World Wealth Report 2014

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Preface

Capgemini and **RBC Wealth Management** are pleased to present the 2014 *World Wealth Report* (WWR), offering detailed analysis of high net worth individuals (HNWIs[1]) around the world. This year's report, presented in five sections, assesses growth in the HNWI market and the drivers behind it, and continues with in-depth analyses of HNWI attitudes and preferences—everything from how well they trust their wealth managers, to how they invest their wealth, to how they like to drive social impact. We conclude with an examination of the disruptive force of digital channels and their impact on the wealth management industry and the service preferences of HNWIs.

The findings of this year's report are derived from a broad range of empirical research. As in our 2013 WWR, we gained insights directly from HNWIs through the Global HNW Insights Survey we created and executed in collaboration with Scorpio Partnership. This year's survey received responses from more than 4,500 HNWIs in 23 countries across five regions, making it the most comprehensive study of its kind. In addition, interviews with wealth management, social enterprise, and technology executives around the globe round out our direct survey results.

Our findings indicate that more than ever, the environment is right for wealth management firms to broaden and deepen their relationships with HNWIs. The population and wealth of HNWIs is growing, HNWI trust in wealth managers and firms is expanding, HNWIs are increasingly focused on wealth growth instead of preservation, and they continue to express a high degree of confidence in their ability to generate wealth. Our Global HNW Insights Survey provides a detailed understanding of the nuances of the wealth manager-HNWI relationship, helping to pinpoint the ways in which wealth management firms can better fulfill HNWI needs.

Additionally, our research found that having a positive impact on society is important to the vast majority of HNWIs. In our section on driving social impact, we present findings around the drivers and causes that motivate HNWIs to allocate their time, wealth, and expertise, as well as the mechanisms they employ to fulfill social impact goals, and how firms can play a supporting role.

Digital channels, the focus of the final section of our report, are expanding well beyond established technologies to include emerging forms of digital interaction within wealth management, such as mobile applications, video, and social media. Our research offers an unparalleled look into the demand by HNWIs for digital interaction and the disruptive force that digital technology is bringing upon firms, wealth managers, and the overall client experience. We investigate some of the transformative actions taken across the industry and present a strategic framework to help firms navigate this challenging landscape.

We hope you will find our latest report useful in understanding the demographic, competitive, and technological forces affecting the wealth management industry. Using the information in this report, we expect the industry will be better prepared to develop ongoing strategies for improved performance.

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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

HNWI Growth Accelerates, Reaching New Record Levels

- **HNWI ranks expanded by nearly 2 million individuals in 2013, marking a 15% growth rate and the second largest increase since 2000.** North America and Asia-Pacific continued to lead the way, with Japan's HNWI population witnessing significant growth.
- **HNWI wealth grew by almost 14% to reach a second-consecutive record high of US$52.62 trillion in 2013, building on a strong five-year trend.** Over the past five years, HNWI wealth globally increased by nearly US$20 trillion, US$2 trillion more than the total HNWI wealth currently in Asia-Pacific, the Middle East, and Africa combined.
- **Ultra-HNWI[2] population and wealth growth in 2013 outperformed other wealth bands in all regions except Latin America.** The slow growth in Latin America, which holds the largest percentage of ultra-HNWI wealth (32.9%), constrained the global figure in 2013 and also over the last five years.
- **Three clear HNWI performance clusters have emerged among the top 25 markets since the crisis in 2008, with the above-average growth country cluster representing a diverse mix of markets.** Oil-rich Norway and Kuwait, the financial centers of Hong Kong and Singapore, and the emerging economic powerhouses of China, India, Russia, and Taiwan comprise the above-average growth cluster. Latin America and the Eurozone, meanwhile, have lagged.
- **HNWI wealth is expected to reach another record of US$64.3 trillion by 2016, representing 22% growth over 2013 and almost US$12 trillion in new HNWI wealth.** Growth is expected to be driven by robust expansion in most regions, though Asia-Pacific will lead the way with 9.8% CAGR. As forecasted in the 2013 *World Wealth Report*, Asia-Pacific is still expected to have the largest HNWI population by 2014 and the most wealth by 2015.

GLOBAL HNWI AND WEALTH GROWTH LED BY NORTH AMERICA AND ASIA-PACIFIC

Both the number of HNWIs and the amount of their investable wealth increased significantly in 2013, with the HNWI population advancing at its fastest clip since 2000 (excluding the post-crisis recovery year in 2009) to reach a record high. The population of HNWIs expanded by 14.7% to 13.7 million, well above the nearly 12 million of 2012 (see Figure 1), while HNWI wealth increased 13.8% to US$52.62 trillion, up from US$46.22 trillion (see Figure 2).

Japan's HNWI population growth rate surged to a record 22.3%, following a more modest annualized growth of 4.6% from 2007 to 2012. Propelled by Abenomics,[3] Japan experienced significant returns in the equity and real estate markets on the strength of positive sentiment and better economic performance, especially during the first half of 2013.

Asia-Pacific recorded the largest increase in HNWI population (17.3%) and narrowed the gap on North America—the region with the largest HNWI population at 4.33 million—to just 10k individuals. Japan, with its unprecedented HNWI population surge in 2013, and China, with strong annualized HNWI population growth of 15.8% between 2008 and 2013, helped fuel Asia-Pacific's increase.

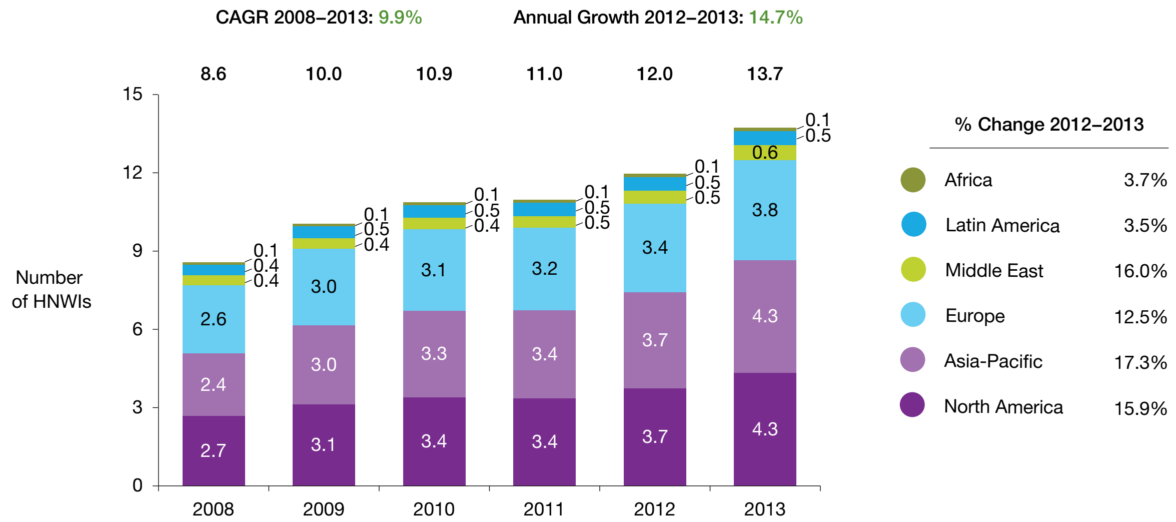
While Europe continued to trail these two regions, its growth of 12.5% was a significant bump from the previous two years, pushing European HNWI population to 3.83 million. The winding down of Europe's two-year recession, combined with a healthy 13.4% increase in HNWI population in the U.K. market, helped drive Europe's overall growth.

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

3 Abenomics refers to the economic policies of Japan's Prime Minister, Shinzo Abe, which incorporate a mix of fiscal stimulus, monetary easing, and structural reforms, to reinvigorate the economy

FIGURE 1. HNWI Population, 2008–2013 (by Region)

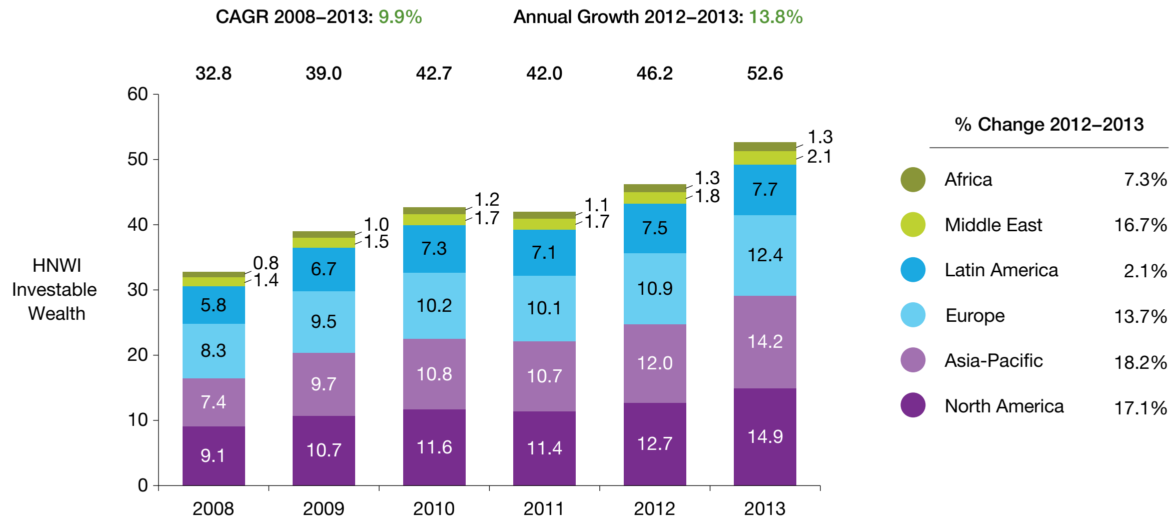
(Million)



Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2014

FIGURE 2. HNWI Wealth Distribution, 2008–2013 (by Region)

(US$ Trillion)



Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2014

Even though the Middle East experienced very healthy growth of 16.0%, its population of HNWIs remained well below one million. Latin America and Africa registered the lowest rates of growth, at 3.5% and 3.7%, respectively.

