Capgemini

WORLD WEALTH REPORT 2018

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Preface

Further Record Wealth, but Major Industry Disruption on the Horizon

Driven by high-flying economic and equity-market performance, global high net worth individual (HNWI)[1] wealth grew 10.6% to surpass US$70 trillion for the first time—the sixth-consecutive year of gains. Aligned with positive growth trends, Capgemini's 2018 *World Wealth Report (WWR)* confirmed that global HNWI wealth would exceed US$100 trillion by 2025.

High net worth individuals around the world enjoyed investment returns above 20% for the second year in a row, with clients in Asia-Pacific (excl. Japan) and Latin America realizing the best returns compared with other regions. However, our survey results indicate that for wealth managers to improve their HNW clients' satisfaction, they must invigorate their personal connection with them. In 2018, only 55.5% of HNWIs said they connected "very well" with their wealth manager, and we learned that most HNWIs globally could benefit from a new system for locating a wealth manager.

While overall asset allocation remained largely stable since the 2017 *WWR,* enthusiasm for digital currency broke out in 2017 with 29.0% of HNWIs globally saying they had a high degree of interest in purchasing or holding cryptocurrencies and 26.9% saying they were somewhat interested. Despite the growing fervor, wealth management firms have to-date been ambivalent about offering guidance, with only 34.6% of HNWIs globally saying they had received cryptocurrency information from their wealth managers. Although regulatory uncertainty and firm caution have so far prevented cryptocurrencies from penetrating the wealth management industry, the strong demand for information on cryptocurrencies from younger HNWIs is likely to force wealth management firms to at least develop and offer a point-of-view during the months ahead.

HNWIs continue to demand hybrid advice, and there was a 3.4 percentage points increase this year in the number of wealth management firms that have hybrid-advice transformation program underway, at 57.1% of firms. However, progress is not moving fast enough to keep up with HNWIs' appetite for more hybrid advice propositions and the potential threat from BigTechs[2] entering the industry.

The widespread global entry of BigTechs into wealth management is likely to be a case of *when* rather than *if* with *collaboration* and *frenemy* models among the likelier entry scenarios. Through collaboration, BigTechs and incumbents could build partnerships such as through white-labeling of incumbent firms' products and services. A frenemy arrangement could include a utility-based model that leverages BigTechs' technology and operational scale to support wealth management firms with outsourced back- and middle-office processes.

Regardless of the BigTech entry model and time horizon, wealth management firms must transform the way they invest for the future to a more dynamic portfolio-based approach across catching-up, maintenance, big bets, and ventures. Leading firms are heavily investing in innovative technologies, notably AI and intelligent automation, as they attempt to prepare for an industry in which BigTech firms play a more significant role.

With disruptive trends challenging record wealth growth, wealth management is poised for renovation. We hope you find the 2018 *World Wealth Report* useful in mapping out near- and long-term strategies.

Anirban Bose

Head, FS SBU & Group Executive Board Member
Capgemini (FS SBU)

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

2 BigTech is a general term for data-driven tech firms not traditionally present in financial services such as Amazon, Google/Alphabet, Alibaba, Apple, and Facebook.

Executive Summary

Growth Continues as Global HNWI Wealth Breaks the US$70 Trillion Mark

- Driven by accelerating economic and equity-market performance in key regions, global HNWI wealth grew 10.6% to surpass the US$70 trillion threshold for the first time.
- Asia-Pacific and North America powered the growth in HNWI population and wealth.
- The positive story in Europe, the third-largest region, carried on in 2017.
- Ultra-HNWIs continued their traditional role as growth drivers with an 11.2% increase in global population and 12.0% wealth expansion.
- HNWI wealth remains on course to reach US$100 trillion by 2025.

Wealth Managers Delivered Another Year of Strong Returns, but Personal Connections Key to Improving Satisfaction

- HNWIs around the world enjoyed investment returns above 20% for the second year running through January 2017 to December 2017.
- Globally, asset allocation remained fairly stable in Q1 2018 over Q2 2017, though real estate increased to the third-largest asset class.
- HNWIs continued to bank with multiple wealth management firms, but the trend towards asset consolidation around the primary wealth management provider continues to increase.
- Robust investment returns are not increasing HNWI satisfaction to the same degree.
- Better personal connections between wealth managers and their HNW clients may lead to better HNWI satisfaction scores.

Cryptocurrencies[3] Gained Global Attention in 2017, but the Wealth Management Industry Remains Cautious Amid Regulatory Uncertainty

- Enthusiasm for digital currency broke out among investors in 2017.
- HNWIs are cautiously interested in holding cryptocurrencies, with 29.0% globally having a high degree of interest and a further 26.9% somewhat interested.
- The potential for investment returns and serving as a store of value is driving HNWIs' interest in cryptocurrencies.
- The nascent cryptocurrency market is volatile, with HNWIs wary of investing and their firms hesitant to offer advice.
- While regulation will play a significant role in shaping the future of cryptocurrency, younger HNWIs are likely to force wealth management firms to develop a point of view.

Expected BigTech Entry into Wealth Management Requires Incumbents to Accelerate Hybrid-Advice and Budgetary Transformation

- HNWIs across the globe continue to demand hybrid advice.[4]
- The pace of wealth management firms' hybrid advice transformation has accelerated.
- The rate of transformation progress is not fast enough given a decline in HNWIs' satisfaction with hybrid advice propositions and the potential threat from BigTechs.
- The widespread global entry of BigTechs into wealth management remains uncertain, although is likely to be a case of "when" rather than "if".
- The most-likely approach for BigTech entry into wealth management will be based on "collaboration" or "frenemy"[5] models.
- Regardless of the BigTech entry model and time horizon, wealth management firms must transform the way they invest for the future.

3 Cryptocurrencies (such as Bitcoin, Ethereum, Litecoin, and Ripple) are digital currencies in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds

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

5 We define the "frenemy" model as one in which BigTechs both compete and collaborate. Another term is "co-opetition"

Growth Continues as Global HNWI Wealth Breaks the US$70 Trillion Mark

- **Driven by accelerating economic and equity-market performance in key regions, global HNWI wealth grew 10.6% to surpass the US$70 trillion threshold for the first time** - registering its sixth-consecutive year of gains. Strong equity markets supported wealth generation as global market capitalization grew 21.8%.
- **Asia-Pacific and North America powered the growth in HNWI population and wealth.** At 42.4%, Asia-Pacific contributed the most to global HNWI population growth (664.7k of the 1.6 million global increase in HNWI population) and accounted for 41.4% of the increase in global HNWI financial wealth (US$2.8 trillion of the total global increase of US$6.7 trillion). North America was not far behind, accounting for 27.4% of the global increase in HNWI financial wealth.
- **The positive story in Europe, the third-largest region, carried on in 2017.** The majority of European markets performed well, with Ireland the leader in HNWI population growth (15.3%) and HNWI wealth growth (16.3%). Stagnant economic performance combined with slowing equity-market growth and falls in the value of real estate led to the U.K.'s relatively flat performance in 2017.
- **Ultra-HNWIs[6] continued their traditional role as global growth drivers with an 11.2% increase in global population and 12.0% wealth expansion.** 2017 was the second-consecutive growth year for the ultra-HNWI segment, which outperformed all wealth bands.
- **HNWI wealth remains on course to reach US$100 trillion by 2025.** Hitting such a landmark requires primary growth driver, Asia-Pacific to continue its momentum with 8.7% annual growth through 2025. In this scenario, North America and Europe would need to grow at an annual rate of only 3.3% and 2.9%, respectively.

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

Improving Global Economy Spurs Significant HNWI Population and Wealth Growth

Global HNWI wealth surpassed the US$70 trillion threshold for the first time, registering its sixth-consecutive year of gains to grow at 10.6%.[7] Speeding past the 2015–2016 growth rate, 2017 was the second-fastest year of HNWI wealth growth since 2011 (bested only by the 13.8% growth rate in 2012–2013).

Brisk economic and equity market performance in key regions prompted positive results for global HNWI population and wealth. In fact, global Gross Domestic Product (GDP) grew 3.0% in 2017 following a 2.3% increase in 2016 (Figure 6).

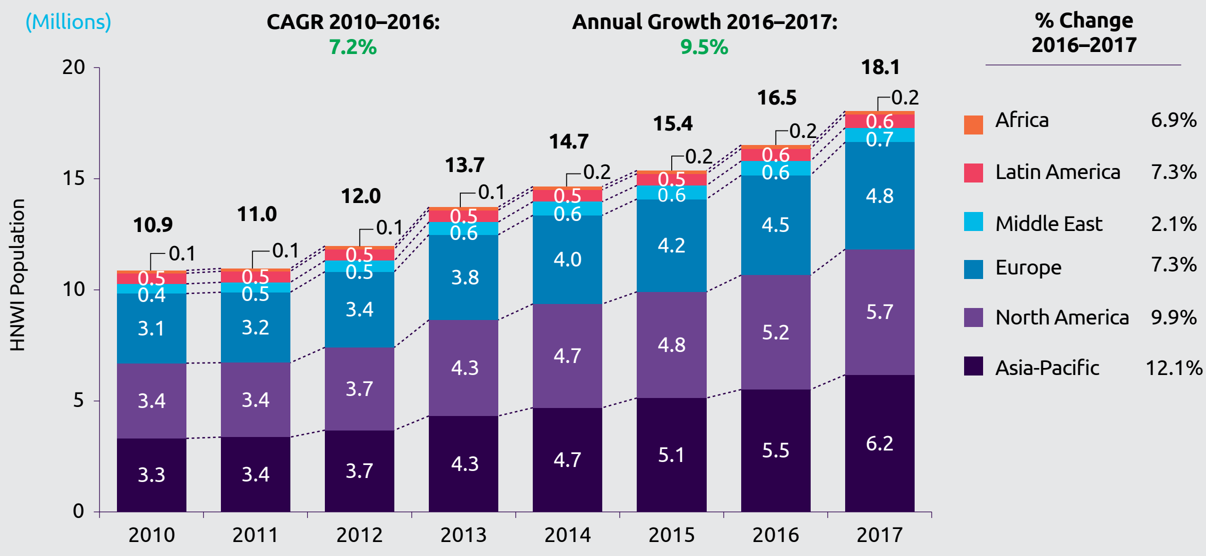
Trade and manufacturing recovery – combined with commodity price stabilization – bolstered emerging economies and led to strong global HNWI growth in 2017. At the same time, rising employment and wages in the United States spurred its GDP by 2.3% in 2017 compared to 1.6% the year prior (Figure 7). Amongst key markets, Germany (2.5%) and France (2.0%) led European GDP growth, while the U.K. remained flat on its 2016 gains, at 1.8%. The driving forces of Asia-Pacific, China and Japan, both accelerated from 2016 GDP rates and posted growth rates of 6.9% and 1.7%, respectively, in 2017.

Strong HNWI wealth growth was also buoyed by strong equity markets, as global market capitalization grew 21.8% in 2017. Soaring consumer and business confidence led to higher investor confidence in the market, driving major stock markets upward in 2017 across Asia-Pacific (25.8%), North America (17.3%), and Western Europe (25.8%). The largest regions for HNWI population and wealth (Asia-Pacific and North America), witnessed strong equity performance, aided by robust recovery in corporate earnings, lack of volatility, and positive macroeconomic reforms.

The top three global economies (by GDP) witnessed market capitalization increases of 17.4% (United States), 19.0% (China), and 22.9% (Japan). Even notable 2016 equity-market laggards such as China, Switzerland, and Italy reversed course in 2017 and maintained strong market performance throughout the year, which further enabled global HNWI wealth growth.

Another key wealth driver is real estate growth given rising HNWI allocation (see page 17). While global real estate prices moderated in several markets in 2017, Japan (13.2%), Australia (7.4%), and Canada (7.1%) realized the highest growth during this time (Figure 7).

Figure 1. HNWI Population, 2010–2017 (by Region)

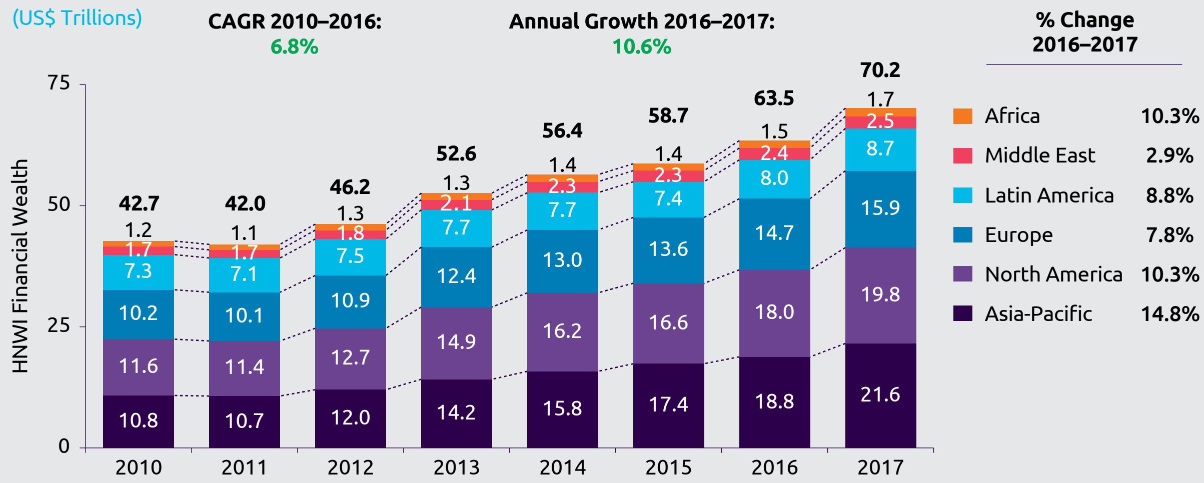


Note: Chart numbers and quoted percentages may not add up due to rounding; Indonesia HNWI population and financial wealth have been adjusted for 2017 to reflect the impact of the 2016–2017 tax amnesty and increased information availability

Source: Capgemini Financial Services Analysis, 2018

7 Indonesia HNWI population and financial wealth have been adjusted for 2017 to reflect the impact of the 2016–2017 tax amnesty and increased information availability. On a like-for-like basis, the global growth of HNWI population would have been 0.4 percentage points lower at 18.0 million HNWIs and HNWI wealth would have been 0.7 percentage points lower at US$69.7 trillion. There would be no material change to the findings and messages from using non-adjusted numbers

Figure 2. HNWI Financial Wealth, 2010–2017 (by Region)



Note: Chart numbers and quoted percentages may not add up due to rounding; Indonesia HNWI population and financial wealth have been adjusted for 2017 to reflect the impact of the 2016–2017 tax amnesty and increased information availability

Source: Capgemini Financial Services Analysis, 2018

Asia-Pacific and North America Cement Dominance of Global Wealth Growth

Asia-Pacific and North America powered the growth in HNWI population and wealth, accounting for 74.9% of the increase in global HNWI population (1.2 million new HNWIs) and 68.8% of the rise in HNWI wealth (US$4.6 trillion in new HNWI wealth) (Figure 1).

Asia-Pacific maintained its growth momentum and expanded its lead in HNWI population and wealth over North America, with a new record of 6.2 million HNWIs and US$21.6 trillion in HNWI financial wealth, representing accelerated growth of 12.1% (versus 7.4% in 2016) and 14.8% (versus 8.2% in 2016), respectively[8] (Figure 2). Asia-Pacific accounts for 34.1% of the global HNWI population and 30.8% of global HNWI wealth.

The other key region, North America, accounts for 31.3% of global HNWI population and 28.2% of wealth. The HNWI population in North America grew by 9.9% in 2017 as compared to 7.8% the previous year, while HNWI financial wealth grew at 10.3% to reach US$19.8 trillion.

At 42.4%, Asia-Pacific contributed the most to global HNWI population growth (664.7k of the 1.6 million global increase in HNWI population) and 41.4% of the global financial wealth increase (US$2.8 trillion of the total global increase of US$6.7 trillion). North America also made up a sizeable amount of the global increase in HNWI population and wealth, at 32.5% for population and 27.4% for wealth (Figure 3).

Asia-Pacific was naturally home to some of the fastest-growing markets in 2017. *India was the fastest-growing market globally in 2017, with a 20.4% HNWI population expansion and 21.6% HNWI wealth growth.* Although India's economic performance remained strong in 2017 but decelerated from 2016 levels, wealth generation was supported by a strong equity market, with market capitalization expanding by 51.3% in 2017 against 3.1% in 2016.[9]

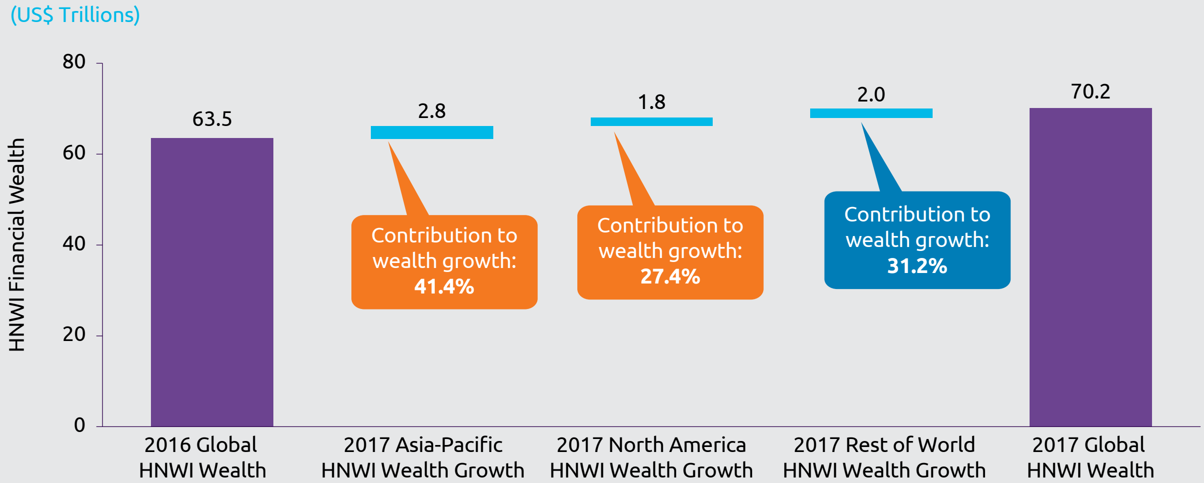
Japan and China also continued to be the growth engines for HNWI population and wealth in Asia-Pacific, with HNWI wealth growing by more than 10% in both the countries. Collectively, Japan and China accounted for 71.5% of the region's HNWI population and 65.9% of the region's HNWI wealth in 2017.

At 31.3%, North America recorded the second-highest global HNWI population growth (509.4k of the total 1.6 million increase in global HNWI population) and a 27.4% global financial wealth increase (US$1.8 trillion of the overall global increase of US$6.7 trillion). North America's growth was dominated by the United States, which accounted for nearly 96% of the region's population and wealth growth.

8 Indonesia HNWI population and financial wealth have been adjusted for 2017 to reflect the impact of the 2016–2017 tax amnesty and increased information availability. On a like-for-like basis, the regional Asia-Pacific growth of HNWI population would have been 1.1 percentage points lower at 6.1 million HNWIs, and HNWI wealth would have been 2.4 percentage points lower at US$21.1 trillion. There would be no material change to the findings (such as Asia-Pacific leading all regions for HNWI population and wealth growth in 2017) from using non-adjusted numbers

9 Year-to-date monthly statistic tables, World Federation of Exchanges (WFE), December 2017, accessed May 2018

Figure 3. Contribution to HNWI Financial Wealth Growth, 2016–2017 (by Region)



Note: Rest of World includes Europe, Latin America, Middle East, and Africa; Chart numbers may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2018

Positive Story in Europe Continues

Europe's past performance showed little sign of letting up in 2017 with 7.3% HNWI global population growth and 7.8% HNWI wealth growth. The 2017 performance followed 2016's impressive showing of 7.7% for HNWI population growth and 8.2% for HNWI wealth.

