

WORLD WEALTH REPORT 2017



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Preface

Ups and Downs Mark Wealth Management

In the 2016 *World Wealth Report*, Capgemini estimated that global High Net Worth Individual (HNWI)¹ wealth would surpass a stunning US\$100 trillion (from US\$16.6 trillion in 1996) by 2025. At the time, it seemed a bold prediction. In the 2017 *WWR*, we confirm that global HNWI wealth expansion is on track as projected, with faster growth in North America and Europe helping to offset a deceleration in Asia-Pacific. This is just one of many positive factors giving lift to the wealth management industry today.

The biggest boon in 2016 for the industry was the impressive 24.3% return that HNWIs earned on investment portfolios overseen by their wealth managers. Wealth managers also benefitted from an ongoing upswing in the trust and confidence HNWIs have in all aspects of the business. They also performed well at a global level on our first extensive examination of clients' likelihood to refer their wealth manager to others, using the Net Promoter Score® (NPS®).^{2,3}

Apart from these positive signals, however, the research pointed to an undercurrent of troubling trends. One was tepid satisfaction with wealth management firms, with HNWIs indicating concern with the fees they pay, as well as desire for a wider range of services. Additionally, a closer look at the NPS® pointed to potential problems in meeting the needs of the less-wealthy HNWIs (those with US\$1 million to US\$5 million), an important segment comprising about 90% of all HNWIs globally.

Hybrid advice,⁴ examined in detail in the spotlight section on page 26, could serve to address the overall needs of HNWIs and especially the less-wealthy HNWIs. With 71.0% of HNWIs identifying hybrid advice as a significant factor in deciding whether they place more assets with their primary wealth manager, firms cannot afford to ignore the advent of this still nascent but critical service model. The spotlight serves as a practical roadmap to implementing hybrid solutions by highlighting the specific areas in which HNWIs value self-service approaches, where they prefer that wealth managers take the lead, and where a mix of the two is desired. It also tracks acceptance of hybrid advice among HNWIs and firms, how far along firms are in implementation, and how satisfied HNWIs are with the solutions.

One of the biggest unknowns in the wealth management industry is whether BigTech⁵ firms will seek to leverage their expertise in optimizing technology and managing large customer bases to enter into the business and gain market share. BigTech interest in wealth management could result in fruitful partnerships or lead to highly disruptive competition. For in-depth analysis of the BigTech influence, please refer to page 22.

With positive growth signals being undercut by potentially seismic trends, wealth management is once again at a crossroads. We hope you find the 2017 *World Wealth Report* useful in mapping out a strategic response.



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

2 Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

3 Net Promoter Score® refers to the percentage of promoters minus the percentage of detractors. It is aimed to help firms focus on the twin goals of creating more promoters and fewer detractors, accessed September 2017 at <http://www.netpromotersystem.com/about/measuring-your-net-promoter-score.aspx>

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 will be delivered through: the amalgamation of (1) a cognitive-analytics-driven, automated/self-service delivery (such as for basic investment management); (2) a human-led delivery (such as for complex wealth structuring); or (3) a wealth manager-assisted hybrid approach – as preferred by the client"

5 This is a general term to cover data-driven technology firms not traditionally present in financial services, such as Google, Amazon, Alibaba, Apple, and Facebook



Executive Summary

HNWI Wealth Grows Around the Globe

- The big three markets – Asia-Pacific, North America, and Europe – contributed equally to the increase in HNWI growth, pushing HNWI population and wealth up by 7.5% and 8.2% in 2016. While Asia-Pacific remains the world's largest-HNWI market, its growth slowed slightly.
- A handful of markets, including Russia, Brazil, and Canada dramatically reversed course from declines suffered a year ago.
- The market rankings for HNWI population shifted considerably, with France surpassing the U.K. to take the number-five spot and Sweden moving up two places to penetrate the top 25 for the first time.
- Ultra-HNWIs reassumed their traditional role of acting as drivers of overall HNWI growth, climbing by 9.2% in terms of wealth and 8.3% in population.
- Our 2016 *WWR* projection that HNWI wealth would surpass US\$100 trillion by 2025 still holds, with global HNWI wealth needing to expand at a relatively lower annual rate of 5.9% in order to hit this mark, down from the 6.1% projected last year.

Industry Must Turn Positive Momentum into Higher Satisfaction

- HNWI benefited from robust returns (global average of 24.3%) on investment portfolios overseen by their wealth managers, earning substantial gains over lower-cost, passive index funds.
- Trust and confidence in all aspects of the wealth management industry increased significantly, building on momentum gained a year earlier.
- HNWI cited equities as vital to investment performance and had these as the leading asset class in their portfolios.
- Modest HNWI satisfaction levels could be improved by offering a broader array of non-investment service options and revamping fee structures.
- Net Promoter Score® is mostly positive, although it points to potential troubles in cementing the loyalty of the least-wealthy HNWI, who are at risk of being pushed into more commoditized wealth management services.

BigTechs Cast Long Shadow in Wealth Management

- Firms have reason to be wary of BigTechs as 56.2% of HNWI globally say they would be open to working with them.
- HNWI have high expectations of increased efficiency, transparency, online excellence, and innovation from BigTechs, but express some trepidation about privacy, security, and the lack of human involvement.
- Wealth management firms are aware of the BigTech threat, though their perceptions vary significantly across four categories: Believers, Open-Minded, Skeptics, or Resisters.
- Partnering with BigTechs could offer wealth management firms the opportunity to win over HNWI with truly innovative offerings built on the latest technologies. However, they run the risk that BigTechs will gain expertise and emerge as formidable competition.

Hybrid Advice Sets Wealth Management on New Course

- Hybrid-advice solutions in wealth management are making a big impression on HNWI, becoming just as valued as wealth manager-led offerings and even more so in some areas.
- The youngest and wealthiest HNWI, along with those in Asia-Pacific (excl. Japan) and Europe, exhibit the greatest preference for hybrid advice. Firm executives also expressed high levels of enthusiasm.
- Despite their support of hybrid-advice models and the significant potential benefits on offer, most firms have yet to roll out effective solutions.
- The pace and effectiveness of hybrid-advice efforts can be improved by focusing on people, process, and proposition-related transformation.
- While hybrid-advice models offer numerous benefits, they also raise the possibility of serious consequences for the industry. The biggest risk is getting blindsided by new digital capabilities, such as voice-based interfaces, or non-traditional competitors.



HNWI Wealth Grows Around the Globe

- **The big three markets – Asia-Pacific, North America, and Europe – contributed equally to a global increase in HNWI growth in 2016**, pushing HNWI population upward by 7.5% and wealth by 8.2%. While Asia-Pacific remains the world’s largest-HNWI market, its growth slowed slightly, putting it on par with growth rates in North America and Europe, both of which substantially boosted HNWI expansion in 2016 following slower growth a year earlier.
- **A handful of markets (including Russia, Brazil, and Canada) dramatically reversed course from declines suffered a year ago.** Russia grew both population and wealth at about 20%, the fastest of all the markets, following modest decreases a year before, while Brazil rebounded from a sharp setback a year ago to register double-digit increases in both population and wealth.
- **The market rankings for HNWI population shifted considerably**, with France surpassing the U.K. to take the number-five spot and Sweden moving up two places to penetrate the top 25 for the first time. Other markets to climb up (by one place) included Russia, Norway, and Austria.
- **Ultra-HNWIs⁶ reassumed their traditional role of acting as drivers of overall HNWI growth**, climbing by 9.2% in terms of wealth and 8.3% in population. The increase boosted growth in markets with a high proportion of ultra-HNWI wealth, such as Brazil, where ultra-HNWIs account for 87.1% of overall HNWI wealth.
- **Our 2016 WWR projection that HNWI wealth would surpass US\$100 trillion by 2025 still holds**, with global HNWI wealth needing to expand at a relatively lower annual rate of 5.9% in order to hit this mark, down from the 6.1% projected last year. To support the momentum, however, Asia-Pacific must return to setting a faster pace than the global average.

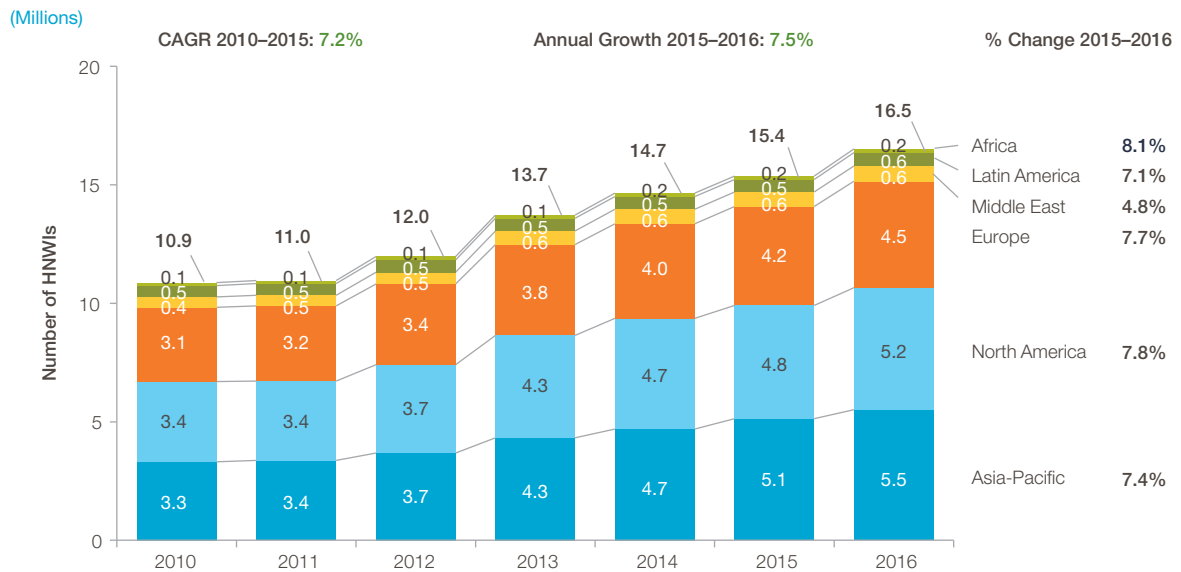
⁶ For the purposes of our analysis, we separate HNWI into three discrete wealth bands: those with US\$1 million to US\$5 million in investable wealth (millionaires next door); those with US\$5 million to US\$30 million (mid-tier millionaires) and those with US\$30 million or more (ultra-HNWIs)

HNWI Population and Wealth Expands on All Fronts

HNWI wealth and population growth surged throughout the world in 2016, catching up to Asia-Pacific's historically faster pace. Asia-Pacific, long a juggernaut of HNWI expansion and still the largest HNWI market, recorded a lively increase of 7.4% in

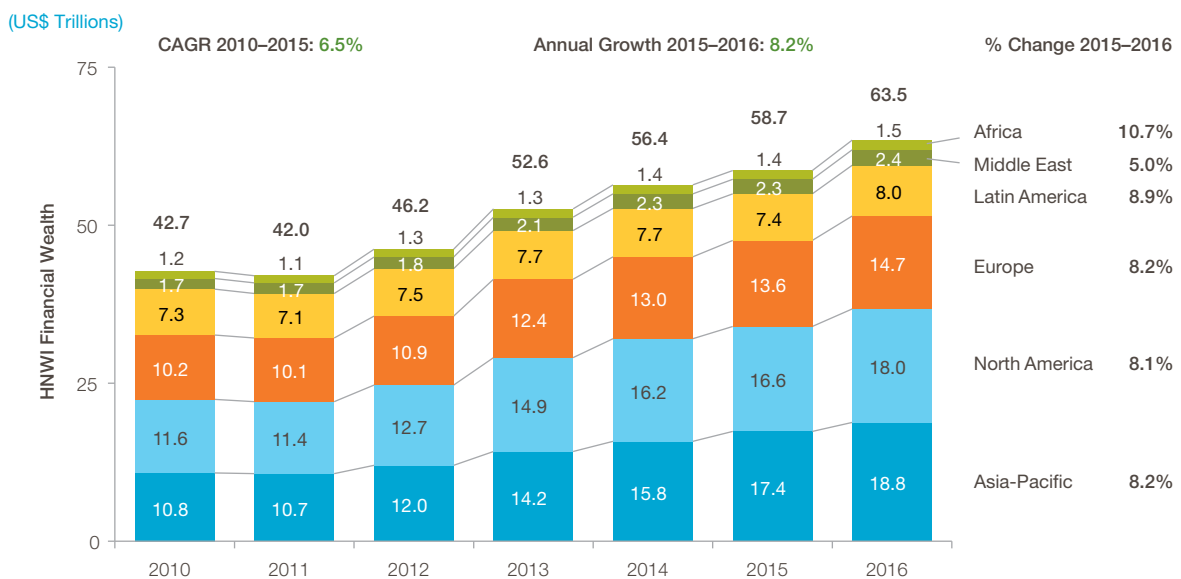
HNWI population and 8.2% in HNWI wealth. For the first time in a number of years, most of the rest of the world kept up, driving global HNWI population growth of 7.5% and wealth growth of 8.2%, a hefty increase from softer expansion in the 4% to 5% range a year earlier. The leap forward put the number of HNWIs globally at 16.5 million (Figure 1), with wealth of US\$63.5 trillion (Figure 2).

Figure 1. Number of HNWIs, 2010–2016 (by Region)



Note: Chart numbers and quoted percentages may not add up due to rounding
 Source: Capgemini Financial Services Analysis, 2017

Figure 2. HNWI Financial Wealth, 2010–2016 (by Region)



Note: Chart numbers and quoted percentages may not add up due to rounding
 Source: Capgemini Financial Services Analysis, 2017

The record numbers were the result of evenly distributed HNWI population and wealth expansion around the globe (except in the Middle East). The largest regions (Asia-Pacific, North America, and Europe) each grew HNWI population by about 7.5%, and HNWI wealth by about 8.0%. The fast pace was a big step up for North America and Europe, which had achieved growth rates of only 2.0% and 5.0% respectively a year earlier. For Asia-Pacific, the pace represented a modest deceleration from about 9.0% a year earlier.

Asia-Pacific’s HNWI market growth in 2016 was dimmed by sharp declines in equity market performance in China and Japan, both of which had acted as robust engines of HNWI growth in the past. Market capitalization in China plunged by more than 10%, and grew only modestly in Japan (Figure 8). Meanwhile, encouraging GDP expansion in Japan was offset by slower GDP growth in China, the region’s economic heavyweight. China did benefit from a strong revival of its real estate market, which expanded by 21.3%.

In North America and Europe, stronger equity markets helped resuscitate HNWI growth (Figure 7). Market capitalization growth rebounded from negative territory in 2015 to reach double-digit gains in Canada and the U.K., and a 9.1% increase in the U.S. These advances, however, were tempered by a significant slowing of the U.S. GDP growth, from 2.4% to 1.6%.

Growth Markets Dot the Globe

The fastest-growing HNWI markets in 2016 came from all over the globe, with Russia and Brazil making the most notable gains. Russia, aided by a

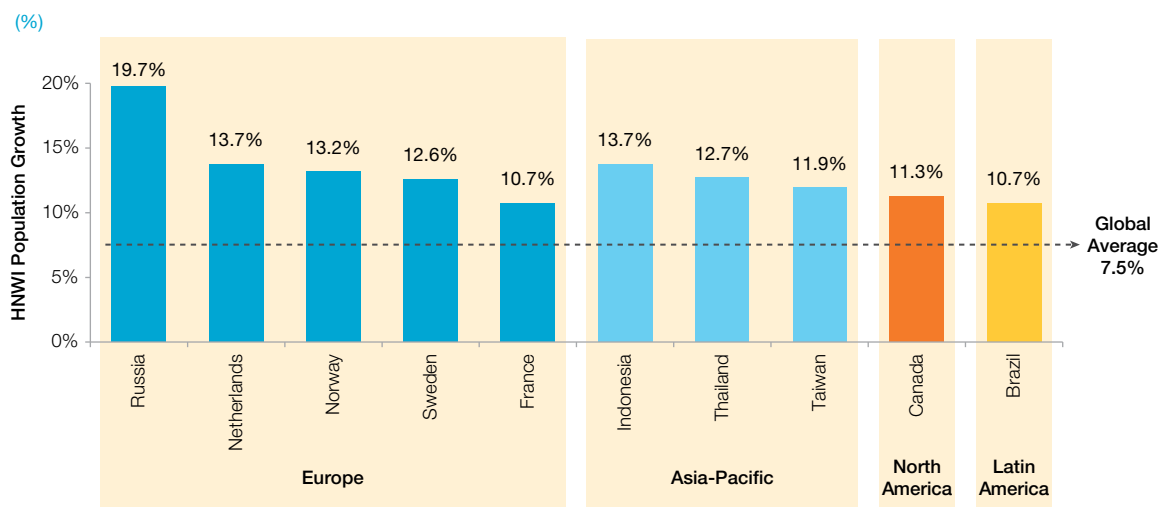
rise in its equity markets, achieved the world’s highest HNWI population growth (19.7%), a sharp reversal from a decline of 1.8% in 2015 (Figure 3). Brazil, following a striking 7.8% drop in HNWI population in 2015, recorded a 10.7% increase in 2016, thanks to exceptionally strong growth in its equity markets, as well as moderate real estate market expansion.

In Europe, the markets of Netherlands, Norway, Sweden, and France stood out from the pack with HNWI population growth levels well above global and regional averages. In the Asia-Pacific region, Indonesia, Thailand, and Taiwan were the stand-outs and in North America, Canada grew faster (11.3%) than the U.S. (7.6%).

Looking at the top four markets of the U.S., Japan, Germany, and China, they continued to account for nearly two-thirds (61.1%) of all HNWIs in 2016 (Figure 4). New HNWIs, however, emerged from a wider variety of markets during 2016. *Compared to 2015, when 81% of new HNWIs came from the top four markets, only 59% did so in 2016.*

Though the U.S. and Japan remain the largest and most mature HNWI markets, China’s influence since 2010 has been increasing. Its emergence as an economic powerhouse has made it the fastest grower of HNWI wealth and population since 2010, followed by Kuwait, Sweden, and Norway. The laggards during that time included the mature Latin American markets of Brazil and Mexico, both of which were major contributors to constrained global HNWI growth. Meanwhile, above-average growth from 2010 onward by a variety of markets, including Japan, Netherlands, the U.S., and India, balanced out weaker growth in the other key economies, including the U.K., Argentina, Australia, and Canada.

Figure 3. Notable Markets with Strong HNWI Population Growth, 2015–2016



Source: Capgemini Financial Services Analysis, 2017

One of the most notable shifts in the market rankings was France overtaking the U.K. to occupy the number-five position. France benefited from a recovery in its real estate sector (from a decline in 2015 to 1.3% growth in 2016), as well as continued moderate growth in its economy and equity markets (Figure 8). Also notable was Sweden placing among the top 25 markets for the first time by overtaking Singapore and Belgium, both of which suffered from declines in their equity markets. Other key changes included Russia (the fastest-growing market in 2016) moving past Saudi Arabia and Norway, aided by equity market growth of about 20%, surpassed Hong Kong, whose equity market was largely flat. Austria surpassed Mexico, which was the only top-25 market to witness a decline in HNWI population (due to a weak equity market).

Ultra-HNWI Growth Again Boosted HNWI Wealth in 2016

Ultra-HNWIs, with US\$30 million or more in investable assets, posted striking improvements in wealth and population, thanks in part to an upswing in Latin American economic performance. Because Latin America accounts for more ultra-HNWI wealth than any other region, it holds significant sway over the segment's overall growth. Vibrant growth in Latin America helped lift global ultra-HNWI wealth by 9.2%, up from an increase of only 2.5% in 2015. Similarly, the global ultra-HNWI population increased by 8.3%, nearly double the 4.2% recorded in 2015 (Figure 5).