In terms of investable wealth, 2013 was another record year with HNWI wealth reaching US$52.62 trillion, an increase of 13.8% from 2012.

Since 2008, HNWIs have boosted their wealth by 61%, or US$20 trillion, an amount that is over US$2 trillion more than the current combined wealth of Asia-Pacific, the Middle East, and Africa.

North America maintained its position as the wealthiest region (US$14.88 trillion), even though its strong growth rate of 17.1% was shy of Asia-Pacific's even stronger 18.2%. Asia-Pacific's US$14.20 trillion in investable wealth was followed by Europe with US$12.39 trillion, and Latin America with US$7.70 trillion. Weak growth in Brazil and Mexico contributed to Latin America's low 2.1% growth.

ULTRA-HNWI SEGMENT OUTPERFORMS IN ALL REGIONS EXCEPT LATIN AMERICA

Despite the fact that they number only 128k and make up just 0.9% of the total HNWI population, ultra-HNWIs, with more than US$30 million of assets, held more than one-third (34.6%) of global HNWI wealth (see Figure 3). Mid-tier millionaires, with US$5 million to US$30 million of assets and numbering 1.2 million, made up 9.0% of the HNWI population and 22.3% of wealth. The largest group by far, numbering nearly 12.4 million and making up 90.1% of the total, is the set of millionaires next door, who have between US$1 million and US$5 million of assets and hold 43.1% of global HNWI wealth.

The population and wealth of the millionaires next door segment increased by 14.6% and 14.7%, respectively, up from a more modest annualized growth of about 10% between 2008 and 2013. Similarly, mid-tier millionaires expanded both population and wealth by 15.2%, up from about 10% from 2008 to 2013. Ultra-HNWIs expanded in population by 15.6%, while their wealth expanded by a more modest 12.0%. The annualized wealth growth for ultra-HNWIs (9.9%) was largely constrained by Latin America (6.0%).

This relative weakness of ultra-HNWI wealth growth was driven by poor performance in Latin America, where there is a highly concentrated ultra-HNWI population that makes up only 10% of the global ultra-HNWI population but holds 33% of global ultra-HNWI wealth, significantly higher than North America at 22% and Asia-Pacific at 20%. As in 2012, ultra-HNWI wealth grew at a much lower rate in Latin America (1.7%), compared to both Asia-Pacific (19.8%) and North America (19.4%).

A 0.9% decline in ultra-HNWI wealth in Brazil, which makes up nearly 60% of Latin American ultra-HNWI wealth, and nearly one-fifth of global ultra-HNWI wealth, accounted for slower ultra-HNWI growth, both in Latin America and globally.

Excluding Brazil would have expanded the rate of global ultra-HNWI wealth growth from 12.0% to 15.5%, and made the ultra-HNWI segment the best performer in 2013. Latin America's lagging wealth growth, especially in the ultra-HNWI segment, made it the only region where overall HNWI wealth expanded more slowly than HNWI population.

FIGURE 3. Composition of Global HNWI Population by Wealth Bands, 2013

	Number of Individuals 2013	HNWI Population CAGR 2008–2013	HNWI Population Growth 2012–2013	HNWI Wealth CAGR 2008–2013	HNWI Wealth Growth 2012–2013	% of HNWI Wealth 2013
+ US$30m Ultra-HNWIs	128.3k (0.9% of total)	10.5%	15.6%	9.9%	12.0%	34.6%
US$5m—US$30m Mid-Tier Millionaires	1,230.6k (9.0% of total)	10.1%	15.2%	10.2%	15.2%	22.3%
US$1m—US$5m Millionaires Next Door	12,371.5k (90.1% of total)	9.8%	14.6%	9.9%	14.7%	43.1%

Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2014

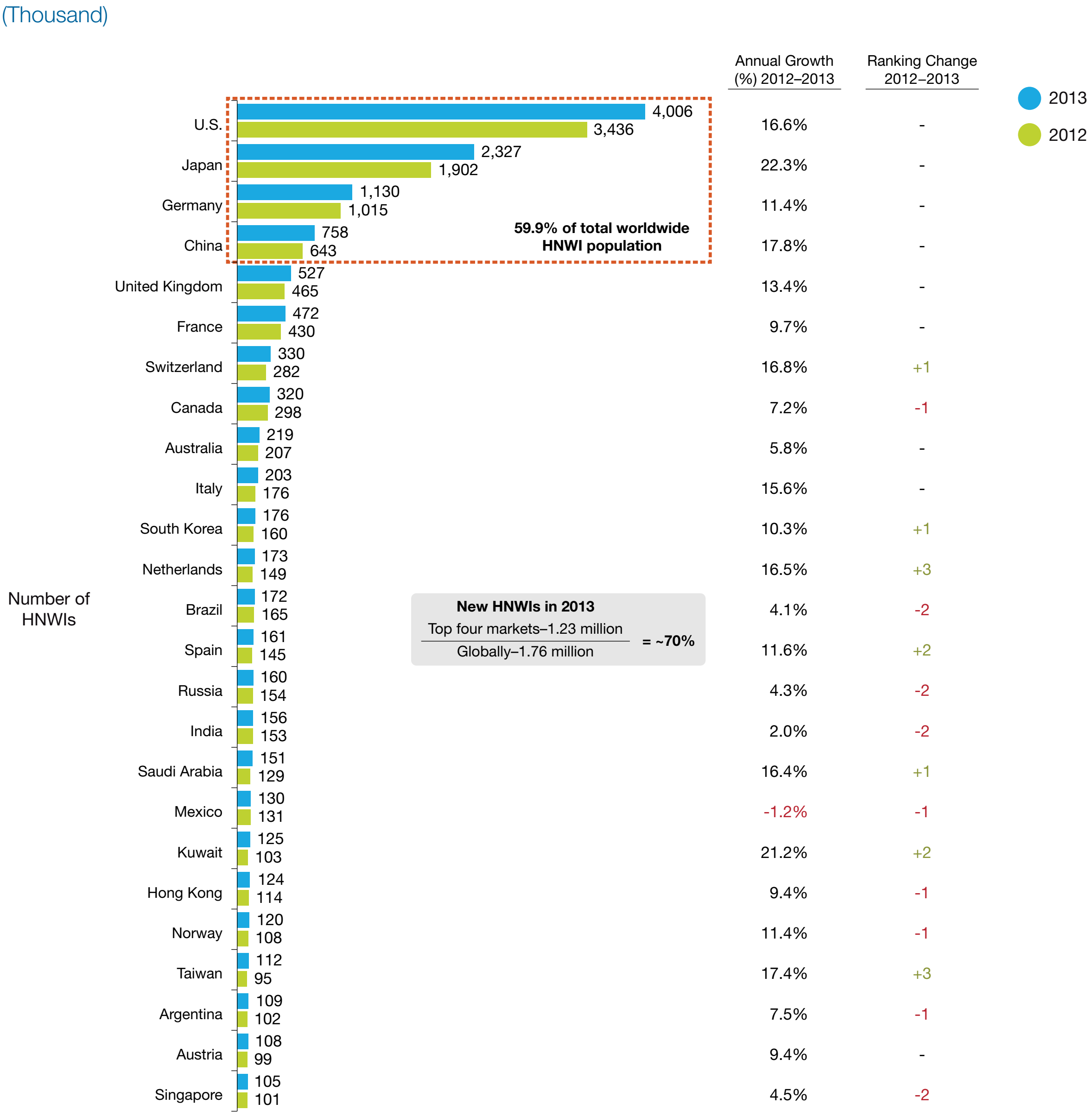
TOP FOUR MARKETS GENERATE MAJORITY OF HNWI GROWTH IN 2013 – CLEAR PERFORMANCE TRENDS EMERGE SINCE 2008 FINANCIAL CRISIS

The markets that already had the highest HNWI populations added significantly to those numbers.

The top two markets of U.S. and Japan, which cover 46.1% of the global HNWI population, accounted for more than 55% of HNWI population growth in 2013.

Similarly, the top four markets, consisting of the U.S., Japan, Germany, and China, accounted for nearly 70% of HNWI population growth in 2013. These four markets added over three times more HNWIs than the next 21 largest markets combined (see Figure 4). Currently, they make up 59.9% of global HNWI population, up from a stable share of 58.4% recorded in both 2011 and 2012. As the major markets continue to outperform, and the emerging markets become more economically vulnerable (see next section), an earlier expectation that the emerging markets would increase in prominence is receding.

FIGURE 4. Top 25 HNWI Population Ranking, 2013 (by Market)



Note: Percentage growth rates may not match column totals due to rounding
Source: Capgemini Financial Services Analysis, 2014

With the exception of Mexico, which declined slightly partly due to negative returns in the equity markets, every one of the top 25 markets grew their number of HNWIs. For the first time since 2006, Netherlands overtook Brazil in the number of HNWIs, driven by robust economic activity in Netherlands compared to Brazil's weak growth. Other notable shifts included Switzerland and Canada swapping places by virtue of significant growth in Switzerland's HNWI population. In addition, South Korea advanced by one position and three of the BRIC markets moved back—Brazil by three positions and India and Russia by two—due to low growth.