Within a reviving economy, strong equity markets fueled wealth generation throughout Europe. Europe's biggest HNWI market, Germany, grew at 7.6% in 2017 to accumulate HNWI wealth of US$5.2 trillion. Rising exports and higher consumer spending along with rising employment and very low lending rates aided market capitalization and GDP growth.

Ireland recorded the highest growth in the region with a 15.3% increase in HNWI population and a 16.3% rise in wealth. Aided by the continued attraction of multinational corporations and their employees, Ireland's market capitalization (21.2%) and real estate industry (11.9%) surged in 2017.[10]

Among the major European markets, the U.K. stood out with a lackluster 1.2% in HNWI population growth and 2.1% in HNWI wealth growth – well below Europe's average of 7.3% and 7.8%, respectively. Stagnant economic performance combined with a lower rate of equity-market growth and a fall in real estate markets led to the U.K.'s less-than-stellar 2017 showing.

Growth in Europe came despite somewhat muted growth in real estate across key markets (see page 13), including declines in key markets such as Switzerland and the U.K.

The Four Largest Markets and Ultra-HNWIs Drive Global HNWI Population Growth

The United States, Japan, Germany, and China represented 61.2% of global HNWI population in 2017, similar to 2016's 61.1% (Figure 4). These four markets also accounted for 62.0% of all new HNWIs created globally in 2017.

Notable market moves within the rankings saw India overtake the Netherlands into the 11th position, Kuwait overtake Brazil into 17th, and Hong Kong overtake Norway into 19th position. Sweden was the only market to increase its ranking by two places, moving to 23rd at the expense of Mexico. In 2017, India's economy grew by 6.7%[11] along with strong equity market performance, as mentioned earlier. The economy of Sweden and Hong Kong grew by 2.4% and 3.8%, respectively. The equity market of Hong Kong and Sweden saw a growth of 36.2% and 22.7%, respectively.[12] Although Kuwait GDP declined by 2.5%[13] and real estate market dropped by 3.3%, robust growth of 5.6% in the equity market capitalization fueled the overall growth.

10 Year-to-date monthly statistic tables, World Federation of Exchanges (WFE), December 2017, accessed May 2018; Global Property House Guide House Price Index, March 2018

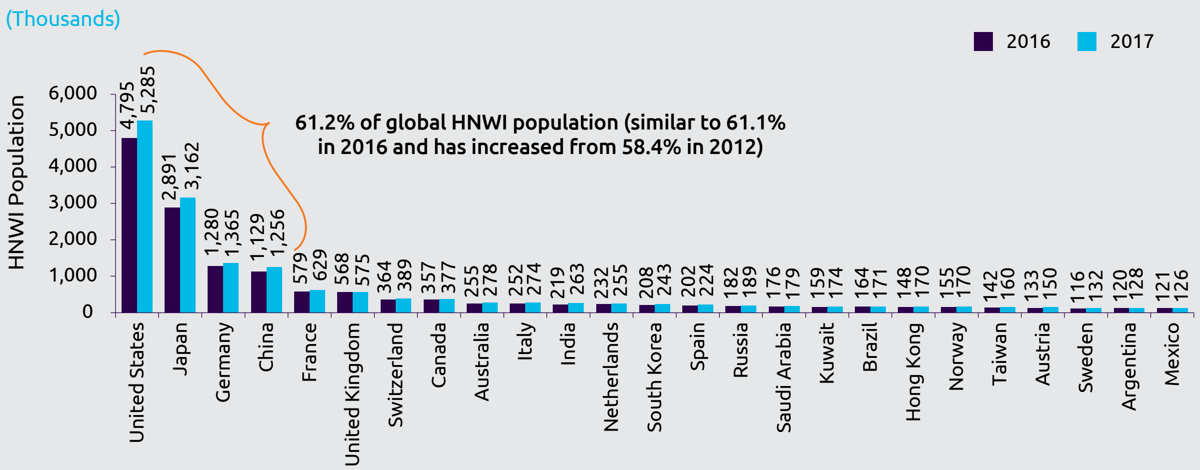
11 "Real GDP Growth", International Monetary Fund, accessed May 16, 2018, http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

12 Year-to-date monthly statistic tables, World Federation of Exchanges (WFE), December 2017

13 "Real GDP Growth", International Monetary Fund, accessed May 16, 2018, http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

The total number of ultra-HNWIs increased 11.2% globally in 2017, and their wealth grew 12.0% (Figure 5). 2017 was the second-consecutive year of wealth growth for this segment, which outperformed all other bands. The fact that Brazil and Latin America registered robust back-to-back growth particularly affected this segment because Latin America makes up 28.0% of global ultra-HNWI wealth – despite only accounting for 8.0% of global ultra-HNWI population.

Figure 4. Largest HNWI Populations, 2016–2017 (by Market)



	United States	Japan	Germany	China	France	United Kingdom	Switzerland	Canada	Australia	Italy	India	Netherlands	South Korea	Spain	Russia	Saudi Arabia	Kuwait	Brazil	Hong Kong	Norway	Taiwan	Austria	Sweden	Argentina	Mexico
Annual Growth (%) 2016–2017	10%	9%	7%	11%	9%	1%	7%	6%	9%	9%	20%	10%	17%	11%	4%	2%	9%	4%	15%	10%	12%	13%	14%	6%	4%
Ranking Change 2016–2017	–	–	–	–	–	–	–	–	–	–	+1	–1	–	–	–	–	+1	–1	+1	–1	–	–	+2	–	-2

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

Source: Capgemini Financial Services Analysis, 2018

Figure 5. Global Number of Individuals per Wealth Band (2017) and Growth (2016–2017)

(Thousands)

	Number of Individuals 2017	HNWI Population		HNWI Wealth		% of HNWI Wealth 2017
		CAGR 2010–2016	Growth 2016–2017[a]	CAGR 2010–2016	Growth 2016–2017[a]	
US$30m+ Ultra-HNWI	**174.8 k** (1.0% of total)	7.4%	11.2% (2.9PP)	6.0%	12.0% (2.8PP)	34.9%
US$5m–US$30m Mid-Tier Millionaires	**1,652.3 k** (9.1% of total)	7.3%	10.4% (2.5PP)	7.3%	10.5% (2.6PP)	22.5%
US$1m–US$5m Millionaires Next Door	**16,255.9 k** (89.9% of total)	7.2%	9.4% (2.0PP)	7.2%	9.5% (2.0PP)	42.6%

a. PP in parentheses denotes the percentage change in 2016–2017 over 2015–2016

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

Source: Capgemini Financial Services Analysis, 2018

HNWI Wealth on Course to Exceed US$100 Trillion By 2025

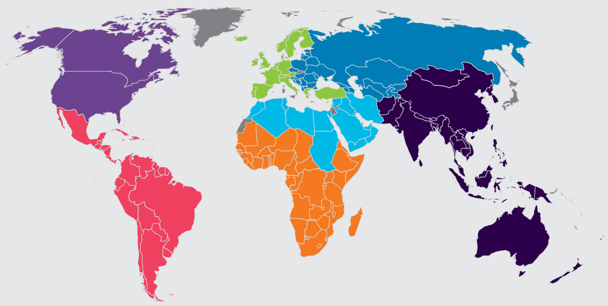
As we predicted in the 2016 World Wealth Report, global HNWI wealth is projected to reach US$106 trillion within the next seven years. The required 2017–2025 compound annual growth rate of global HNWI wealth has dropped to 5.3% (from the 6.1% we estimated in 2016), based on the healthy 10.6% HNWI wealth gains posted in 2017.

The impetus of primary growth driver Asia-Pacific must continue and grow at 8.7% annually through 2025, which is below the annual rate of 9.2% (through 2015–2025) that we anticipated as necessary to achieve its forecast US$42.1 trillion. Less overall momentum is required through 2025, thanks to Asia-Pacific's substantial 2017 growth.

The other high contributing regions – North America and Europe – must grow at a CAGR of 3.3% and 2.9% through 2025, which is significantly lower than the respective 5.3% and 4.2% growth achieved from 2006 through 2017.

Figure 6. Real GDP and Market Capitalization Growth, 2016–2017 (World and Select Regions)

(%)



North America

	2016	2017
GDP	1.6	2.3
Market Cap	9.9	17.3

Latin America

	2016	2017
GDP	(0.8)	1.2
Market Cap	18.8	27.1

Western Europe

	2016	2017
GDP	1.8	2.6
Market Cap	4.9	25.8

Eastern Europe

	2016	2017
GDP	1.4	3.1
Market Cap	N/A	N/A

Sub-Saharan Africa

	2016	2017
GDP	0.9	2.3
Market Cap	N/A	N/A

Middle East and North Africa

	2016	2017
GDP	2.8	2.0
Market Cap	6.4	13.0

World

	2016	2017
GDP	2.3	3.0
Market Cap	5.7	21.8

Asia-Pacific (excl. Japan)

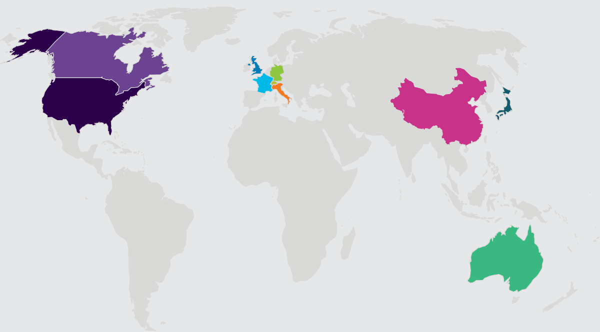
	2016	2017
GDP	5.4	5.6
Market Cap	0.7	25.8

Note: 2016 and 2017 GDP data from Economic Intelligence Unit; Market Capitalization growth for Western Europe denotes the growth for Europe, Asia-Pacific (excl. Japan) denotes growth for Asia-Pacific overall, MENA region denotes growth for Middle East and Africa, Regional market capitalization growth rate data calculated using World Federation of Exchanges data, which covers most of the major markets in a particular region; Pie charts denote share of World GDP

Source: Capgemini Financial Services Analysis, 2018; Economic Intelligence Unit, May 2018; World Federation of Exchanges, December 2017

Figure 7. Real GDP, Market Capitalization, and Real Estate Growth, 2016–2017 (Select Markets)

(%)



United States

	2016	2017
GDP	1.6	2.3
Market Cap	9.1	17.4
Real Estate	3.8	4.1

Canada

	2016	2017
GDP	1.5	3.0
Market Cap	28.2	15.9
Real Estate	10.7	7.1

United Kingdom

	2016	2017
GDP	1.8	1.8
Market Cap	11.9	9.0
Real Estate	3.3	(0.1)

China

	2016	2017
GDP	6.7	6.9
Market Cap	(10.6)	19.0
Real Estate	21.3	0.3

Japan

	2016	2017
GDP	1.0	1.7
Market Cap	3.4	22.9
Real Estate	(1.2)	13.2

Australia

	2016	2017
GDP	2.5	2.3
Market Cap	10.9	14.6
Real Estate	2.8	7.4

France

	2016	2017
GDP	1.1	2.0
Market Cap	4.9	9.3
Real Estate	1.3	2.7

Switzerland

	2016	2017
GDP	1.3	1.1
Market Cap	(6.9)	19.2
Real Estate	(0.9)	(1.7)

Italy

	2016	2017
GDP	0.9	1.6
Market Cap	(10.2)	23.8
Real Estate	1.3	2.7

Germany

	2016	2017
GDP	1.8	2.5
Market Cap	1.0	31.7
Real Estate	6.9	4.5

Note: 2016 and 2017 GDP data from Economic Intelligence Unit; 2017 Real estate growth is based on Global Property Guide House Price Index, March 2018

Source: Capgemini Financial Services Analysis, 2018; Economic Intelligence Unit, May 2018; World Federation of Exchanges, December 2017

HNWIs Experienced Another Year of Strong Returns, but Improving the Personal Connection with Wealth Managers is Key to Increasing Satisfaction

- **High net worth individuals around the world enjoyed investment returns above 20% for the second year running through January 2017 to December 2017.** HNWIs in Asia-Pacific (excl. Japan) and Latin America enjoyed better returns compared to other regions. HNWIs with discretionary mandates performed better, with higher returns compared to those following a self-directed approach.
- **Globally, asset allocation remained fairly stable in Q1 2018 over Q2 2017, though real estate increased to the third-largest asset class.** Equities remained the largest asset class for HNWIs at 30.9% (down 0.2 percentage points) with cash second at 27.2% (down 0.1 percentage points). Real estate allocations increased globally by 2.8 percentage points, with residential real estate dominating 51.6% of the category and commercial real estate (15.4%) and land (12.8%) garnering smaller shares.
- **HNWIs continued to bank with multiple wealth management firms, but the trend towards asset consolidation around the primary wealth management provider continues to increase.** Globally, the average number of firms per HNWI is 2.2, down from 2.6 in 2014. On average, global HNWIs increased assets held with their primary wealth manager by 17.1% in Q1 2018.
- **Robust investment returns are not increasing HNWI satisfaction to the same degree.** Strong investment returns in 2016 and 2017 did not yield an overall 70% HNWI satisfaction level globally – arguably the "passing grade" for the industry. North American HNWIs appeared the most satisfied (75.2%), while no other region passed the 70% threshold.
- **Better personal connections between wealth managers and their HNW clients may lead to better HNWI satisfaction scores.** In 2018, only 55.5% of HNWIs said they connected "very well" with their wealth managers (see page 21). The majority of HNWIs globally would use an improved system for locating a wealth manager – whether this is a firm-specific initiative or provided by a third-party or parties.

Wealth Managers Delivered Another Year of Strong Investment Gains for HNW Clients

Continuing the trend cited in the 2017 *World Wealth Report* where HNWIs benefitted from robust returns of 24.3%, global high net worth individuals enjoyed the second-consecutive year of returns higher than 20% on their investments overseen by wealth managers.[14] *The 2018 WWR found that year over year, global HNWI investment returns were up 27.4% globally.*

In all regions, HNWIs garnered favorable returns on investments overseen by wealth managers, with HNWIs in Asia-Pacific (excl. Japan) and Latin America reporting the highest returns. The dynamic toward higher returns in more developing markets owes a lot to the extent of leverage in HNWI portfolios through credit (as we identified in the 2015 *WWR*) and the overall growth-focused approach HNWIs in these markets take (54.6% of investors in Asia-Pacific (excl. Japan), and 42.6% in Latin America are growth-oriented).[15] Such dynamics may have contributed to the impressive investment performance for the second year in a row.

Younger HNWIs at a global level claim to have achieved much higher investment performance than their older counterparts (37.9% versus 16.9% globally), possibly because of the need to focus on wealth creation at this early stage of their lifecycle, compared to the higher focus toward wealth preservation of those HNWIs aged 60 and above.

Globally, those with US$20 million or more in assets generated higher returns than HNWIs with US$1 million to US$5 million in assets (35.7% versus 25.4%). As private banks around the world increase the minimum account sizes for clients, access to highly tailored and specialized solutions, as well as the ability to back such solutions with larger leverage ratios, are increasingly available only to the higher wealth segment clients – which may partially explain the performance gap.

Discretionary portfolio management continued to outperform compared to self-directed accounts. In 2017 *WWR,* we saw HNWIs with discretionary accounts achieve returns of 22.4% and those with advised accounts enjoying returns of 24.8%, 0.6 and 3.0 percentage points higher than yields from self-directed accounts, respectively. The trend was even more pronounced this year, with discretionary portfolio accounts garnering returns of 30.2%, advised accounts generating returns of 26.9%, and self-directed accounts delivering 26.7% returns. Our 2018 *Asia Pacific Wealth Report* will explore discretionary portfolio management in more detail.

Allocations Remain Stable, with Equities and Cash Largest

Globally, equities remained the most significant asset class in Q1 2018, at 30.9% of HNWI financial wealth (down 0.2 percentage points from Q2 2017) while cash and cash equivalents stayed in second place at 27.2% (down 0.1 percentage points from Q2 2017) (Figure 8).

HNWIs in North America continued to favor equities (36.8%) and remain the largest equity holders amongst all regions, while Japan witnessed a significant 4.7 percentage points increase of allocation to this asset class - a considerable jump from Q2 2017. Allocation to cash and cash equivalents by HNWIs in Japan remained high, down only 1.9 percentage points from 46.5% in Q2 2017. Asia-Pacific (excl. Japan), North America, and Latin America also saw their cash holdings inch up to the tune of 1–2 percentage points (Figure 9).

Given the substantial gains in investment returns *(see page 21)**, HNWIs likely took profits to re-balance asset allocation and to mitigate potential political and economic risks.* Key HNWI concerns – unease over political and economic uncertainty – continued in Q1 2018. As per the *Global HNW Insights Survey 2017,* 19.6% of HNWIs globally reported economic/financial market risks in their home market as the primary concern that drove them to make key investment decisions such as booking wealth offshore. As of Q1 2018, this increased by 20 basis points to 19.8%. In Q1 2018, political concerns in their home market constituted another major reason for offshore wealth booking of HNWIs, and were cited by 13.2% as the primary reason.

During 2017–2018, there were numerous political and economic disruptions that may have entered into the investment thinking of HNWIs and influenced some degree of profit-taking behavior – especially given the backdrop of strong market valuations across the world.

14 Wealth managers oversee 32.1% of HNWI wealth, according to the 2016 *World Wealth Report.* Other HNWI assets are generally held as cash and in retail bank accounts, businesses, real estate, and self-directed investments

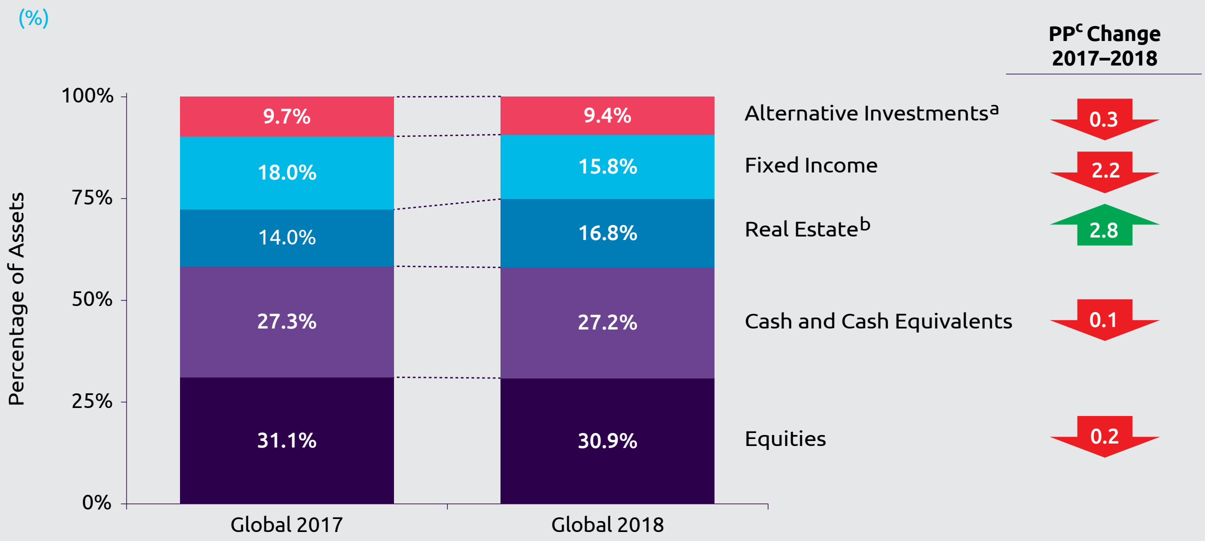
15 2016 *World Wealth Report,* Capgemini; 2015 *World Wealth Report,* Capgemini and RBC Wealth Management

For instance, Britain continues to experience political and economic uncertainty related to Brexit.[16] The consumer price index in the U.K. fell to 2.7% in February 2018, down from 3.0% in January 2018, and closer to annual wage growth[17] in December 2017. Meanwhile, the U.K.'s housing-market sluggishness is expected to continue throughout 2018 due to corrections in prices and increased lending rates.[18] Across the Atlantic, while the U.S. President Donald Trump provided relief to domestic corporates as Federal taxes were reduced from 35.0% to 21.0%[19], higher trade barriers and more restrictive immigration laws have threatened trade relations with China, India, and the NAFTA countries.[20] Asia-Pacific markets have had their own share of political tensions with a bribery scandal in South Korea that brought down its president and the controversial drug war by Philippine President Rodrigo Duterte that drew criticism from international organizations.