Ultra-HNWI growth in 2016 was strong enough to outpace the annualized growth rate of 7.2% for population and 5.4% for wealth between 2010 and 2015. The disparity between 2016 and the five

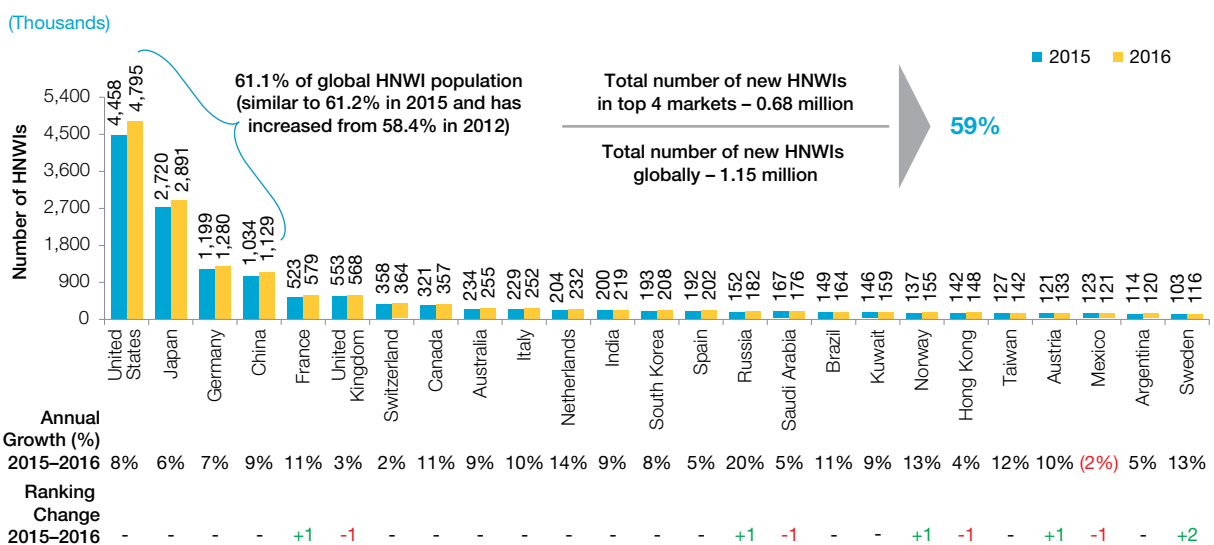
years prior was most pronounced in Latin America, where ultra-HNWI wealth grew by 9.4% in 2016, compared to an annualized 0.1% decline during the five years before. Markets with a high proportion of ultra-HNWI wealth – such as Brazil, where 87% of HNWI wealth is among the ultra-wealthy – benefited handsomely from the rise in overall ultra-HNWI wealth benefited in 2016.

With these gains, ultra-HNWIs once again took on their traditional role as the main drivers of HNWI growth. Though they make up only 1.0% of all HNWIs, ultra-HNWIs account for more than one-third (34.5%) of all HNWI wealth. Mid-tier millionaires, with US\$5 million to US\$30 million of assets, expanded their wealth and their population at 7.9% each, a slightly higher rate than HNWIs with US\$1 million and US\$5 million of assets, whose wealth and population grew at 7.5% and 7.4%, respectively.

HNWI Wealth on Track to Hit the US\$100 Trillion Projected for 2025

The world is still on its way to reaching more than US\$100 trillion in HNWI wealth by 2025 (as projected in 2016 WWR), thanks to strong global HNWI wealth growth of 8.2% in 2016, which far surpassed the anticipated rate of 6.1% annually over 2015 to 2025. Global HNWI wealth is now expected to expand by 5.9% annually through 2025 to reach US\$106 trillion (Figure 6).

Figure 4. Largest HNWI Populations, 2015–2016 (by Market)

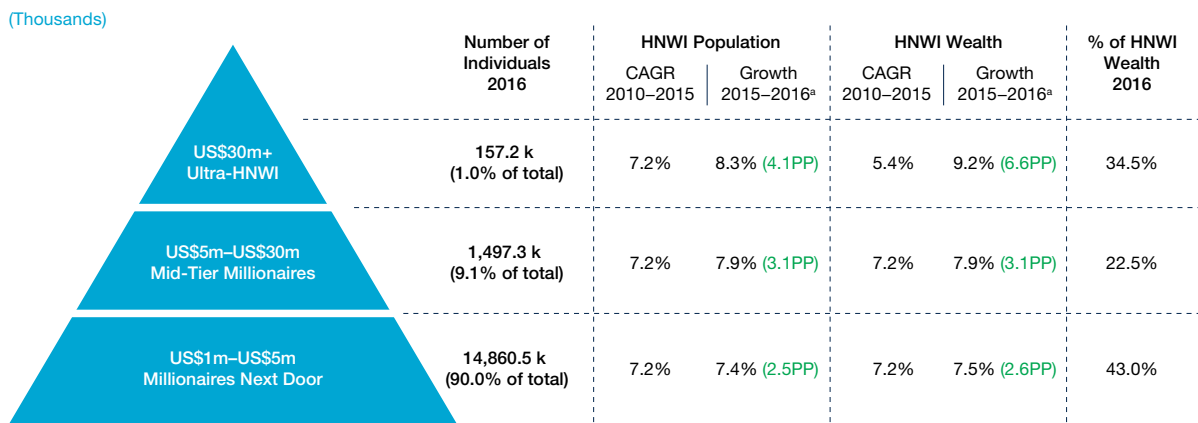


Note: Chart numbers and quoted percentages may not add up due to rounding
 Source: Capgemini Financial Services Analysis, 2017

Asia-Pacific, however, will have to pick up the pace. *To achieve the regional forecast of US\$42.1 trillion and continue to act as a driver of global momentum, Asia-Pacific will have to fulfill annualized wealth growth of about 9.4% through 2025, well above its 2016 pace of 8.2%.*

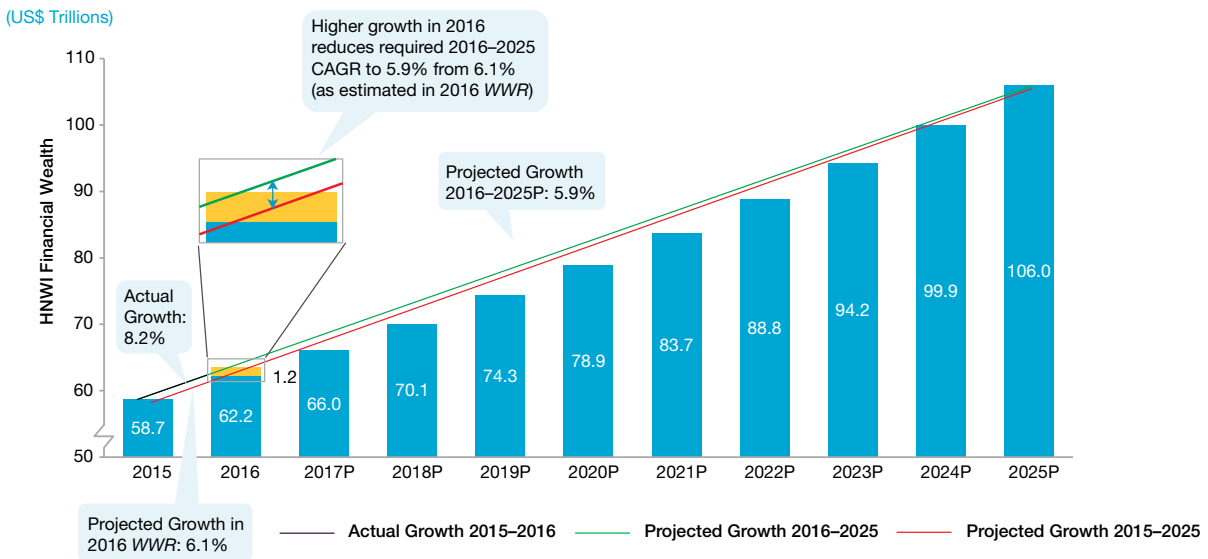
North America, meanwhile, is expected to be a secondary driver of global HNWI wealth, contributing US\$25.7 trillion of the total. That amount would represent a 42.5% expansion of HNWI wealth by 2025, significantly slower than the 60.7% increase it achieved from 2005 through 2016.

Figure 5. Global Number of Individuals per Wealth Band (2016) and Growth (2015–2016)



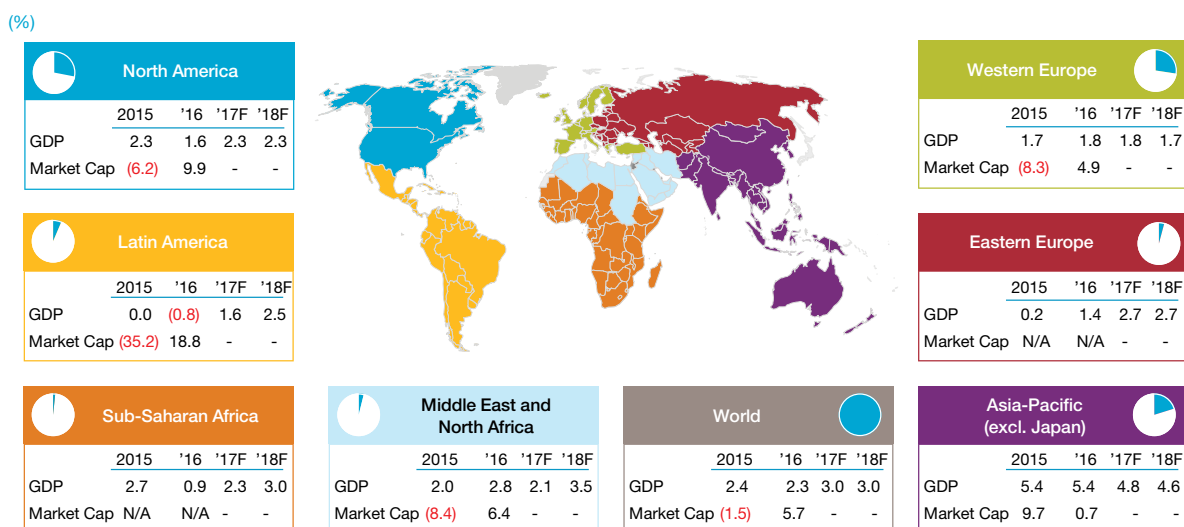
a. PP in parentheses denotes the percentage change in 2015–2016 over 2014–2015
 Note: Chart numbers and quoted percentages may not add up due to rounding
 Source: Capgemini Financial Services Analysis, 2017

Figure 6. HNWI Financial Wealth, Actual vs Projected, 2015–2025P (Global)



Note: 2025 data was projected by applying the market-level annualized growth rate from 2006–2015 for the 2015–2025 period; Projected data is for illustrative purposes; Chart numbers may not add up due to rounding
 Source: Capgemini Financial Services Analysis, 2017

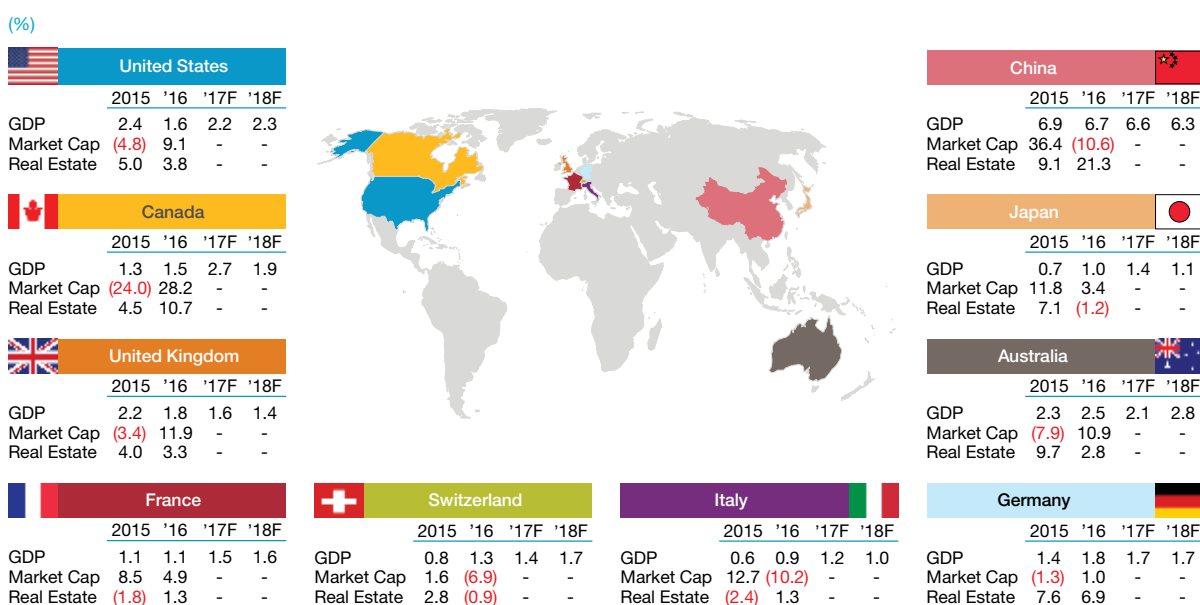
Figure 7. Real GDP and Market Capitalization Growth, 2015–18F (World and Select Regions)



Note: 2015 and 2016 GDP data from Economist Intelligence Unit; 2017 and 2018 GDP data from Consensus Forecasts, except the Sub-Saharan Africa and MENA regions; 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; 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, 2017; Economist Intelligence Unit, July 2017; World Federation of Exchanges, May 2017; Consensus Forecasts, July 2017

Figure 8. Real GDP, Market Capitalization, and Real Estate Growth, 2015–18F (Select Markets)



Note: 2015 and 2016 GDP data from Economist Intelligence Unit; 2017 and 2018 GDP data from Consensus Forecasts; 2016 Real Estate Growth is based on Global Property Guide House Price Index, March 2017

Source: Capgemini Financial Services Analysis, 2017; Economist Intelligence Unit, July 2017; World Federation of Exchanges, May 2017; Global Property Guide House Price Index, March 2017; Consensus Forecasts, July 2017



Industry Must Turn Positive Momentum into Higher Satisfaction

- **HNWIs benefitted from robust returns (global average of 24.3%) on investment portfolios overseen by their wealth managers**, earning substantial gains over lower-cost, passive index funds. HNWIs in developing markets, those with more than US\$20 million of assets,⁷ and those employing advisory mandates with their wealth managers reaped the highest returns.
- **Trust and confidence in all aspects of the wealth management industry increased significantly**, building on momentum gained a year earlier. The next generation of HNWIs (those under 40) held more trust than their more senior counterparts, while those on the lower end of the wealth scale tended to have less trust and confidence.
- **HNWIs cited equities as vital to investment performance and had these as the leading asset class in their portfolios**, largely at the expense of alternative investments. HNWIs also expressed confidence in the current environment, with 82.0% saying they believe they can generate wealth in today's market, a significant leap from 61.9% a year ago.
- **Modest HNWI satisfaction levels could be improved by offering a broader array of non-investment service options and revamping fee structures**. Global HNWI satisfaction levels were below 60.0% for both wealth management firms and wealth managers. One reason may be shortcomings in the full range of non-investment services being offered. In addition, less than half (47.8%) say they are fully comfortable with the fees they pay. The self-assessed average fee⁸ amounts to 8.4% of assets under management, though some segments pay much less.
- **Net Promoter Score[®] is mostly positive, though points to potential troubles in cementing the loyalty of the least-wealthy HNWIs**, who are at risk of being pushed into more commoditized wealth management services. On the plus side, younger HNWIs expressed higher tendency to refer their wealth management firms, especially in the U.S., Brazil, India, and China.

⁷ 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

⁸ This fee includes all gross fees, including custody fees, portfolio and advisory fees, commissions, third-party fees, and specialist one-off fees (such as fee for alternative investments)

Strong Investment Returns Benefit HNWI

*During 2016, HNWI*s grew their wealth at a fast clip (see page 6), built upon the trust they have in the providers who care for their wealth, and enjoyed double-digit returns on the investment portion of their portfolios, all of which contributed to an upbeat year for the wealth management industry.

Perhaps the most positive of the outcomes was the 24.3% return that HNWI

s globally estimated they received on investments overseen by their wealth managers. The vast majority of HNWIs (93.2%) experienced positive returns on their portfolios, with only 5.4% reporting that they lost money. These enviable returns point to the value of having managed portfolios, even in the face of rising interest in passive investing. It also bolsters the case that wealth managers should strive to oversee a greater share of HNWI wealth, beyond the roughly one-third that they currently manage.⁹

HNWI

s in Asia-Pacific (excl. Japan) and Latin America reported the highest investment returns (a nearly one-third gain), likely due to the robust economic activity (in the case of Asia-Pacific [excl. Japan]) and hearty market capitalization growth (in the case of Latin America) that can characterize developing markets. In addition, a strong tendency by HNWIs in developing markets to leverage their portfolios through credit (as identified in 2015 *WWR*) may have contributed to their impressive investment performance. Even the lowest-performing markets (Europe and Japan) turned in handsome returns, at 19.4% and 15.3%, respectively (Figure 9).

The only factor to potentially cloud investment-performance results are fees, since the results represent gross returns that do not take fees into account. Given some dissatisfaction among HNWI

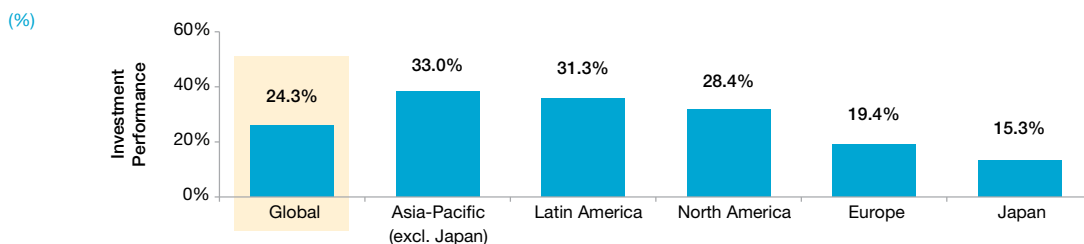
s regarding fee structures (see page 18), performance may be less impressive when fees are subtracted.

*Other beneficiaries of high returns were the wealthiest HNWI*s. Those with US\$20 million or more in assets received returns that were about 10.0 percentage points higher than for those with between US\$1 million and US\$5 million in assets (32.1% versus 22.8%). These ultra-wealthy HNWI

s may be benefiting from exclusive access to sophisticated solutions and advice. One leading Swiss bank, for example, offers a one-stop hub for business-owning HNWIs, where relationship managers provide services to entrepreneurial clients that span their full range of business and personal needs, from facilitating IPOs to investing in private equity funds. Similarly, another global wealth management firm has a worldwide client program that leverages its offices and capabilities to satisfy clients' growing appetite for international services, whether they are living, traveling, or investing abroad. Leveraging this approach, dedicated multi-lingual professional teams can act as single points of contact to global strategists.

*HNWI*s also enjoyed higher returns if they sought the recommendations of their wealth managers and followed their advice. Advised accounts had returns of 24.8%, three full percentage points higher than the returns on self-directed accounts (Figure 10), underscoring the value that can be gained by working with a wealth management firm.¹⁰ These advantages have not always been well understood, with luminaries as well-known as famed investor Warren Buffett, for example, citing the superiority of low-cost index funds over active management.¹¹

Figure 9. Performance of HNWI Financial Assets Invested with Wealth Management Firms, Q2 2017 (Global and Regions)



Note: Question asked: "Thinking about the financial assets that you have invested with wealth management firms, roughly how did they perform last calendar year?"