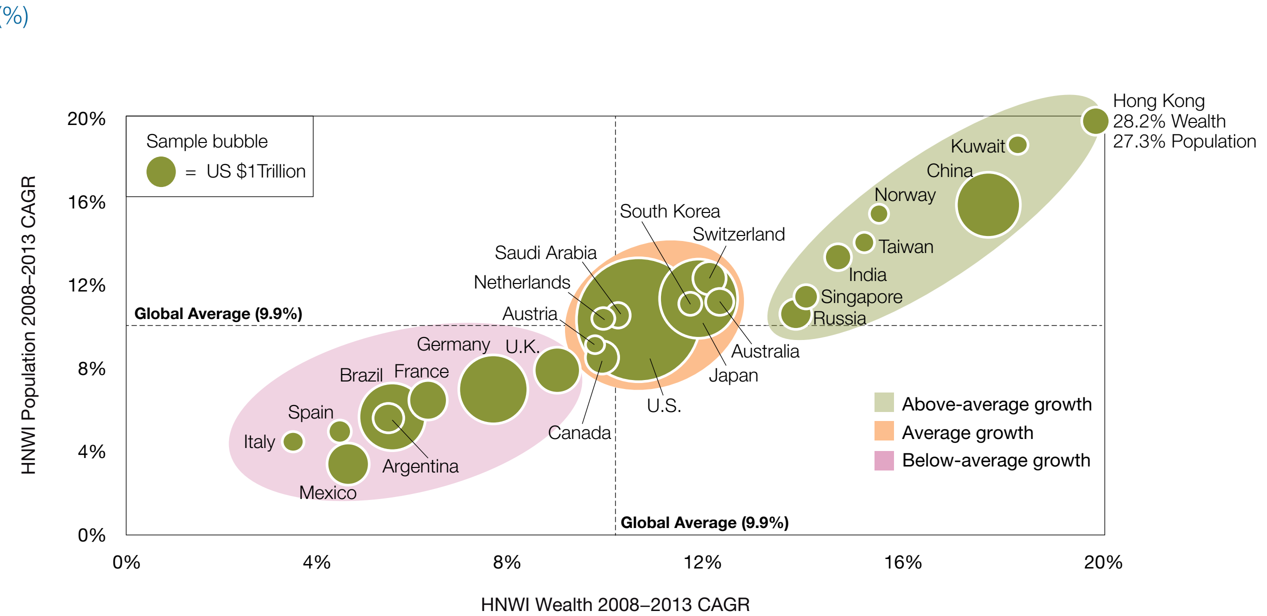
While the top four markets collectively generated enormous HNWI population growth, their growth rates individually did not penetrate the highest ranks. That distinction went to Ireland and United Arab Emirates (UAE), both of which benefited from strong performance in the equity markets and, in the case of UAE, significant recovery in real estate, helping to expand HNWI growth by nearly 25% in both countries.

Japan recorded the third-highest HNWI population growth and its large jump over previous years made it the big story of 2013. Greece, finally gaining traction in the wake of its financial crisis, followed close behind. All four of these markets experienced the benefits of an improved global economic outlook and increasingly positive investor sentiment.

Over the last five years, Asia-Pacific has emerged as a leading source of wealth growth. All the Asia-Pacific markets in the top 25 registered above-average HNWI population and wealth growth from 2008 through 2013 (see Figure 5). Also driving global growth were the large and mature markets of U.S. and Japan. The U.S., which has the world's highest HNWI population, further grew that population by 16.6% on the strength of an accelerating recovery. Japan, with the second-highest HNWI population, expanded this band by another 22.3% in 2013.

Since the financial crisis in 2008, the top 25 markets fall into three distinct categories of growth. The above-average growth country cluster represents a diverse mix of markets, including the smaller, oil-rich markets of Norway and Kuwait, the regional and global financial centers of Hong Kong and Singapore, as well as the emerging economic powerhouses of China, India, Russia, and Taiwan. Most of these markets are recently developing economies that have witnessed above-average growth in GDP[4] and/or equity markets, helping to propel HNWI population and wealth growth between 2008 and 2013.

FIGURE 5. HNWI Population and Wealth Compounded Annual Growth Rates (CAGRs) for Top 25 Markets, 2008–2013



Note: Size of the bubble represents HNWI wealth in 2013; Hong Kong has not been placed to scale on the graph, as it is an outlier
Source: Capgemini Financial Services Analysis, 2014

4 GDP refers in all cases to inflation-adjusted or real GDP

China and India are notable in having slightly below-average equity market growth, and GDP growth significantly above the global average from 2008 to 2013.

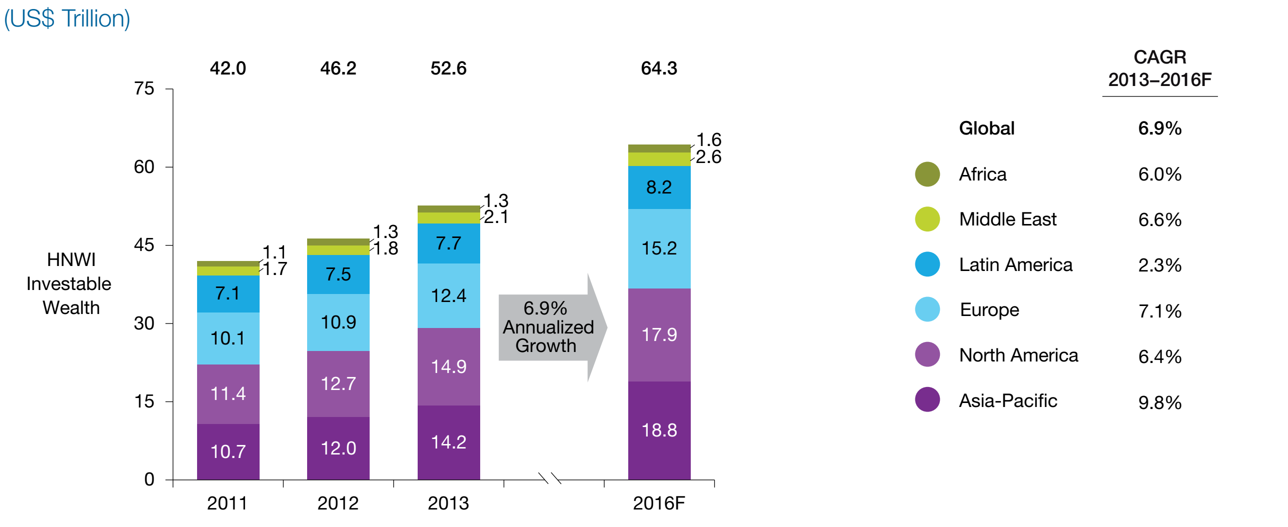
The average-growth country cluster is characterized by the two largest HNWI markets, U.S. and Japan, as well as other smaller, mature markets in Asia-Pacific (Australia, South Korea), North America (Canada), and Europe (Austria, Netherlands, Switzerland). In the U.S. and some other markets, growth was aided by recovery from the financial and Eurozone crises. Japan, which has experienced below-average growth for much of the past five years, benefited from recent shifts in policy by Prime Minister Abe and positive sentiment, leading to a 24.9% increase in equity markets and a 3.9% increase in real estate markets. Saudi Arabia, which has performed relatively well even in the face of the Eurozone crisis, also ranks in the average-growth group.

The below-average growth country cluster was mostly represented by the more mature European and Latin American markets. The global financial crisis and subsequent Eurozone slowdown negatively affected HNWI population and wealth growth in the European markets of Italy, Spain, France, Germany, and the U.K. over the past five years. In Latin America, the economies of Mexico, Brazil, and Argentina faced internal issues of inflation and low investor confidence, in addition to slowing demand for commodity exports from across the globe.

GLOBAL WEALTH EXPECTED TO REACH NEW RECORD BY 2016, LED BY ASIA-PACIFIC

Global HNWI financial wealth is forecast to grow 6.9% annually through 2016 to reach a new record high of US$64.3 trillion, with an additional US$11.7 trillion in HNWI wealth created over the three-year period 2014–2016 (see Figure 6). Every region except Latin America is expected to grow strongly, though Asia-Pacific is likely to emerge as the clear leader, with a 9.8% annual growth rate. Asia-Pacific's strong growth should allow it to overtake North America in HNWI population in 2014, and in HNWI wealth by 2015.

FIGURE 6. HNWI Wealth Forecast, 2011–2016F (by Region)



Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2014

Improving Economy Propels Investor Sentiment and HNWI Wealth

At first glance, the global economy turned in lackluster performance in 2013, barely registering any growth over the year before. That outcome, however, does not reflect a slow return to normalcy that is beginning to take shape following years of economic upheaval in the wake of the financial crisis of 2008–2009. Instead of the uncertainty that has reigned for so long, 2013 was marked by fledgling indications of recovery: a still-shaky but notable improvement in the Eurozone, an aggressive shift away from deflation in Japan, stable growth in China, and growing momentum in the U.S. and U.K. economies.

Investors responded enthusiastically to the improving outlook. Equities in developed markets turned in particularly strong results as valuations stabilized, though weak performance persisted in the emerging markets. Increased risk appetites also lifted real estate in many major markets and boosted hedge-fund returns. On the strength of investments made in an accelerating economy, HNWIs expanded their wealth handsomely in 2013 (see page 4).

Numerous risks, however, continue to pervade the global economy, including fears of deflation in developed nations and the unpredictable nature of Japan's reform-driven growth. In emerging markets, credit and growth issues present worries, notably within five vulnerable markets, though a balance of payments crisis is considered unlikely. Despite these and other risks—including rising interest rates, a potential slowdown in China, and the ongoing threat of political unrest in areas including the Middle East, Thailand, and Brazil, as well as Russia and Ukraine—global GDP growth is expected to accelerate in 2014.

POSITIVE ECONOMIC DEVELOPMENTS OFFSET DISAPPOINTING GDP GROWTH

While the global economy did not fare very well in 2013 from a GDP perspective, many persistent economic woes faded in intensity, setting the stage for improved investor sentiment and higher asset growth. Along with better performance in a few key markets, investors appeared buoyed by the receding of several large risks, including the Eurozone recession and the U.S. debt ceiling.

An upswing in investor confidence reached post-crisis highs and helped spur strong returns, especially in developed markets in 2013.