High political tension between North Korea and the U.S. in the last quarter of 2017, inflationary fears, hike in trade tariffs by the U.S., and rising influence of EU populism throughout 2017 likely resulted in investors at least partially exiting equity markets in early 2018, against a backdrop of a significant correction in equity prices.

Risk concerns aside, HNWIs remain confident in their ability to create wealth. Globally, 79.5% of HNWIs surveyed claimed they had trust and confidence in their ability to generate wealth over Q1 2018 to Q1 2019. Most optimistic were Asia-Pacific (excl. Japan) respondents at 93.2% and HNWIs in Latin America at 95.5%.

Figure 8. Breakdown of HNWI Financial Assets, Q2 2017 and Q1 2018 (Global)



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

b. Excludes primary residence

c. PP denotes the percentage point change in Q2 2017–Q1 2018

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

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2017, 2018

16 Brexit refers to "British exit," it is the U.K.'s decision in a June 23, 2016 referendum to leave the European Union, https://www.investopedia.com/terms/b/brexit.asp

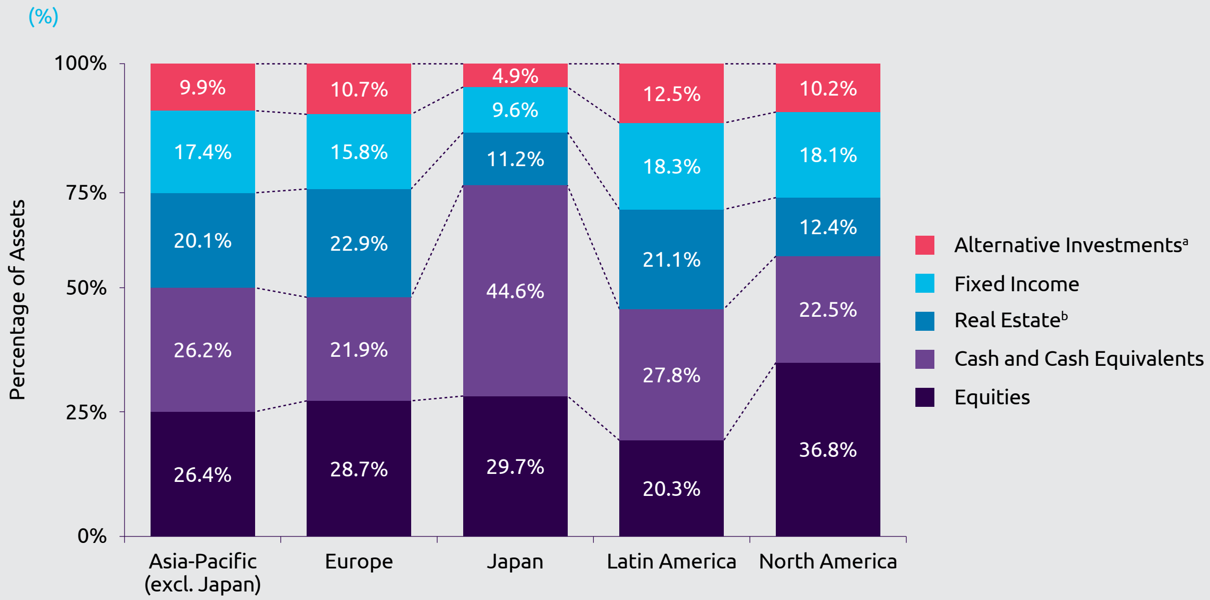
17 "UK inflation rate falls to 2.7%," The Guardian, March 20, 2018, accessed May 16, 2018 at https://www.theguardian.com/business/live/2018/mar/20/uk-inflation-sterling-wages-facebook-shares-markets-business-live?page=with:block-5ab0d3ace4b0a48331739a6b#block-5ab0d3ace4b0a48331739a6b

18 "UK housing market weakness set to continue in 2018, according to surveyors," The Independent, March 7, 2018, accessed May 16, 2018 at https://www.independent.co.uk/news/business/news/uk-housing-market-weakness-continues-2018-prices-new-buyers-stamp-duty-a8243716.html

19 "The United States' Corporate Income Tax Rate is Now More in Line with Those Levied by Other Major Nations," Tax Foundation, February 12, 2018, accessed May 16, 2018 at https://taxfoundation.org/us-corporate-income-tax-more-competitive/

20 North American Free Trade Agreement (NAFTA) is an agreement between the U.S., Canada, and Mexico to eliminate most of the trade tariffs between them

Figure 9. Breakdown of HNWI Financial Assets, Q1 2018 (by Region)



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

b. Excludes primary residence

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

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

Real Estate Rises to the Third-Ranked Asset Class, Led by Residential Holdings

Real estate was the only asset class to see a significant increase in HNWI asset allocation over Q2 2017 to Q1 2018. It increased in share by 2.8 percentage points to 16.8% to become the third-largest asset class – after equities and cash. The inherent illiquidity of real estate may at least offer a partial explanation for the increase because it takes longer to buy and sell physical assets. Another explanation is the attraction HNWIs have for real estate assets.

Within the real estate category, residential real estate dominates at 51.6% of the real estate category, followed by commercial real estate (15.4%) and land (12.8%) (Figure 10).

Residential real estate is a popular investment choice across all regions, but highest in Europe at 54.9%. Both, Asia-Pacific (excl. Japan) and Latin America HNWIs demonstrated the highest interest in commercial real estate allocation at 21.1%.

A trend among global HNWIs over the age of 60 is higher allocations (63.7%) in residential real estate, versus 40.2% for individuals under the age of 40. Accordingly, younger HNWIs are more attracted to commercial real estate than their older counterparts – 19.5% versus 11.8%.

Asset Consolidation Trend Continues though HNWIs Remain Multi-Banked

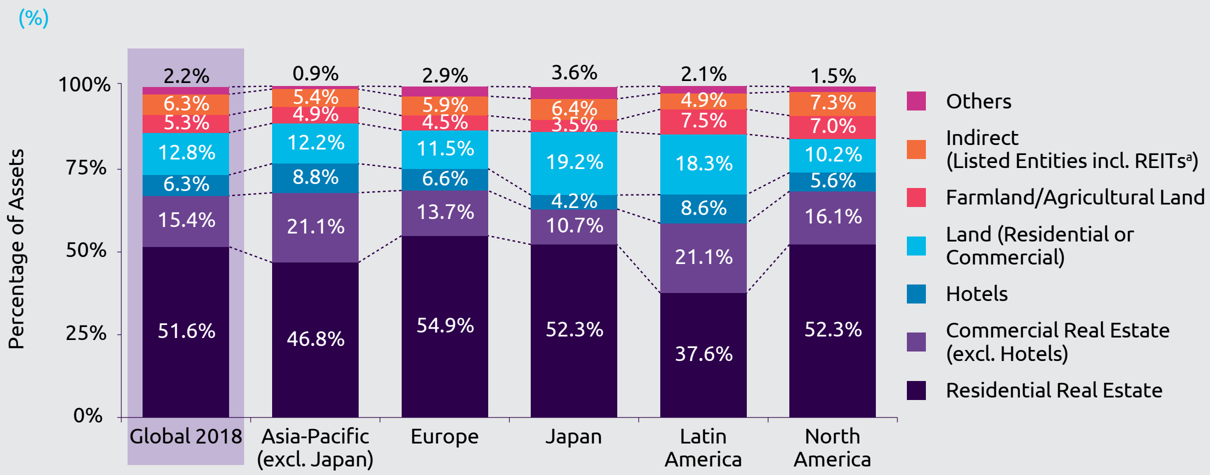
The positive environment, characterized by another year of record HNWI wealth and strong investment returns globally, has led to increased asset consolidation with primary wealth management firms, although HNW clients remain strongly multi-banked.

On average, clients engaged the services of 2.2 wealth management firms in 2018, compared to 2.6 in 2014, indicating that even though clients remain multi-banked, a consolidation trend exists.

HNW clients are multi-banked for many reasons, but a primary driver is a desire for specialization. For example, bank A may have industry-leading foreign exchange capabilities, bank B may be known for fixed income, while bank C may offer global access (such as to U.S. equities and real estate). HNWIs seek to favor from these capability specializations across firms, by attaching themselves with multiple banks.

Multi-banking also empowers HNWIs with negotiating leverage. For instance, by not giving bank A all their assets, the bank may be more willing to offer discounts. Multi-banking also provides HNWIs protection against insolvency in the event a firm were to go bankrupt.

Figure 10. Breakdown of HNWI Real Estate Investments, Q1 2018 (Global and Regions)



a. REITs: Real Estate Investment Trusts

Note: Question asked: "Please indicate roughly how your assets are CURRENTLY invested in these different options?"; Chart numbers may not add up to 100% due to rounding

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

Although all regions averaged a similar number of wealth management relationships, Asia-Pacific (excl. Japan) and Latin America topped the list averaging 2.4 and 2.5 relationships, respectively.

Despite remaining multi-banked, HNW clients have shown a willingness to consolidate their wealth with their primary wealth management firm. On average, HNWIs globally increased the assets held with their primary wealth manager by 17.1% (Q1 2018 over Q1 2017)[21] (Figure 11).

Asia-Pacific (excl. Japan) and Latin America HNWIs exceeded the average, and increased their assets with their primary wealth management firms by 22.9% and 26.8% respectively over the past 12 months. Across all regions, younger HNWIs increased their assets with their firms the most – witnessing an increase of 25.1% compared to 10.4% by their senior counterparts. Ultra-HNWIs[22] increased their assets with their primary wealth manager by 23.3%, which was more when compared to the 16.0% increase by HNWIs in the US$1 million to US$5 million band.

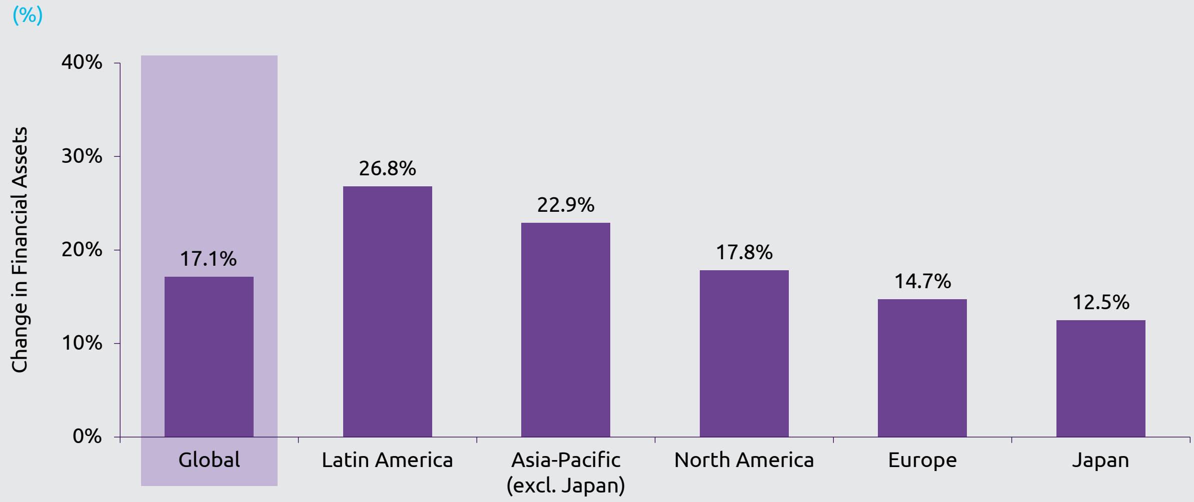
The consolidation trend is likely to continue, as 64.5% of HNWIs surveyed said they expect to increase wealth held with their primary wealth management provider in the future. All regions, except Japan, indicated a higher likelihood to consolidate their assets with their primary wealth management provider. Most likely to consolidate their firm-managed assets are Asia-Pacific (excl. Japan) HNWIs at 85.6% and Latin America HNWIs at 87.6%. Generally, younger HNWIs (84.2%) are more accepting of asset consolidation, compared to older HNWIs (49.0%).

On average, HNWIs around the globe are expected to boost their assets held by their primary wealth manager by 18.4% over Q1 2018 to Q1 2020. Within the next two years, Asia-Pacific (excl. Japan) and Latin America HNWIs are the most likely to increase the size of their firm-managed assets, with expected increases of 26.7% and 33.1%, respectively. Younger HNWIs in all regions are more likely to bolster their firm-managed assets over next two years (28.7%) versus their older counterparts (9.5%). Over the period of Q1 2018 to Q1 2020, HNWIs with assets of more than US$20 million are expected to increase their assets with their primary wealth management firms much more than HNWIs with assets between US$1 million and US$5 million (28.8% versus 17.1%).

21 Excludes market value variations, so the figure represents an active decision on the part of HNWIs

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

Figure 11. Historical 12-Month Change in Financial Assets Held with Primary Wealth Management Firm, Q1 2018 (Global and Regions)



Note: Question asked: "Over the past 12 months, how much did you increase or decrease the amount of financial assets you allowed your primary wealth management firm to hold or manage? Please base this on the actual amount you transferred, not market fluctuations of assets."

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

Significant Investment Returns Do Not Fully Correlate with HNWI Satisfaction

Although year-over-year global HNWI satisfaction levels ticked up robustly, the increase was off a relatively low base with the "passing grade" of 70% HNWI satisfaction levels not achieved, suggesting that investment returns alone are not enough to sustain a wealth management business.

Tallied in Q1 2018, global HNWI satisfaction levels for firms (64.6%) and their wealth managers (63.4%) showed a year-over-year jump of six and seven percentage points, respectively. With all regions registering increases, particularly happy investors in North America recorded more than 75% satisfaction levels. Across all regions, European HNWIs registered the highest jump (11.1 percentage points) at 63.6% in satisfaction with wealth managers from last year. HNWIs in Japan continue to cite relatively lower satisfaction with their wealth management firm and manager, registering lackluster 49.0% and 42.7%, respectively.

As in past WWR surveys, younger HNWIs were harder to please than their older counterparts– with nearly a 10 percentage point gap in satisfaction levels with their older counterparts. In a somewhat counter-intuitive finding given the reduced levels of tailored dialogue received, HNWIs with assets between US$1 million and US$5 million registered higher satisfaction (64.9%) with their wealth management firms compared to their counterparts with assets over US$20 million and above (55.4%). The higher complexity and demands of propositions required by ultra-HNWIs, such as cross-border solutions, tax and legal advice, structured products, private equity, international real estate, and wealth structuring – may explain the trend.

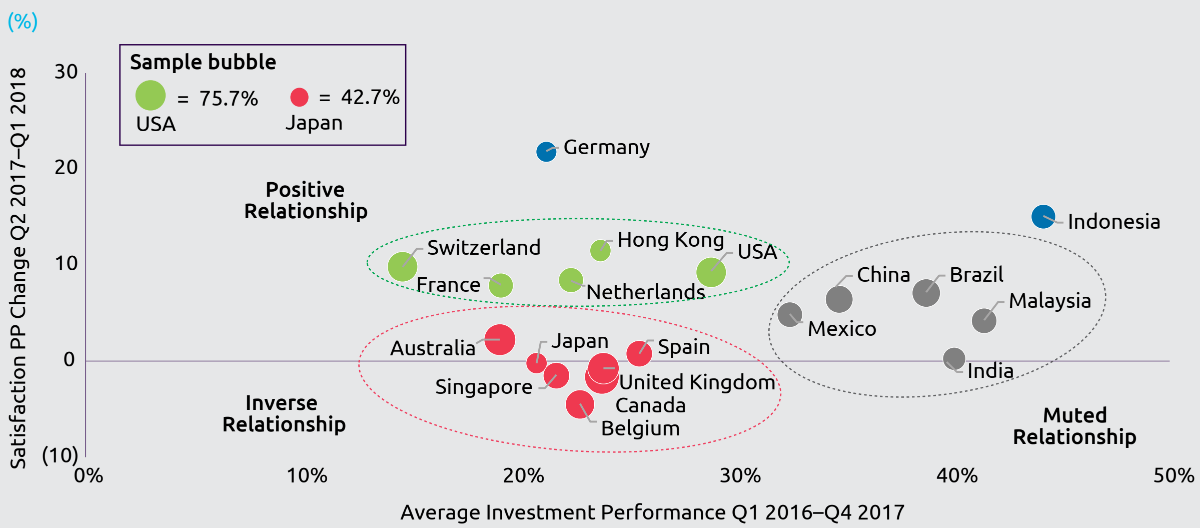
Interestingly, satisfaction increases were not proportionate to gains in HNWI wealth (Figure 12).

Only slight changes in satisfaction levels were noted from HNWIs within the first band, dubbed the *muted relationship group* (which includes markets such as China, Brazil, and Malaysia), during 2017–2018 where respondents enjoyed high average investment performance for the second consecutive year. On average, for every 1.0% of investment performance delivered over the two-year period, satisfaction increased by 0.1 percentage point.

In the second band, which we call the *inverse relationship group* (which includes markets such as Belgium, Canada, and Singapore), HNWI satisfaction levels declined (or remained flat) over two years even though average annual investment performance delivered was robust. On average, for every 1.0% of investment performance delivered over the two-year period, satisfaction levels remained flat.

In the third band, the *positive relationship group* (which includes market such as the United States, Hong Kong, and the Netherlands), there was slight positive correlation between average investment performance and satisfaction levels. On average, for every 1.0% of investment performance delivered over the two-year period, satisfaction increased by 0.4 percentage point.

Figure 12. HNWI Investment Performance vs. Change in Satisfaction, Q1 2016–Q1 2018 (Select Markets)



Note: Question asked: "Thinking about the financial assets that you have invested with wealth management firms, roughly how did they perform last calendar year?"; "How satisfied are you with your primary wealth manager (the individual who manages your wealth) and your primary wealth management firm?"; Germany and Indonesia do not feature in any cluster as they are outliers; Only wealth manager satisfaction values are represented in the above chart; Bubble sizes represent absolute satisfaction levels reported in 2018 by HNWIs with their primary wealth managers in the market

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2016, 2017, 2018

A range of concerns among HNWIs may be driving subdued satisfaction scores: Overall wealth management fee levels, the need for service personalization, and a desire for broader value delivery (across investment and non-investment areas).

The 2017 *WWR* found that only 47.8% of HNWIs globally said they were entirely comfortable with fees charged for wealth management services. Another satisfaction driver stems from the increasing HNWI demand for personalized advice on wealth products and solutions, given HNWIs are exposed to ever-expanding, diverse experiences outside financial services, thus raising their expectations to a wide range of services from their wealth managers complemented by personalized advice. Lastly, holistic value is demanded – as noted in the 2016 *WWR,* 47.4% of HNWIs considered investment advice to be the most crucial element in a wealth management relationship, but they also said that they valued factors such as credit solutions and business expertise. Wealth managers need to surpass benchmark satisfaction levels on additional parameters and need to go beyond providing only good returns on investments.

Stronger Connections with Wealth Managers May Boost Satisfaction

An additional route to improving HNW client satisfaction scores is through enhancing the personal connections among HNWIs and wealth managers, thereby reducing the reliance on investment returns for retaining HNW clients.

An often-under-analyzed influencer is the quality of the personal bond between HNWI and wealth managers, which we have identified as subdued. *Only 55.5% of HNWIs globally said they connected strongly with their wealth manager (Q1 2018), and this was despite substantial investment returns delivered over the past two years.*

Regionally, HNWIs in Latin America (77.3%) and North America (66.8%) claimed the strongest connections with their wealth managers. Globally, younger HNWIs tended to personally connect better with their wealth managers (63.6%) compared to their more mature counterparts (49.5%).