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

9 According to 2016 *WWR*, wealth managers oversee 32.1% of HNWI wealth. The rest is generally held as cash and in retail bank accounts, businesses, real estate, and self-directed investments

10 We defined the following three mandates in the report for analysis purposes: (1) the discretionary mandate, where HNWI

s delegate all the investment decisions to wealth managers; (2) the advised mandate, where HNWIs receive wealth managers' research and investment recommendations, and generally follow their advice; and (3) the self-directed mandate, where HNWIs do not seek investment advice or recommendations at all and use the services of wealth managers only to execute their own investment choices

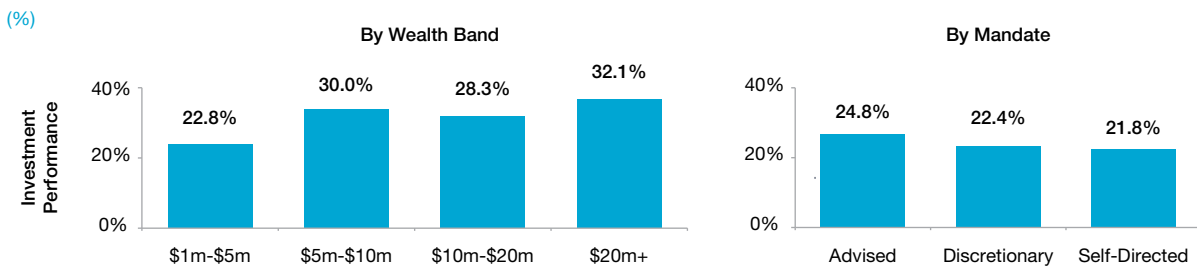
11 Warren Buffett's Annual Letter to Berkshire Hathaway Shareholders, February 25, 2017, accessed August 2017 at <http://berkshirehathaway.com/letters/2016ltr.pdf>

Our research, however, shows that accounts advised by wealth managers performed better than a wide variety of indices. The S&P 500 gained only 9.9% in 2016, which was 18.5 percentage points lower than what wealth management firms delivered in North America. In Europe, the picture was much starker, with the MSCI losing 3.4% compared to wealth management firms delivering 19.4%. In Asia-Pacific (excl. Japan), the MSCI returned only 3.8%, nearly 30 percentage points less than wealth management firms. Even in Latin America, where the MSCI delivered an impressive 27.9%, wealth managers still outperformed by 3.4 percentage points. There are a variety of likely reasons for the out-performance, including HNWI's global investment exposure¹² reducing reliance on domestic market returns as well as emerging market HNWI's focus on credit and leverage to magnify returns.¹³

Trust and Confidence Continues its Recovery

In keeping with the large leap in HNWI wealth and the impressive investment performance by active wealth managers, trust and confidence in all aspects of the wealth management industry increased significantly in 2016. HNWI attitudes specifically toward their individual wealth managers warmed tremendously, climbing nearly 20 percentage points to 78.8%, nearly on par with the trust and confidence they have in their firms (79.6%). Trust in regulatory bodies and institutions increased even more (by 22.8 PP), perhaps a reflection of greater stability due to stronger regulations aimed at normalizing the markets following the financial crisis (Figure 11).

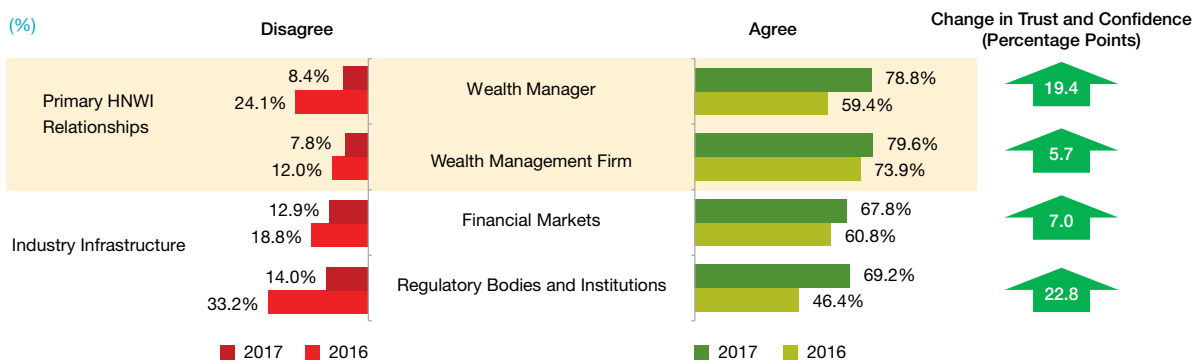
Figure 10. Performance of HNWI Financial Assets Invested with Wealth Management Firms, Q2 2017 (Global, by Wealth Band and Mandate)



Note: Question asked: "Thinking about the financial assets that you have invested with wealth management firms, roughly how did they perform last calendar year (2016)?" In general, which of these statements reflects how you work with your primary wealth management firm? The wealth held outside of wealth managers is held as cash, in retail bank accounts, business, and real estate. As, cash and real estate would not typically be "managed" by firms and hence not included here (but are in overall market sizing); Some equities, fixed income, and alternative investments may also be self-invested, and again not covered here

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

Figure 11. HNWI Trust and Confidence in Key Stakeholders, Q2 2017 and Q1 2016 (Global)



Note: Question asked: "Currently, to what extent do you agree or disagree with the following statements?" – I have trust and confidence in the... for various stakeholders listed above were analyzed based on agreement and disagreement to arrive at the percentages for HNWI trust and confidence; Respondents were asked to rate on a scale of 1–7 and the above percentage represents the sum of rating from 5–7 for Agree and 1–3 for Disagree

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

12 According to 2016 WWR, 53.9% of HNWI's globally held investments outside their home country in Q1, 2016

13 As we found out in 2015 WWR, HNWI's in the emerging markets borrow the most, with those in Latin America having the highest amount of credit (28.6%), followed by Asia-Pacific (excl. Japan) at 25.5%, which also leads the trend of using credit for investments (57.1%)

The hefty boost in confidence continues a trend noted a year ago when trust in individual wealth managers leapt by 17.0 percentage points to reach 73.9% and trust in financial markets doubled to 60.8%. This year's numbers build on that momentum, signaling a solid recovery from the trials of the financial crisis.

In Asia-Pacific (excl. Japan) and North America, trust in wealth managers and firms hovers around 90%, the highest of all the regions. Asia-Pacific (excl. Japan) is also notable for having the highest levels of trust in financial regulators (80.6%) and regulatory bodies (85.2%).

The attitudes of younger HNWI are extremely encouraging when it comes to trust. HNWIs under 40 are far more trusting than their more senior counterparts, having confidence in every aspect of the financial services business. More than 80% of younger HNWIs trust their wealth managers and firms, compared to just over 70% for those over 60 years. Younger HNWIs also have much more trust in the financial markets and regulatory bodies, perhaps because they were not as directly affected by the events of the financial crisis of 2008.

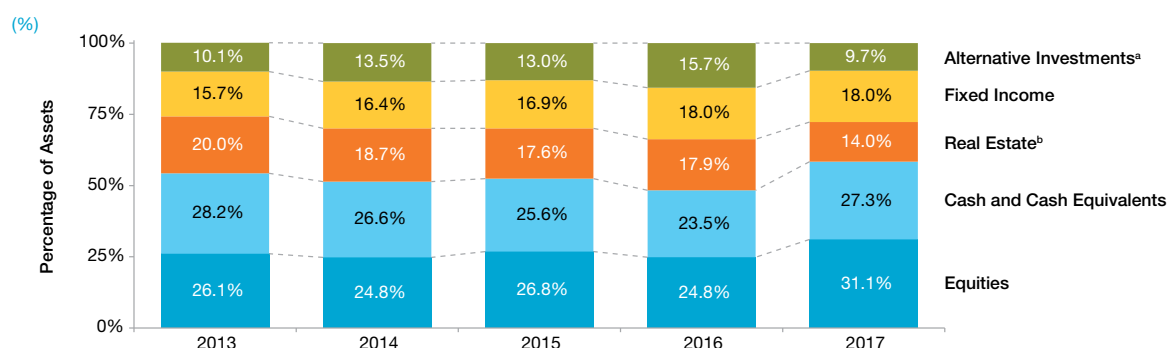
HNWIs at the lower end of the wealth scale have a healthy amount of trust in their wealth managers and firms (around 78%), but less than their wealthier counterparts (with US\$20 million or more in assets) whose trust levels are at about 90%. Less wealthy HNWIs also tend to have less trust in regulatory bodies (67.8%) compared to the wealthiest HNWIs (78.2%). Their more modest trust levels may be due to being more vulnerable to significant market dislocation. In addition, they may be worried about being demoted in importance, transferred from the private bank and into the upper end of the retail bank, as institutions increasingly experiment with the most efficient ways of serving all their accounts.

Equities Leading Asset Class in HNWI Investment Portfolios

HNWIs boosted their allocations toward equities and cash at the expense of alternative investments and real estate in 2016, as they sought to maximize investment opportunities and avoid losses. Equity investments expanded the most (by 6.3 percentage points) to account for almost one-third (31.1%) of all HNWI financial assets, a five-year high. Cash and its equivalents also jumped by a significant amount (3.8 percentage points) to 27.3%, raising the possibility that HNWIs sought cash buffers to offset their more aggressive push into equities. In Japan, where cash has always dominated portfolios, HNWIs appear to have grown increasingly cautious as market valuations reach new highs, increasing cash back to 2014 levels.

Since Q1 2016, increases in allocations of equities and cash took away from other asset classes, especially alternative investments, which declined by 6.0 percentage points to 9.7% of holdings, the lowest of any allocation. Real estate investments also narrowed by nearly four percentage points to 14.0%. Fixed income remained exactly the same at 18.0% (Figure 12). Alternative investments and real estate failed to deliver high returns in many markets, prompting the focus on equities. High-profile losses by some prominent hedge-fund firms across the globe may have eroded the luster of that investment option for some HNWIs. Likewise, HNWIs may be wary of fallout from highly valued real estate markets, as commercial and residential property prices continue to rise in many major economies.¹⁴

Figure 12. Breakdown of HNWI Financial Assets, Q1 2013–Q2 2017 (Global)



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

b. Excludes the market value of the 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, 2017; Capgemini Global HNWI Insights Survey 2016, 2017; Capgemini and RBC Global HNWI Insights Survey 2013, 2014, and 2015

14 "Fears of a 'massive' global property price fall amid 'dangerous' conditions and market slow-down", January 2, 2017, accessed August 2017 at <http://www.telegraph.co.uk/business/2017/01/02/fears-massive-global-property-price-crash-amid-dangerous-conditions>

North American HNWIs appear to be particularly skittish about the real estate market, curtailing their holdings over the past year by 4.4 percentage points to 10.7%, the lowest of all the regions except Japan. Europeans have been trimming their real estate holdings more steadily, paring them down by 8.7 percentage points since 2013. During that time, and particularly over the last year, Europeans also bumped up their equity allocations, which now account for nearly one-third (31.5%) of all their investments. The jump in equities likely reflects emboldened investor confidence as the political climate settles down and economic growth kicks in. Indeed, many more European HNWIs (84.9%) now believe they can generate wealth, up from 62.5% a year earlier. Latin American HNWIs continue to be the largest holders of real estate, though the percentage from 2013 is down by nearly 10 points, to 20.3% in 2017. They remain the least likely to hold equity (at 20.0%), though that percentage has increased steadily over the years (Figure 13).

HNWIs over 60 are slightly more likely to favor cash and equivalents (29.7% versus 28.1% for HNWIs under 40), probably because they are seeking to preserve their wealth, rather than grow it. Retired HNWIs may also be keeping cash on hand to fund their lifestyle needs. Accordingly, younger HNWIs are more attracted to equities (29.4%) compared to older ones (25.5%). The same pattern holds true when allocations are examined by wealth segment, with the least wealthy HNWIs (with between US\$1 million and US\$5 million in assets) more likely to invest in equities (36.1%), compared to the wealthiest HNWIs (28.5%), who are more likely to shun risk in favor of wealth preservation and improved liquidity. In addition, cash is more likely to figure in the portfolios of very wealthy HNWIs (30.0%), compared to the less wealthy (26.7%).

Allocations of self-directed HNWIs differed by relatively small degrees from those who had discretionary or advised accounts. Self-directed HNWIs were somewhat more likely to invest in equities compared to those with more advice-driven mandates, and less likely to allocate toward alternative investments or fixed income.

Their upbeat investment performance during 2017 caused HNWIs to reach two major conclusions. First, they garnered more faith in their ability to generate wealth. Well over three-quarters of investors (82.0%) believe they can generate wealth in today's market, representing a large leap from 61.9% in 2016, and sending a vote of confidence in the current environment. Secondly, *HNWIs see equities as greatly contributing to the positive returns they achieved. More than 90% of HNWIs cited equities either as an important or the most important contributor to their investment performance, followed by fixed income at 76.8%* (Figure 14).

Equities were cited as the greatest contributor across all regions, ages, and wealth segments. After equities, alternative investments were cited as an important factor by 17.8% of ultra-HNWIs, while fixed income was second-most important to HNWIs with between US\$1 and US\$5 million in assets. Looking at investment performance by asset classes, equities are the most important contributors to investment performance for 60.0% of self-directed HNWIs (49.4% for discretionary and 50.0% for advised). The contribution of fixed income securities to HNWIs using a discretionary investment management approach was highest at 24.1% (23.1% for advised, and 17.2% for self-directed).

Figure 13. Breakdown of HNWI Financial Assets, Q2 2017 (by Region)



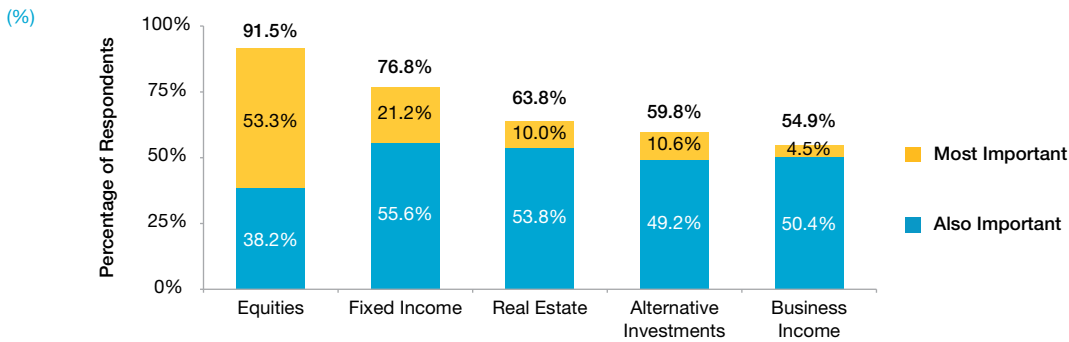
a. Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity

b. Excludes the market value of the 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, 2017; Capgemini Global HNW Insights Survey 2016, 2017; Capgemini and RBC Global HNW Insights Survey 2013, 2014, 2015

Figure 14. Contribution of Asset Classes to HNWI Investment Performance, Q2 2017 (Global)



Note: Question asked: "How important was the contribution of the following asset classes to investment performance?"
 Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

Fees May Play Role in Low Satisfaction Rates

Despite the positive momentum driving wealth management – with HNWI financial wealth, portfolio returns, and confidence all riding high – the industry is falling short in its ability to deliver high levels of satisfaction and value around a full range of services. Close to 90% of HNWIs cited investment management and financial services as valuable (as reported in the 2016 *World Wealth Report*) (Figure 15). However, a host of other services, including tax and legal advice, estate and trust management, retirement solutions, banking and insurance, and philanthropic efforts, are also valued by HNWIs. This points to a need for firms and wealth managers to better showcase the full range of services they have to offer.

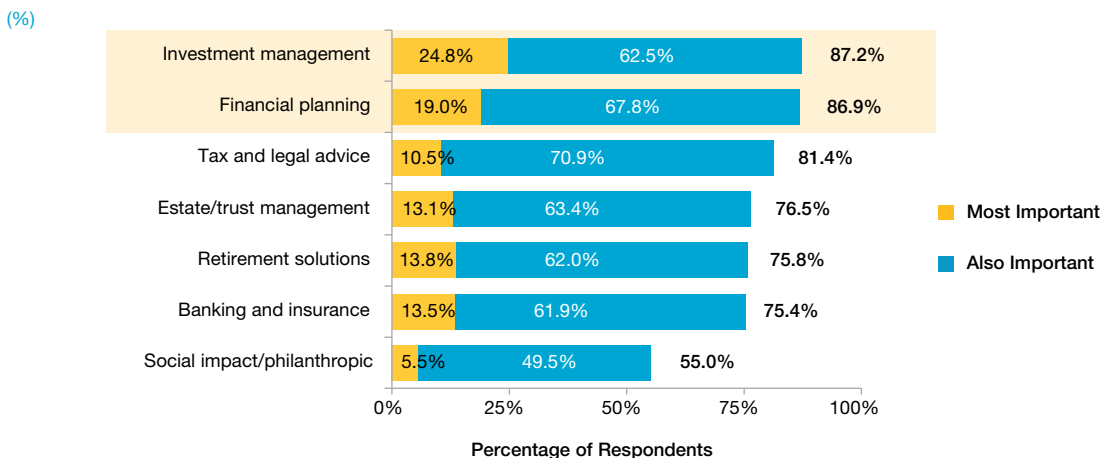
Wealth managers and firms are also falling short when it comes to delighting their clients. HNWI satisfaction level with their firms and wealth managers is muted at

58.5% and 56.3% respectively. North American HNWIs were the only ones to break out of the 50% range, with satisfaction reaching of 69.8% for firms and to 66.6% for managers. Japanese HNWIs registered the lowest satisfaction, in the 40% range (Figure 16). Younger HNWIs were harder to please than older ones (as seen in 2016 as well), with those under 40 just failing to reach the 50% mark in terms of satisfaction and those over 60 expressing satisfaction in the range of 60%.

Fees may be a factor in the undercurrent of low-level satisfaction. Only 47.8% of HNWIs globally say they are fully comfortable with the level of fees charged for wealth management services. Satisfaction is highest in North America (61.6%), followed by Asia-Pacific (excl. Japan) (57.4%), Latin America (51.4%), and Europe (44.1%). Japanese HNWIs are the least comfortable at 20.0% (Figure 17).

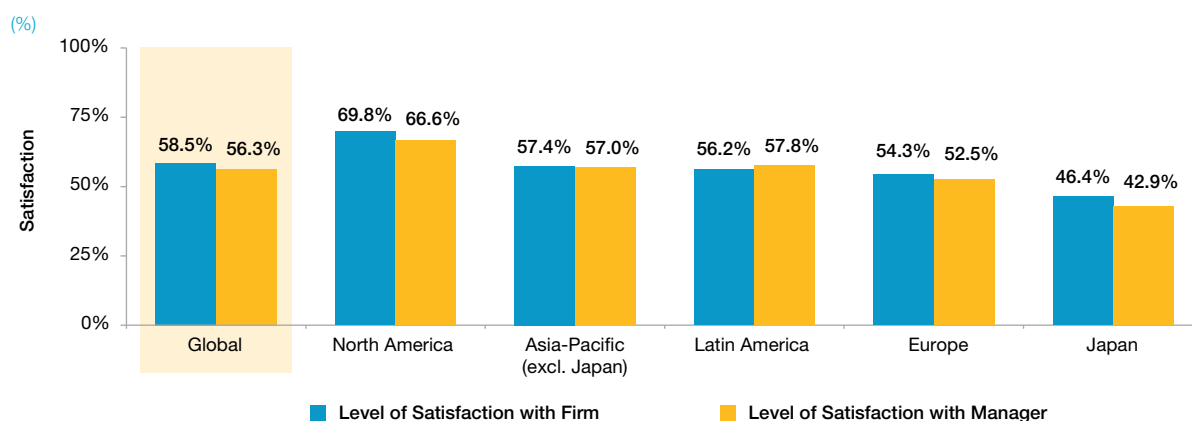
HNWIs under 40 and those with more than US\$20 million of assets were, relatively, the most comfortable with the fees they were charged.

