of these young affluents are aware of their impending wealth transfers, particularly those that act as caregivers to elderly relatives.

When it comes to healthcare, affluent caregivers look to see that their families are taken care of properly, spending twice as much on loved ones compared to the industry standard.

A report from Merrill Lynch and Age Wave that looked into high-net-worth individuals and their caregiving habits showed that 86 percent of affluent caregivers are responsible for their loved ones' investments. Affluent caregivers are more likely to take care of insurance claims, file taxes and monitor accounts compared to non-affluent caregivers.

Only 53 percent of non-affluent caregivers are tasked with taking care of and monitoring their loved one's accounts, however, 86 percent of affluent caregivers have that responsibility.

*Affluents take care of their parents' investments. Image credit: Merrill Lynch*

About 68 percent of affluent caregivers file taxes for the individuals in their care, compared to 41 percent of others. Individuals who make insurance claims represent 65 percent of affluent caregivers, compared to 47 percent of non-affluent carers (see story).

Financial future

The vast world of financial services still has room to grow.

As the demographics indicate, the world's wealthiest people continue to grow wealthier. But that wealthy class no longer looks as homogenous as it once did.

Instead, people of all backgrounds, from various countries and with differing ideas and ambitions are all becoming high-net-worth individuals.

The rise of billionaires in China and the impending wealth transfer from the older generation to the young have combined to create a whole new market for financial service brands to take advantage of.

As more people come into their wealth, with less experience handling large sums of money, financial services brands have a perfect opportunity to take advantage of myriad new customers.

"Fully understanding the end-client will be vital for luxury brand companies to target the appropriate potential buyer at the best time," Mr. Bischoff said. "An individual who has a great deal of wealth does not necessarily indicate a great prospect.

"Understanding buying patterns, inclinations and patterns will yield the highest customer acquisition rates."

Best practices

- Will Sinclair, head of the financial institutions group, J.P. Morgan Private Bank
    - "Much attention has been paid to how the new tax law has altered the income tax landscape for individuals and corporations. However, the impact on the estate transfer tax system has also been significant, warranting discussions now with clients, their estate planning lawyer and private banker. The amount each person can give during life or at death free of U.S. gift, estate or generation-skipping transfer taxes has more than doubled, from $5.49 million in 2017 to $11.18 million in 2018. That amount is scheduled to be adjusted annually for inflation and then, on Jan. 1, 2026, revert to pre-2018 levels, though still adjusted for inflation. Because these amounts have changed, so could the results under an individual's will or revocable trust. Perhaps one might think that the increases mean transfer taxes no longer apply to them. Or might feel that their estate planning is up-to-date. We at J.P. Morgan Private Bank strongly recommend—and help our clients and their estate planning attorneys conduct a review of their estate planning documents to be sure.

    - "Too often, investors are distracted from their investment plan by bouts of volatility or fears of the next downturn. Academic research suggests reacting emotionally to markets can actually diminish returns. We believe in a different approach where our advisors and investors work closely with their client to identify the purpose and intent of their money. Then, design and construct a plan and portfolio that aligns with these goals. For example, a client with a significant short-term liquidity need probably requires a different plan and portfolio than one focused on long-term growth. We spend a lot of time understanding our clients' goals and objectives and constantly are reviewing their overall allocations and the duration of their fixed income portfolios to make sure they are well-aligned with their long-term goals."
- Patrick Bischoff, president of commercial markets, WealthEngine
    - "Integrating prospecting data, with proprietary customer data, has allowed larger financial institutions to service their end-clients with a higher degree of precision. Each individual client should have a plan and strategy, providing relevant products and services at the appropriate time to ensure high client retention.
    - "Know your clients beyond their wealth. The more you know about their situations, the more you can engage with them at the right time. You can grow their lifetime value by appropriately addressing them with suggestions and offerings relevant to their needs and position in life. The more specific and personalized your message and offering is to the client's situations, the more likely it is to break through the noise.
    - "There is tremendous opportunity for upsell within your existing database rather than solely focusing on net new prospects. However, prospecting can be much more efficient if you first screen the existing clients, model and score them, use the scores to identify lookalikes, and then engage them with a personalized omnichannel learning campaign. WealthEngine makes this easy."