Passive and semi-passive approaches largely determine how HNW clients find their wealth managers, with 61.8% of HNWIs globally finding their wealth manager this way, such as through referrals or direct allocation from the wealth management firm (typically via a market or team head).

Globally, 44.4% of all HNW clients surveyed said they found their wealth manager through a referral by a friend or business contact. We call this a semi-passive approach because the client is using a personal connection to identify a wealth manager but may not initiate the dialogue or review all available options.

A further 17.5% of respondents said they met their primary wealth manager through an entirely passive approach, wherein the manager was allocated to them by the firm either at the outset of the relationship or after the retirement of the former wealth manager.

One-third of HNWIs use active approaches based on personal research and making direct contact with preferred wealth managers. The democratization of information makes it much easier for investors to become "validators" and thus make business and investment decisions (involving choosing a wealth manager) based on the available information.

The quality of HNWIs' connections with their wealth managers does not correlate with any of the present modes of introduction, which opens an opportunity for wealth management firms to offer more innovative approaches (Figure 13).

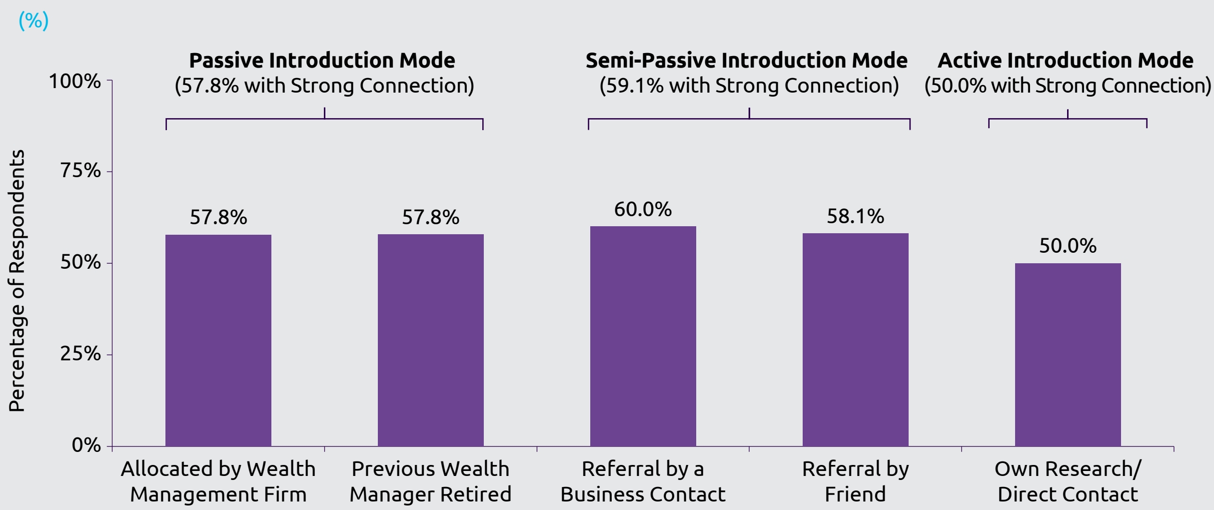
Although semi-passive introductions are the industry-prevailing model, only 59.1% of HNWIs introduced in this manner state that they have a strong personal connection with their wealth manager. There is a slightly higher number of HNWIs (60.0%) who establish strong connections when their wealth manager is referred by a business contact. In any case, the long-vaunted model of semi-passive allocation does not appear to guarantee the success of the personal bond.

Only 57.8% of HNWIs who were passively introduced to their wealth manager through a wealth management firm or when a previous wealth manager retired, report strong personal connection levels.

Active introductions to a wealth manager also tend to result in low-quality personal connections (50.0%). Therefore, while an active introduction may seem desirable in principle, it is often ineffective in practice and difficult for a HNWI to do as they may lack the capability to perform meaningful research and comparisons of wealth managers, or indeed lack access to transparent information.

Many HNWIs said that they are sensitive to the issue and indicate interest in an improved wealth manager location system. In fact, 64.3% of HNWIs globally said that they would use an improved system, with more than 50% of HNWIs in all regions showing interest. Investors in Asia-Pacific (excl. Japan) and Latin America expressed the most interest at nearly 90% (Figure 14).

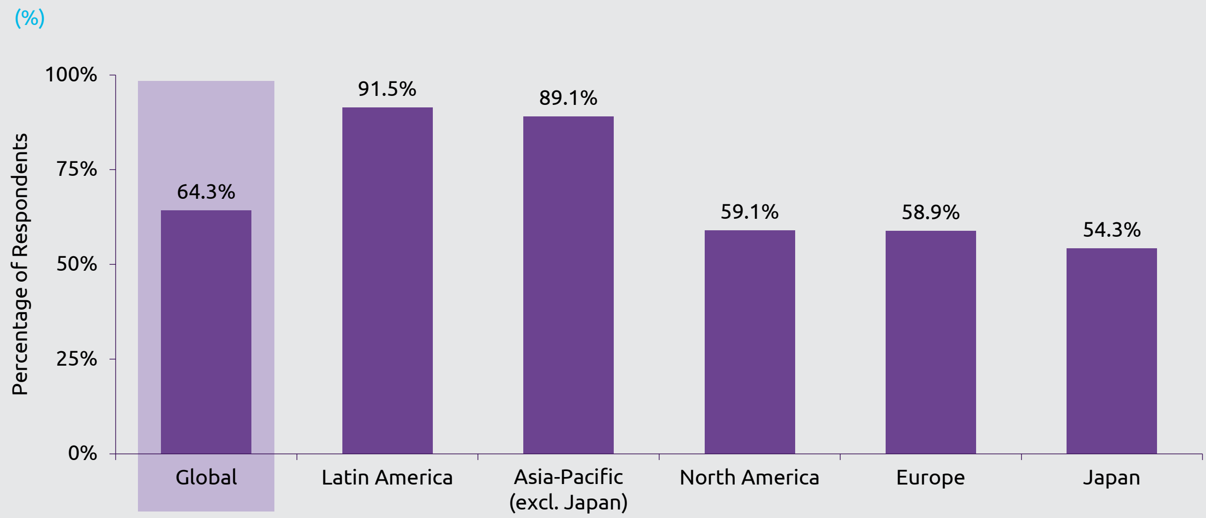
Figure 13. Strength of HNWI and Wealth Manager Personal Connection, by Introduction Mode, Q1 2018 (Global)



Note: Question asked: "How were you introduced to your primary wealth manager?"; "We would like to understand how well you connect at a personal level with your primary wealth manager? Please let us know to what extent do you agree with the following statement: I connect very well with my primary wealth manager. 1 = Strongly disagree; 4 = Neither agree nor disagree; 7 = Strongly agree"; Above values represent HNWI connection levels with their wealth managers given their choice of introduction mode to their wealth manager; Ratings of 6 and 7 have been denoted as "strong/very well" connection levels

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

Figure 14. HNWI Interest in Using Improved System to Locate a Wealth Manager, Q1 2018 (Global and Regions)



Note: Question asked: "Would you use an improved system of locating a wealth manager, if made available to you by your wealth management firm or a third-party?"; Respondents were asked to respond Yes or No; Values of Yes have been shown in the chart above

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

Regionally, a noteworthy 89.1% of HNWIs in Asia-Pacific (excl. Japan) and 91.5% of HNWIs in Latin America said they were willing to use an improved system for locating a wealth manager. Globally, 83.3% of younger HNWIs said they were inclined to consider a better wealth manager location system as compared with 45.7% of all older respondents.

Wealth management firms can either develop in-house tools to improve the allocation of suitable wealth managers to their HNW clients and prospects, or look to industry solutions. As, firms choose to move forward, it will be critical to improve the quality of the human personal connection at a time of wealth transfer to the next generation and in the face of the encroachment of digital tools and BigTechs – The focus of our Spotlight section, beginning on page 30.

Cryptocurrencies Gained Global Attention in 2017, though Yet to Penetrate the Wealth Management Industry

- **Enthusiasm for digital currency broke out among investors in 2017.** Investments in cryptocurrencies reached an all-time high in January 2018, with total cryptocurrency market capitalization nearing US$850 billion.[23]
- **HNWIs are cautiously interested in holding cryptocurrencies, with 29.0% globally having a high degree of interest and a further 26.9% somewhat interested.** Interest levels were largely driven by HNWIs in Latin America (59.7% with strong interest) and Asia-Pacific (excl. Japan) (51.6%).
- **The potential for investment returns and serving as a store of value is what drive HNWIs' interest in cryptocurrencies.** Globally, 39.3% of HNWIs said investment return was the primary reason they would hold or purchase cryptocurrencies, while 19.3% cited the potential as an alternative store of value.
- **The nascent cryptocurrency market is volatile, with HNWIs wary of investing and their firms hesitant to offer advice.** HNWI concerns with security and market volatility, as well as a lack of focus on the part of wealth management firms, have been barriers to widespread adoption.
- **While regulation will play a large role in shaping the future of cryptocurrency, younger HNWIs are likely to force wealth management firms to develop a point of view.** 71.1% of younger HNWIs place importance on having cryptocurrency information from their primary wealth management firms compared to 13.0% of those who are 60 years and above.

23 "Total Market Capitalization Global Charts," CoinMarketCap, accessed May 14, 2018 at https://coinmarketcap.com/charts/

Cryptocurrencies Gain Attention in 2017 Amid Volatile Market Conditions

2017 was a cryptocurrency breakout year, as a wide variety of cryptocurrencies soared in value, thereby gaining mass interest and attracting a broad array of eager investors.

Investments in cryptocurrency peaked in January 2018 with an all-time-high market capitalization that neared US$850 billion. By March 2018 more than 1,600 cryptocurrencies were in existence.[24] A month later, 18 of these had a market capitalization above US$1 billion each, and 29 were above US$500 million.[25] In fact, 195 Initial Coin Offerings (ICOs) raised a total of US$6.2 billion from January 2018 to April 2018 globally.[26]

The major driver of the growth came from the leading digital currency, Bitcoin (BTC), which soared in 2017.[27] The price of BTC rose in 2017 after a flat 2016 and exploded in the fourth quarter when returns far surpassed those of equity investments. Annualized average BTC returns came in at around 1,700% over Q4 2016 to Q4 2017 (Figure 15).

The astronomical rise in market valuations came with many concerns. Industry commentators such as investment experts, bank executives, and prominent wealthy individuals were often wary of the rise of these assets due to factors such as speculation and perceived lack of intrinsic fundamental value:

- Bill Gates, founder of Microsoft Corporation, expressed reluctance towards Bitcoin's prospects despite faith in its underlying technology, saying: "Bitcoin is one of the crazier, speculative things [I've] seen." He also expressed further his interest in betting against Bitcoin, as he added: "I'd short it if there was an easy way to do it."[28]

- At a time when many well-known investors were embracing the cryptocurrencies, Jamie Dimon, CEO of JP Morgan, expressed unequivocal concern over Bitcoin. "It's worse than tulip bulbs. It won't end well. Someone is going to get killed,"[29] he said.

- "The idea of anonymous currencies just never turned out to be a good thing, you have a real potential risk," added Brian Moynihan, CEO of Bank of America, revealing concern over potential fraud with cryptocurrencies.[30]

Yet others in the industry were more receptive, as they point out:

"Whether or not you believe in the merit of investing in cryptocurrencies (you know who you are), real dollars are at work here and warrant watching," Goldman Sachs, in August 2017, weighed an open-mind about cryptocurrencies.[31]

- Christine Lagarde of the International Monetary Fund (IMF) voiced her balanced opinion on cryptocurrencies, stating that: "In many ways, virtual currencies might just give existing currencies and monetary policy a run for their money."[32]

- "The world ultimately will have a single currency, the Internet will have a single currency. I personally believe that it will be Bitcoin, probably over ten years, but it could go faster," Jack Dorsey, CEO of Twitter and Square, expressed his strong belief in cryptocurrencies.[33]

24 "How Many Cryptocurrencies Are There?", The Motley Fool, Matthew Frankel, March 16, 2018, accessed May 14, 2018 at https://www.fool.com/investing/2018/03/16/how-many-cryptocurrencies-are-there.aspx

25 "Top 100 Cryptocurrencies by Market Capitalization," CoinMarketCap, accessed April 21, 2018 at https://coinmarketcap.com

26 "Cryptocurrency ICO Stats 2018," CoinSchedule, accessed April 23, 2018 at https://www.coinschedule.com/stats.html

27 "What is Bitcoin?", CoinDesk, January 26, 2018, accessed April 23,2018 at https://www.coindesk.com/information/what-is-bitcoin

28 "Bill Gates: I'd bet against Bitcoin if I could", USAToday, May 7,2018, accessed May 14, 2018 at https://www.usatoday.com/story/money/2018/05/07/bill-gates-bitcoin/585645002/

29 "JPMorgan CEO Jamie Dimon says bitcoin is a 'fraud' that will eventually blow up", CNBC, Sep 12, 2017, accessed May 14, 2018 at https://www.cnbc.com/2017/09/12/jpmorgan-ceo-jamie-dimon-raises-flag-on-trading-revenue-sees-20-percent-fall-for-the-third-quarter.html

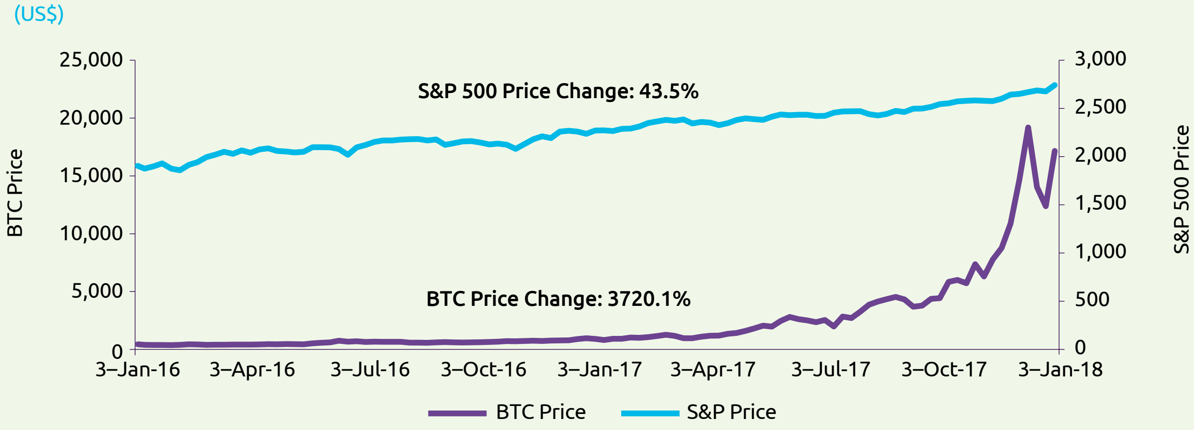
30 "Cryptocurrencies Pose a Threat, Must Be Regulated, CEOs Say", BloombergQuint, April 27, 2018, accessed May 14, 2018 at https://www.bloombergquint.com/technology/2018/04/27/crypto-coin-offerings-need-regulatory-oversight-nasdaq-ceo-says#gs.Dl907Ag

31 "Goldman Sachs: 'Real Dollars At Work' in Cryptocurrency Markets", CoinDesk, August 9, 2017, accessed May 14, 2018 at https://www.coindesk.com/goldman-sachs-real-dollars-work-cryptocurrency-markets/

32 "Virtual Currencies Might Just Give Existing Currencies a Run for Their Money", AltCoinToday, September 30, 2017, accessed May 14, 2018 at https://altcointoday.com/virtual-currencies-might-just-give-existing-currencies-a-run-for-their-money/

33 "Twitter CEO Jack Dorsey Says Bitcoin Will Be the World's Universal Currency", Fortune, March 21, 2018, accessed May 14, 2018 at http://fortune.com/2018/03/21/jack-dorsey-cryptocurrency-bitcoin-transactions/

Figure 15. BTC vs. S&P 500 Prices, 2016–2018



Source: Capgemini Financial Services Analysis, 2018; Investing.com, accessed April 18, 2018 at https://in.investing.com/

The one area of broad consensus in the market is that blockchain (or distributed ledger) technology, which underpins cryptocurrencies, could revolutionize the wealth management industry (and many other industries) through means such as smart contracts[34], reduced operational expenses, and easier compliance. Even Jamie Dimon later clarified his original statement to emphasize that while he remains skeptical of cryptocurrencies, he believes that, "The blockchain is real."[35]

HNWIs View Cryptocurrencies as Speculative Tool and Potential Store of Value

Global HNWI interest in purchasing or holding cryptocurrencies is mixed, with only 29.0% of surveyed HNWIs expressing strong interest.

Interest levels were largely driven by HNWIs in Latin America (59.7% with strong interest) and Asia-Pacific (excl. Japan) (51.6%) (Figure 16). Globally, interest in cryptocurrencies was also very high among younger HNWIs (54.7%) compared to their older counterparts (4.7%). Additionally, 37.8% of HNWIs with assets over US$20 million and above were strongly interested in holding cryptocurrencies compared to 28.2% for those in the less-affluent (US$1 million – US$5 million) band, potentially explained by their greater ability to accommodate more speculative investments within their portfolios.

While 44.1% of HNWIs globally indicated low interest in holding or purchasing cryptocurrencies and are unlikely to be tempted into the market in the near-term, there is a segment of HNWIs who are hesitant but open-minded about the nascent cryptocurrency market – this group of on-the-fence HNWIs represents 26.9% of HNWIs globally. The entry of this group into the market could have a material effect on allocations to cryptocurrencies.

HNWIs have several cryptocurrency investment objectives, but investment returns and store of value top their list. Globally, 39.3% of HNWIs said investment return is the primary reason they would hold or purchase cryptocurrencies, with Asia-Pacific (excl. Japan) HNWIs (50.6%) citing it as a significant reason. There are a variety of likely reasons for HNWIs holding returns as a primary objective, with the major factor being its out-performance compared to an array of more traditional investment indices. For example, in 2017, while the S&P 500 gained 22.0%,[36] its highest return since 2013, cryptocurrency returns in major digital currencies recorded more than 1000% for the same period. Additionally, as noted previously, (see page 16), investment performance from the portfolio overseen by wealth management firms recorded strong 27.4% gains between January 2017 and December 2017 – robust by traditional standards, but also strikingly low in comparison to cryptocurrency returns over the same period.

34 A smart contract is a special protocol intended to contribute, verify or implement the negotiation or performance of the contract. It uses distributed ledger to perform credible transactions without third parties. These transactions are trackable and irreversible.

35 "Jamie Dimon says he regrets calling bitcoin a fraud and believes in the technology behind it", CNBC, Jan 9, 2018, accessed May 14, 2018 at https://www.cnbc.com/2018/01/09/jamie-dimon-says-he-regrets-calling-bitcoin-a-fraud.html

36 Bloomberg, "S&P 500's Risk-Adjusted Return Was Close to World-Best in 2017", February 2, 2018, accessed May 7, 2018 at https://www.bloomberg.com/news/articles/2018-02-02/s-p-500-s-risk-adjusted-return-was-close-to-world-best-in-2017

There is also a section of HNW investors in the market that believe cryptocurrencies may become gold alternatives – or at least challenge it – as 19.3% of global HNWIs cite store of value as their primary objective for holding or purchasing cryptocurrencies.

Market Infancy Keeps Cryptocurrencies from Widespread Wealth Management Adoption

Despite HNWI interest, cryptocurrency penetration into wealth management has not made much headway, due to HNWI concerns with security and market volatility, as well as a lack of focus on the part of firms.

Globally, 58.6% of HNWIs said price volatility was their primary concern about cryptocurrencies, with older investors (68.7%) more apprehensive than younger HNWIs (53.9%). Moreover, security was another top of mind concern for 58.1% of global HNWIs, with investors in the US$1 million to US$5 million band (57.6%) more anxious on this measure than ultra-HNWIs (44.0%).