Figure 15. Most Valuable Wealth Management Services for HNWIs, Q1 2016 (Global)



Note: Question asked: "Given your current circumstances, how valuable are the following wealth management services to you?"
 Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2016

Figure 16. HNWI Satisfaction with Wealth Firm and Primary Wealth Manager, Q2 2017 (Global)



Note: Question asked: "How satisfied are you with your primary wealth manager (the individual who manages your wealth) and your primary wealth management firm? Please indicate your response on a scale of 0%–100%. 0% = Not at all satisfied and 100% = Completely satisfied"; Average values have been shown in the chart above

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

Of younger HNWIs, 53.5% were accepting of fees, compared to only 39.6% of those over 60. These younger HNWIs also enjoyed better returns than those over 60 (27.4% versus 19.3%) and could more easily link those returns to investment advice since more of them sought and followed the advice of their wealth managers (63.6%), compared to those over 60 (52.1%). Similarly, ultra-HNWIs were more comfortable with their fees than those on the lower end of the wealth scale (64.1% versus 46.5%), a sentiment that could perhaps be tied to their healthier investment returns (32.1% versus 22.8%) and greater wealth.

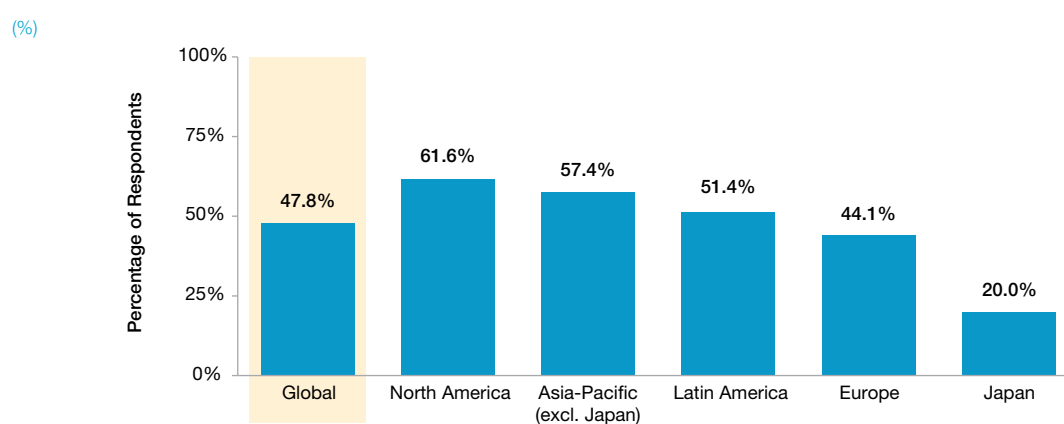
The overall level of the fee was slightly less a concern (18.9%) than the value delivered (22.9%) and the transparency on fees and services (20.9%). Value was the top concern across wealth segments, as well as

for younger HNWIs and those with an advice-driven approach to wealth management. Self-directed HNWIs were most concerned about transparency, while older HNWIs most questioned the overall fee level.

HNWIs globally pay an average of US\$65,795 in annual fees, which amounts to a fairly high 8.4% of assets under management, though some segments pay much less. In terms of percentage of assets, HNWIs with more than US\$20 million in assets pay less than those with between US\$1 million and US\$5 million (5.2% versus 8.6%).

North American HNWIs pay much less than their counterparts in the rest of the world on fees, perhaps explaining their greater comfort with them. The North American rate of 6.1% compares to a high of 11.8%

Figure 17. HNWI Comfort Level with Fees, Q2 2017 (Global)



Note: Question asked: "Given the performance of your assets and the service you received from your primary wealth management firm, how comfortable were you with the fees you were charged in 2016? Please indicate your response on a scale of 1–7. 1 = Not at all comfortable, 4 = Neither comfortable nor uncomfortable, 7 = Extremely comfortable"; Ratings of 6 and 7 have been shown in the chart above

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

in Latin America, 10.5% in Europe, 9.0% in Asia-Pacific (excl. Japan), and 8.0% in Japan. HNWI in Latin America and Europe would most like to see their fees come down (by 1.9 and 1.7 percentage points, respectively), followed by those in Japan (by 0.6 points). HNWI in Asia-Pacific (excl. Japan) seem to be the most satisfied with their fees, paying 9.0% but citing 8.9% as ideal.

Net Promoter Score® Raises Concerns about Lower HNWI Wealth Segments

A detailed look at the willingness of HNWIs to recommend their wealth management firm to others using the NPS® signals a future that is mostly positive, despite some worrisome trends. *Overall, the Net Promoter Score® is encouraging, with HNWIs in North America signaling the highest level of satisfaction with NPS® at 45.2, followed by Latin America at 33.9 and Asia-Pacific (excl. Japan) at 31.4. However, Japan, with its score of -51.3, brought the global average down to 11.6* (Figure 18).

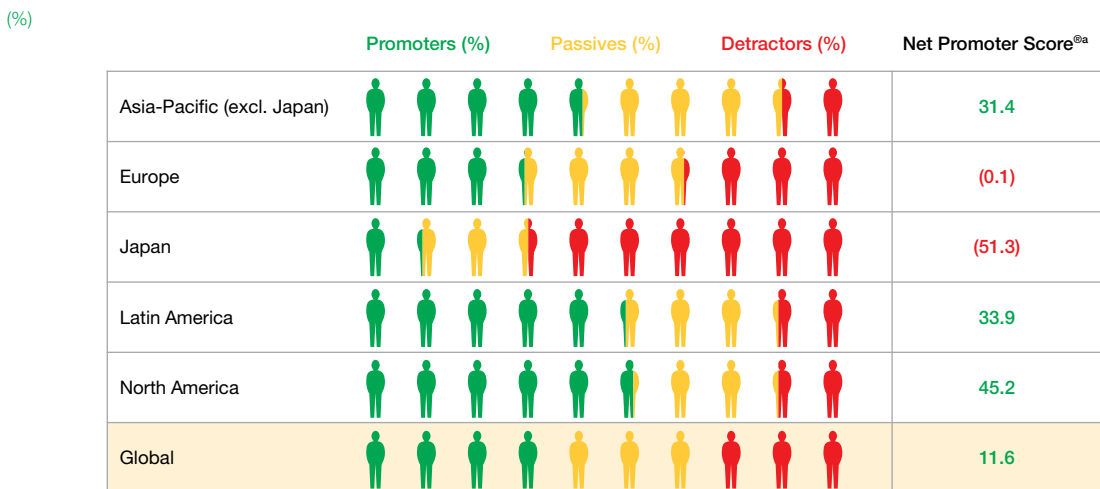
Perhaps the most positive aspect of the NPS® findings is that younger HNWIs are far more likely than those over 60 to recommend their wealth management firm (19.8 versus -6.1), with the rates being especially high

in the U.S. (52.2), Brazil (51.8), India (46.1), and China (45.7). Enthusiasm for wealth management among the younger generation is an overwhelmingly positive development, as it puts the industry in position to thrive going forward.

For individuals with investment performance above the global average of 24.3%, we see a significant improvement in NPS® in this scenario. Asia-Pacific (excl. Japan) has an NPS® of 45.9, while Latin America sees a 27.8 point move upwards to 61.7. North America sees an NPS® of 56.1 while Japan again improves its NPS® to negative 27.1, a 24.2 point shift.

Other NPS® findings point to potential problems. *Female HNWIs are less likely to recommend firms than male HNWIs (7.7 versus 12.6)*, an issue that may develop over time as female HNWIs continue gaining in prominence, and as wealth transfers to spouses. More troublesome is the chasm in satisfaction that exists between ultra-HNWIs and those on the lower end of the wealth spectrum. *HNWIs with more than US\$20 million of assets have an NPS® of 32.0, compared to only 9.1 for those with US\$1 million to US\$5 million*, a potentially foreboding trend, given that less-wealthy HNWIs account for about 90% of all HNWIs globally. Wealth managers need to make every effort to ensure the satisfaction of this important group (Figure 19).

Figure 18. Likelihood of Recommendation Based on Experience, Q2 2017 (by Region)



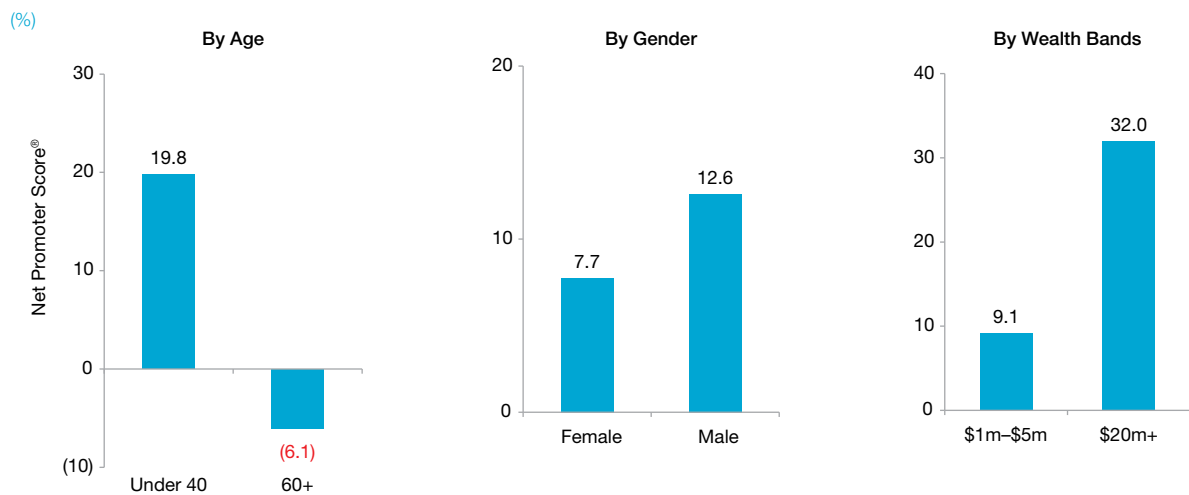
a. Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.
 Note: Question asked: "How likely is it that you would recommend the firm to a friend, family member, or colleague? Please indicate your response on a scale of 0–10. 0 = Very unlikely, 10 = Very likely"; For calculating Net Promoter Score®, we grouped the respondents as Promoters (score 9–10), Passives (score 7–8), and Detractors (score 0–6), and subtracted the percentage of Detractors from the percentage of Promoters
 Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

A growing push to bring exclusivity to the ultra-HNWI experience may help explain their higher level of satisfaction. Banks increasingly are focusing on the uppermost end of the HNWI spectrum and developing personalized, hands-on service to match. Standard Chartered Private Bank,¹⁵ for example, increased the threshold of investable client assets from US\$2 million to US\$5 million this year, and is redoubling its efforts to attract clients with at least US\$30 million, while J.P. Morgan¹⁶ boosted its minimum asset requirement for private banking clients from US\$5 million to US\$10 million.

more commoditized wealth management services. These services may even be directly aimed at affluent retail clients with less than US\$1 million in assets, a trend that pushes wealth management into a new and uncharted direction. Firms are just beginning to experiment with a wide variety of hybrid models aimed at striking the right balance between optimal service levels and efficiency of service. For an in-depth look at the progress being made, and the pitfalls and successes being encountered in the process, please refer to our Spotlight section (see page 26).

Meanwhile, HNWI with lower assets may be feeling disgruntled about a growing tendency of firms to push them out of the private banking client pool and into

Figure 19. Likelihood of Recommendation Based on Experience, Q2 2017 (Global)



Note: Question asked: “How likely is it that you would recommend the firm to a friend, family member, or colleague? Please indicate your response on a scale of 0–10. 0 = Very unlikely, 10 = Very likely”; For calculating Net Promoter Score®, we grouped the respondents as Promoters (score 9–10), Passives (score 7–8), and Detractors (score 0–6), and subtracted the percentage of Detractors from the percentage of Promoters

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

15 “StanChart to raise private banking asset bar to focus on ultra-rich”, Financial Times, April 4, 2017, accessed August 2017 at <https://www.ft.com/content/33fbd778-1857-11e7-9c35-0dd2cb31823a>

16 “At J.P. Morgan, \$9 Million in Assets Isn’t Rich Enough”, The Wall Street Journal, March 18, 2016, accessed August 2017 at <https://www.wsj.com/articles/at-j-p-morgan-9-million-in-assets-isnt-rich-enough-1458340690>

BigTechs Cast Long Shadow in Wealth Management

- **Firms have reason to be wary of BigTechs as HNWI are open to having their wealth management needs serviced by these firms.** More than half (56.2%) of HNWIs globally say they would be open to working with them. This is especially true for younger (under 40) and emerging-market HNWIs.
- **HNWIs have high expectations of increased efficiency, transparency, online excellence, and innovation from BigTechs,** but express some trepidation about privacy, security, and the lack of human involvement.
- **Wealth management firms are aware of the BigTech threat, though their perceptions vary significantly across four categories: Believers, Open-Minded, Skeptics, or Resisters.** A majority of firms (78.3%) view the entry of BigTech into financial services as either a certainty or strong possibility.
- **Partnering with BigTechs will offer wealth management firms the opportunity to win over HNWIs with truly innovative offerings built on the latest technologies.** With these opportunities, however, will come widespread disruption and the risk that initial partnership could give way to outright competition in the future.

HNWIs Welcome BigTechs

Giant technology firms around the world have made huge imprints on consumer life over the last ten years or so, while also gaining access to vast troves of financial, behavioral, and psychographic data.

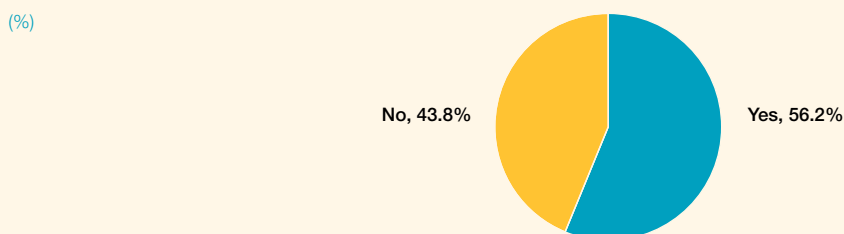
Four companies based in the U.S. – Google, Amazon, Facebook, and Apple – have become so influential and powerful across the globe that they now go by their own acronym (GAFA). Similarly, Alibaba and Baidu are dominating the digital ecosystem in the vast economy of South East Asia, permeating throughout the Internet, e-commerce, banking, and payments. LINE, a Japanese instant-messaging firm, which has hundreds

of millions of users globally (and 70 million in Japan)¹⁷ has begun to explore ways to integrate with banks through chatbots,¹⁸ for example.

So far, only a few BigTech firms such as Alibaba¹⁹ and Amazon have forayed (or signaled an intent to foray) into the business of wealth management in a significant way. But the knowledge that they could do so – and do it well – is a threat that looms large over the industry.

We gauged the interest of HNWIs in working with BigTech firms and found that wealth managers have some reason to worry. More than half of HNWIs globally (56.2%) said they would be open to becoming a wealth management client of a BigTech firm (Figure 20).

Figure 20. HNWI Propensity to Use BigTech Firms for Wealth Management, Q2 2017 (Global)



Note: Question asked: "If technology firms such as Google, Apple, Facebook, or Amazon were to offer wealth management services, would you consider becoming a client?"

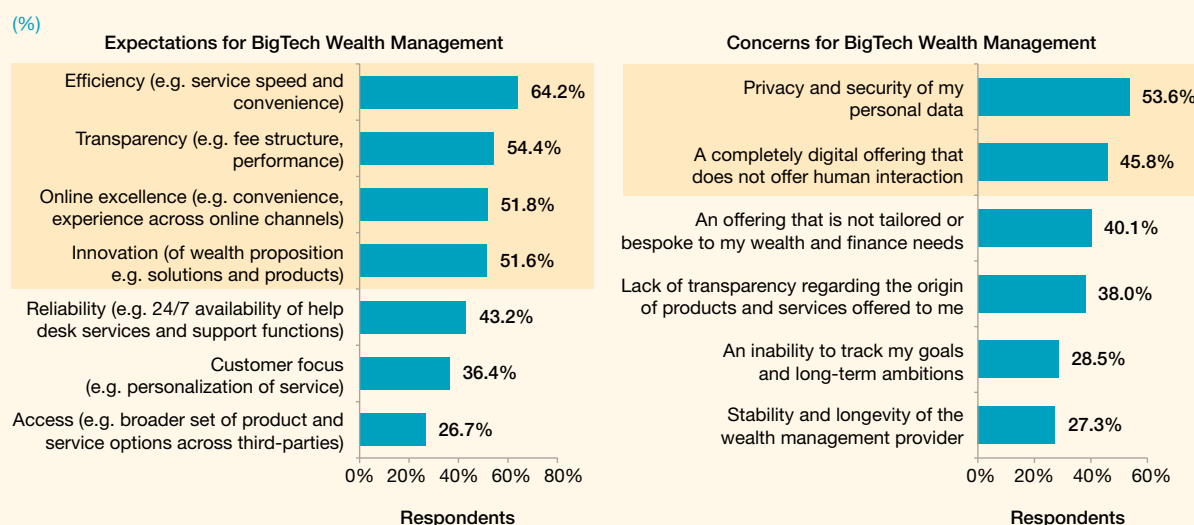
Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

17 "Number of monthly active LINE users in Japan as of 2nd quarter 2017 (in millions)", Statista, accessed September 2017 at <https://www.statista.com/statistics/560545/number-of-monthly-active-line-app-users-japan>

18 Chatbots are computer programs that simulate human conversation using artificial intelligence through text (or voice) chats

19 "Alibaba's Yu'e Bao becomes world's largest money market fund", SupChina, April 2017, accessed August 2017 at <http://supchina.com/2017/04/28/alibabas-yue-bao-becomes-worlds-largest-money-market-fund-china-business-technology-news-april-28-2017/>

Figure 21. HNWI Expectations and Concerns for BigTech Firms, Q2 2017 (Global)



Note: Questions asked: "What would you expect from a wealth management service provided by firms such as Google, Apple, Facebook or Amazon?"; "What would concern you about having wealth management services provided by technology firms such as Google, Apple, Facebook or Amazon?"; Chart numbers may not add up to 100% as respondents could indicate multiple expectations and concerns

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

The propensity is especially high among HNWIs under 40 (81.7%), those in Asia-Pacific (excl. Japan) (72.5%), and those with US\$20 million or more in assets (71.3%).

HNWIs accustomed to making and acting upon their own financial decisions in a self-directed manner were somewhat less likely to want to work with BigTech firms, with only 47.8% indicating a desire, compared to percentages in the high 50s for those who work more closely with wealth managers. In Asia-Pacific (excl. Japan), about 75% of HNWIs who work with wealth managers through advisory or discretionary accounts showed interest in working with BigTechs. In Latin America, interest was particularly high (93.5%) among HNWIs with a discretionary approach.

Many HNWIs believe that the BigTechs' reputation for speed, convenience, and transparency would shine through in whatever wealth management services they might offer (Figure 21). The number-one expectation HNWIs have of would-be BigTech wealth management providers is that they would be efficient (64.2%), with older HNWIs (77.6%), those in lower wealth bands (65.2%), and female HNWIs (65.0%) especially thinking so. HNWIs also believe BigTechs would be transparent in how they structure fees and report on performance (54.4%), with older HNWIs (57.5%) and men (58.5%) especially agreeing.

Just over half of HNWIs would expect BigTech firms to offer online excellence (51.8%) and innovative products and solutions (51.6%). The expectation of innovation is higher among men (52.6%) than women (48.3%). Meanwhile, HNWIs in the lowest wealth segment have the highest expectations for BigTechs when it comes

to online excellence, innovation and broad product access, perhaps because they are increasingly being nudged by wealth management firms into lower-cost, limited-service delivery models.