Taken alone, the GDP growth story was not a positive one. Global GDP grew meagerly, expanding at a rate of 2.2%, down slightly from 2.3% in 2012 (see Figure 7). Certain areas, however, emerged as bright spots. Japan benefited from an aggressive stimulus plan that had the dual impact of pushing GDP higher (from a negative growth rate in 2011 to 1.7% in 2013) and spurring large gains in Japanese equity markets. While all the other Asian equity markets experienced low or negative growth, partly due to concerns over China's growth, Japan emerged as a top-three MSCI index performer,[5] after U.S. and Germany.

[5] Japan had the third-highest MSCI index growth in 2013 out of 15 key markets, including Australia, Canada, France, Germany, Italy, Japan, the U.K., and the U.S. in the developed world, and Brazil, China, India, Mexico, Russia, South Korea, and Taiwan in the emerging world

Similarly, the U.K. experienced better-than-expected GDP growth. At 1.8%, the rate was the U.K.'s highest since 2007, the result of improved demand and structural reforms. The growing economy and positive sentiment helped the U.K. stock market deliver a healthy return of 16.2%.

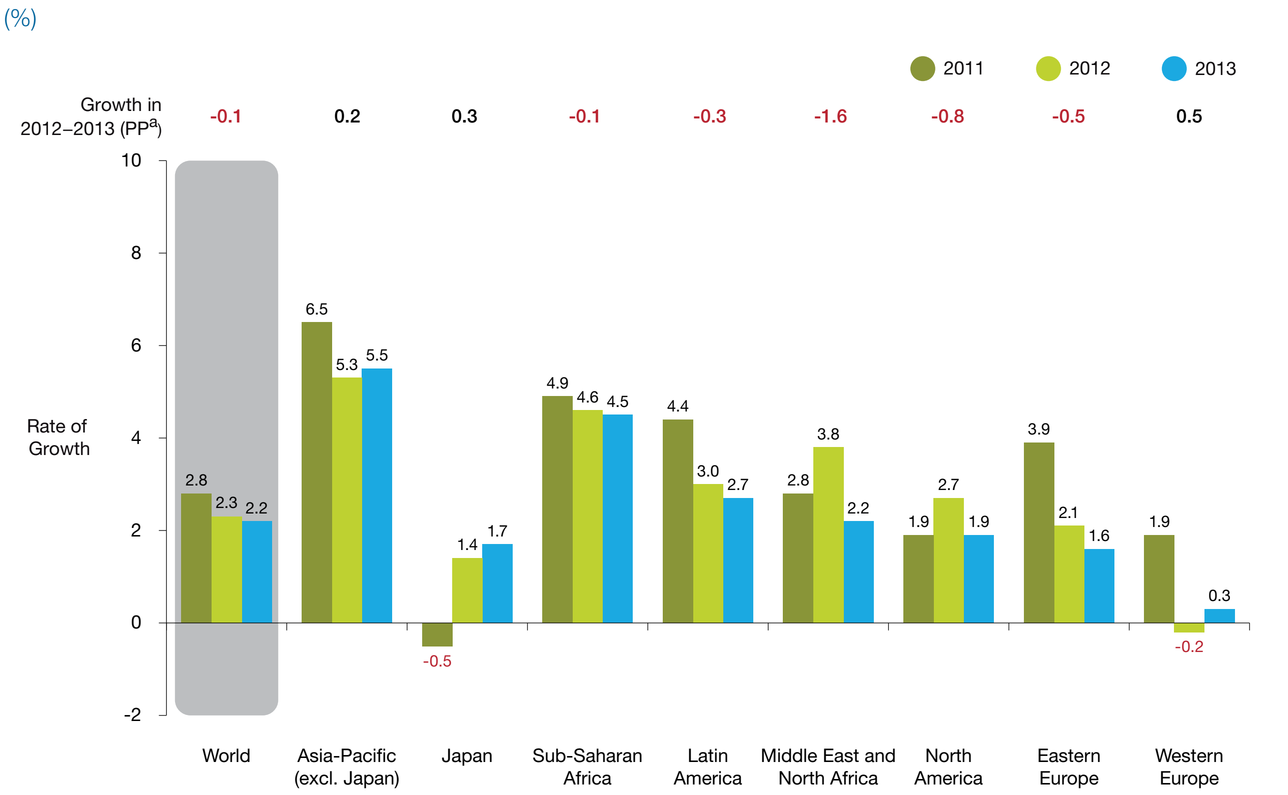
Despite many markets turning in mediocre performances overall, positive signs emerged. While Eurozone growth was subdued, for example, the region at least managed to put recession behind it and ease up on austerity measures. On the periphery of the Eurozone, Ireland became less of a concern as it tapped the bond markets for the first time in 2013 and regained its investment-grade rating from Moody's. China had only even growth, but dodged a slowdown, though legitimate fears of one persist. In the U.S., weak GDP expansion overall was tempered by faster growth in the second half of the year, as fiscal austerity began to run its course.

The emerging markets faced increased concerns resulting from decelerating economic growth and concerns of a credit overhang, though a repeat of the 1997–1998 Asian financial crisis seems unlikely.

The similarities between current credit concerns and the Asian crisis, including curtailed investment flows into the emerging markets and a tightening of cheap credit, are expected to be moderated by improved bank regulation, as well as higher foreign exchange reserves and lower debt loads among Asian nations. While a full-fledged crisis is unlikely to materialize, growth is expected to be constrained.

Other risks continued to bedevil the global economy. The credit slowdown in emerging markets was further complicated by the uncertain state of the Fragile Five—Turkey, Brazil, India, South Africa, and Indonesia—all of which have run current account deficits and been negatively affected by markets during bouts of panic.

FIGURE 7. Real GDP Growth Rates, World and Select Regions, 2011–2013



a: PP = Percentage Point

Source: Capgemini Financial Services Analysis, 2014; Economist Intelligence Unit, March 2014

Among developed nations, the risk of deflation threatened to weaken demand and increase the burden of already heavy debt loads, a combination that could deter the still-nascent recovery. On a positive note, a determined European Central Bank has pledged to act definitively to fend off the risk of deflation in Europe, where the risk is most acute.

Political threats to global stability included unrest in the Middle East, mounting tensions between Japan and China over a disputed set of islands, and simmering conflict on the Russian-Ukraine border that by early 2014 evolved into a full-fledged stand-off between Russia and the West. The ongoing dispute has diminished growth prospects for both Russia and Ukraine, but is not expected to materially impact global markets.

Recent elections in India and upcoming elections in several other major markets, including Brazil, Indonesia, Thailand, Europe, and the Middle East, threaten stability, leading to uncertainty over whether the economies in those markets will pick up or falter post-election. The Eurozone, meanwhile, continues to stand on shaky ground. Bold policy actions helped to revive some markets, but high unemployment, weak demand, non-existent credit growth, and low inflation continue to play leading roles in many of the region's economies.

UPBEAT INVESTOR OUTLOOK SPURS ASSET CLASS GAINS

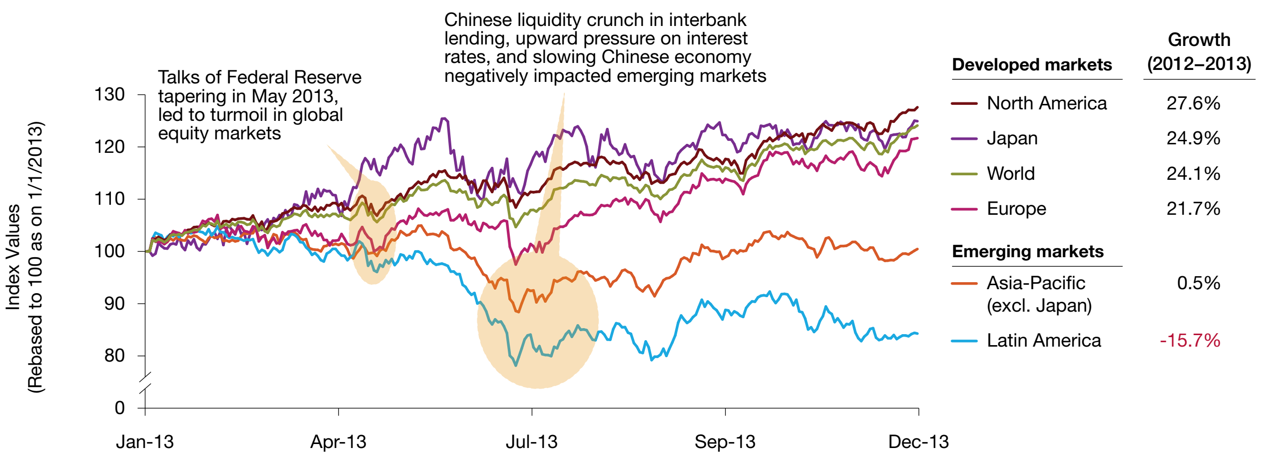
Investors remained attuned to the more positive aspects of the global economy. Despite the ongoing risks, investor confidence ramped up by 14.4 points in 2013 compared to a year earlier.[6]

Renewed investor confidence drove equity markets, making them the best-performing asset class in 2013.

In addition, real estate managed a substantial recovery and hedge funds delivered solid returns. In another sign of optimism, gold registered its largest annual loss since 1981 as inflation fears faded and investors embraced riskier assets.

Equities were particularly strong in the developed markets. Growth in indexed benchmarks reached 27.6% in North America, 24.9% in Japan, and 21.7% in Europe (see Figure 8). Japan's Nikkei hit 16,000 for the first time in six years, as a weakened yen and an improved U.S. economy helped to increase exports. The only exceptions to improved equity performance in the developed markets were Australia and Canada, which suffered from lower commodity prices and reduced demand from China.

FIGURE 8. Global MSCI Benchmark Index Values, 2013



Note: MSCI World Index consists of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K., and the U.S.

MSCI Europe Index consists of Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the U.K.