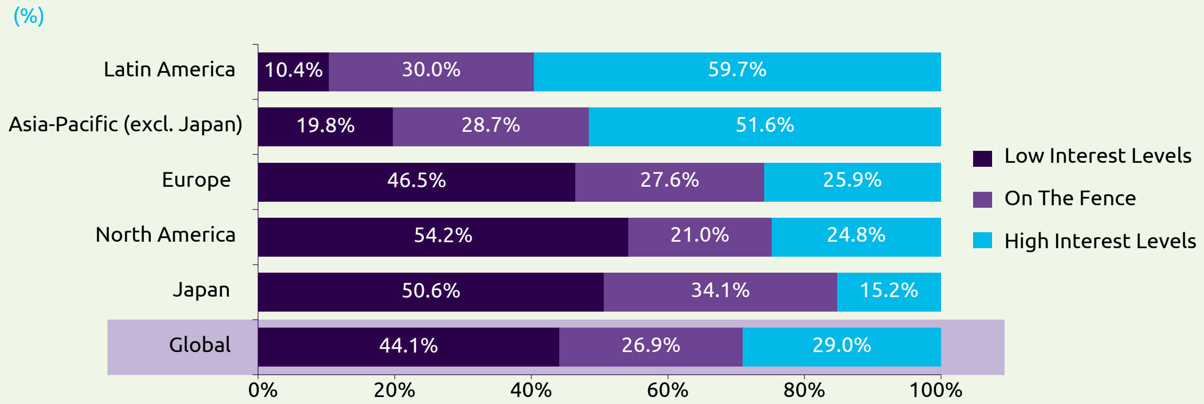
Additionally, wealth management firms have tended toward ambivalence when it comes to providing cryptocurrency information to their clients, with only 34.6% of HNWIs globally saying that they have received cryptocurrency information from their wealth managers. The reasons wealth management firms tend to be hesitant are mostly linked to the risk inherent in this investment.

Many wealth firms have unambiguously cautioned investors:

- "We do not recommend that. It's only for investors who invest speculatively. There is a realistic risk of total loss." Markus H.P. Muller, Global Head of Chief Investment Office, Deutsche Bank Wealth Management.[37]
- "This extreme volatility reflects in part that cryptocurrencies have neither intrinsic value nor any external backing. Their worth rests on beliefs regarding their future supply and demand – ultimately whether they will be successful as money," Steve Strongin, Head of Global Investment Research, Goldman Sachs.[38]

Given the context of regulatory mis-steps and reputational damage since the financial crisis, many wealth management firms are tending towards being conservative when it comes to cryptocurrencies, at least until they are better understood.

Figure 16. HNWI Interest in Purchasing/Holding Cryptocurrencies, Q1 2018 (Global and Regions)



Note: Question asked: "To what extent are you interested in purchasing/holding cryptocurrencies? Please indicate your response on a scale of 1–7 where 1 = Not at all important, 4 = Neither important nor unimportant, 7 = Extremely important"; The above percentages represent the sum of ratings 1 and 2 for "Low Interest Levels", sum of ratings 3, 4, and 5 for "On The Fence", and sum of 6 and 7 for "High Interest Levels"; Chart numbers and quoted percentages may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

37 "Crypto Investors Risk 'Total Loss,' Deutsche Warns", Bloomberg, January 29, 2018, accessed May 14, 2018 at https://www.bloomberg.com/news/articles/2018-01-29/deutsche-warns-against-crypto-currencies-risk-of-total-loss

38 "Today's Cryptocurrencies Will Go to Zero, But Stronger Digital Currencies May Still Emerge," Fortune, February 7, 2018, accessed May 14, 2018 at http://fortune.com/2018/02/07/bitcoin-price-usd-prediction-goldman-sachs-cryptocurrency/

Younger HNWIs Likely to Drive Increased Future Cryptocurrency Interest, though Regulatory Support Will Determine Pace

The nascency and volatile nature of the cryptocurrency market is likely to restrict mass adoption, however, HNWI demand for information on cryptocurrencies is set to force wealth management firms to develop related expertise.

Against the backdrop of mounting interest in cryptocurrencies globally, it will not be sufficient for wealth management firms to continue with the practice of not engaging with their HNW clients on cryptocurrency topics. 42.2% of global HNWIs surveyed for the 2018 *WWR* said that they found it extremely important to receive information about cryptocurrencies from their wealth manager, with 71.1% of younger HNWIs placing higher importance on receiving cryptocurrency information compared to 13.0% of those aged 60 years and above.

As a result, wealth management firms will need to be ready with points of views and ideas to support HNWI interest in this space, even if the firm makes a strategic decision not to provide direct investment opportunities due to a lack of comfort with the market maturity. Such action is especially important to develop connection points with younger HNWIs to support asset retention during wealth transfer.

The future for cryptocurrencies as a viable investment tool remains far from certain, especially as cryptocurrency values slumped in late 2017 and early 2018. Prices have been volatile throughout 2017 and continue to be so, as cryptocurrency market capitalization peaked in January 2018 and fell more than 60% by April.[39] Price volatility in this asset class is often cited as a concern when compared to traditional investments, as seen from the S&P 500 prices which varied within a tighter range of plus-minus 10%.[40]

As demand grows and investors begin to experience losses, regulators are more intensely scrutinizing the segment even in the absence of broadly-accepted regulatory harmonization methods.[41] Although regulation initially seemed to have constrained growth, intervention in some geographies has now evolved to allow cryptocurrencies to operate under supervision and to encourage innovative applications (Figure 17).

On a multinational level, the Financial Stability Board, a global watchdog that runs financial regulation for G-20 economies, has cautiously responded to calls from some markets to crack down on digital currencies.[42] In March 2018, the Board's chairman said that crypto-assets do not currently pose risks to global financial stability.

At a market level, Switzerland and Japan consider cryptocurrency to be legal tender backed by legislation that supports the existence of cryptocurrencies, while others such as China and India have introduced restrictive regulation.[43]

Ultimately it is a case of when, not if, wealth management firms have to begin offering insights and information related to cryptocurrencies.

The prudence shown in 2017 was understandable, given the responsibility to better understand cryptocurrencies (from client, investment, regulatory, and legal perspectives). As the market matures and regulators begin to draw a more robust playing field for cryptocurrencies, filling the void around HNWIs' demand for information will become a differentiator for many firms – especially in the context of the higher levels of demand originating from younger HNWIs. In addition, the 26.9% of HNWIs currently on-the-fence about cryptocurrencies could be a source of new assets for wealth management firms if they are able to engage them in a meaningful dialogue on the topic.

39 "Total Market Capitalization Global Charts," CoinMarketCap, accessed May 14, 2018 at https://coinmarketcap.com/charts/

40 "VIX Index Charts & Data", CBOE, accessed May 16, 2018 at http://www.cboe.com/vix

41 "Your guide to cryptocurrency regulations around the world and where they are headed," CNBC, March 27, 2018, accessed May 14, 2018 at https://www.cnbc.com/2018/03/27/a-complete-guide-to-cyprocurrency-regulations-around-the-world.html

42 The G20 is made up of 19 countries and the European Union (EU). The 19 countries are Argentina, Australia, Brazil, Canada, China, Germany, France, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the United States.

43 CNBC, "Your guide to cryptocurrency regulations around the world and where they are headed," Kate Rooney, March 27, 2018, https://www.cnbc.com/2018/03/27/a-complete-guide-to-cyprocurrency-regulations-around-the-world.html

Figure 17. Cryptocurrency Enablers and Barriers, 2017–2018 (by Market)

United States
- Feb–18: The Arizona Senate passed a bill which could allow its residents to use crypto-currencies to pay their taxes
- Apr–18: Cryptos Fund, the leading Cryptocurrency Index Fund, opens in the U.S.
- Feb–18: Major banks ban the purchase of cryptocurrencies on credit cards
- Mar–18: Google, Facebook, and Twitter ban advertisements related to cryptocurrency and ICOs

Brazil
- Jan–18: Brazil regulator prohibits local investment funds from investing in cryptocurrencies
- Apr–18: Brazilian investment firm XP Investimentos is preparing to launch a cryptocurrency exchange

Chile
- Apr–18: Major Chilean banks closed the accounts of the main cryptocurrencies trading platforms in the country
- Apr–18: Chile energy regulator adopts Ethereum blockchain

India
- Feb–18: The government does not consider cryptocurrency as legal tender
- Mar–18: RBI barred regulated lenders from facilitating cryptocurrency transactions
- Apr–18: Over US$3.6 million of cryptocurrency was stolen from Coinsecure's cryptocurrency wallet

Switzerland
- Oct–17: FINMA issues first license to cryptocurrency exchange to operate as a Directly Subordinated Financial Intermediary (DSFI)
- Feb–18: Switzerland sets out guidelines to support ICOs
- May–18: UBS has declined to offer any cryptocurrency trading to its customers

Russia
- Jan–18: Russia finalizes the Federal Law for the regulation of cryptocurrency and ICOs
- Apr–18: Cryptocurrency transactions greater than 600,000 rubles will be subject to regulations

Singapore
- Nov–17: The Monetary Authority of Singapore has published new guidelines on regulation of ICOs as securities
- Feb–18: Deputy PM declares there is no strong case to ban cryptocurrency trading
- Apr–18: Swiss startup Tangem announces it will release its first pilot Bitcoin banknotes for use

Australia
- Apr–18: Australian regulation for cryptocurrency exchanges introduced
- Feb–18: Despite declaring Bitcoin as legal tender in July 2017, the National Bank of Australia announced that it would restrict customer access to cryptocurrencies for platform-related security concerns

Japan
- Oct–17: FSA Japan allows people to pay for goods and services with Bitcoin
- Jan–18: Bank of Tokyo-Mitsubishi UFJ to launch its own cryptocurrency, MUFG Coin
- Apr–18: A government-backed research group proposed guidelines and regulations to legalize ICOs, as securities

China
- Sep–17: Seven government agencies issued a joint statement on the risk of ICO and banning of cryptocurrency exchanges
- Apr–18: China looks to crackdown on Bitcoin while creating its own cryptocurrency
- Mar–18: China willing to support a global regulatory framework established by G20

South Korea
- Apr–18: South Korean Exchanges unveil self-regulation guidelines to boost transparency
- Apr–18: Seoul to develop own S-Coin cryptocurrency to support social programs
- May–18: Lawmakers working on a bill to legalize the launch of new ICOs
- Jan–18: South Korea plans to ban cryptocurrency trading, rattles market

Legend

Enabler Event

Barrier Event

Note: MUFG - Mitsubishi UFJ Financial Group; FSA - Financial Services Agency; FINMA - The Swiss Financial Market Supervisory Authority; ICO - Initial Coin Offering; RBI - Reserve Bank of India

Source: Capgemini Financial Service Analysis, 2018; Coindesk; Ethereumworldnews; CoinTelegraph; FinancialTimes; DailyFinTech; NewsBTC; Fortune; CNBC; BusinessWire; Newsbitcoin; Economic Times; Times of India; BtcManager; CrowdfundInsider

In these early stages of embracing cryptocurrencies within the wealth management industries, firms do not necessarily need to form specific cryptocurrency-related investment recommendations or solutions. It may be enough to simply prepare and articulate a firm-wide, unique point of view and ensure front-line staff such as wealth managers and investment counsellors are able to engage in a dialogue on the topic as a relationship-deepening tool.

BigTech Entry into Wealth Management Requires Incumbents to Accelerate Hybrid Transformation and Transform Budget Approaches

- **HNWIs across the globe continue to demand hybrid advice.** HNWIs maintained their interest in the hybrid advice model, as first highlighted in 2017 *WWR,* with more than 50% globally saying it was highly important in Q1 2018. Hybrid advice forms a critical top-line growth enabler for firms, with 68.7% of HNWIs globally indicating hybrid advice was a significant factor regarding decisions related to asset consolidation with the primary wealth management firm.
- **The pace of wealth management firms' hybrid advice transformation has accelerated.** Globally, over Q2 2017 to Q1 2018 there was a 3.4 percentage point increase (or 57.1%) in the number of wealth management firms that have a hybrid-advice transformation program underway.
- **The rate of transformation progress is not fast enough given a decline in HNWIs' satisfaction with hybrid advice propositions and the potential threat from BigTechs.** Globally, already-moderate HNWI hybrid satisfaction levels noted in the 2017 *WWR* fell by 5.1 percentage points to 57.3% this year. At the same time, more than 50% of HNWIs express interest in wealth management services offered by BigTech firms, which could translate to an estimated US$12.0 trillion of potential asset flows based on the percentage of the portfolio that HNWIs would allocate to BigTech wealth propositions.
- **The widespread global entry of BigTechs into wealth management remains uncertain, although is likely to be a case of "when" rather than "if".** Entry barriers include privacy and reputational issues, on top of regulatory constraints. There is a consensus among wealth management executives that BigTech entry into wealth management will be led by Asia-Pacific, followed by North America, and eventually Europe.
- **The most-likely approach for BigTech entry into wealth management will be based on "collaboration" or "frenemy"[44] models.** Through collaboration, BigTechs and incumbents could build partnerships such as through white-labeling of incumbent firms' products and services. Alternatively, the frenemy-based model could include a utility-based model that leverages BigTechs' technology and operational scale to support wealth management firms with outsourced back- and middle-office processes, even as BigTechs compete with universal banks in areas such as payments, loans, and insurance.
- **Regardless of the BigTech entry model and time horizon, wealth management firms must transform the way they invest for the future.** To ensure flexibility and innovation in meeting the new business models that emerge from BigTech entry, wealth management firms will need to move away from "run the bank" and "change the bank" budget/investment approaches to a more dynamic portfolio-based approach across "catching-up," "maintenance," "big bets," and "ventures". Leading firms are heavily investing in innovative technologies such as intelligent automation and artificial intelligence (AI), as they attempt to prepare for an industry in which BigTech firms play a larger role.

44 We define the "frenemy" model as one in which BigTechs both compete and collaborate. Another term is "co-opetition"

HNWIs Across the Globe Continue to Seek Hybrid Advice

As described in the 2017 *World Wealth Report,* in Capgemini's definition, the hybrid business model relates to the client journey and the ability to enhance it through personalization. Hybrid advice puts HNWIs in charge of their wealth management journey by allowing them to tap into financial planning services in a modular, pay-as-you-go manner. Depending on their needs and life stages, HNWIs can choose from automated/self-service delivery, a wealth manager-led approach, or a combination of the two – the hybrid-advisory model.

In keeping with insights from our previous report, 2018 *WWR* respondents maintained interest in the hybrid advice model as more than 50% of HNWIs globally saying it was highly important, and 38.7% of survey respondents citing it as moderately important (Figure 18).

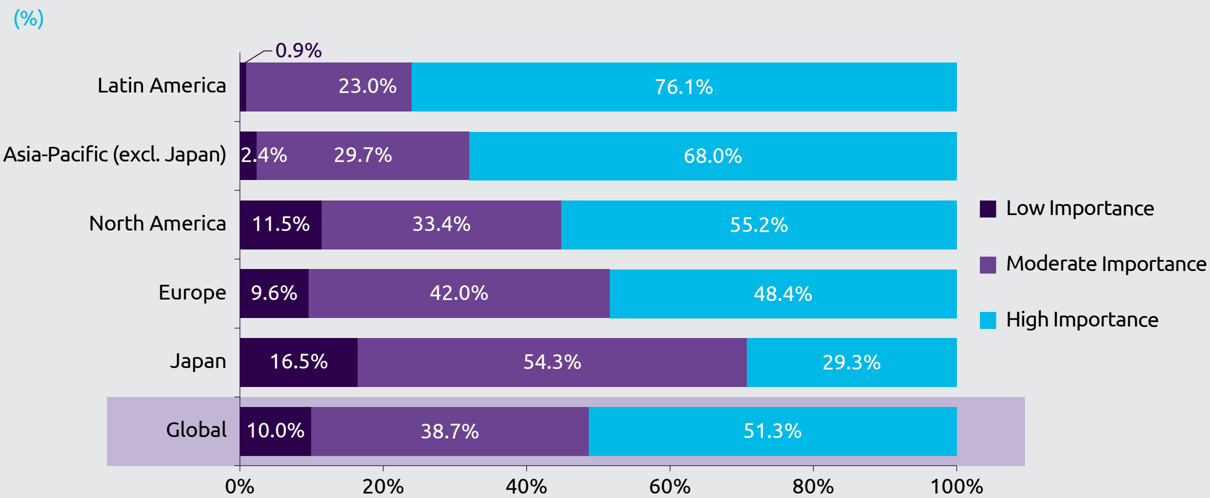
Regionally, hybrid advice was considered most important by HNWIs in Latin America (76.1%) and Asia-Pacific (excl. Japan) (68.0%). There was also strong hybrid advice importance on the part of North American HNWIs (55.2%), while HNWIs in Europe and Japan were the only regions where fewer than 50% of HNWIs cited hybrid advice as highly important. Even so, there are 42.0% and 54.3% of HNWIs in these regions, respectively, who place moderate importance on hybrid advice, indicating that it is nonetheless a key element of the value proposition.

When it came to age, 65.7% of HNWIs under 40 said hybrid advice was of high importance, compared to 42.7% of their senior counterparts (age 60 or older). Regarding differentiation by wealth band, HNWIs of all bands believed hybrid advice to be of high importance, with a range nearly between 50% to 60%.

Moreover, hybrid advice forms a critical top-line growth enabler (via asset consolidation), with 68.7% of global HNWIs indicating 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. As we mentioned in the first section of this report, HNWIs continued the global trend toward consolidation by engaging the services of 2.2 wealth management firms on average, compared to 2.6 in 2014. (see page 18) Firms' success, or lack thereof, with increasing the share of client assets on their platforms, appears therefore to be increasingly tied to their ability to deliver effective hybrid advisory propositions.

The significance of hybrid advice in decision of asset consolidation with their wealth managers over Q1 2018 to Q1 2020 was highest in Latin America (93.3%) and Asia-Pacific (excl. Japan) (90.2%). The trend is magnified for younger HNWIs as 90.6% deem hybrid advice as significant in their asset consolidation decisions – 35.8 percentage points more as compared to older HNWIs (54.8%). Although HNWIs across all wealth bands claim that hybrid advice significantly influences their asset consolidation decisions, there was an 18.0 percentage point gap between lower-band HNWIs (assets between US$1 million and US$5 million) and ultra-HNWIs (assets in excess of US$20 million).

Figure 18. Importance Level of Hybrid Advice to HNWIs, Q1 2018 (Global and Regions)



Note: Question asked: "How important is it to you that your primary wealth management firm offers a combination of personal and automated/digital self-service channels for interaction? Please indicate your response on a scale of 1-7 where 1 = Not at all important, 4 = Neither important nor unimportant, 7 = Extremely important"; The above percentage represents the sum of ratings 1 and 2 for "Low Importance", sum of ratings 3, 4, and 5 for "Moderate Importance," and sum of 6 and 7 for "High Importance"; Charts numbers may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

Wealth Management Firms Accelerate the Pace of Hybrid Advice Transformation

Wealth management firms appear to have made substantial progress in advancing hybrid advisory business model transformation compared to Q2 2017, with 57.1% of firms globally saying they had a hybrid transformation program underway – a nearly 3.4 percentage point jump over the previous year (Figure 19).

Each firm interviewed in Q1 2018 said it had made progress in its hybrid business model transition compared to the 7.3% of firms who showed no progress in Q2 2017. More than a quarter of the firms interviewed in 2018 claimed to have completed the transformation, although this may be somewhat optimistic given that, by its nature, hybrid advice transformation is likely to be a continuous process for most firms.

In addition to an improvement in the stage of transformation, the global effectiveness of hybrid advice transformation programs also increased in Q1 2018. Effectiveness scores, on average, increased from 4.0 to 5.1 on a scale of 1–7, which indicates that firms are generating positive results from their investments.