HNWIs voiced two major concerns about BigTechs in wealth management, with the most serious being data privacy and security (53.6%). Cultural differences in HNWI attitudes toward privacy became readily apparent, with 74.2% of HNWIs in Indonesia, for example, citing privacy as a concern compared to only 20.0% in Netherlands. Similarly, product transparency was more of an issue in Singapore (50.0%) than in Canada (17.7%). Firms with global intentions would have to take these cultural nuances into consideration before moving ahead with offerings that span multiple markets.

The other big concern HNWIs had about BigTechs was the specter of limited human involvement, with 45.8% of respondents citing it. The lack of a human touch presents a potential pitfall for BigTechs, which have been working since inception to perfect their ability to execute interactions that are fully automated. So far, traditional wealth management firms clearly have the upper hand when it comes to human involvement. However, as we discuss in our Spotlight findings (see page 26), HNWIs still want human interaction and prefer their individual wealth manager to handle their complex wealth relationships, even as automated and hybrid advisory models proliferate throughout the industry. This preference might impede the ability of BigTechs to expand quickly into the domain by solely relying on automated models of wealth advisory services.

Firms Perceive BigTech Threat and Opportunity

Wealth management firm executives are divided in their attitudes toward the BigTech threat.

The **“believers”** are convinced that a BigTech entry into wealth management is inevitable, given their massive customer bases, finely honed business models, and the high levels of trust that HNWIs under 40 already have in tech companies. These executives also anticipate a potential geographic harmonization of regulations, smoothing the entry of BigTech into financial services. But rather than being wary of the incursion, they tend to be excited, seeing it as an opportunity for all players to raise their game.

The segment of **“open-minded”** wealth management executives see a BigTech entry as a strong possibility, but generally think it will have limited impact, with the biggest disruption coming to the market for simple offerings aimed at the lower end of the wealth spectrum. They view regulations as a potential barrier to entry, presenting complications that the BigTech companies may choose to avoid, particularly in light of lower profit margins at the bottom of the market. Most wealth management executives (78.3%) fall into one of these two categories, underscoring the very real threat of BigTech causing disruption in the industry (Figure 22).

A much smaller group of **“skeptics”** (13.0%) think BigTechs are likely to forego market entry entirely, seeing wealth management as not worth the effort. They doubt that BigTechs would have any impact on core wealth activities, and only nominal impact on the less-wealthy segments.

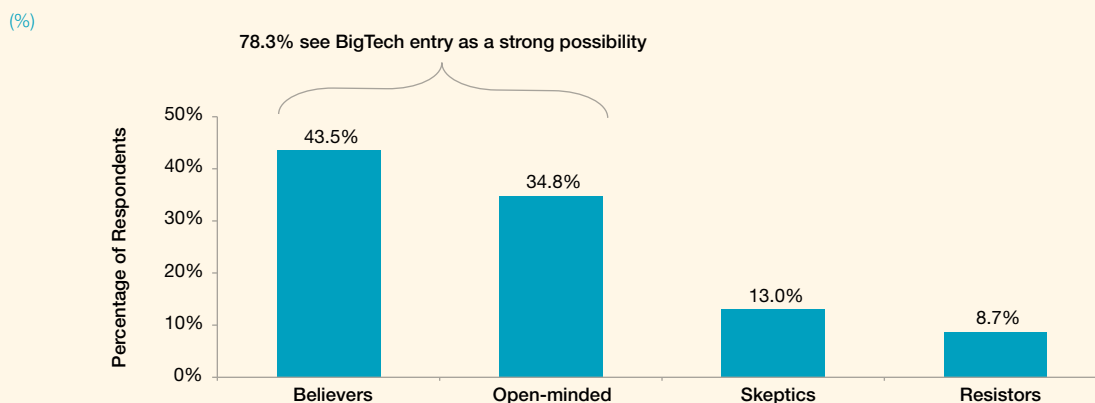
A slim segment of **“resistors”** (8.7%) see no threat at all, largely due to their focus on very specific segments of the market, such as the ultra-wealthy.

Wealth management firms should be prepared for BigTechs to pursue any one of a number of paths toward gaining market share. **Partnerships with traditional wealth management firms** hold significant promise and could take many forms, including distribution of bank funds under BigTech brands or BigTechs acting as aggregator sites for bank-branded funds. BigTech-backed aggregator sites could lead to more aggressive competition between firms, leading to significant downward pricing pressure and general disruption.

In an alternate scenario, BigTechs could apply their significant resources toward hiring expertise and **building out their own wealth management capabilities**, perhaps in the form of automated advisory services,²⁰ payment apps, or more aggressively in the form of vertically integrated offerings. **Outright acquisitions of wealth management firms** are also a possibility. Once BigTechs decide on a strategy and execute it, it would not take much for them to move into offering true hybrid advisory and other complex services by incorporating human interaction through in-house talent or partnership with banks.

Whether wealth management firms wind up partnering with BigTechs or competing against them, they will need to get their technological houses in order. If BigTechs decide to train their digital firepower on wealth management mainstays like investment advice and relationship management, existing firms that simply stay the course could be severely outmaneuvered.

Figure 22. Wealth Management Firms’ Perception of BigTech, Q2 2017



Note: This is based on 31 responses

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

²⁰ Automated advisory services refer to online-only firms (or divisions of traditional wealth firms) that offer automated portfolio management services (i.e., client inputs result in automated portfolio management recommendations). However, they are not typically equipped to offer more holistic and detailed financial product and planning services

Universally, firms need to deepen their capabilities in technologies like artificial intelligence and application programming interfaces (APIs) to stand a chance of competing against BigTechs. Just as important, they need to break out of their risk-averse cultures. Even firms seeking to partner with BigTechs rather than compete against them need to guarantee a certain level of operational and technological prowess in order to become a viable partner.

Partnerships Present Way Forward

With no clear insight currently into the level of interest BigTechs have in entering the heavily regulated wealth management industry, firms can only take the measure of current activity and make assumptions from there. Ant Financial may offer a blueprint for how BigTechs could begin gathering market share in financial services. The financial affiliate of China's Alibaba e-commerce company started out offering online and mobile payments in 2004, then began operating its own money-market fund,²¹ and most recently introduced a marketplace for bank-branded financial products.²² Equally telling are comments Alibaba's founder Jack Ma made shortly after the introduction of Alipay back in 2004, the e-commerce firm's mobile and online payment platform, "Once Alipay becomes large enough, we can slip in direct payments. And as our Alipay becomes more popular, someday it has the possibility to become China's largest bank".²³

New technologies, especially those like APIs that break down barriers between siloes and departments, may make inter-industry collaborations like the one between Ant Financial and Chinese financial institutions increasingly commonplace. BigTechs, with their expertise in managing massive customer bases and leveraging state-of-the-art technologies like APIs and artificial intelligence could naturally settle into the role of platform provider, tapping banks as regulated product suppliers. In that environment, only institutions steeped in the latest technologies are likely to remain viable. Noted BBVA Chairman Francisco Gonzalez in a recently published article, "If you don't master technology, you won't survive".²⁴

The uneven foray of BigTechs into wealth management so far raises more questions than it answers. If BigTechs do decide to get into the business on their own, will they focus on digitally-scaled service to the low end of the wealth spectrum and leave incumbents to address the more profitable high end with a more sophisticated, advice-heavy proposition? That could be a welcome development for firms looking to reduce their engagement with less wealthy HNWIs. Will they feature products from existing providers or develop their own? How will they leverage their brands? How quickly could they make a mark on the business, and would regulators smooth their way? Perhaps most importantly, would a BigTech entry into wealth management pay off? To date, BigTechs have not shown their hand with respect to any of these questions.

In our view, the increasing digitization of wealth management makes it inevitable that BigTech will get involved over the next few years. We anticipate wealth management firms will seek out BigTech partnerships with the aim of building innovative new hybrid-advice models. BigTechs have plenty to offer in terms of game-changing knowledge, including expertise in natural language processing (think Amazon's Alexa and Amazon Web Services), which could be deployed to support conversational interactions with customers. By working with BigTechs, firms could catapult beyond their currently mediocre satisfaction scores, and truly win over HNWIs.

There are risks to BigTech partnerships. BigTechs may parlay the expertise they gain through working with wealth managers into competitive offerings that eventually circumvent or downplay the role of wealth managers. The growing expertise of BigTechs, combined with their already large customer bases, could present formidable competition to incumbents. As users begin to build trust in BigTech firms' advisory abilities, wealth management firms need to take steps to thwart possible BigTech ventures outside the partnership, including building their own massively scalable technology platforms.

21 "Chinese money market fund becomes world's biggest", April 27, 2017, Financial Times, accessed August 21, 2017 at <https://www.ft.com/content/28d4e100-2a6d-11e7-bc4b-5528796fe35c>

22 "Alibaba's finance arm to allow financial institutions to set up shop in investing app", March 27, 2017, technode.com, accessed August 2017 at <http://technode.com/2017/03/27/ant-financial-3rd-party-shop-in-app>

23 Erisman, Porter. *Alibaba's World: How a Remarkable Chinese Company Is Changing the Face of Global Business*. Pan Books, 2016

24 "How finance is being taken over by tech", January 17, 2017, Financial Times, accessed August 2017 at <https://www.ft.com/content/2f6f5ba4-dc97-11e6-86ac-f253db7791c6>



Hybrid Advice Sets Wealth Management on New Course

- **Hybrid-advice solutions are making a big impression on HNWI's, becoming just as valued as wealth manager-led offerings, and more so in some areas.** HNWI's tend to reduce their sole reliance on wealth managers and adopt more of a hybrid approach as the wealth management relationship progresses. In the early stages of the relationship, wealth managers remain at the center of the relationship.
- **HNWI's in Asia-Pacific (excl. Japan) and Europe were the most inclined to embrace hybrid advice, while those in North America were the least.** The younger HNWI's (under 40) and the wealthiest HNWI's also showed a preference for hybrid services. Firm executives for their part expressed high levels of enthusiasm for hybrid-advice models.
- **Despite their support of hybrid-advice models and the significant potential benefits on offer, most firms have yet to roll out effective solutions,** though many have initiatives underway. In addition to moving slowly, firms are falling short in delivering hybrid solutions that are fully satisfying to HNWI's.
- **The pace and effectiveness of hybrid-advice efforts can be improved by focusing on people, process, and proposition-related transformation.** Key areas of transformation include the advisory model, talent, segmentation, data and analytics, proposition and pricing, and cultural change.
- **While hybrid-advice models offer numerous benefits, they also raise the possibility of serious consequences for the industry,** including reduced profit margins and greatly altered roles for wealth managers. The most serious risk of focusing on current hybrid-advice implementation challenges is getting blindsided by new digital capabilities, such as voice-based interfaces, or non-traditional competitors, such as BigTech firms (see previous section on page 22 for detailed analysis).

HNWIs Embrace Hybrid Advice

HNWIs and firms alike intuitively understand that “hybrid-advice models” employ both humans and digital tools, and seek to seamlessly address every possible client need, from quick access to routine services, to sit-down, one-on-one conversations about large financial decisions.

Beyond this broad generalization, however, there is a lack of clarity over exactly how wealth managers and their clients should interact with the digital tools and platforms that now permeate the industry. Should the platforms be set up to accept input from both clients and wealth managers, as one analyst firm asserts is the role of the hybrid system? Or should self-directed investors have exclusive access to digital tools, with the ability to take action without input from their wealth managers? Does hybrid advice have to do with the interactive tools that simulate various investment outcomes, as one regulatory body defines it?²⁵ Or is the focus much broader?

*In Capgemini’s definition, the hybrid business model relates to the client journey and the ability to enhance it through personalization.*²⁶ 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 self-service delivery, a wealth manager-led approach, or a combination of the two – the hybrid-advisory model.

While all of these definitions provide a useful starting point for understanding how firms should best deploy digital tools, they do not answer some pertinent questions. Which specific capabilities, for example, would HNWIs like to see delivered through self-service? When do they prefer to let wealth managers take the lead? When and how would they like wealth managers to provide assistance?

This year, we seek to define hybrid advice in detail by filling in these knowledge gaps. This section provides empirical data on which services HNWIs would like to handle on their own, and which they believe call for some type of wealth manager involvement. The analysis also aims to provide insight into firms’ current capabilities and future plans for hybrid advice, as well as an analysis of how far the digital revolution in wealth management is expected to go. *This section builds upon our ongoing analysis of the digital disruption enveloping the wealth management industry, adding to our overall leadership in digital transformation coverage.*²⁷

The Capgemini Hybrid Advice Framework (Figure 23) is designed to help identify the specific ways HNWIs prefer to interact with their wealth managers and firms, as well as firms’ and analysts’ views on this, based on the particular service being rendered. The framework covers the five lifecycle stages: profiling client needs, developing wealth strategies, executing investments and advice, managing the relationship and portfolio, and reporting on performance and adjustments, including detailed capabilities in these areas. Through our Global HNW Insights Survey 2017 and interview with executives and analysts, the framework offers a three-dimensional view of, how HNWIs and wealth management executives perceive the role of hybrid advice across the client lifecycle.

Our findings show that wealth managers continue to be critical in forming and maintaining HNWI relationships, especially in their early stages. HNWIs heartily embrace wealth managers at the profile phase of the relationship (60.2%),²⁸ when financial goals are being outlined and risk tolerances set (Figure 24). As the relationship progresses, the preference to interact solely with wealth managers starts to decline, falling to 37.5% by the reporting stage.

The hybrid model that combines self-service and wealth manager assistance has evolved to become just as popular as the wealth manager-led path, even though it is much newer. HNWIs are most partial to the hybrid approach when it comes to ‘manage ongoing advice and optimization’, with nearly half (49.6%) preferring it. All in all, HNWIs prefer the hybrid route for two of the lifecycle stages (‘Manage’ and ‘Report’) and the wealth manager-led approach for two other stages (‘Profile’ and ‘Execute’). For the remaining stage of ‘Develop’, HNWIs are equally open to wealth manager-led and hybrid approaches, resulting in a near-even split overall between the two approaches.

Fully automated services currently appeal to fewer HNWIs, but are still important. They are most preferred at the ‘Report’ stage by 19.7% of HNWIs. Less than 10% of HNWIs prefer digital-only solutions at any other stage, with the percentages being lowest in terms of ‘Develop’ (3.8%) and ‘Profile’ (2.7%).

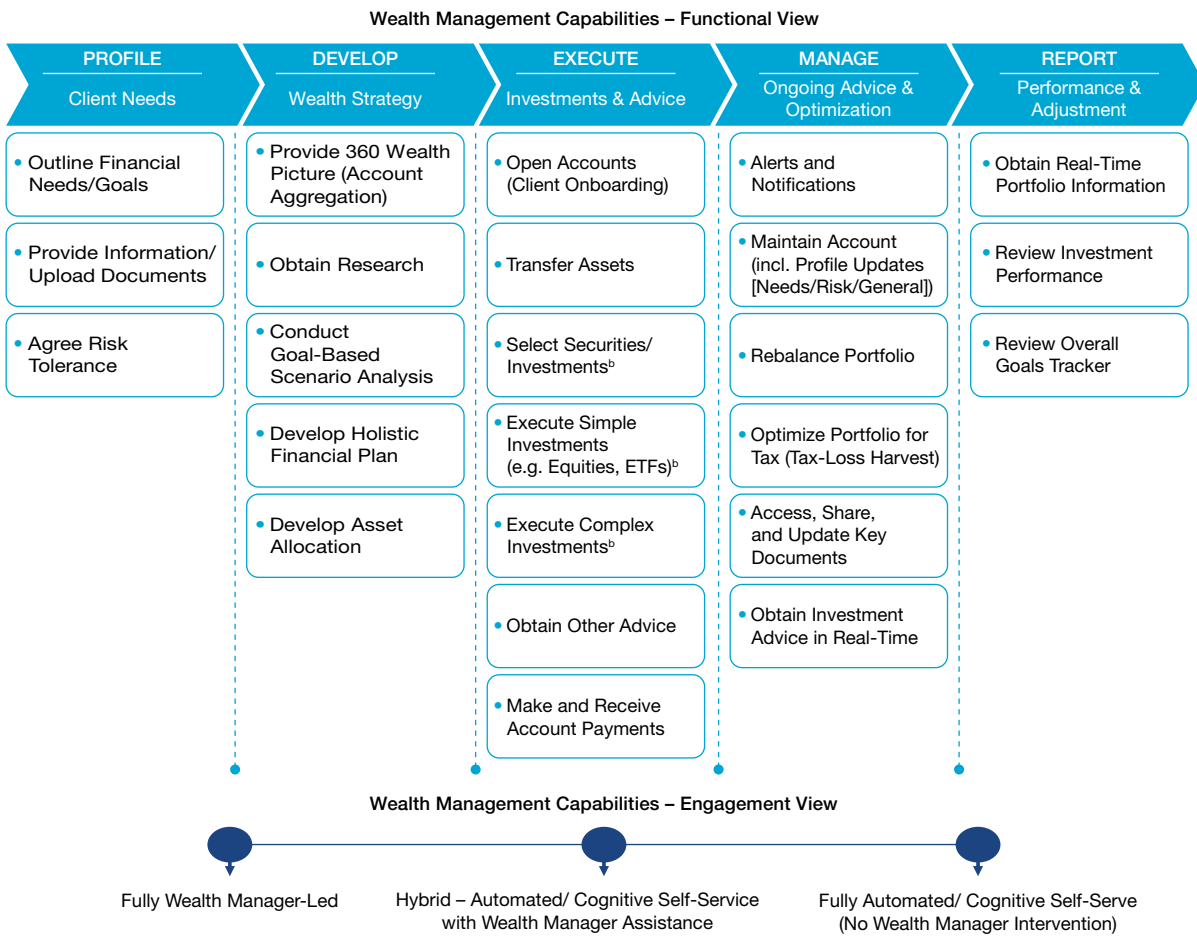
²⁵ Report on Digital Investment Advice, Finra, 2016

²⁶ Capgemini defines the hybrid-advice model 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 will be delivered through: the amalgamation of (1) a cognitive analytics-driven automated/self service delivery (such as for basic investment management); (2) a human-led delivery (such as for complex wealth structuring); or (3) a wealth manager-assisted hybrid approach – as preferred by the client”

²⁷ Please refer to the sections “Digital Maturity Remains Elusive Goal”, “Wealth Manager Role and Value Proposition Undergoing Major Evolution, Requiring Service Model and Capability Re-Think”, and “Transforming Wealth Management in a Digital Age” in 2016, 2015, and 2014 *WWR*, respectively

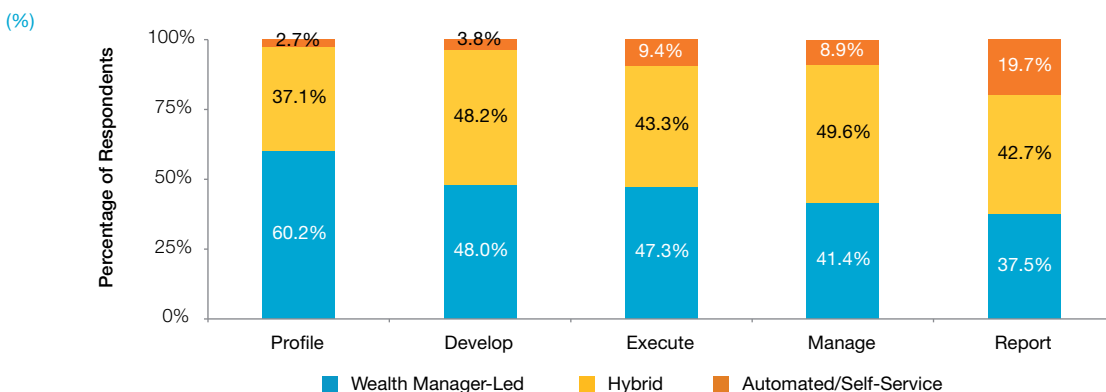
²⁸ This (and similar) number represents the average percentage of respondents who prefer “wealth manager-led” approach for the interaction capabilities in the “profile” stage

Figure 23. Capgemini Hybrid Advice Framework^a



a. "PROSPECT" is not shown but forms the beginning of the client lifecycle
 b. Exact approach depends on whether the discretionary, execution, or advisory mandate is in effect
 Source: Capgemini Financial Services Analysis, 2017

Figure 24. Interaction Preference for Wealth Management Capabilities^a, Q2 2017 (Global)



a. Respondents with experience with the interaction in the past year have been analyzed
 Note: Question asked: "How would you like to interact with your primary wealth manager or wealth management firm for each of the following services?"; HNWI's were asked choose their preferred interaction between 'Fully Wealth Manager-Led', 'Hybrid' and 'Fully Automated' for 24 Capgemini Hybrid Framework Capabilities, the values represent the average of the capabilities in the 5-stages shown above
 Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

Nuances Shape Hybrid Advice Preferences

In this section, we analyze how HNWIs prefer to interact with their wealth managers and firms under a wide variety of circumstances using the Capgemini Hybrid Advice Framework.