MSCI AC Asia-Pacific (excl. Japan) Index consists of the following developed and emerging market country indices: Australia, China, Hong Kong, India, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, and Thailand

MSCI EM Latin America Index consists of Brazil, Chile, Colombia, Mexico, and Peru

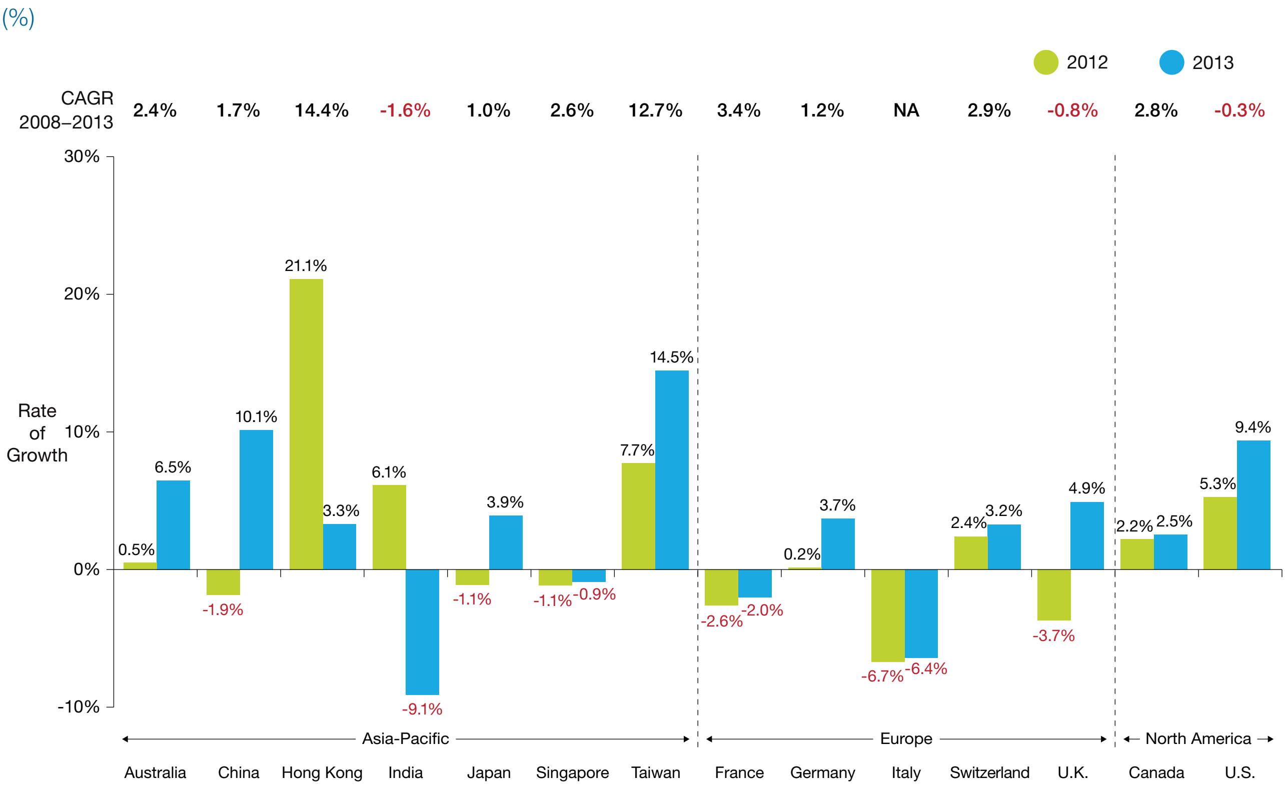
Source: Capgemini Financial Services Analysis, 2014; MSCI Barra Indexes, January 2014

[6] State Street Investor Confidence Index (ICI), 2014

Equities in the emerging markets did not fare nearly as well, despite the fact that they have outperformed the developed markets over the five years from 2008 (though by less than 4 percentage points per year). The Asia-Pacific (excl. Japan) benchmark registered an increase of only 0.5%, with marginal growth in China and South Korea, and a decline in India, due to a depreciating rupee, soaring inflation, and fiscal deficit issues. The Latin America benchmark, meanwhile, plummeted by 15.7%, aggravated by an 18.7% drop for Brazil, which suffered from high inflation, slowing exports, and reduced foreign investment. (See page 6 for analysis on the impact of Latin America's performance on ultra-HNWI wealth and population.)

Real estate in most markets recovered, with only India, France, and Italy among the major markets showing signs of weakness (see Figure 9). Taiwan, Germany, and the U.S. turned in the most impressive rates of growth, while REITs became an attractive place to deploy capital (though they began to yield poor results toward the end of the year). Emboldened by improved growth prospects and favorable monetary policies, the real estate industry is expected to continue to expand, despite expected interest rate increases.

FIGURE 9. Inflation-Adjusted House Price Change for Select Markets, 2012–2013



Note: Data for Italy is annual growth for Q3 2012 and Q3 2013 and 2008–2013 CAGR for Italy has not been calculated, as data before 2010 is not available
Source: Capgemini Financial Services Analysis, 2014; Global Property Guide House Price Index, March 2014

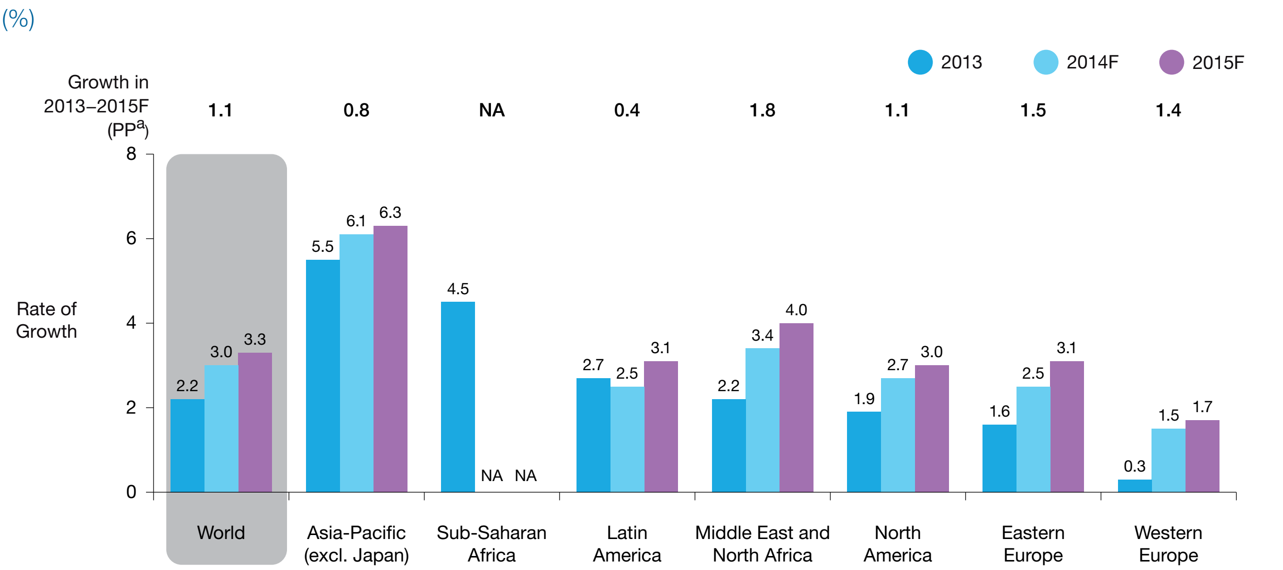
In fixed income, the Federal Reserve's decision to taper bond purchases as the U.S. economy improved caused global yields to rise and credit spreads to widen in 2013. While investors were initially spooked by news of the Federal Reserve's pullback, the process, which is expected to end in 2014, has been reasonably well managed. The tapering, however, poses risks to the stability of some emerging economies, which could experience capital outflows and higher borrowing costs of their own, dragging down their economies. Central banks in developed economies are pursuing divergent strategies, with the European Central Bank and Bank of Japan providing stimulus and supporting lower interest rates, while the Federal Reserve and Bank of England are hinting toward tighter monetary policies.

In the alternative investments arena, returns from hedge funds and oil/natural gas increased. While hedge-fund returns trailed equities for the fifth consecutive year, they still averaged a healthy 7.4%.[7] Strong seasonal demand boosted natural gas prices, while conflict in the Middle East pushed up oil prices, even as increased U.S. supply acted as a moderating factor. The prices of gold and silver plunged—by 28.1% and 35.8%, respectively—the former mainly due to signs of economic recovery in 2014 and allayed inflation fears. And commodities continued to perform poorly due to disappointing growth in the emerging markets, as well as a reduction in the demand-supply gap.

STRENGTH OF RECOVERY EXPECTED TO OUTWEIGH ONGOING RISKS

On the momentum of heightened economic activity throughout the second half of 2013, GDP growth is expected to pick up across all regions in 2014. Worldwide GDP growth should reach 3.0%, up almost a full percentage point from 2013 (see Figure 10). GDP is expected to accelerate the fastest in Western Europe (1.4 percentage points) and North America (1.1 percentage points) and more slowly in the emerging markets of Asia-Pacific (0.8 percentage points) and Latin America (0.4 percentage points). The highest rates of growth are still expected to come from Asia-Pacific (excl. Japan), though the rate of acceleration will likely be lower than in the past. In ongoing areas of concern, including Japan, the Eurozone, and the emerging markets, structural reforms will continue to be necessary to ensure solid growth and validate the improved sentiment experienced in 2013.