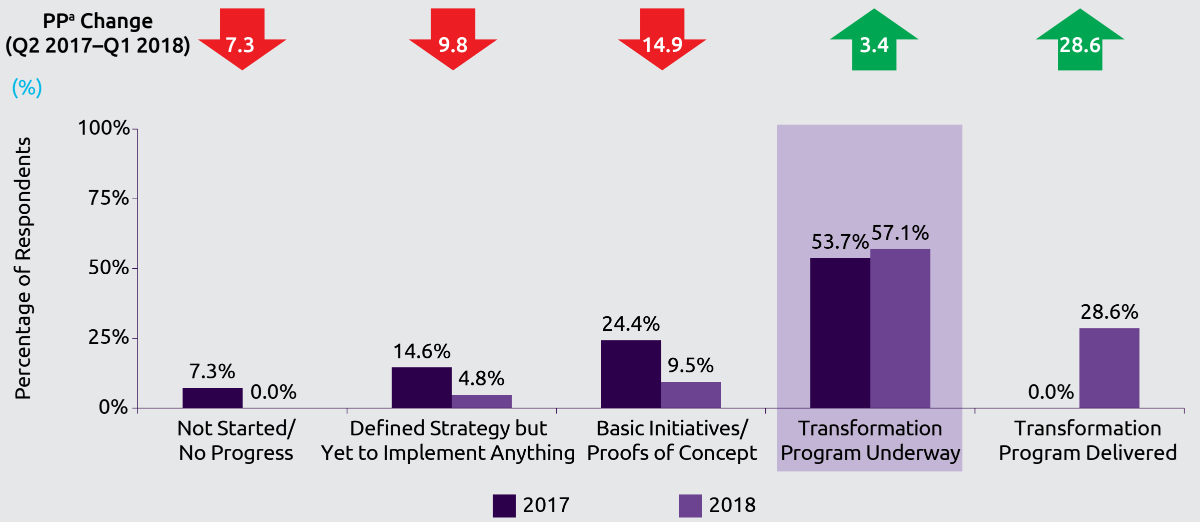
By region, firms in Asia-Pacific (5.5) and Europe (5.3) reported slightly higher effectiveness levels than peers in North America (4.6).

The accelerated progress of firms' hybrid advice transformation is being enabled by the benefits on offer. Fewer errors and better efficiency from higher wealth manager productivity combined with enhanced regulatory provisioning, were cited as major factors driving the push for hybrid wealth management. Furthermore, hybrid strategy implementation was noted as a differentiating factor on the asset and revenue side, especially for targeting younger HNWIs.

Hybrid advisory benefits to firms

- Legal and compliance requirements
- Safeguard client interests
- Cost reduction
- Improved wealth manager productivity
- Personalization
- Protect revenue from BigTech/wealth transfer
- Access new segments
- Enhanced agility
- Get to par with FinTechs
- External recognition

Figure 19. Progress Made by Firms on Hybrid Advice Transformation by Stage, Q2 2017–Q1 2018 (Global)



a. PP denotes the percentage point change in Q2 2017–Q1 2018

Note: Question asked: "Where is your firm with its hybrid advice strategy?"

Source: Capgemini Financial Services Analysis, 2018; Executive Interviews 2017, 2018

Hybrid Advice Progress Lags Client Expectation and BigTech Threat

Despite progress, hybrid transformation is not moving fast enough considering that HNWI hybrid advice satisfaction levels have declined and the BigTech threat is on the rise. Even though firms are taking significant steps toward hybrid advice transformation, Q1 2018 HNWI satisfaction levels with hybrid advice dipped compared to Q2 2017 survey results. Globally, the already-moderate HNWI hybrid advice satisfaction levels noted in the 2017 *WWR* declined by 5.1 percentage points to 57.3% in Q1 2018.

Regionally, North America witnessed the most significant drop (6.6 percentage points), although it remained the region in which the most HNWIs were satisfied with hybrid advice (72.8%). The only region to register a HNWI hybrid advice satisfaction gain was Latin America with a slight 0.7 percentage point increase, as it crossed the 70% satisfaction mark.

HNWIs under 40 (63.5%) are more satisfied with their firms' hybrid advice services than their older counterparts (56.5%). Ultra-HNWIs (65.8%) registered higher hybrid satisfaction than lower HNWI wealth bands (57.1%) – which may be rooted in ultra-HNWIs potentially having lower expectations for hybrid advice combined with the fact that they receive higher degrees of human coverage which offsets any perceived service gap.

While hybrid advice is important to HNW clients, it can also help firms serve a broader range of clients, including those who are less confident when taking financial actions. Given firms' current sluggish ability to deliver, some firms have teamed up with FinTech players in the hybrid advice space to design and deliver solutions for clients across the wealth spectrum (from mass-affluent to HNW clients).

An example is London-based B2B startup Envizage, whose holistic advice engine helps clients see what could go wrong with their plans, and explore their next best actions. It uses an interactive simulation-based scenario-planning approach that focuses on outcomes (based on different scenarios). The Envizage platform enables financial services firms and stakeholders – including asset managers, wealth managers, and automated advisory services – to offer a holistic hybrid advice model. This approach has the potential to serve the needs of less confident clients and can increase conversion rates, retention, and lifetime client value.

There remain some formidable barriers to hybrid advisory success. The primary challenge for hybrid advisory growth is the lower priority of investment and quicker returns on investment expected by most wealth management firms, as they have been struggling to optimize expenses amid the stringent regulatory environment and the resulting need to invest in human capital and systems and process improvement. Organizational resistance to change and varied client requirements were also noted as other impediments to the execution of a hybrid advisory transformation program.

Hybrid advisory challenges

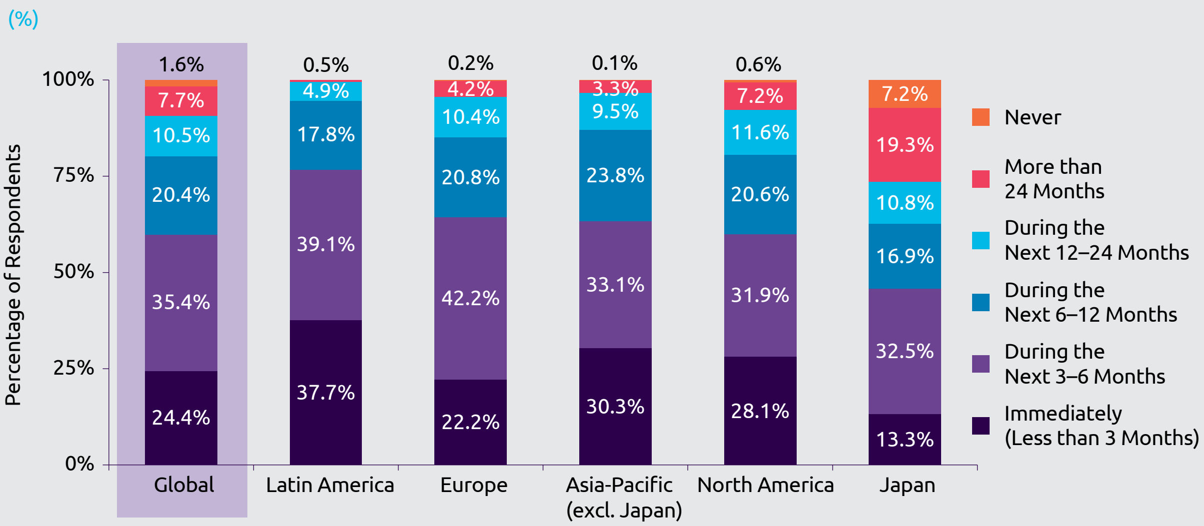
- Major focus on cost/ ROI
- Startups out-spending banks
- Mindshare devoted to regulations
- Data standards and quality constraints
- Changing legacy systems
- Internal culture change
- Lack of stakeholder buy-in
- Varied client enthusiasm
- Deployment and time-to-market challenges
- Digital initiative overload and poor viability

The need for firms to overcome such challenges has increased in urgency, given the potential for disruption from BigTechs. As of Q1 2018, HNWIs remain highly interested in receiving wealth management service from BigTechs, especially among younger HNWIs. *In fact, more than 50% of HNWIs globally expressed interest in BigTech wealth management services,* which is consistent with survey results from Q2 2017 (56.2%). The interest in BigTech wealth management was highest among HNWIs in Latin America (87.8%), while interest in Asia-Pacific (excl. Japan) (81.5%) jumped 9.0 percentage points from Q2 2017. Younger HNWIs continued to be the most open to BigTech wealth management services with 75.8% indicating significant desire compared to 21.9% of older HNWIs.

Acceptance of BigTech wealth management is growing, with nearly 60% of HNWIs globally saying they would be willing to begin a wealth management relationship with a BigTech firm within a six-month period (Q1 2018 to Q3 2018), and around 80% saying they would consider such a model within a year (Q1 2018 to Q1 2019) (Figure 20).

Across all regions, except Japan, more than 60% of surveyed HNWIs were willing to switch to BigTech wealth management services within six months (Q1 2018 to Q3 2018). HNWIs within Asia-Pacific (excl. Japan) (87.1%) and Latin America (94.6%) showed the highest levels of desire in BigTech wealth management services within the next 12 months (Q1 2018 to Q1 2019).

Figure 20. HNWI Timeframe for BigTech Wealth Relationship, Q1 2018 (Global and Regions)



Note: Question asked: "How soon would you be willing to begin a wealth management relationship with a large tech firm such as Google, Apple, Facebook, Amazon, Alibaba, or Tencent? (taking the assumption that they are offering wealth management services)"; Chart numbers may not add up to 100% due to rounding

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

Globally, younger HNWIs (under 40) appeared the most inclined to consider BigTech wealth propositions within the next 12 months (Q1 2018 to Q1 2019), with 88.4% of under-40 HNWIs indicating their willingness to begin a wealth management relationship with BigTechs as compared to 61.6% of those aged 60 years or older. Across wealth bands, inclination to join BigTechs is uniform, with HNWIs with assets between US$1 million and US$5 million (80.1%) showing a slightly lower inclination than ultra-HNWIs (89.1%).

There is consistent demand for BigTech wealth management across the wealth management client lifecycle, with HNWIs registering interest in BigTech firms servicing all key capabilities across the five stages. The highest interest level for BigTech capability servicing was within the Report stage. As we outlined in the 2017 *WWR*, using the Capgemini Hybrid Advice Framework, HNWIs' preference for specific wealth management services and interactions types is shaped by each of the five stages of the wealth management life cycle.[45] The core stages of the Hybrid Advice Framework are:

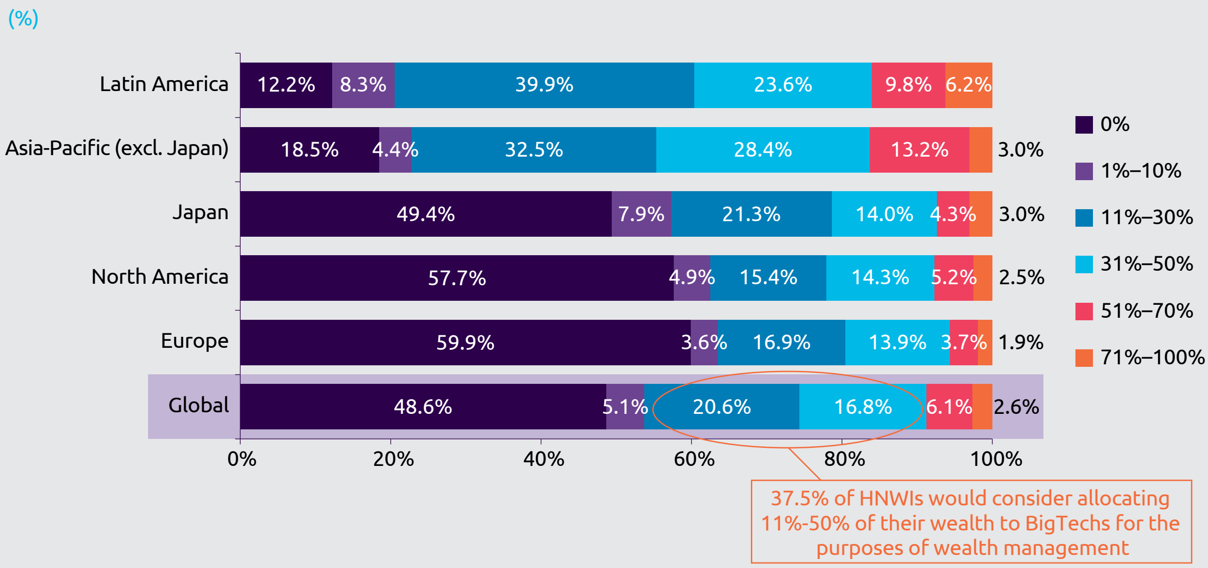
1. **PROFILE** – The client's needs are profiled.
2. **DEVELOP** – Wealth strategies are developed.
3. **EXECUTE** – Investments and advice are acted upon, executed.
4. **MANAGE** – The relationship and portfolio are managed, portfolios rebalanced and optimized.
5. **REPORT** – Performance is reported, and necessary adjustments are made.

At the earlier stages of the client journey, there is already interest in BigTech firms playing a role. Within the Profile stage, 64.6% HNWIs valued the capability to 'understand their financial situation, needs, and goals' – with younger HNWIs placing more importance compared with older counterparts (68.3% versus 60.1%). With HNWIs globally having almost uniform importance levels across all stages in BigTech capability servicing, the Develop stage saw the lowest BigTech importance levels (58.6%), although the 'capacity to provide access to research' was slightly higher at 59.3%, spurred by the 63.8% importance levels of younger HNWIs for this capability.

During the Execute stage, HNWIs expressed a strong importance (65.6%) for BigTechs to provide wealth management capabilities, with 'high standard of execution process' and 'high standard of administrative process' capabilities gaining high overall importance at 66.9% and 65.8%, respectively.

45 The Capgemini Hybrid Advice Framework is designed to help identify specific ways HNWIs prefer to interact with their wealth managers and firms based on the particular capability being rendered. The framework assesses 24 wealth management capabilities across the five lifecycle stages.

Figure 21. HNWI Financial Wealth Allocation to BigTechs, Q1 2018 (Global and Regions)



Note: Question asked: "How much of your financial wealth would you consider transferring to technology firms such as Google, Apple, Facebook, Amazon, Alibaba or Tencent, for the purposes of wealth management?"; Respondents were asked to allocate within the range of 0%, 1%-10%, 11%-20%, 21%-30%...91%-100%; Above percentages represent percentage of respondents who are willing to allocate their wealth within the shown ranges; Charts numbers may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

At the more advanced end of the lifecycle come the Manage and Report stages. Within the Manage lifecycle stage, HNWIs said it was important (64.3% importance level) that BigTech firms offer the capability to rebalance and optimize their portfolio. Within the Report stage, across all wealth management capabilities, high-quality reporting and progress reviews (71.2%) were the most important BigTech services – with much higher importance levels among HNWIs under 40 (74.5%), those in North America (83.8%), and those with US$20 million assets (72.2%).

The implication of lower HNWI hybrid advice satisfaction levels and BigTech interest is stark, with potential asset transfer to BigTech services at nearly US$12.0 trillion (Figure 21). If the BigTechs can convert even 30 basis points of these clients' assets under management (AUM) to revenue, it would mean income of US$36.0 billion annually,[46] which is almost the same as Facebook's 2017 revenues.[47] The asset transfer figure may be conservative, given that revenues may accrue to only a handful of dominant BigTechs in the manner in which they have come to dominate their existing businesses, and because the estimated figure does not account for the development of a more holistic offering, nor the potential to leverage the data and insights from wealth management penetration for other business lines. Finally, we have not accounted for the potential for a cascade effect of market entry onto HNWI interest levels, with those HNWIs currently not interested potentially seeing the value once BigTech wealth offerings go from "theoretical" to "real".

Despite Uncertain BigTech Interest, Wealth Management Entry Likely Only a Matter of Time

While HNW client interest exists, BigTech entry into wealth management at a global level remains highly uncertain for many reasons, including privacy and reputational issues, as well as regulatory barriers.

In the past five years, BigTechs globally have entered the broader financial services industry, beginning with payments and then moving into areas such as loans and insurance (Figure 22). BigTechs meet the requirements of a large user base and have software (for example, Facebook and Alibaba) and hardware (for example, Apple and Google) to succeed in the payments domain. Moreover, targeting the payments space as the initial foray into financial services allowed them to build a natural extension of their traditional platforms and leverage their existing (and collect new) consumer data.

46 The numbers calculated are based on calculating midpoint of HNWIs allocation range to BigTechs over percent of HNWIs that are willing to allocate their wealth to them. 2017 HNWI Wealth numbers have been used to arrive at the final allocation numbers.

47 "Facebook Inc", Investing.com, accessed May 16, 2018 at https://www.investing.com/equities/facebook-inc

Figure 22. BigTech Financial Services Penetration Levels (Global)

Amazon
- **2016:** Launched the Amazon Payments Global Partner Program, with the aim of building a network of merchants that would accept Amazon Pay
- **2016:** Partnered with UBS to allow people to ask Alexa (the AI smart speakers) financial questions
- **2018:** Considering use of Alexa for P2P payments
- **2018:** Partnered with Berkshire Hathaway and JP Morgan to penetrate the health care/insurance market
- **Other partnership/product launches:** Amazon Credit, Amazon Lending, and Amazon Protect

Google
- **2014:** Commissioned research on entry options in the asset management industry
- **2018:** Consolidated Android Pay and Google Wallet app into one unified brand called Google Pay
- **Other partnerships/product launches:** Lending Club and Lemonade

Facebook
- **2016:** Gets approval in Ireland for its online payment platform. The license is applicable across the European Union
- **Other partnerships/product launches:** Messenger payments, TransferWise, and Azimo

Apple
- **2005:** Founded Braeburn Capital, its own asset management company. Despite being dedicated to the management of Apple's cash reserves, it is a first step in building asset management capabilities
- **2014:** Launched Apple Pay, its own digital wallet and mobile payment service

Tencent
- **2017:** Invested US$360 million in China International Capital Corporation, one of the leading investment banking firms in China
- **2018:** Gets license to sell mutual funds to WeChat's one billion users. The platform is already used by fund houses to sell their products
- **Other partnership/product launches:** WeBank

Baidu
- **2016:** Founded its own investment management fund, Baidu Capital
- **Other partnership/product launches:** Allianz and Baidu Wallet

Microsoft
- **2017:** Acadian Asset Management terminates the previous collaboration with Microsoft as it did not find a way to turn social media data into inputs for medium-term investment algorithms
- **2018:** Plans to integrate Microsoft Pay with Outlook making it easier to pay bills
- **2018:** Partnered with Yes Bank to enable payment services on its workforce management tool 'Kaizala' in India

Alibaba
- **2017:** Yu'e Bao (Founded in 2013) becomes the largest money market fund in the world
- **2017:** Ant Fortune unveiled "Fortune Account," which allows third-party financial institutions to set up shop inside the app
- **2018:** Partnered with bKash, Bangladesh's largest mobile fund-transfer provider. Ant has been making deals with a number of overseas mobile financial services platforms since 2017
- **2018:** Alipay has pledged RMB 1 trillion in loans over the next 3 years to small and medium enterprises
- **2018:** Ant Financial wealth management arm claims surge to 622 million users with assets under management in the tune of US$345 billion
- **Other partnership/product launches:** Kakao and Apple

Wealth Management Capabilities

Other Financial Services Capabilities

Source: Capgemini Financial Services Analysis, 2018; TechCrunch; Financial Times; The Wall Street Journal; Business Insider; Reuters; Digital Trends; South China Morning Post; Windows Central

With a few exceptions such as Alibaba[48] and Tencent[49], BigTech entry into wealth management has been less pronounced because of formidable barriers to entry.

Formidable barriers to entering the wealth management industry exist in the form of regulations, client concerns around data security and privacy, and question marks around their ability to be able to offer the depth and comprehensiveness of services that many HNW clients require (Figure 23).