First, we examined how HNWIs prefer to receive services related to each of the five stages of the wealth management life cycle:

- PROFILE** – HNWIs signaled a heavy preference for working with wealth managers for two of the three services related to this stage: ‘outline financial needs/goals’ (67.1%) and ‘agree risk tolerance’ (62.7%). For ‘provide information/upload documents’, HNWI preferences were more balanced between wealth manager-led (50.7%) and hybrid (45.6%), indicating that opportunities for hybrid service exist even early on in wealth management relationships.
- DEVELOP** – HNWIs preferred to work with wealth managers when developing a wealth strategy, in keeping with the high-value nature of these services. Accordingly, they viewed more commoditized functions, like ‘obtaining research’ and ‘conduct goal-based scenario analysis’, as more suitable for a hybrid course. However, we also found evidence that HNWIs do not strictly equate high-value services with a wealth manager-led approach. When it came to ‘develop asset allocation’ strategy, for example, hybrid edged out wealth manager-led (49.3% versus 48.1%), underscoring that even high-value functions hold significant potential for a hybrid approach.
- EXECUTE** – While digital services gained traction along several execution-related functions, there was a surprising amount of favor toward wealth manager-led assistance, even for more routine functions like ‘transfer assets’ (57.6%) and ‘opening accounts (client onboarding)’ (44.6%). This finding indicates that since HNWIs have not turned towards either the hybrid or automated model for routine functions, firms likely could do a much better job of making it easier for HNWIs to perform tasks in a self-directed manner. HNWIs seem game for the challenge, as indicated by their willingness to ‘execute complex investments’ through a hybrid approach (46.6%), which is almost on par with their preference to do it with the help of a wealth manager (47.5%). Easing the pain of performing self-service tasks could induce even more HNWIs to embrace hybrid and automated alternatives.
- MANAGE** – When it comes to managing the relationship and providing ongoing advice, HNWIs preferred to work with wealth managers for only one function – ‘optimize portfolio for tax’. This preference, however, may not last for long since digital platforms like Wealthfront in the U.S.²⁹ can automate that task. HNWIs also exhibited a strong preference to receive ‘alerts and notifications’ via automated (14.3%) or hybrid (56.7%) methods, which should encourage firms to make alerts even smarter by adding follow-up calls or messages.
- REPORT** – In terms of reporting functions, HNWIs came down heavily in favor of both digital services and wealth manager involvement. The highest levels of digital preference emerged around two reporting functions – ‘obtaining real-time portfolio information’ (25.2%) and ‘review overall goals tracker’ (21.3%). Wealth managers also continue to play a key role in ‘review overall goals tracker’ (42.5%), indicating that firms should be solidly prepared to meet HNWI needs across all of their delivery preferences.

Next, we analyzed which delivery methods HNWIs preferred for particular services, depending on their location, age, wealth, and gender segment. We found that HNWIs in North America most preferred working with wealth managers and least preferred a hybrid approach. Meanwhile, those in Asia-Pacific (excl. Japan) and Europe were the most inclined to embrace hybrid services, except when it came to ‘outline financial needs/goals’ and ‘agree risk tolerance’. In those instances, they preferred the wealth manager-led services.

Younger HNWIs (under 40) preferred a hybrid approach for each of the five lifecycle stages, especially ‘develop wealth strategy’ (60.8%) and ‘manage ongoing advice and optimization’ (60.0%). Unexpectedly, more HNWIs of at least 60 years said they would rather interact on their ‘report performance and adjustment’ digitally compared to younger HNWIs (21.8% versus 9.9%). However, there were no key differences by gender. While hybrid services clearly emerged as the model of the future given younger HNWI (under 40) preferences, these findings also indicate an immediate need for high-performance digital services in a few key areas.

The wealthiest HNWIs (with more than US\$20 million in assets) showed a preference for hybrid capabilities, especially with respect to ‘develop wealth strategy’ (68.4%) and ‘report performance and adjustment’ (53.8%). HNWIs with between US\$1 million and US\$5 million, in contrast, were more inclined to access digital services for ‘report performance and adjustment’.

²⁹ Wealthfront Tax-Loss Harvesting White Paper, accessed August 2017 at <https://research.wealthfront.com/whitepapers/tax-loss-harvesting>

Firms Aware that Hybrid Advice is the Future

The wealth management industry, driven by the need to grow the business, reduce costs, and meet regulatory requirements, is enthusiastic in its support of hybrid services, expressing even more support than HNWIs themselves (Figure 25). For every stage of the wealth management life cycle, firm executives agreed that hybrid advice represents the way forward. The specific services that firm executives see as most likely to fall under a pure hybrid model include ‘develop wealth strategy,’ ‘open accounts (client onboarding),’ ‘transfer assets,’ ‘select securities/investments,’ ‘review investment performance,’ and ‘review overall goals tracker.’

Industry analysts are the most enthusiastic of all regarding wealth management’s ongoing digital transformation. They indicated a preference for a self-service digital approach for two of the five main lifecycle stages – ‘develop wealth strategy’ and ‘manage ongoing advice and optimization’.

HNWIs, meanwhile, exhibit a much stronger preference for wealth manager-led services. While HNWIs have warmed to the idea of a hybrid approach for services related to ‘develop the wealth strategy,’ ‘managing ongoing advice and optimization,’ and ‘reporting performance and adjustment,’ those who have used at least some capabilities in the past year still are more likely to want to have a wealth manager on hand when it comes to tasks related to two major lifecycle stages: ‘profile client needs’ and ‘execute investments and advice.’

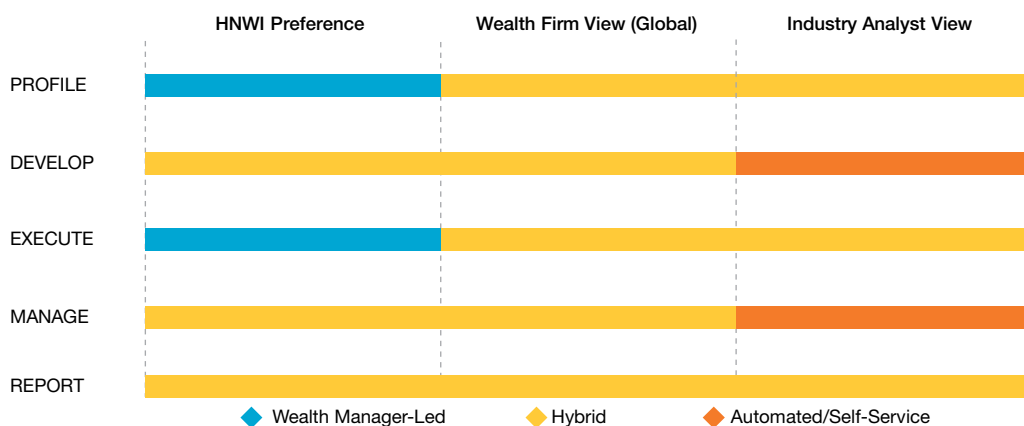
Younger HNWIs (under 40) were more likely than older ones to prefer accessing services through a hybrid-advice model. Older HNWIs (with 60 or more years) preferred a hybrid-advice model for only six of 24 capabilities, while those under-40 HNWIs preferred it for 20 (of 24) capabilities.

Like firm executives, HNWIs do not yet prefer fully automated interaction at any stage of the lifecycle. This may reflect a lack of familiarity with what is possible in terms of firms’ digital offerings, indicating that firms must do a better job of promoting the full scope of the digital capabilities they have or will be offering.

When it comes to hybrid advice, the enthusiasm of firm executives outpaced that of even younger HNWIs (under 40) (Figure 26). For some of the more complex and traditionally human-intensive services – including ‘developing holistic financial plans,’ ‘executing complex investments,’ ‘obtaining other advice,’ and ‘optimizing the portfolio for taxes’ – under-40 HNWIs showed a significant gap from wealth firms in moving toward hybrid solutions over wealth manager-led ones. It will be important for firms to build hybrid capabilities in these areas to address the preferences of existing and future clients.

Younger HNWIs (under 40) had an outright preference for wealth manager-led solutions for at least half a dozen specific functions, including ‘transferring assets’ and ‘reviewing investment performance,’ while firms saw those services as suitable for a hybrid approach. While firms identified digital channels as appropriate for the self-service handling of ‘alerts and notifications,’ ‘making and receiving account payments,’ and ‘obtaining investment advice in real-time portfolios,’ younger HNWIs (under 40) did not indicate a preference

Figure 25. Most Prominent Interaction Preference for Wealth Management Capabilities^a, Q2 2017 (Global)



a. Respondents with experience with the interaction in the past year have been analyzed

Note: Question asked: “How would you like to interact with your primary wealth manager or wealth management firm for each of the following services? Please provide your view on which of the above client-facing capabilities are most important to be ‘Fully Wealth Manager-Led’, ‘Hybrid’, or ‘Fully Automated’”; Respondents were asked to rate on a scale of 1–3 with 1 being ‘Fully Wealth Manager-Led’, 2 being ‘Hybrid’ and 3 being ‘Fully Automated’; The above values represent the score of out 3; Interaction scores ranges 1 to 1.66 (Fully Wealth Manager-Led), 1.67-2.33 (Hybrid), and 2.34 to 3 (Fully Automated); Total 37 Executive Interview responses included

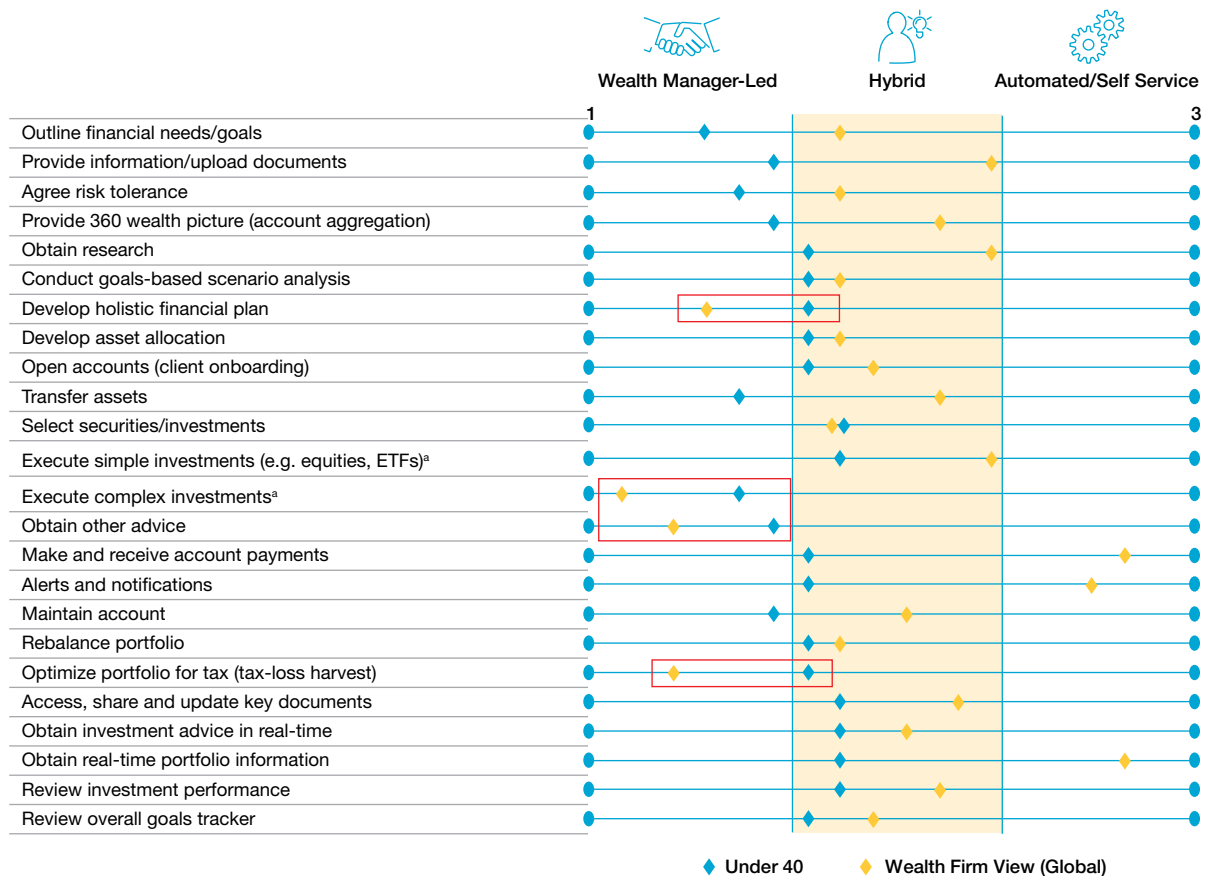
Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNW Insights Survey 2017; Executive Interviews, 2017

for self-service capabilities. However, digital services, in the form of hybrid advice, are an important preference of HNWI's and are expected to play a role in client retention.

The push toward hybrid solutions by firm executives makes sense in light of the many drivers forcing them in that direction (Figure 27). New regulations, for example, are putting a bigger focus on investor protections and client disclosures. The Head of Private Banking and Institutional Clients at a private bank in Europe identified "better documentation of advice activities" due to regulatory requirements as a key driver of more automated solutions. The desire to reduce costs and improve efficiencies is also playing a role. The Head of Investment Services at an Asia-Pacific private bank noted, "There is a need to manage cost-to-serve and increase wealth manager productivity."

An improved ability to continually attract new clients, enhance revenues, and meet higher HNWI expectations is spurring some firms. As one Executive Director of Relationship Management of a wealth management firm in the U.S. mentioned regarding the shift to hybrid, "The system and the technology help the clients and also facilitate a more advice-driven model." Some firms may have more esoteric reasons. The Director and Product Specialist at a European Private Bank, for example, cited "the external recognition of the bank as a 'state-of-the-art' wealth manager" as an important perception. For some institutions, hybrid advice is simply about meeting customer needs, especially for those "not sufficiently confident to self-invest or manage their pension arrangement," according to one Managing Director for Digital and Business Development at a private bank in the U.K.

Figure 26. Interaction Preference for HNWI's Under 40 and Wealth Firm Executive Assessment, Q2 2017 (Global)



a. Exact approach depends on whether the discretionary, execution, or advisory mandate is in effect

Note: Question asked: "How would you like to interact with your primary wealth manager or wealth management firm for each of the following services? Please provide your view on which of the above client-facing capabilities are most important to be 'Fully Wealth Manager-Led', 'Hybrid', or 'Fully Automated'"; Respondents were asked to rate on a scale of 1-3 with 1 being 'Fully Wealth Manager-Led', 2 being 'Hybrid', and 3 being 'Fully Automated'; Above values represent the score of out 3; Total 37 Executive Interview responses included

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017; Executive Interviews, 2017

Figure 27. Drivers for Hybrid Growth

Bucket	Drivers	Description	Quotes
Regulatory Requirements	Legal and Compliance Requirements	Enhanced provisions by regulators around transaction reporting to safeguard client interests	<p>“Key focus is the compliance with regulatory requirements such as MiFid II – better documentation of advice activities,” <i>Head of Private Banking & Institutional Clients, European Private Bank</i></p> <p>“Key focus is client profitability, move away from traditional wealth manager-led business. Change in business model is also driven by regulatory pressure,” <i>Head of Private Banking, European Private Bank</i></p>
	Safeguard Client Interests		
Efficiency Gains	Reduce Costs	Elevated cost to income ratios have increased focus on digitization of middle and front office to reduce cost and boost wealth manager productivity	<p>“There is a need to manage cost-to-serve and increase advisor productivity,” <i>Head of Investment Services, Asia-Pacific Private Bank</i></p> <p>“Using hybrid to increase client per advisor ratio while improving service quality,” <i>Head of Private Banking and Institutional Clients, European Private Bank</i></p> <p>“Need for efficiency since advisors spend 80% of time on admin/internal tasks,” <i>Managing Director of Client Engagement, Leading Asia-Pacific Bank</i></p> <p>“Reduce error rate substantially by technological support,” <i>Head of Private Banking, Regional European Private Bank</i></p>
	Improve Wealth Manager Productivity		
	Increase Conversions		
	Reduce Errors		
Growth Requirements	Personalization	Enhanced client expectation (especially the next-generation), increasing competition, and shareholder growth expectations make hybrid models a critical lever	<p>“The business model follows the same trends as the ones we find in the U.S., i.e. to bring the private bank to the people and not the other way around. This democratizes private banking,” <i>CEO of European Private Bank</i></p> <p>“This model is mainly to provide the client with ease of use. The system and the technology helps the clients and also helps facilitate a better advice-driven model,” <i>Executive Director of Relationship Management at a U.S. Wealth Management Firm</i></p> <p>“Robo advice has proven to be unable to achieve scale in the U.K. and European markets to date, with customers not being confident to self invest or manage their pension arrangement,” <i>Managing Director for Digital and Business Development, U.K. Private Bank</i></p>
	Protect Revenue from BigTech/ Wealth Transfer		
	Access New Segments		
Other Considerations	Enhanced Agility	The need to be agile and provide differentiation are also key drivers	<p>“Realization that a large bank would never be very agile alone, so starting to shift to a more FinTech-led agile methodology,” <i>Head of Investment Services, Asia-Pacific Private Bank</i></p> <p>“Competition from FinTechs and more advanced banks puts even more pressure on traditional banks to speed up their digital transformation and provide new solutions,” <i>Head of Wealth Management, European Private Bank</i></p> <p>“The client demand and the external recognition of the bank as a “state of the art” wealth manager is very important,” <i>Director and Product Specialist, European Private Bank</i></p>
	Get to Par with FinTechs		
	External Recognition		

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

Benefits Await Firms that Excel at Hybrid Advice, but Progress is Slow

Wealth management firms have come a long way toward achieving their goals related to hybrid advice simply by identifying it as important. Our finding (in the section above) that firms are more keen to pursue hybrid-advice models than even young HNWIs (under 40) runs counter to the common impression that youthful clients are often technologically ahead of the institutions they patronize. It is also a testament to the foresight of many of today’s wealth management firms.