FIGURE 10. Outlook for Real GDP Growth Rates, World and Select Regions, 2013–2015F



a: PP = Percentage Point

Note: All 2013 data from EIU; All 2014 and 2015 data from Consensus Forecasts except the Sub-Saharan Africa and MENA regions. MENA forecast numbers come from EIU. The GDP forecasts for Sub-Saharan Africa were not published at the time of our final data cut and hence not included in the report

Source: Capgemini Financial Services Analysis, 2014; Economist Intelligence Unit, March 2014; Consensus Forecasts, March 2014

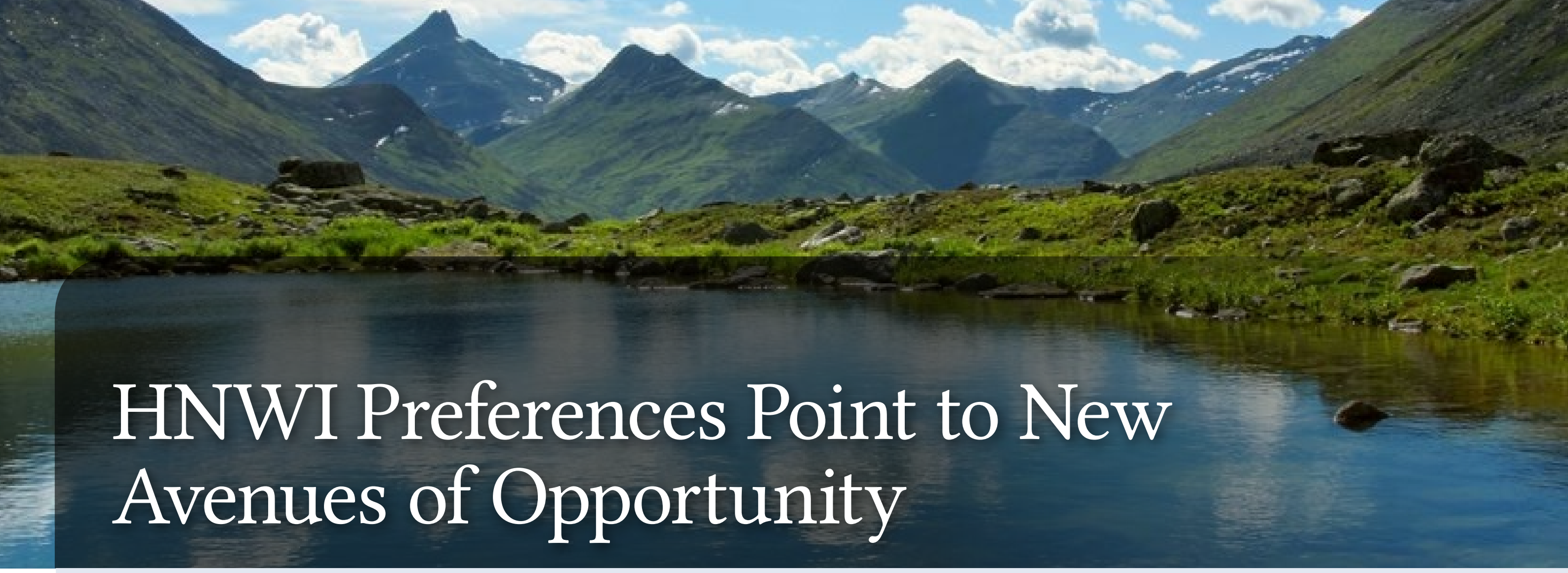
[7] "Hedge Funds Trail Stocks for Fifth Year With 7.4% Return", Bloomberg, Accessed April 2014

After five years of negotiating the after-effects of the financial crisis, the global economy finally appears to be entering a lasting recovery.

The signs of improvement are marked by diminishing austerity and strong private-sector performance. The U.S. economy is expected to be a driver of global growth, with the Federal Reserve continuing to unwind its easy-money policies in an orderly manner, and sectors such as real estate and energy contributing to economic output. As the developed economies gain ground, most emerging economies should pull ahead as well, on the strength of increased exports. Some, however, remain severely challenged, including Venezuela, Argentina, Ukraine, Thailand, and the Fragile Five, due to large fiscal deficits, slowing growth, and/or election-related political tensions.

In 2013, normalizing valuations, as a result of improved investor sentiment, generated stock-market growth, though there is a limit to how high such valuations can rise. In 2014, corporate earnings are expected to emerge as a more important driver. Improved business confidence and performance should, in turn, sow the seeds for expanded commercial real estate and other capital expenditures, driving GDP expansion.

Though the global economy is slowly healing, several short-term risks still must be navigated. The Federal Reserve needs to step carefully as it eases up on its stimulus to avoid spiking bond yields or contributing to credit tightening in emerging markets. In the Eurozone, where recovery remains fragile, central banks must be prepared to act decisively to avoid the risk of a deflationary spiral. Also of concern are rising interest rates, large amounts of public debt in developed economies, and the risk of slow growth in emerging markets. Finally, uncertainty persists due to questions over the sustainability of Japan's growth and its debt load, election-year instability in many markets, rising East-West tensions over Crimea and Ukraine, and the possibility that bank stress test results could curtail lending and growth in the Eurozone.



HNWI Preferences Point to New Avenues of Opportunity

Our findings on HNWI behaviors and preferences are derived from the Global HNW Insights Survey,[8] the industry's largest and most in-depth examination of high net worth individuals. Now in its second year, the report surveyed more than 4,500 HNWIs in 23 major markets across the five regions of North America, Latin America, Europe, Asia-Pacific, the Middle East and Africa (see Figure 11). The scope of the survey increased this year to include Indonesia and Malaysia in Asia-Pacific.

- **Starting from an already strong base, HNWI trust and confidence in all aspects of the wealth management industry increased at double-digit rates.** HNWIs globally expressed strong trust in wealth managers and firms, with levels increasing by 13.5 percentage points and 15.0 percentage points to reach 74.7% and 76.4%, respectively. Trust also increased in financial markets (+12.8 percentage points to 58.2%) and regulatory bodies (+16.4 percentage points to 56.0%) on the strength of positive sentiment. Confidence in future wealth generation, already high, increased by 1.7 percentage points to reach 77.1%.
- **HNWIs are taking a more global view, increasing investments outside of their home markets, while ultra-HNWIs are leading a mindset shift from wealth preservation to wealth growth.**[9] HNWIs allocated 36.6% of their investments outside their home region in 2014, up from 25.0% in 2013. Ultra-HNWIs significantly increased their focus on wealth growth, with 30.7% expressing a focus on growing versus preserving their wealth, up from 18.0% in 2013.
- **Despite strong wealth growth and confidence, wealth management firm performance ratings decreased by 4.0 percentage points to 63.0%.** The drop was strongest in the ultra-HNWI segment, falling by 8.6 percentage points to 64.6% from 73.2%. Younger HNWIs rated firms much lower than older HNWIs. Those under 40 gave a 62.4% rating and those 40 to 50 gave 60.8%, while those 50 to 59 gave a 64.3% rating and those over 60 gave 66.4%.
- **HNWIs reinforced clear preferences in how they would like to be served by wealth firms, indicating they prefer to seek expert professional advice and receive customized services.** While there is still a preference to have direct contact with wealth managers, the importance of digital contact is increasing and is especially strong for HNWIs under 40.

TRUST LEVELS JUMP ACROSS THE BOARD

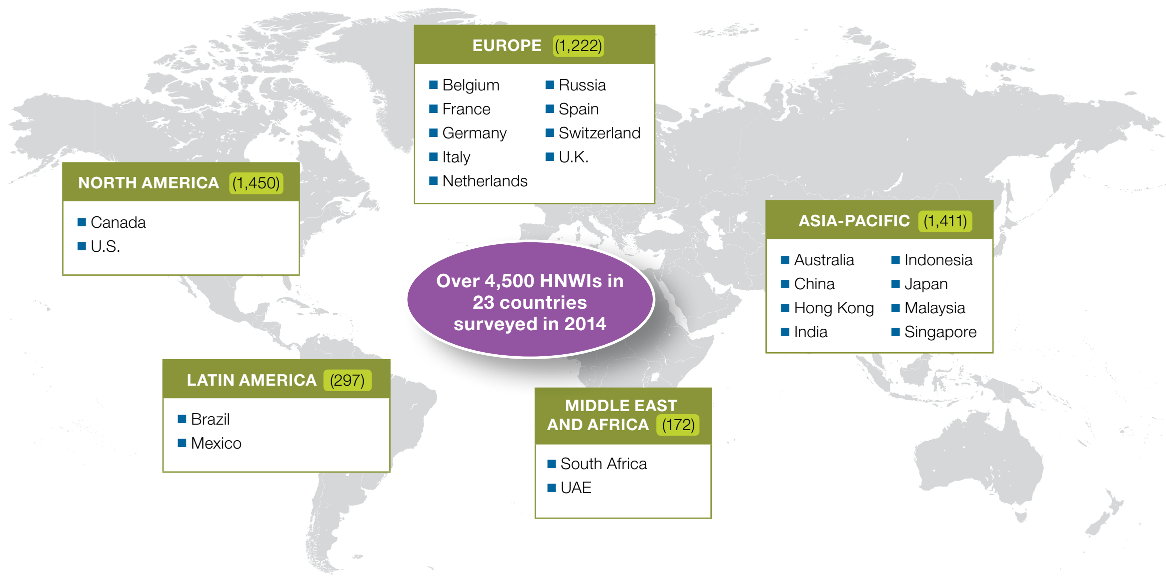
Already high levels of trust in the wealth management industry spiked further in 2014, buoyed by the brightened economic and investment outlook. Wealth managers and firms benefited greatly from the positive mood and sentiment, as HNWI trust levels in wealth managers increased by 13.5 percentage points to reach 74.7%, and by 15.0 points for firms, reaching 76.4% (see Figure 12). Wealth managers experienced double-digit increases in trust across all regions except Asia-Pacific (excl. Japan) and Latin America, with the biggest jump (16.3 percentage points) occurring in Europe.

Confidence levels in wealth management firms benefited from an 18.9 point increase in Europe and a 19.7 point increase in Japan.