HNWIs surveyed in the 2018 *WWR* raised their concerns for having a wealth management relationship with the BigTechs:

- HNWIs have concerns around privacy when considering BigTech wealth management services. For example, one respondent in the 60 and above age group from the U.S. noted: "BigTech firms know too much about us already. There is no way I will turn over financial information, ever", while another respondent from Australia from the age group 50–59 had similar reservations: "I do not trust these

48 "Alibaba-Backed Wealth Firm Opens", Finnews Asia, August 16, 2017, accessed May 16, 2018 at https://www.finews.asia/finance/25286-alibaba-wealth-management-dc-wealth-hong-kong-cooper-liao

49 "Tencent gets a licence to sell mutual funds to WeChat's 1 billion users in China", SouthChinaMorningPost, January 4, 2018, accessed May 16, 2018 at http://www.scmp.com/business/companies/article/2126876/tencent-granted-licence-sell-mutual-funds

Figure 23. BigTech Differentiators and Barriers to Enter Wealth Management

Differentiators	Barriers
Established client base (and embedded in daily lives)	**Data security and privacy concerns**
Technology capability (data, analytics, speed, and innovation)	**Holistic service provision**
Brand power	**Investment execution capability**
Generational shifts (for example, the younger generation increasingly coming into wealth management)	**Regulatory environment** (including government pressure to minimize job losses and pay market-specific taxes)
Transparency potential (for example, via portfolio comparisons and wealth firm satisfaction assessments)	**Content light** (do not have financial services or wealth management expertise)
Client experience (for example, online service excellence and product quality)	**Desire for human touch** (some clients may never want a digital-only relationship)
Offering standardization (for example, equality in access to offerings for everyone)	**Personalization of services** (some client needs cannot be derived by AI at least with current technologies)
Efficiency and agility	**Cost to enter market** (especially for risk and compliance)
Service cost (some BigTechs are free or low-cost)	**Strategic alignment** (including pre-occupation with recent data scandals)
Investment capital (and shareholder patience for "long-term investments")	**Operational complexity**
	Reputational issues (linked to perceived data privacy abuse)

Source: Capgemini Financial Services Analysis, 2018

companies to hold my personal details as I do not believe they are open and transparent about how they use personal information."

- Other HNWIs were skeptical about "their lack of experience in the business", as one respondent from the U.K. (60 and above group) noted this. Another HNWI from the U.S. (60 and above group) expressed: "Concern with the experience level of the advisor. Just because you are licensed, it will not make you a good advisor. I want to see their track record."
- On the other hand, there are numerous examples of HNWIs who are eager to engage with BigTechs. One respondent aged under-40 from the U.S. insisted: "I would love to work with any company that could offer something wonderful."

BigTechs have many differentiators that may lead them to consider wealth management market entry, notably their technology capability (across data, analytics, and speed), their efficiency/agility, their existing penetration and knowledge of clients from their traditional businesses, and the relatively low cost of their services in the main. Their investment capital and ability to make more speculative investments also stood out as a differentiator especially compared to profit-constrained wealth management firms. In fact, BigTechs claimed the top five spots in the United States for research and development spending in 2017, investing a combined total of US$76 billion.[50] Also, Apple, Microsoft, and Alphabet/Google were the top three cash-rich companies in the United States with a combined total of $463.6 billion at the end of 2017, according to Moody's Investors Service.[51]

50 "Amazon spent nearly $23 billion on R&D last year — more than any other U.S. company," Recode, April 9, 2018, accessed May 14, 2018 at https://www.recode.net/2018/4/9/17204004/amazon-research-development-rd

51 "Apple, Microsoft, Google set to finally bring their offshore cash home," Financial Review, January 19, 2018, accessed May 14, 2018 at http://www.afr.com/news/world/north-america/apple-microsoft-google-set-to-finally-bring-their-offshore-cash-home-20180117-h0k2tg

There is an emerging consensus among industry experts and wealth management firm executives around the potential entry of BigTechs into the industry, which in broad terms is that market entry is a matter of "when" rather than "if". Other consensus areas include the belief that Asia-Pacific will be the first region to see the development of BigTech wealth management (indeed it is already underway), followed in order by North America and then Europe. From a client-segment lens, there is a tendency to believe that BigTech will only be applicable to the affluent and US$1 million – US$5 million segment, rather than the more bespoke private banking segment that tends to begin from US$5 million (Figure 24).

Figure 24. Expert Views on the Future of BigTech in Wealth Management

Industry View	Wealth Management Firms' View
"Although traditional financial services companies now offer mass-market financial advice via 'robo-advisers,' average U.S. customers seeking investment advice are still underserved — and platform-based digital powerhouses like Amazon are taking notice." **Luis Viceira, Professor of Finance at Harvard Business School and Co-Chair of CFA Institute Investment program, November 2017**	"Advisers have their head in the sand; they are in denial. Many think this won't affect them or their clients. I think most advisers are wrong. It's inevitable that large technology companies like Amazon, Apple, Google, and Microsoft look to expand into other industries." **Ric Edelman, Founder and Executive Chairman, Edelman Financial Services, March 2018**
"We started as a payments platform and expanded customer offerings to deposits with Paytm Payments Bank. Today, with Paytm Money, we have taken the next logical step in the direction of wealth management." **Vijay Shekhar Sharma, CEO, Paytm, January 2018**	"Clients will be curious and consider it, but they will ultimately decide based on the level of security and their resulting peace of mind with the proposition." **Managing Director, Leading U.K. Private Bank, May 2018**
"To some extent they compete in the financing, investment management, and insurance areas. The argument of regulatory hurdles barring tech giants from entering wealth management still stands for now." **Grant Rawdin, CEO, Wescott Financial, January 2018**	"BigTechs are already offering payments services and can leverage their growing cloud in this space to cross-sell insurance and other products. However in the private bank space the human-centric model remains dominant and the current maturity of AI has a long way to go in order to rival it." **Head of Investment Services, European Wealth Management Firm, March 2018**
"Alexa and Siri could one day become your financial assistant, cutting even deeper into commissions." **Lex Sokolin, Global Director of Fintech Strategy at Autonomous Research, December 2017**	"They are already present in the market and have begun to partner with local financial services institutions outside of wealth management. However what about their ability to offer the holistic services that many HNW clients demand? That is still a question mark. Ultimately the role they end up playing will depend on the openness of the ecosystem and the relative value proposition of the BigTech and the incumbent." **Chief Operating Officer, Asia-Pacific Private Bank, April 2018**
"Apple was not in the music industry, Google was not in the mobile phone industry and Amazon was not in the groceries business — until they were. Tech companies are going to enter the financial services market in a very, very aggressive way." **Robert Kapito, Co-Founder BlackRock, April 2018**	"Portfolios and investment possibilities are easy to compare, and BigTechs bring a business model built on transparency. This could enable them to disrupt this space by allowing clients to more easily compare offerings and make their own decisions." **Head of Support and Development, European Private Bank, March 2018**
"Amazon will embed itself in the fabric of the wealth management space unless the regulators intervene." **Will Trout, Head of Celent's Global Wealth Management Practice, January 2018**	"It will be naive to think that BigTechs will not enter the industry, given that we hear that younger HNWIs are interested and the BigTechs are already looking to partner in other areas of financial services. However security challenges will need to be overcome for client to use these firms' offerings." **Chief Operating Officer, North American Wealth Management Firm, April 2018**

Source: Capgemini Financial Services Analysis, 2018; Executive Interviews, 2018; WealthManagement.com, Investment News, Financial Planning, Your Story, ThinkAdvisor, Pymnts.com, Bloomberg, SloanReview

BigTech Entry Most Likely as "Collaborator" or as a "Frenemy"

White-labeling an existing wealth management firms' products and services offers one route to a mutually-beneficial "collaborative" partnership, while a "frenemy" relationship could arise via an incumbents, use of a BigTech's utility that could be used to leverage BigTech technology and operational scale to deliver outsourced back- and middle-office processes to wealth firms. All this while BigTechs compete with universal banks in areas such as payments, loans, and insurance.

Our analysis identified 13 potential scenarios and a model for BigTech entry into wealth management, across the segments of: Compete, Collaborate, Frenemy, and Other (Figure 25). Within the Compete segment, the most likely and most disruptive scenario would be a merger between a BigTech firm and a non-traditional wealth management player such as a life insurer or an online broker. Such a model would be especially disruptive in the U.S. where firms such as Vanguard and Schwab have been taking market share for several years.

Within the Collaborate segment, white labeling and selective partnership are the most likely scenarios. Wealth management firms have a clear point of differentiation around investment expertise, value-added services, and client intimacy. Where they lack compared to a BigTech is in client acquisition –which could be solved through a collaboration based on white-labelled distribution (especially relevant to asset managers) or through selective areas of partnership.

Overall however, it may be the Frenemy approach that is the most plausible. BigTechs are already competing with banks in the lucrative payments, loans, and insurance business lines, yet the jump in required capability and resulting investment to enter wealth management may lead to a more both compete and collaborate model with wealth firms. Within this dynamic, the services player and the utility model are most likely given that banks often lack the ability to leverage broad and deep client data to hone propositions, as well as lacking internal process and systems efficiency.

However, there was little consensus when looking at how industry CXOs perceived the possible models. Many scenario variations exist but, ultimately, it is likely to be the BigTechs who will guide the final model, given the inertia within traditional wealth firms.

Figure 25. BigTech Collaboration Models

Market Dynamic	Model	Example Model Scenario/ Attributes	Model Enablers (Examples)	Model Barriers (Examples)
A. COMPETE	ORGANIC NON-TRADITIONAL PARTNERSHIPS/ ALLIANCES	• Rather than tie-up with traditional wealth management firms, BigTechs look for complementary Financial Services partners such as life insurance firms or online brokers for a "dual disruption" • Example(s): Forming a partnership with Vanguard or Schwab in the U.S., wherein the broker partner brings the product access and expertise, and the BigTech leverages the client reach and digital capability	• Tie-ups with firms that share similar "disruptor/digital DNA" • Complementary capabilities (e.g., online broker has regulatory and product/ transaction capability, while BigTech has the access to clients and the digital innovation capability) • Alignment to market-specific scenarios (e.g., the broker-based wealth management model in the U.S.)	• Partner interest (potential concerns over longer-term as to whether the BigTech will eventually no longer need them) • May only be applicable to "specific markets (such as the U.S.)"
	INDIRECT ATTACK FOUNDATION	• BigTechs focus on attacking the core of a universal bank's business (retail bank offerings such as payments and loans) • As a result, banks are unable to cross-subsidize business units to the extent possible previously • Wealth management units have to be sold off	• Already started/ underway (via BigTechs entering payments, loans, and insurance industries)"	• The extent of bank profit erosion achieved • Government and regulatory reaction (especially in the case of job losses or loss of country-level competitiveness)
	INORGANIC ACQUIRE OTHER WEALTH CAPABILITY (E.G. AUTOMATED ADVISOR)	• Building on the momentum created by FinTech start-ups (while also noting their challenges to build scale), the BigTech acquires one of the market leaders (whose founders are looking for an exit) to formally enter the wealth management industry • Over-time, the roadmap could allow for the addition of more holistic services (such as third-party specialist capability referral mechanism) and human support components (such as a call centre for questions that cannot be handled by chatbot)	• Firm culture/DNA and business model match • Allows lower risk market entry (e.g., launch in a specific jurisdiction to learn) • Start-up founders looking for exit	• Inability to scaleup the investment expertise to differentiate from others (e.g., online brokers in the U.S. and the online offerings of traditional wealth management firms)
	ORGANIC IN-HOUSE DEVELOPMENT	• BigTechs begin their financial servcies expansion with retail banking services such as payments and loans • As expertise and regulatory experience is developed, BigTechs begin to offer more complex wealth management propositions via in-house capability development • Likely to focus on the base of the wealth pyramid, and not target private banking initially • Example(s): Building an in-house wealth management "expert" team supported by a strong digital platform and call centre for more difficult client support	• Can be "layered" onto existing efforts to build payments and other retail banking services	• Lack of regulatory expertise • Lack of wealth management expertise • Unclear match with core BigTech DNA (as model moves towards more traditional wealth management proposition)

Higher Likelihood | Moderate Likelihood | Unlikely

Source: Capgemini Financial Services Analysis, 2018

Figure 25. BigTech Collaboration Models (Continued)

Market Dynamic	Model	Example Model Scenario/ Attributes	Model Enablers (Examples)	Model Barriers (Examples)
	INORGANIC ACQUIRE WEALTH MANAGEMENT FIRM	• A BigTech firm, after experimenting with core financial services such as payments and loans, makes a major statement by acquiring a medium-sized wealth management firm • Acquired firm will likely be in a specific "test bed" market (such as China) and with a business model that caters to lower wealth segments	• Wealth management firm consolidation (especially in markets like Asia-Pacific) • Gives BigTech a wealth management license, key human capital, and a regulatory foundation	• Inheriting legacy issues (e.g., weak propositions, hidden compliance issues, under-performing human capital) • Culture clash and lack of business model/DNA alignment
B. FRENEMIES	UTILITY SERVICES PROVIDER	• Building on their powerful technology engines and ability to run highly efficient processes, BigTechs seek to support wealth management firms with the "hygiene" elements of their businesses • Example(s): Account payments, transaction processing, and back-end services such as trade processing	• Wealth management firms seeking to drive operational efficiency (to save costs and increase time and investment spent on proposition development) • BigTechs such as Amazon "(Amazon Web Services)" already heavily involved with financial services firms as a cloud services provider	• Regulations (though likely only in some areas such as asset custody, with others possible to be outsourced) • Profitability expectations from the BigTech (will need to be a volume play)
B. FRENEMIES	WEALTH MANAGEMENT SERVICES PLAYER	• The BigTech decides to enter wealth management, but in a B2B2C services model using innovative capabilities • Example(s): BigTech acquires an account aggregation firm (financial and non-financial data) to obtain HNW client financial data (without regulatory issues) and to drive transparency in the market, which it can then license or sell in some capacity to traditional wealth management firms for a "holistic" client-view build-out (incorporating behavioral and psychographic lenses into service provision)	• Taps into trend towards transparency • Provides compelling value-add to the client proposition (and can be industry-wide rather than bank-centric) • Strategic alignment with the DNA and business model of several BigTechs	• Availability of viable services firms to acquire or partner with • Picking the right area on which to focus investment (wide range of potential services) • Incumbent hesitance to allow such increased transparency
B. FRENEMIES	AD-HOC CAPABILITY SHARING	• Mutual capability servicing on an ad-hoc basis • Example(s): Banks/wealth management firms can support BigTechs in their own areas of specialty (an example from the payments space would be a bank helping a BigTech set-up their e-wallet for e-commerce transactions, helping the BigTech to save millions of dollars in merchant discount rate [MDR])	• Relatively ad-hoc and informal • Some discrete financial benefits can be achieved	• Not a disruptive play for either side

Higher Likelihood   Moderate Likelihood   Unlikely

Source: Capgemini Financial Services Analysis, 2018

Figure 25. BigTech Collaboration Models (Continued)

Market Dynamic	Model	Example Model Scenario/ Attributes	Model Enablers (Examples)	Model Barriers (Examples)
C. COLLABORATE	WHITE LABELLING/ DISTRIBUTION	• BigTechs decide to play to their strengths, focused around targeting propositions to their existing mass client install base using deep data. In this model, they leave the financial expertise to the incumbent firms • Example(s): BigTech white labels partner wealth management firms' products and funds to its existing install base of clients, using data-driven marketing to micro-target offerings to the most relevant clients • Example(s): BigTech serves as a marketplace for wealth management products and solutions, with incumbent firms feeding their offerings into the platform for prospective clients to browse and select	• Taps into trend towards transparency • Targets clients where they already are (on their smartphones) – Low client acquisition costs • Improved client adoption given micro targeting • Strategic alignment with the DNA and business model of several BigTechs	• Some areas (e.g., serving as a product/solution marketplace) will only apply to those wealth management firms with manufacturing/asset management arms • Incumbent hesitance to allow such increased transparency (and potential price erosion) • Loss of incumbent brand visibility (in case of white labelling)
	SELECTIVE PARTNERSHIP (E.G., MESSAGING PLATFORMS)	• Identification of specific collaboration areas, likely beginning with trial markets or propositions that could eventually be scaled up • Example(s): Messaging-based "service add-on" wherein a firm like Tencent (via WeChat) partners with a wealth management firm to provide a bank-specific application/service on clients' phones. Capabilities could include portfolio access and reporting (real-time), currency conversion (real-time), peer-to-peer discussion on investment ideas and their portfolio breakdown, and compliant client communications	• Targets clients where they already are (on their smartphones) – Low client acquisition costs • Gives innovative brand to the incumbent (as well as capabilities that many banks lack on digital platforms, such as languages) • Increases engagement with clients	• Security concerns and regulatory restrictions • Potential for drop in revenue with new pricing models for message-based engagement and transacting
	JOINT VENTURE	• BigTech firm seeks to make a major entry into wealth management, but realizes that it does not have the required capabilities and expertise, and does not wish to invest the significant amount it will take to build itself • As a result, seeks out an innovative market-leading wealth management firm to launch an exclusive joint venture, likely targeting a specific test-bed market, segment, or service	• Lower capital investment • Reduced operational complexity and risk • Deeper relationship developed with joint venture partner • Brand impact (by association with partner) • New business models possible	• Reduced control over decision making process • Allocation of effort and profit • Potentially slower go-to-market (than partnership model) • Partner interest (potential concerns over longer-term as to whether the BigTech will eventually no longer need them)

Higher Likelihood | Moderate Likelihood | Unlikely

Source: Capgemini Financial Services Analysis, 2018

Figure 25. BigTech Collaboration Models (Continued)

Market Dynamic	Model	Example Model Scenario/ Attributes	Model Enablers (Examples)	Model Barriers (Examples)
D. OTHER	REFERRALS	• BigTech firm realizes that there is a significant potential revenue stream by providing lead-generation services to wealth management firms, leveraging the vast data it has on existing and potential new HNW clients • The BigTech firm refers potential clients to the wealth management firm, based on their behavior, lifestage, attitudes, and/or needs, in exchange for a fee	• Potential simplicity • Wealth management firms' hunger for new clients and assets • Ties into many of the BigTech firms' core DNA (targeted advertising/offers)	• Lack of disruptive potential
	NO MARKET ENTRY	• BigTech firms weighs all the costs and benefits, and decides not to enter the competitive, regulated, and profitability-constrained wealth management industry	• N/A	• N/A

Higher Likelihood Moderate Likelihood Unlikely

Source: Capgemini Financial Services Analysis, 2018

Google Most Preferred BigTech for Wealth Management Globally

Google is by far the most in-demand BigTech for wealth management, although regional variations exist. Across most regions, Google emerges as the BigTech firm with which HNW clients would most want to start a wealth management relationship (Figure 26). Globally, HNWIs show primary interest in Google, with 36.7% of HNWIs having "extreme interest" in the firm. HNWI interest in starting a wealth management relationship with Google is strikingly higher for Asia-Pacific (excl. Japan) (60.8%) and Latin America (75.2%) HNWIs.

HNWIs also indicated that Microsoft, Amazon, and Apple were desirable BigTech firms for potential wealth management services. Microsoft's trust-building efforts via its LinkedIn and Bing networks and Apple's position as a customer-experience leader may be bolstering HNWIs' interest in BigTechs.