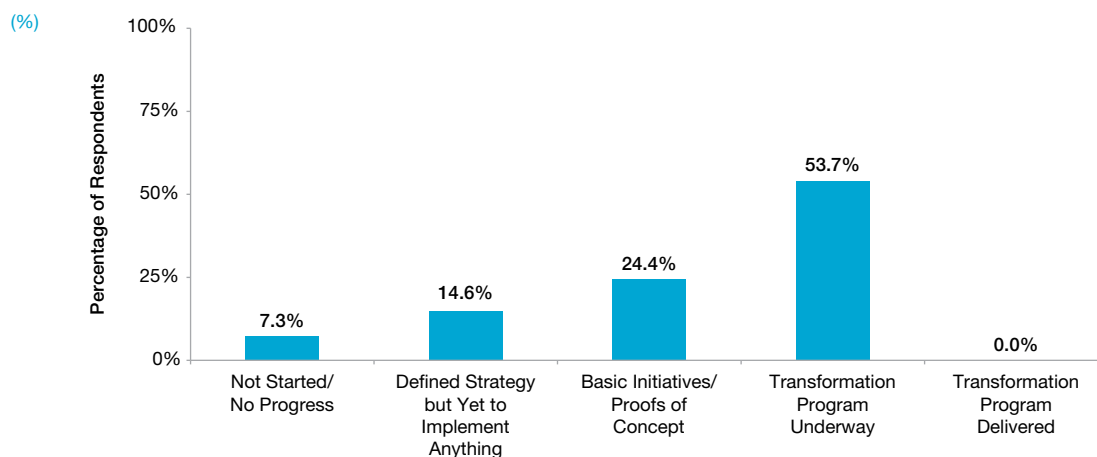
While wealth management firms should be applauded for their avid embrace of the hybrid-advice model, they have not been able to make much progress in defining or implementing hybrid solutions that resonate with clients. Nor are they offering convincing evidence of hybrid models as a desirable combination of both convenience and personalized service. Finally, their implementations of hybrid advice are not progressing quickly enough.

While a majority of firms have programs underway to offer hybrid advice (53.7%), none has a fully implemented solution (Figure 28). Meanwhile, a handful of laggards (14.6%) still are defining their strategies and have yet to begin implementing anything.

Firms have yet to achieve very positive results from their efforts, giving themselves an effectiveness score of 4.0 out of 7 globally. For their part, analysts see firms as scoring much lower (2.7) in effectiveness, which is perhaps a reflection of exaggeration by self-reporting firms, or a consequence of wealth managers lagging behind the other industries being studied by analysts. By region, firms in North America and Europe reported greater effectiveness of their hybrid solutions than those in Asia-Pacific (Figure 29). With so much at stake, firms need to quickly embrace a culture of transformation (see page 37) to not only speed hybrid solutions to market, but also to be ready for the challenges posed by the possible entry of BigTech players into this space (see page 22).

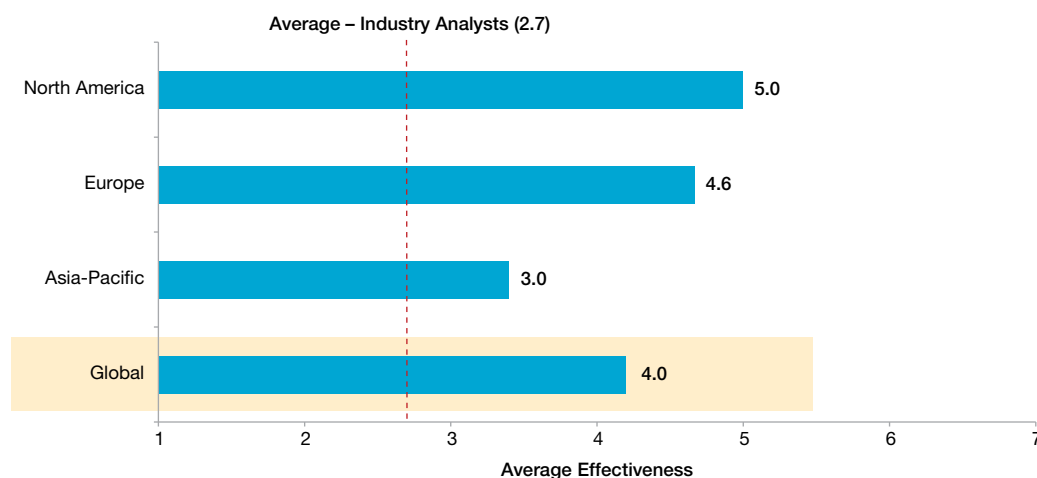
In keeping with the limited effectiveness of firms' hybrid-advice efforts so far, HNWI's expressed only moderate satisfaction (62.4%) with the hybrid model (Figure 30). HNWI's in North America (79.4%) and Asia-Pacific (excl. Japan) (70.6%) were the most satisfied, as were younger HNWI's (under 40) (68.0%), compared to older ones (52.3%). Little distinction was seen in satisfaction levels across wealth segments, while 67.5% of HNWI's with a discretionary approach to working with their wealth managers were satisfied, compared to only 55.7% of those with an advisory approach and 63.2% of those with a self-directed approach.

Figure 28. Progress Made by Firms on Hybrid Advice Model Strategy by Hybrid Strategy Stage, Q2 2017 (Global)



Note: Question asked: "Where is your firm with its hybrid advice strategy?"; Total 37 responses included
 Source: Capgemini Financial Services Analysis, 2017; Executive Interviews, 2017

Figure 29. Average Effectiveness of Hybrid Advisory, Q2 2017 (by Region)



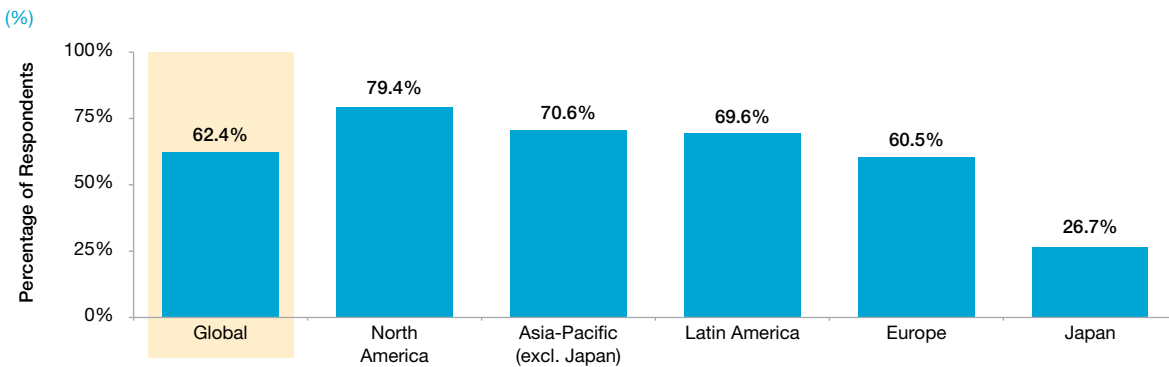
Note: Question asked: "How effective have your hybrid advice efforts been?"; Respondents were given a seven point ascending scale with 1 being the lowest and 7 being the highest; Total 37 responses included
 Source: Capgemini Financial Services Analysis, 2017; Executive Interviews, 2017

Benefits await firms that are able to exceed HNWI expectations for hybrid advice. For one, they may enjoy gains from an expected wave of asset consolidation by HNWIs with their wealth managers.

Globally, HNWIs are expected to increase the amount of financial assets they hold with their primary wealth manager by 25.3% over the 24 months beginning Q2 2017. The key customer segments are expected to consolidate their assets the most, with HNWIs under 40 showing a potential increase of 30.9% (compared to 10.3% for those over 60), and the wealthiest HNWIs showing the highest potential increase (32.3%), compared to 20.2% for those with US\$1 million to US\$5 million in assets.

Attracting these assets would be a boon to any wealth manager. We found that the firms most likely to accomplish this are able to offer hybrid advice, with 71.0% of HNWIs globally identifying hybrid advice as significant in their decision to increase or decrease assets with their primary wealth manager (Figure 31). In some areas of the globe, the importance of hybrid advice runs even higher – 93.2% for Latin America and 90.1% for Asia-Pacific (excl. Japan). Younger HNWIs (under 40) are more serious about consolidating their assets with a hybrid advice provider (87.1%), though the tendency is still high among those over 60 years old (57.6%). Hybrid -advice is also a significant factor in asset consolidation for 76.4% of HNWIs with more than US\$20 million of assets.

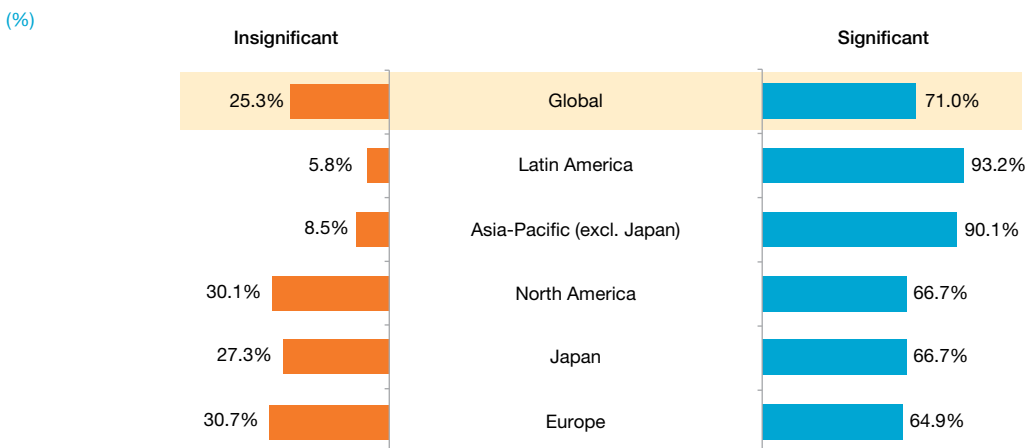
Figure 30. HNWI Satisfaction with Hybrid Advisory, Q2 2017 (by Region)



Note: Question asked: “How satisfied were you with the combination of personal and automated/self-service interaction you had with your primary wealth management firm last year? Please indicate your response on a scale of 1–7 where 1 = ‘Not at all important’, 4 = ‘Neither important nor unimportant’, 7 = ‘Extremely important’”; Ratings of 6 and 7 have been shown in the chart above

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

Figure 31. Role of Hybrid Advisory in Increasing/Decreasing Assets over the Next 24 Months, Q2 2017 (by Region)



Note: Question asked: “Thinking back to your responses on the digital services offered by your primary wealth management firm, how significant is your primary wealth management firm’s ability to interact in-person and through automated channels as you prefer (i.e. hybrid advice), in your decision to increase or decrease assets over the next 24 months?”; Respondents were asked to rate on a 5-point scale ranging from Not at All Significant to Very Significant; The percentage values represent the sum of responses ‘Somewhat Significant’ and ‘Very Significant’ as ‘Significant’ and sum of ‘Not at All Significant’ and ‘Somewhat Insignificant’ as ‘Insignificant’

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

While the benefits of hybrid advice are attractive, there is no shortage of challenges related to implementing and sustaining a high-performing hybrid-advice model (Figure 32). Some of these, including budgetary, regulatory, and technology constraints, have been entrenched for some time. From a budgetary perspective, firms face pressure to focus on short-term business needs rather than the long-term picture. Meanwhile, start-ups flush with venture capital are outspending the incumbents. Noted one Head of Advisory at an Asia-Pacific private bank, “Start-ups are spending around 90% of what they have on marketing.” Additionally, wealth management firms must expend a significant amount of time and energy just to keep up with regulations. “Regulatory complexity limits what you can do on digital prospecting,” said one CEO of a private European wealth firm. Firms also run up

against technology limitations. “The complexity of our organization, siloed operations and legacy systems have held back adoption,” said the Group Head of Wealth Management at a leading global bank.

Other challenges have surfaced more recently. Many firms face cultural inertia as wealth managers and employees remain resistant to adopting new roles. The Head of Investment Services at an Asia-Pacific bank noted “There are still a large group of relationship managers who are not supporters.” Then there is the uneven pace of client demand for new services, which can complicate roll-outs. “Some clients are highly wary of digital while others demand it,” said the Head of Private Banking at a European bank. Sometimes, the difficulty of execution can foil a firm. “Some firms are too good at ideation, impacting delivery,” said the

Figure 32. Challenges for Hybrid Growth

Bucket	Challenges	Description	Quotes
Budgetary and Focus Constraints	Major Focus on Cost/ROI	Most budget is focused on operational expenses rather than looking at the long term focus	“The focus is on cost/ROI rather than looking at the holistic or long term picture,” <i>COO of Wealth Management, U.S. Private Bank</i> “The challenge is the marketing budget. Start-ups are spending 90% of what they have on marketing. Banks are far less agile,” <i>Head of Advisory, Asia-Pacific Private Bank</i>
	Start-ups Out-spending Banks		
Regulatory Constraints	Major Mindshare to Regulations	Preparing for upcoming regulations and optimizing costs pose major challenge	“Most mindshare is focused on ‘staying in the business’ and regulations,” <i>Head of Business Development, Leading European Wealth Firm</i>
Data and Technology Constraints	Data Standards and Quality Constraints	Poor data quality, siloed operations, and legacy systems make the provision of seamless client experience a challenge	“There is a need for quality data (to drain the data swamp),” <i>Head of Advisory, Private Asia-Pacific Bank</i> “The complexity of our organization, siloed operations and legacy systems have held back adoption,” <i>Group Head of Wealth Management, Leading Global Bank</i> “Development of technology and how the technology is interrelated to other systems,” <i>Director of Private Client Relationship Management, U.S. Wealth Management Firm</i>
	Changing Legacy Systems		
Cultural Transformation	Internal Culture Change Challenge	Large number of wealth managers and even employees are resistant to shift/change to new models	“Just as they were getting used to adapting to ‘reg’, now they have to adapt to ‘tech’,” <i>Head of Investment Services at Private Asia-Pacific Bank</i> “There is the belief by some stakeholders that clients will be slow to move to non-human related advice,” <i>Managing Director of Wealth, U.K. Private Bank</i> “There are still a large group of relationship managers who are not supporters,” <i>Head of Investment Services, Asia-Pacific Bank</i>
	Lack of Stakeholder Buy-in		
Client Demand and Relevance	Varied Client Enthusiasm	Complying with varied hybrid preferences for all client segments seems difficult	“Some clients highly wary of digital while others demand it,” <i>Head of Private Banking, European Bank</i>
Business Model and Execution Challenges	Deployment and Time to Market Challenges	Constraints around focus on digital initiatives and time to market might not translate to smooth or speedy deployment of the complete system	“Firms can be good at proof of concept, but still slow in go-to-market,” <i>Head of Investment Services, Asia-Pacific Private Bank</i> “Some firms are too good at ideation, impacting delivery,” <i>CEO of Private European Wealth Firm</i> “There is poor viability and follow through of ‘digital programs’,” <i>Industry Analyst, Owner of Wealth Management Consulting Firm</i>
	Digital Initiative Overload and Poor Viability		

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

CEO of a Private European Bank. It can all add up to an uphill battle. “Pace of change in banks is still too slow, driven by just the sheer scale of the change agenda facing universal banks,”³⁰ said a Managing Director for Digital and Business Development at a private bank in U.K.

Despite the many challenges, wealth management firms are primed to ramp up their focus on hybrid advice, given its far-ranging benefits. *Advantages related to revenue, efficiency, and compliance are expected to rise in near-equal measure for firms that succeed in offering hybrid solutions.* From a revenue perspective, firms are anticipating that they can protect existing revenue streams, and add to long-term revenue through more relevant client interactions. They are also expecting increased cross-selling, more referrals, a higher share of wallet, more personalized and expanded pricing options, and greater loyalty during wealth transfers. Firms, however, must be careful to deploy hybrid-advice models not as a gimmick for winning clients over, but as a fundamental aspect of becoming a trusted advisor.

In the area of efficiency, firms are expecting benefits in the form of streamlined product offerings, savings from back-office automation, and greater profitability through improved engagement of low-asset, low-activity clients. An effective hybrid-advice model can free up time for wealth managers, who no longer have to worry about tasks like booking small trades or hunting down information. Rather, they can focus on deepening relationships and providing high-value, differentiated advice.

Introducing greater automation through hybrid advice can also bring regulatory relief. Automation forces wealth managers to follow specific steps, mitigating sources of risk and helping to ensure full compliance. Operational risk can be addressed by automating product disclosures, while cross-border risk can be reduced through automated documentation. Similarly, tools to pre-screen clients can remove questions of suitability. In addition to automated enforcement of rules and, more importantly, documentation for regulators, compliance automation contributes to reduced costs.

Hybrid Advice Implementation Requires Transformation on Multiple Levels

Wealth management firms must concentrate their focus on bringing hybrid-advice solutions to market by taking specific actions related to people, processes, and marketing propositions. At a high level, firms need to answer tough questions simply to set the stage for a successful transformation, including making a clear-eyed decision on whether they want to

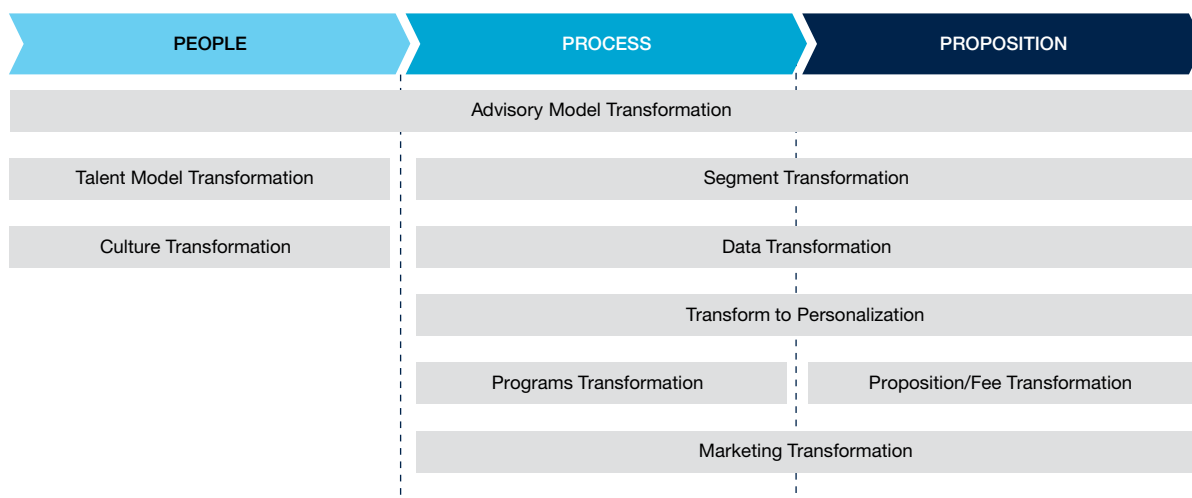
fully embrace hybrid advice. If the answer is yes, then certain considerations become pertinent, including how the firm’s hybrid-advice model can be differentiated, by emphasizing a certain type of expertise or addressing a unique market segment, for instance. Firms also need to consider how they can draw attention to themselves through innovative and unique service offerings. Finally, they need to understand that the wealth management industry is moving beyond the days when wealth managers interact with clients exclusively on a one-on-one basis, and that relationship managers must be equipped with the resources and access to expertise they need to interact with clients in a one-to-many format.