[8] The Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey was conducted over January–February, 2014

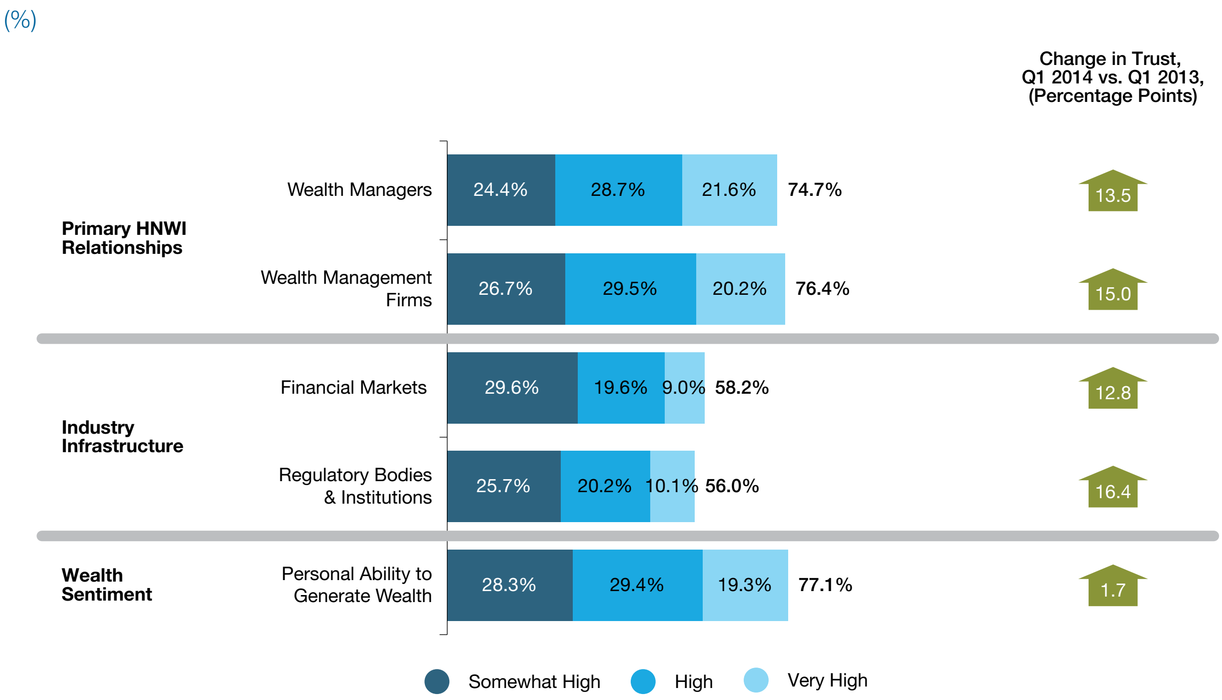
[9] For survey purposes, we have used the bracket of US$20 million and above in financial assets as our upper wealth band. The definition of ultra-HNWI remains US$30 million and above. For analysis purposes, the upper survey band serves as a reliable proxy for ultra-HNWIs

FIGURE 11. Global HNW Insights Survey, Q1 2014



Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

FIGURE 12. Global HNWI Trust and Confidence Levels in Key Stakeholders, Q1 2014



Note: Chart numbers may not add up to 100%, as the medium trust values (Neither High and Neither Low) and low trust values (Very Low, Low, and Somewhat Low) have not been shown here; chart numbers may not add up exactly to total figures due to rounding; the responses to the 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

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

Trust in financial markets and regulatory institutions also expanded strongly, by 12.8 percentage points and 16.4 percentage points respectively, though from a lower base.

European HNWIs were a big driver behind the overall increase in trust, registering a 17.8 point increase in trust in financial markets and a 19.2 point increase for regulators.

Latin Americans were the only group for which trust levels fell, by 1.7 percentage points for financial markets, likely due to negative returns in the equity markets and because the region experienced the lowest amount of wealth growth among all regions. By a significant margin, Asia-Pacific (excl. Japan) HNWIs had the most confidence in financial markets (78.3%) and regulatory institutions (79.7%). HNWIs already have high confidence globally in their personal ability to generate wealth, and this measure increased modestly, by 1.7 percentage points to reach 77.1%.

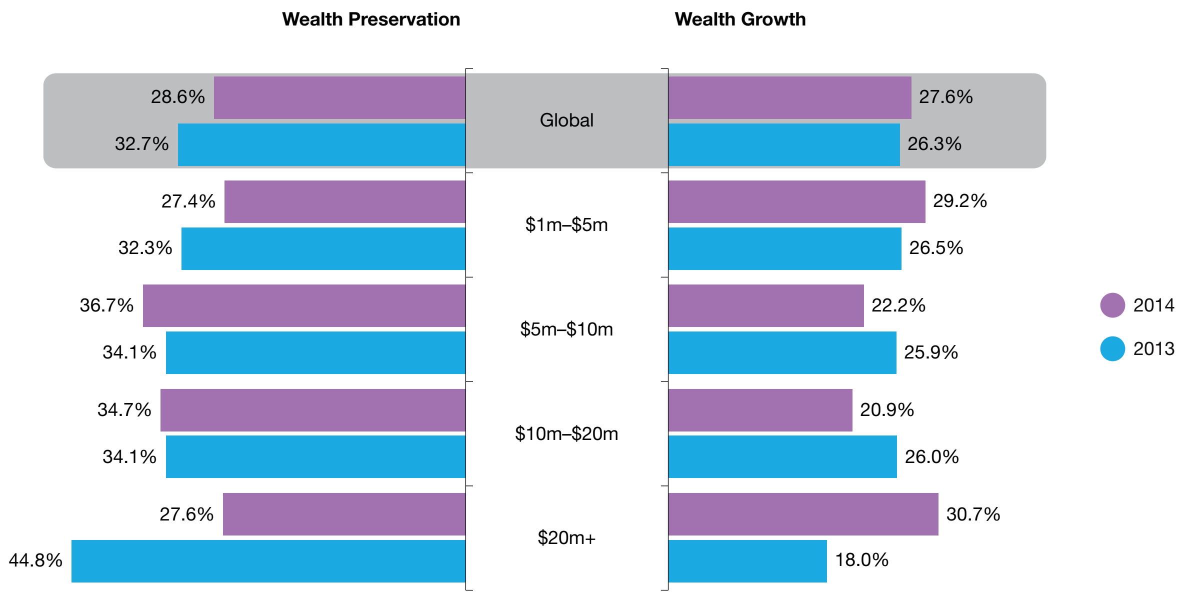
ULTRA-HNWIs LEAD SHIFT AWAY FROM WEALTH PRESERVATION TO WEALTH GROWTH

A focus on wealth growth instead of preservation gained ground, particularly among ultra-HNWIs. Specifically, their preference for growth increased dramatically to 30.7% from 18.0% in 2013, while the focus on preservation declined from 44.8% to 27.6%. While HNWIs across the globe are still slightly more focused on preserving their wealth (28.6%) than growing it (27.6%), the percentage of respondents focused on preservation has come down from 32.7% a year earlier (see Figure 13).

Regionally, focus on preserving wealth decreased the most in Japan (by 10.4 percentage points), but that drop did not result in a commensurate increase in a focus on growth, which remains nearly static in Japan at 15.8%. In Asia-Pacific (excl. Japan), HNWIs exhibited a clear shift in focus toward wealth growth, with 40.7% more focused on growth than preservation (31.1%) in 2014, compared to

FIGURE 13. Focus on Wealth Growth vs. Wealth Preservation by Wealth Bands, Q1 2013, Q1 2014

(%)



Note: Question asked on a 10-point spectrum: "Please indicate your focus on growing your wealth vs. preserving your wealth?"–As we asked for preferences across a 10-point spectrum containing two extreme points, the numbers indicate the percentage of respondents providing top three ratings at each extreme

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

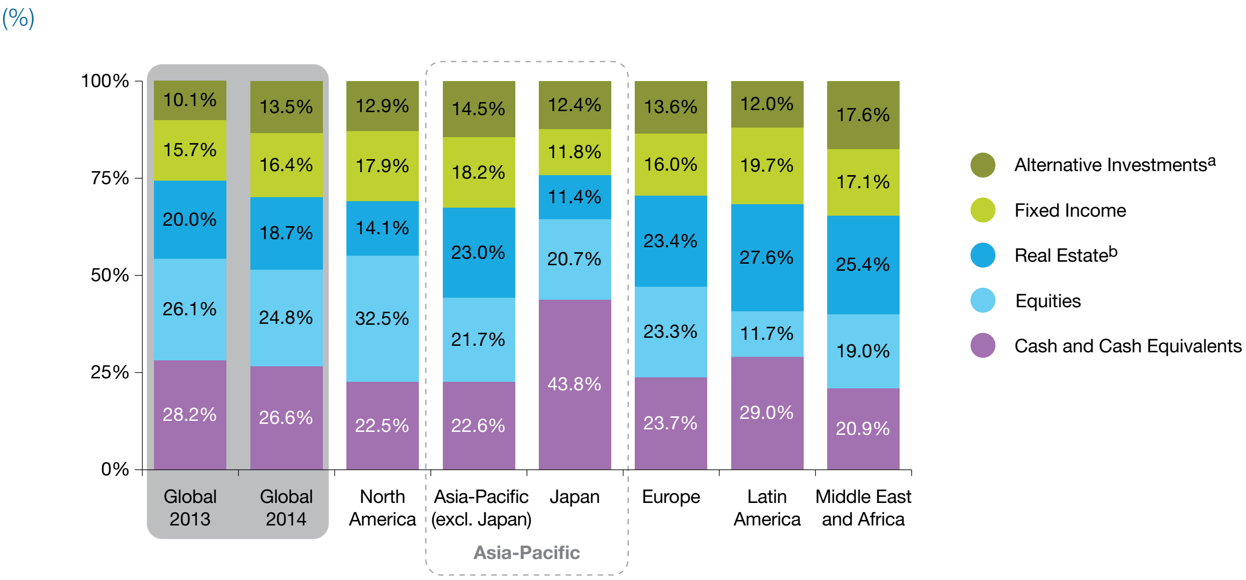
only 31.5% on growth and 38.9% on preservation a year earlier. Focus on wealth growth decreased the most in the Middle East and Africa, with 34.6% focusing on growth compared to 42.4% in 2013. The only group of HNWIs more interested in wealth preservation instead of growth were those 60 or older. Of these HNWIs, 37.8% are focused on wealth preservation and only 18.1% on growth.