Regional variations included a higher interest in Alibaba from Chinese HNWIs, as China's ecommerce giant continues to scale across multiple services. Similarly, French HNWIs indicated higher interest in Amazon, which is ranked as the best corporate brand in France thanks to its widespread presence there across different domains and active investments since 2010.[52] Facebook scored low desirability across all regions at 22.7%, possibly due to its privacy concerns and its recent negative public relations crisis.[53]

52 "Best Brands France 2018," BestBrands, accessed May 14, 2018 at https://bestbrands.fr/laureats

53 "Facebook's PR Crisis Is a Mess of Its Own Making", Bloomberg, March 21, 2018, accessed May 16, 2018 at https://www.bloomberg.com/view/articles/2018-03-21/facebook-s-public-relations-crisis-is-a-mess-of-its-own-making

Figure 26. HNWI Interest in BigTech Firms for Wealth Management, Q1 2018 (by Market)

Market	Primary BigTech Firm Interest Levels		Secondary BigTech Interest	
India	87.3%	Google	Apple	73.3%
Indonesia	80.7%	Google	Microsoft	64.0%
Malaysia	76.6%	Google	Microsoft	64.5%
Brazil	75.4%	Google	Microsoft	67.7%
Mexico	75.0%	Google	Apple	64.5%
China	72.4%	Alibaba	Google	68.2%
Singapore	48.3%	Google	Microsoft	40.4%
Spain	47.3%	Google	Amazon	44.1%
Belgium	43.6%	Google, Microsoft	Apple	25.5%
USA	35.5%	Google	Amazon	32.5%
United Kingdom	35.5%	Google	Apple	30.8%
France	33.9%	Amazon	Microsoft	33.0%
Germany	32.0%	Microsoft	Amazon, Apple	28.0%
Canada	32.0%	Google	Apple	30.0%
Hong Kong	28.7%	Google	Alibaba, Tencent	24.1%
Netherlands	25.9%	Google	Facebook	24.1%
Australia	21.7%	Apple	Google, Microsoft	20.9%
Japan	21.3%	Google, Amazon	Microsoft	17.1%
Switzerland	17.9%	Microsoft	Google	16.1%

Note: Question asked: "Which of the following large technology firms would you be most interested in starting a new wealth management relationship with if they had all the capabilities you are currently looking for? Please indicate your response on a scale of 1-7 where 1 = Not at all interested, 4 = Neither interested nor uninterested, 7 = Extremely interested"; Ratings of 6 and 7 have been shown in the chart above

Source: Capgemini's Financial Services Analysis, 2018; Capgemini Global HNW Insights Survey 2018

BigTech Disruption Requires Firms to Evolve Investment and Budget Approach

Regardless of the BigTech entry model and time horizon, wealth management firms must transform the way they invest for the future, to ensure flexibility and innovation to deal with whatever new business models emerge. An uncertain future requires a renewed focus on investment. Interviewed wealth management firms in 2018 *WWR* opined:

- "Over the last 18–24 months, we have completely transformed the delivery model. our focus is on building capacity so that we can better serve many in the future." **COO, Asian Private Bank**
- "We are adapting ourselves to the future. Our investment into these longer-term projects (digitalization of the platform) will reduce our long-term costs." **Head of Support and Development, Leading European Private Bank**
- "The biggest investment decisions to manage disruption are taken on a global level. Our objective is to catch-up previous under-investment." **Head of Private Banking, European Wealth Management Firm**
- "This year and next our bank will set aside its largest-ever investment." **COO, U.S. Wealth Management Firm**

However, the pace of disruption – compounded by the need to protect business models from BigTech threat – is so severe that investment and budgeting approaches must move from traditional methods toward a more holistic "Budget 2.0" approach.

The traditional budget approach encompasses a *Run the Bank* and *Change the Bank* construct, the effectiveness of which has increasingly started to lag the requirement of the hybrid advisory-based business model of the future. The downsides of rigidly following the traditional approach to budgeting includes the incremental nature (wherein investments primarily focus on increasing and decreasing buckets of spend from the previous year, while adding in a few relatively small new initiatives). Additionally, new investments tend to require a highly quantitative approach to business case development and key performance indicator (KPI) measurement. A further drawback is that the *Change the Bank* spend bucket has largely comprised regulatory compliance spend for many wealth management firms in the wake of the financial crisis, which has crowded out required spend in more transformative elements of the business. Lastly, technology has often come to be seen as a cost to be minimized, rather than a revenue-generating activity.

For an increasingly exponentially-changing industry, a new approach is required – Budget 2.0 which is built on four pillars:

1. **Catch-up:** Investments allocated to upgrading tools, processes, and platforms deemed subpar with the competition. The intent is to retain competitiveness.
2. **Maintenance:** Ongoing investments in legacy systems, process improvement, training, and talent, etc. (not a differentiator).
3. **Big Bets:** Investments in significant new initiatives, such as M&A, new markets, new segments, new platforms, and new propositions. The intent is to differentiate the firm from the competition.
4. **Ventures:** Investments in experimental areas such as tools, FinTechs, direct acquisitions, new models, etc. The goal is to support internal knowledge building which may generate ROI over a longer-term period, or possibly, not at all.

While still heavily focused on the Catch-up and Maintenance pillars, wealth management firms are also making sizeable allocations to Big Bets (Figure 27). On average, firms are allocating 28.9% of their budget to maintenance and 28.4% to catching up. Ventures, naturally, get a lower but still sizable spend of 17.2%. More important than the allocation amounts is the execution of the model. In speaking with leading firms' leadership teams, we have identified several leading practices related to Budget 2.0.

These key success factors include:

- Treating the model and allocations as dynamic (will evolve with the firm's maturity development)
- Securing leadership support
- Cross-team input and buy-in to the allocations
- Execution capacity
- Experimentation via POCs (especially for bets)
- Global support but regional autonomy (to an extent)
- Treat technology expenditure as a revenue generator, not just a cost to minimize

There is some important leading practice occurring, with industry leaders adapting their approach to investment to maximize the chance for business model transformation.

One firm in Asia-Pacific is advocating the use of a portfolio-led approach to transformation investments, where potential investment initiatives are plotted across a matrix of geographies, teams, and divisions on the one hand, and the four categories of Budget 2.0 on the other. Importantly, the output is fluid over time, with some initiatives beginning in the "Big Bets" bucket and eventually moving to "Maintenance" once their worth has been proven and their impact scaled across a greater swathe of the firm.

Figure 27. Investment Budget Allocations, Q1 2018

Bucket	Description	Budget Allocation	Quotes
Catching-up	Investments into new tools, processes, and platforms deemed to be below par compared to the competition **Goal of getting to par with competition**	**28.4%**	• "Catching up is the most important." **Head of Private Bank in Europe** • "We try to anticipate needs before the others to protect ourselves against the disruptive actions of competitors." **CEO, Online Wealth Management Firm in Europe** • "We are adapting ourselves to the future." **Head of Support & Development, European Wealth Manager** • "We are a relatively new firm so no catching up to do." **CEO of U.S. Asset Management Firm**
Maintenance	Ongoing investments into legacy systems, process improvement, training, and talent, etc. **Not a differentiator**	**28.9%**	• "There is an obligation to be compliant. It is not our choice." **Head of Support & Development, European Wealth Manager** • "We are investing in a post-merger integration framework, a legacy system to be maintained and upgraded." **Chief Investment Officer and Head of Private Bank in Europe** • "Increasing capacity and flexibility of the overall platform will reduce the need for big ramp-up and ramp-downs." **COO of Private Bank in Asia-Pacific** • "Believe in incremental enhancements to ensure nothing left behind." **COO and Head of Digital Private Bank of a Global Bank** • "There is an ongoing mountainous investment, but we are transforming the system so will hopefully spend less on this area in the future." **COO, U.S. Wealth Management Firm**
Big Bets	Investments into major new initiatives, such as M&A, new markets, new segments, new platforms, and new propositions **Goal of differentiating from competitors**	**25.4%**	• "We prefer to invest in new platforms, acquisitions, and partnerships." **CEO of Asset Management Firm in Asia** • "In that way, you're taking actions to be the first mover on the market which allows you to try things out and gives you the space to make possible mistakes: You are proactive and anticipate trends." **CEO, Online Wealth Management Firm in Europe** • "We focus on Big Bets as a competitive differentiator." **CEO, U.S. Asset Management Firm** • "We pilot bets, either in niche markets, in niche segments, or with niche products." **COO of Private Bank in Asia-Pacific**
Ventures	Investments into experimental areas - tools, FinTechs, direct acquisitions, new models etc. **Goal is to support internal knowledge building and may generate ROI over a longer-term period**	**17.2%**	• "It is in the DNA of the bank to invest in and maintain a startup ecosystem." **Chief Investment Officer and Head of Private Bank in Europe** • "We make partnerships with FinTechs (not BigTechs)." **Policy Expert of a Private Bank in Europe** • "It is important to have a dynamic approach – for example one of our past ventures is now in the maintenance stage of the budget 2.0 model." **Head of Advisory Services, Wealth Management Firm in Asia-Pacific** • "We are investing in areas which are new, i.e. R&D. These are longer-term experiments to learn about those areas." **CEO, Asset Management Firm in the U.S.**

Source: Capgemini Financial Services Analysis, 2018; Executive Interviews, 2018

Another European-based private bank has created a separate global transformation budget, wherein regional divisions can "pitch" to an investment board for funding. The model differs from more traditional practices given that business case results are more geared towards learning and experimentation, and the funding for the transformation initiatives shows up as the final line item in the financial results of the region or business line, thereby not impacting profitability and encouraging more transformational investment.

AI and intelligent automation[54] are the emerging technologies that are expected to see the most investment over the 24 months through June 2020 (Figure 28).

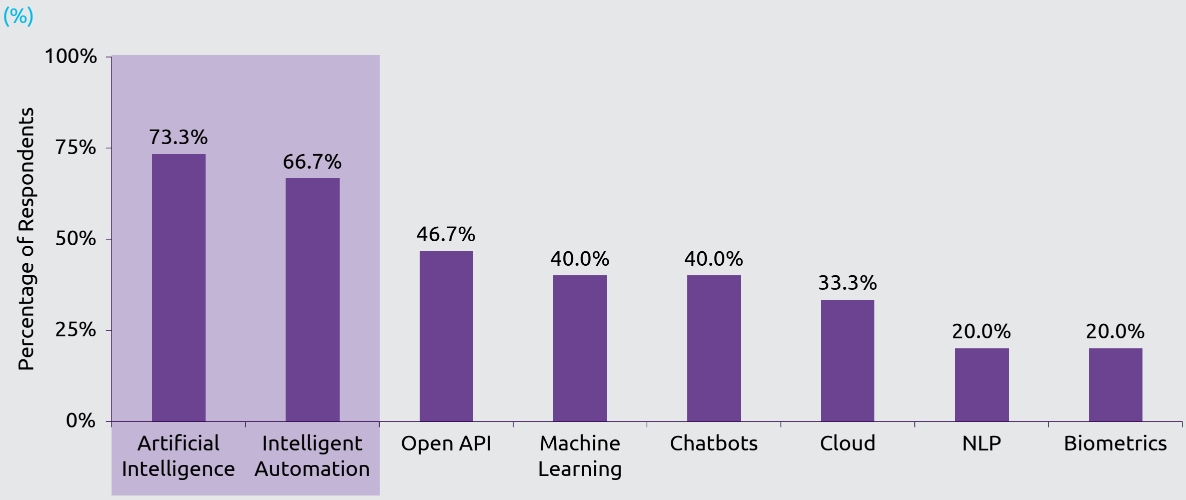
Nearly three quarters of all of the wealth management firm leadership teams interviewed in 2018, across North America, Europe, and Asia-Pacific, stated that AI and intelligent automation are their primary emerging technology focus areas through June 2020. For example, one European wealth management firm is using AI to predict HNW clients' propensity to leave the firm, looking at a range of leading indicators. Another firm in Asia-Pacific is doing a front-to-back operational process review, as a precursor to trailing intelligent automation on high-priority processes currently reliant upon error-prone, costly, and slow manual inputs.

Investments into open APIs, machine learning, chatbots, and cloud are somewhat lower on firms' investment priority lists, although there are still 33%–50% of interviewed firms who are willing to work on these tools over the coming two years.

Biometrics and natural language processing are also seeing some interest from wealth management leaders, although these are in a more experimental stage with just 20% of firms planning to invest in these areas through June 2020.

All firms realize that the technologies themselves will fall flat, or even be counter-productive, if they do not invest in the necessary change management to enable adoption and success of chosen initiatives. Change management spans the design of the program (using tools such as co-development across previously siloed functions), as well as more functional areas such as designing a communication plan to ensure the wider organization has key information at appropriate times, in order to head off potential resistance, or even more desired, to generate excitement. Likewise, training programs will need to be designed, especially in areas that require employees with low levels of digital savviness to extol to clients the value of new digital and hybrid propositions.

Figure 28. Firm Level Focus on Investment Priorities, Q1 2018 (Global)



Note: Questions asked: "What are your specific investment priorities over the next 12–18 months, especially those focused on digital transformation activities?"; Respondents were asked to respond Yes or No; Values of Yes have been shown in the chart above; NLP: Natural Language Processing; API: Application Programming Interface

54 Intelligent, or cognitive, automation is based on software that aims to automate both manual and mental processes. It is commonly associated with robotic process automation (RPA), but goes via the addition of artificial intelligence (AI) to extend the range of actions possible via RPA. The goals of intelligent automation are cost savings, improved customer satisfaction (leading to revenue), and improved quality/consistency of processes

To make any investment sustainable over the long-term, leading firms are focusing on building capacity and flexibility into their organizations. To do so requires both a mindset shift, but also a deep focus on embedding Agile[55] approaches within the organization.

Banks Will Need to Change, or BigTechs Will Change the Banks

The direction of travel for the industry seems clear – BigTech entry will occur at some point, with entry likely to begin with Asia-Pacific followed by North America.

The model is still uncertain, but the likely target will be the base of the wealth period for those with US$5 million and below in assets – a group increasingly being pushed out of private banking business models and into the premium retail banking model, where BigTechs may stand a better chance of differentiation.

Wealth management firms therefore have a choice between standing still or preparing for the new industry dynamic that is likely to arise over the coming years. *If they needed any further motivation to begin their transformations, it comes from the words of Jack Ma back in 2011, co-founder and executive chairman of Alibaba Group, "If the banks don't change, we will change the banks."*[56]

55 Agile is a project management approach that provides a rapid response methodology for change management within organizations and is based on the assumption that circumstances change as a project develops

56 "Alibaba: shaking up chinese finance", Financial Times, July 1, 2013, accessed May 23, 2018 at https://www.ft.com/content/0cae83c4-c936-367c-9bf8-d5a082c9597e

Appendix

Market Sizing Methodology

The World Wealth Report 2018 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 is provided by the World Bank, the Economist Intelligence Unit and 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 can 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.

2018 Global High Net Worth Insights Survey

The Capgemini 2018 Global HNW Insights Survey queried more than 2,600 HNWIs across 19 major wealth markets in North America, Latin America, Europe, and Asia-Pacific. Respondent demographics, as broken down by region, age, gender, and wealth band, are captured in Figure M1 and M2.

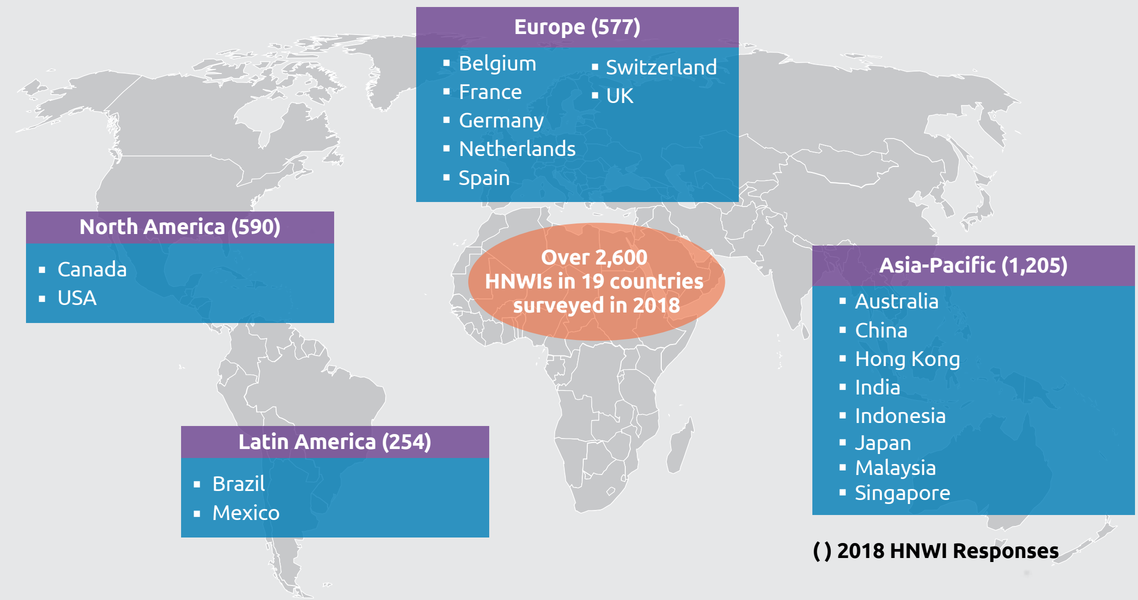
The Global HNW Insights Survey, was administered in January and February 2018 in collaboration with Scorpio Partnership, a firm with 20 years of experience in conducting private client and professional advisor interviews in the wealth management industry.

The 2018 survey covered key areas around HNWI investment behavior including asset allocation, discretionary portfolio management, cryptocurrencies, and account aggregation. The survey measured current HNWI investment behavioral patterns of global HNWIs, including their asset allocation preferences as well as the geographic allocations of their investments. The survey also covered the quality of HNWIs' personal connection with wealth managers. In addition, the survey focused on understanding the customer interactions (through wealth manager or digital channels) with the firms.

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

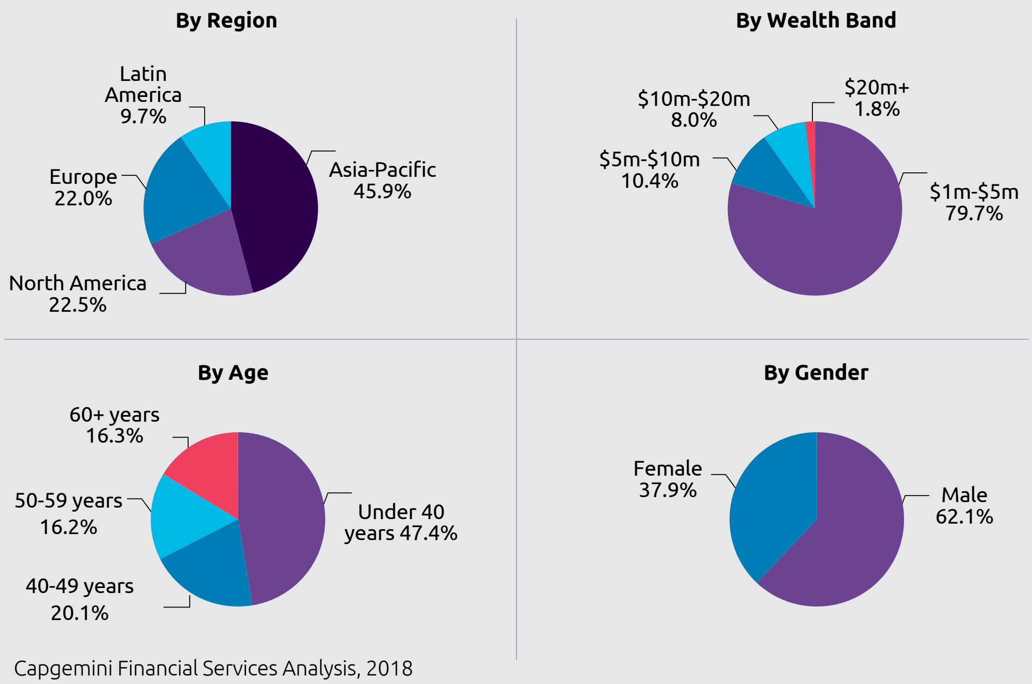
For more interactive and historical data at a regional and country level for Market Sizing and the Global High Net Worth Insights Survey, please visit **www.worldwealthreport.com**

Figure M1. Global HNW Insights Survey Responses, Q1 2018



Source: Capgemini Financial Services Analysis, 2018

Figure M2. Global HNW Insights Survey Demographic Breakdown, Q1 2018



Source: Capgemini Financial Services Analysis, 2018

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