Our Hybrid Advice Transformation Framework (Figure 33) outlines the many recommended steps that should be taken and decisions that should be made when undertaking the move to incorporate hybrid advice into a firm’s product and service mix:

- **Advisory Model Transformation** – The first step in the transformation journey is to clarify whether to offer hybrid-advice model or not. Firms that decide to offer these services must differentiate themselves through proper segmentation and showcase their expertise in areas beyond automated advisory services. For example, at the start of the relationship, firms can offer services from seasoned experts in estate, tax, or philanthropy for free or a nominal fee. Successful wealth managers will also be expected to handle multiple clients and solve complex problems by tapping into various experts. This approach requires flexibility on the part of wealth managers, who may have to accept some degree of loss of control over the relationship, in exchange for input from outside experts.
- **Talent Transformation** – Shifting to this model requires new ways of assessing the workforce. Wealth managers, for example, will need to be comfortable with digital technology and proficient at using it, a need that will bring greater attention to digital natives with the ability to infuse organizations with an innovation mind-set. In addition, since wealth managers will have less overall interaction with clients (in the one-to-many model), they will need to possess a high degree of emotional intelligence (EQ) to be able to quickly intuit client issues, problems or reservations. The overall talent upgrade should also include upping skills in the middle office (for example, in marketing and compliance).
- **Segmentation Transformation** – Firms will need to bring greater rigor to their client segmentation practices as they determine the “sweet spot” for hybrid-advice services. For many, the most appropriate segment will be HNWIs on the lower end of the wealth spectrum who tend to not be profitable or fully-serviced under the full-wealth

³⁰ Refers to banks which provide multiple services including retail banking, wealth management, and investment banking services

Figure 33. Hybrid Advice Transformation Framework



Source: Capgemini Financial Services Analysis, 2017

manager model. These HNWI possess several qualities that make them an attractive audience for hybrid services, including being underserved, large in number, young, at the beginning of their investment journey and digitally savvy. Firms must also begin to utilize segmentation techniques based on behavioral and psychographic needs. In fact, some of the automated advisory firms (and even a few large wealth management firms) have already started doing this by providing scenarios and analyzing risk behavior. Such an approach enables firms to provide a more personalized plan and solution to the client.

- Data and Analytics Transformation** – Firms can no longer afford to be mired in data that is inaccessible, siloed or incomplete. A top-to-bottom upgrade of data and analytics may be in order if firms are not up to speed in critical areas. For example, they should be able to use predictive analytics tools to identify behaviors among prospects and clients that signal the possibility of new or deeper relationships. They need to go further than just providing alerts, by tying those alerts to internal systems so wealth managers can follow up directly, adding a human touch to digital-first interactions. Perhaps most fundamentally, firms need to scrub their data to make it both easier to use and more effective. Many firms still do not have advanced CRM systems which is a big challenge for implementing the one-to-many relationship model (discussed above). CRM systems provide a single view of the client and also enable effective handling of a variety of interaction touch points, such as in-person, fully digital, or a combination).
- Personalization** – Firms should set their goals high when it comes to personalization. Tools available today make it possible for firms to express true intimacy with their clients through on-demand services. For example, rather than conducting

portfolio reviews according to a pre-defined schedule, firms can respond on an ad-hoc basis to client requests for reviews, perhaps in response to market fluctuations or other concerns. Being able to address such concerns in an immediate fashion can go a long way toward cementing client loyalty. At the same time, the true “holy grail” of wealth management would be full modularization of services. For example, a HNWI with only US\$1 million in financial wealth may want to pay piecemeal for services offered by the private bank (such as estate planning and family business governance and trust, among others). While firms will need to look at the cost-benefit of offering premium services to less wealthy customers, such activity could lead to new revenue streams (or the preservation of existing ones), as well as deeper relationship intimacy. In weighing such an approach, firms should keep in mind that younger HNWI (under 40) are likely to generate significantly more wealth over the course of their lifetimes, and eventually “qualify” for private banking.

- Program Transformation** – The biggest priority in transforming program execution is to introduce flexibility and agility. Firms should adopt a policy of creating quickly and failing fast so they can continually build upon their knowledge. Live client feedback and co-design, real-time assessments and independent input should all be prioritized, with special consideration given to the opinions of younger, digitally savvy employees and FinTech partners. Proofs of concept should be readily adopted, with the goal of moving the most promising ones into production mode. Firms’ intent on achieving greater agility throughout the organization will likely need to revamp their budgeting processes. Moving away from fixed, multi-year budgets will let firms respond more aggressively to external pressures like competition and client demand.

Budgets should be structured with funds segmented into areas such as maintenance, investments into potential game-changing solutions, investments in order to catch-up with areas of weakness, and for some firms even venture enterprises.

- **Culture Transformation** – Firms have much to do when it comes to transforming their cultures to prepare for the next generation wealth management firm. Perhaps the biggest source of drag on the industry is the ongoing allegiance to the idea that every investment must provide a return before it can be acted upon. Firms need to revamp their notions of return on investment (ROI) and embrace the mindset that digital investments are revenue-generators, not expense items – albeit with attribution sometimes being a challenge. Consistent messaging and engagement from the executive level and senior management in digital will help reinforce that the technology is here to stay and needs to be embraced. Finally, firms must come to terms with the long-term nature of cultural transformation and consider it a never-ending process.
- **Proposition/Fee Transformation** – Moving to a hybrid-advice model offers firms the opportunity to introduce fee structures that are more in line with client attitudes and preferences. The ad-hoc nature of wealth manager involvement in hybrid accounts makes it a natural fit for pay-as-you-go models. These may take the form of a flat rate combined with add-on fees for service, or an a-la-carte approach. At minimum, firms should seek to introduce competitive pricing structures with improved transparency.
- **Marketing Transformation** – The industry’s efforts to make hybrid advice an integral part of wealth management will amount to very little if clients are not aware of the offering. Sophisticated marketing campaigns that deliberately target specific client segments, highlighting compelling features and transparent fees are necessary to ensure adoption. These efforts should not end at the sign-up phase, however. Official onboarding programs should be put in place to make sure clients are actively engaging in the programs and are motivated to continue using them.
- Wealth management firms may have to adjust to slimmer revenue margins in previously core areas of the business as fee structures trend downward to accommodate higher rates of self-service. Rather than earning several percentage points, such as in transaction-based brokerage fees in markets such as North America, or fixed income investments in Japan, firms may have to adjust to tenths of a percentage point earnings on automated advisory services. This will put greater pressure on performance to keep profit models intact while delivering personalized pricing and solutions.
- Wealth managers will likely ease out of conducting direct, one-on-one interactions with clients in low-value segments, while providing highly complex and customized services at the higher end of the spectrum. The concept of a “segmentation of one” may become a reality for clients who receive customized, analytics-driven offerings.
- Wealth managers are expected to engage in less travel and more video, and will need to have a high comfort level with digital technology. Those with higher rates of intuition and empathy will be better equipped to smooth over the trials of engaging in digital conversation. As they cede more control to experts and automated advice tools, wealth managers will need to become flexible “chefs d’orchestre,” aided by technology tools such as CRM and analytics.
- Firms will need to be comfortable with totally new concepts, such as initially offering automated advice for free, with the aim of eventually layering on personalized and modularized fee-based services (especially for younger HNWI’s (under 40) whose wealth and lifetime value to the firm will grow over time). They may need to consider partnering with firms they once considered competitors, like FinTechs and BigTechs, such as Google and Facebook.
- Some firms might choose to go completely digital and target the 100% online discretionary management piece of the pie. These firms will also need to acknowledge the greater influence of technology-based tools in managing customer relationships, such as CRM for segmentation and analytics-driven management and engagement.

Some of the firms have already started embracing this journey and started realizing key benefits. One case study in particular has been identified and described (see page 39).

Hybrid Advice Models Raise New Risks

On the surface, hybrid-advice models are an elegant way to meet the demands of a changing environment. As they become more widespread, however, they will have a significant impact on long-held industry business practices and models:

The biggest risks facing firms, however, may be those that are not yet fully apparent. In preparing for the challenges of today, firms may be overlooking important developments that could drastically affect them in the future.

One of these possibilities is the rise of voice (along the lines of Apple’s Siri and Amazon’s Alexa) as a pervasive user interface. If the client experience moves swiftly beyond log-ins and devices, to greater acceptance of voice activation and interaction, then the wealth management industry may be left flat-footed.

Case Study: Leading U.K. Bank Embraces Hybrid Advice Model

Situation and Background



A leading U.K.-based universal bank with an average of 65 clients per wealth manager was facing a Service Level Agreement (SLA) that required four meetings per year with each client. This created a critical situation due to the heavy requirements of manually handling each meeting, including the preparation work, travel, meetings, and post-meeting follow-up. The firm decided to come up with an alternative to the traditional wealth and private banking service for its premier banking customers.

Approach



The firm set a goal of increasing the wealth manager: client coverage ratio seven-fold, from an existing ratio of 1:65, using a hybrid transformation. Other priority and focus areas included: 1) Highly engaging and enhanced client experience; 2) Holistic financial planning (advice from a trusted partner to deliver financial planning centered around the customer, not products); 3) Enhanced digital adoption (seamless integration between human and digital); 4) Deepening client relations to help increase wallet share; 5) Improving productivity and internal efficiencies.

Simplify Process	Articulate Digital Journeys For Each Client Type	Define Specific Propositions For Each Journey	Agile Transformation
<p>Approach: To identify target and test propositions through statistical market analysis and defining target and associated MVP (Minimum Viable Product). Key analysis conducted:</p> <ol style="list-style-type: none"> 1) Competitive landscape; 2) Statistical analysis; 3) Target personas; 4) Identify focus groups to test propositions; 5) Conduct meetings to test live Proof of Concept (PoC) of virtual advice with independent researcher and usability expert observation. 	<p>Approach: The firm targeted identification through persona-driven statistical market analysis and also embarked on the digital journey with a simple financial health check tool to begin delivery of neutral advice from a trusted partner centered around each customer's life stage.</p>	<p>Approach: The firm identified the key capabilities needed to deliver future objectives. It identified current business capabilities and the associated goals across key areas (policy/control, people, process, and technology), as well as opportunities to overlay AI/cognitive insights.</p>	<p>Approach: Executed a controlled market launch and identified a targeted operating model along with an integrated client journey. Reused existing capabilities while exploring opportunities to integrate readily available third party tools to accelerate delivery.</p>

Outcome



- Two key programs were launched:
 1. Cognitive insights for every step, such as providing planners with insights at each stage
 2. Virtual advice, such as access through video, apps, and chat.
- The firm was able to support their growth by:
 1. Providing integrated bank offerings
 2. Serving underserved customer segments with lower-cost advice
 3. Providing digital relationships with human touch (for millennials initially, with plans to expand into other segments)
- As part of the strategy phase, the firm utilized a robust methodology to ensure a clear definition of vision and objectives, linking them to a capabilities and transformation plan
- Overall, the key was to adapt and work in an agile way while testing and learning, rather than following a big bang approach.

Source: Capgemini Financial Services Analysis, 2017

The industry also needs to keep up with developments in artificial intelligence (AI) and machine learning (ML), which are becoming integrated into numerous aspects of wealth management, including automated advice, chat bots, predictive analytics, next-best action advice, and pattern recognition. The technology is increasingly taking on human-like characteristics, becoming smart enough to offer advice based on emotions and use natural language processing to understand human speech as it is spoken. Companies including Pershing, Morgan Stanley, and Bank of America have already started to deploy AI to aid wealth managers.³¹

The biggest risk is the entry of BigTech firms, namely Google, Amazon, Facebook, and Apple (GAFA) as well as Alibaba in Asia, into the business of providing automated advice. Assuming BigTech firms approach wealth management with all the focus, skill and determination that they have brought to their principal businesses, then wealth management firms, especially smaller, non-differentiated players, may be in for a major battle for client loyalty. (For a more in-depth look at the implications of BigTech in wealth management, please see our sidebar on page 22).

Figure 34. Personalization of HNWI Interaction Type by Preference, Q2 2017

Age	Gender	Market	Primary Source of Wealth	Profile	Develop	Execute	Manage	Report
36	M	U.S.	Business Income	1.0	2.0	2.3	2.3	3.0
25	F	Mexico	Alternative Investments	1.0	2.7	2.0	3.0	3.0
46	M	Australia	Equities	2.0	1.5	2.5	2.3	2.0
53	F	Malaysia	Real Estate	2.5	1.0	1.7	2.5	1.0
42	F	India	Equities	1.5	1.0	2.5	2.8	2.0
62	M	China	Fixed Income	1.0	2.0	2.0	2.5	2.0
61	M	Switzerland	Equities	2.0	1.5	2.0	2.5	2.0
41	M	Brazil	Real Estate	1.0	2.0	2.5	1.0	2.0

Wealth Manager-Led
 Hybrid Model
 Fully Automated

Note: Question asked: "How would you like to interact with your primary wealth manager or wealth management firm for each of the following services?"; Respondents were asked to rate on a scale of 1–3 with 1 being 'Fully Wealth Manager-Led', 2 being 'Hybrid' and 3 being 'Fully Automated'; Above values represent the score of out 3

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

31 "Pershing Builds on Open API Strategy, AI for Advisors", accessed August 2017 at <http://www.wealthmanagement.com/technology/pershing-builds-open-api-strategy-ai-advisors>

Conclusion

Wealth management firms and clients alike are still testing the waters of hybrid-advice models, as they strive to find the optimal mix of automated and human interaction. *The findings from our Capgemini Hybrid Advice Framework indicate that the human element remains the key differentiator.* Even within the hybrid-advice model, firms and HNWI clients lean primarily toward “mainly wealth manager-led” capabilities, as opposed to “mainly automated” capabilities, implying that digital tools support the wealth manager and not the other way around.

The framework also shows that HNWI clients are most open to hybrid-advice solutions once they are already well into a wealth management relationship, at the stages of ongoing management and reporting. Firms may want to consider putting the bulk of their initial hybrid efforts into these particular functions before easing them into other areas.

While wealth management firms are recognizing the importance of hybrid advice, they have yet to roll out solutions that are truly effective and personalized. Getting to that end-state will require firms to embrace micro-personalization of services (Figure 34) so they can deliver highly-targeted products, advice, pricing, and other communications to individual HNWI clients in the exact manner they prefer. While not easy, this approach is expected to yield significant benefits for firms in the form of new and improved revenue streams, deeper client intimacy and loyalty, improved efficiency and wealth manager productivity, and a more compliant overall process.

Appendix

Market Sizing Methodology

The 2017 *World Wealth Report* covers 71 countries in the market-sizing model, accounting for more than 98% of global gross national income and 99% of world stock market capitalization.

We estimate the size and growth of wealth in various regions using the Capgemini Lorenz curve methodology, which was originally developed during consulting engagements in the 1980s. It is updated on an annual basis to calculate the value of HNWI investable wealth at a macro level.

The model is built in two stages: the estimation of total wealth by country; and the distribution of this wealth across the adult population in that country. Total wealth levels by country are estimated using national account statistics from recognized sources, such as the International Monetary Fund and the World Bank, to identify the total amount of national savings in each year. These are added over time to arrive at total accumulated country wealth. As this captures financial assets at book value, the final figures are adjusted, based on world stock indexes to reflect the market value of the equity portion of HNWI wealth.

Wealth distribution by country is based on formalized 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 are able to make accurate estimates of relative flows of property and investment in and out of their jurisdictions. We account for undeclared savings in the report.

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

2017 Global High Net Worth Insights Survey

The Capgemini 2017 Global HNWI Insights Survey queried more than 2,500 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 HNWI Insights Survey, was administered in May and June 2017 in collaboration with Scorpio Partnership, a firm with 19 years of experience in conducting private client and professional advisor interviews in the wealth management industry.

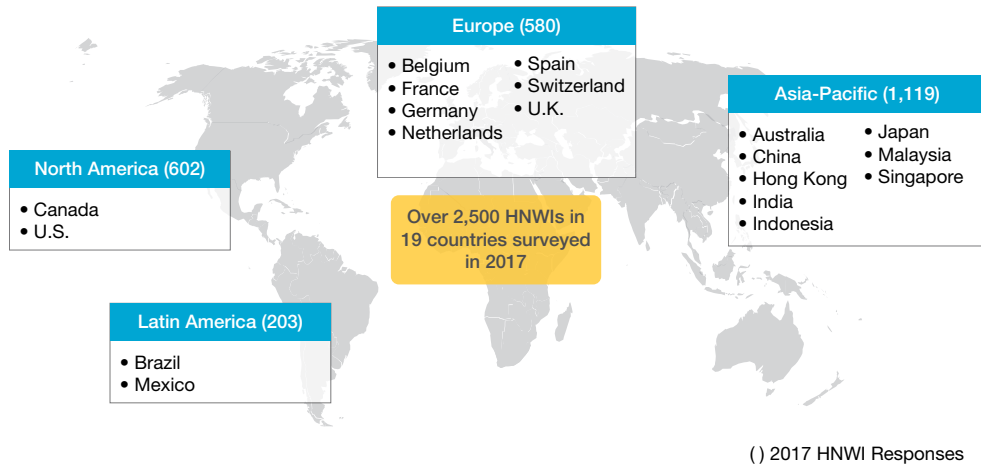
The 2017 survey covered key areas around HNWI investment behavior including asset allocation, fee models and investment preferences. The survey measured current HNWI investment behavioral patterns of global HNWIs, including their asset allocation

preferences as well as the geographic allocations of their investments. The survey also covered various fee models, and HNWIs comfort and concerns with fees. 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.

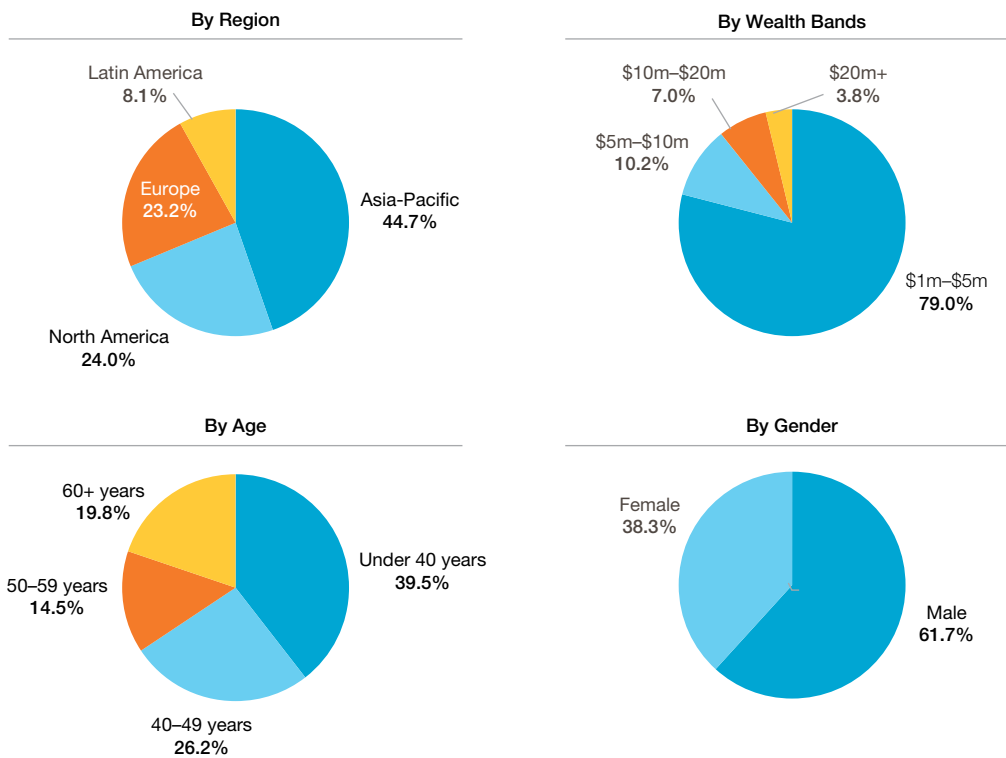
For more interactive and historical data at a regional and country level for Market Sizing and the Global High Net Worth Insights Survey, please visit www.worldwealthreport.com

Figure M1. Global HNW Insights Survey Responses, Q2 2017



Source: Capgemini Global HNW Insights Survey 2017

Figure M2. Global HNW Insights Survey Demographic Breakdown, Q2 2017



Source: Capgemini Global HNW Insights Survey 2017

The information contained herein was obtained from various sources. We do not guarantee its accuracy or completeness nor the accuracy or completeness of the analysis relating thereto. This research report

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