HNWIs INCREASE INTERNATIONAL HOLDINGS AND ALTERNATIVE INVESTMENTS

Investment allocations in 2014 reflected the decreased attention toward wealth preservation. While cash still represents the largest share of HNWI holdings, allocation to this asset class declined by 1.6 percentage points from a year earlier to 26.6%. Combined allocations to cash and equities declined by 2.8 percentage points to 51.5% (see Figure 14) from 54.3% in 2013. At the same time, allocations to fixed income and alternative investments increased by 4.1 percentage points from 25.8% to 29.9% in 2014.

Equities, which experienced a slight decline of 1.2 percentage points to 24.8%, maintained their position as the second-most-favored asset class after cash. The behavior of institutional and ultra-HNWIs often leads the rest of the market, and their preferences are likely to have an impact on overall HNWI behavior. Accordingly, the decline in equity allocations may not persist, given that ultra-HNWIs greatly expanded their equity allocations from 20.2% in 2013 to 23.8% in 2014. The largest drop in equity allocation occurred in North America (4.7 percentage points), though equities remain far more popular in North America compared to all the other regions, capturing 32.5% of allocations.

FIGURE 14. Breakdown of HNWI Financial Assets, Q1 2014



a: Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity
b: Excludes Primary Residence
Note: Chart numbers may not add up to 100% due to rounding
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

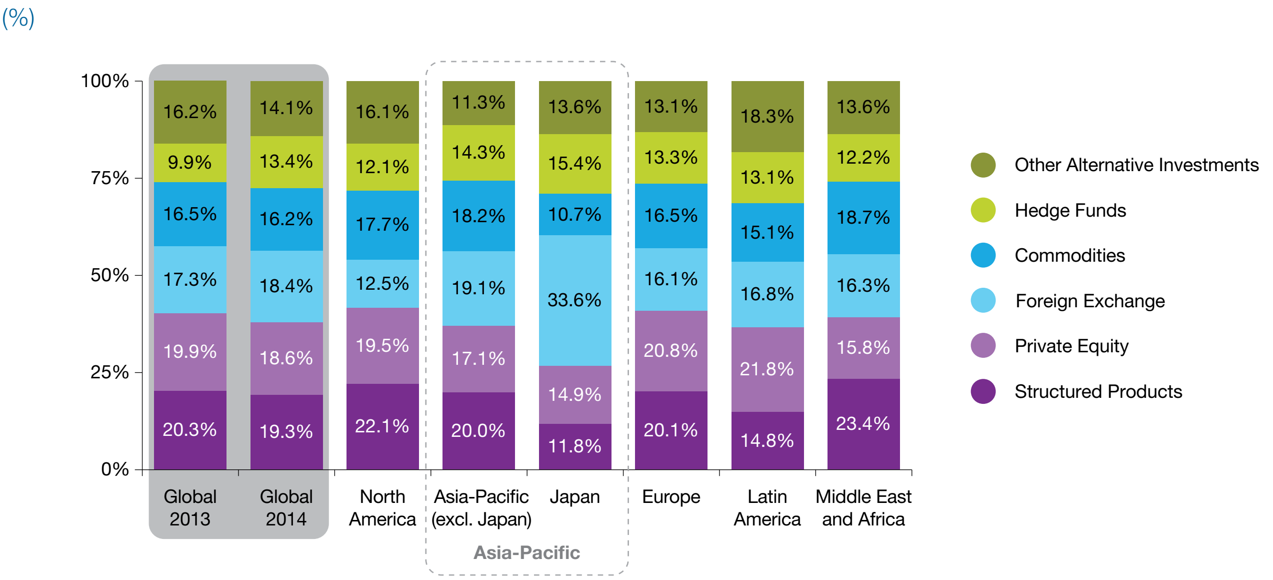
Allocations to alternative investments increased in all regions, except Latin America where challenging economic and market conditions caused HNWIs to boost allocations to cash and fixed income. The increase was marked by a growth of 3.5 percentage points in hedge fund allocations (see Figure 15). Allocations to hedge funds increased the most in North America to 12.1% in 2014, versus 7.6% a year earlier. Those under 40 increased their hedge-fund allocation from 12.5% in 2013 to 17.7% in 2014, while those between 40 and 49 increased their allocation from 10.4% to 13.2%. Overall, hedge funds remain the least-favored alternative investment at 13.4%.

Foreign exchange was the only other alternative investment category besides hedge funds to increase its share of allocations, moving from 17.3% to 18.4%. Japanese HNWIs are by far the most interested in foreign exchange—their allocation of 33.6% is almost double the amount invested by HNWIs in any other region, even though it represents a decrease of 11.0 percentage points from a year earlier. Foreign exchange allocations increased the most in North America, picking up by 6.8 percentage points to reach 12.5%.

During 2013, HNWIs became much more interested in investing outside their home markets, driving up their foreign investment allocations from 25.0% to 36.6% in 2014.

Foreign investments expanded by double digits in every region except Latin America, led by Europe with a 13.5 percentage point increase (see Figure 16). HNWIs in North America and Asia-Pacific remain the most likely to invest in their home markets at 68.1% and 67.5%, while those in the Middle East, Africa, and Europe remain the most likely to invest abroad, with allocation to their home markets at 54.0% and 60.7%, respectively. HNWIs with more than US$5 million of assets increased their foreign investments by 19.3 percentage points from 22.8% to 42.1%, indicating HNWIs in higher wealth bands are willing to take a multi-geography approach to tap opportunities globally.

FIGURE 15. Breakdown of HNWI Alternative Investments, Q1 2014



Note: Chart numbers may not add up to 100% due to rounding
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

FIGURE 16. HNWI Geographic Wealth Allocation by Region, Q1 2013, Q1 2014

(%)

Note: Chart numbers may not add up to 100% due to rounding
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

DESPITE RISING WEALTH AND TRUST LEVELS, FIRM PERFORMANCE SCORES DROP

The environment appeared ripe for wealth management firms to broaden and deepen their relationships with HNWIs in 2013. Strong market performance pushed HNWI wealth and population to record highs, trust in wealth managers and firms expanded, and HNWI confidence in their ability to generate wealth continued to grow.

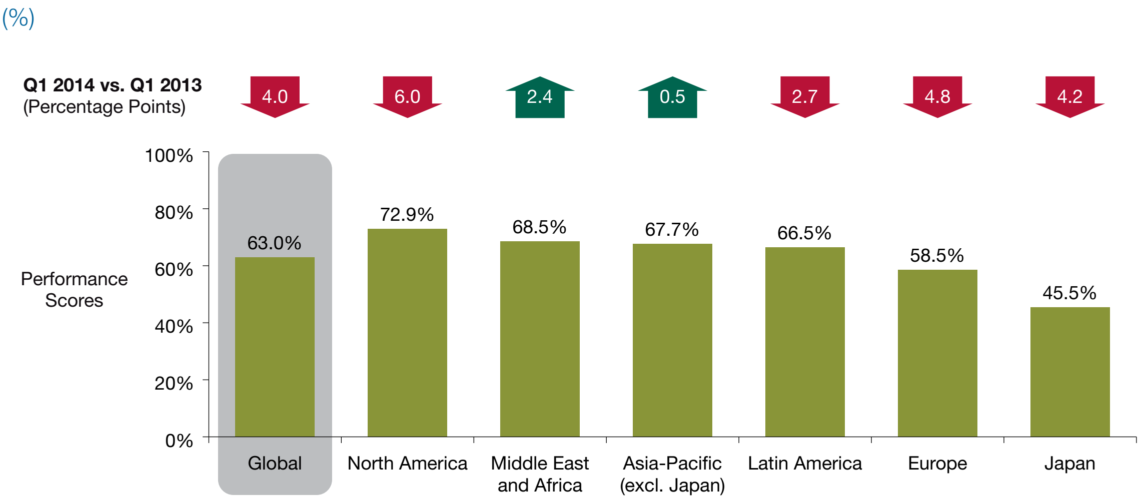
Despite rising wealth and trust levels, HNWIs gave firms significantly lower performance scores than last year, suggesting large opportunities exist for wealth managers and firms to address unmet needs.

Globally, firm performance scores decreased by 4.0 percentage points to 63.0% (see Figure 17). The biggest drop occurred in North America (6.0 percentage points), though that region continues to have the highest overall score (72.9%) globally. Only the Middle East and Africa (up 2.4 percentage points to 68.5%) and Asia-Pacific (excl. Japan), up 0.5 percentage points to 67.7%, experienced small increases in firm performance scores, putting them just behind North America. Europe's rather low score (58.5%) was the result of a 4.8 percentage point decrease. Only Japan, at 45.5%, scored lower, representing a decrease of 4.2 percentage points from a year earlier.

Ultra-HNWIs with more than US$20 million of assets were much less satisfied compared to a year ago, with their firm performance scores falling by 8.6 percentage points to 64.6% from 73.2% in 2013.

Examined by age, HNWIs under 50 were also less satisfied. Their performance scores of 62.4% for HNWIs under 40, and 60.8% for those between 40 and 50, fell below the global average and well below the averages for older HNWIs (64.3% for HNWIs between 50 and 60, and 66.4% for those above 60).

FIGURE 17. Firm Performance Scores, Q1 2014



Note: Question asked: "On a scale of 0%–100%, thinking about your overall relationship with your main wealth manager, what performance score would you give them?"
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

HNWI PREFERENCES LAY GROUNDWORK FOR STRATEGIC PLANNING

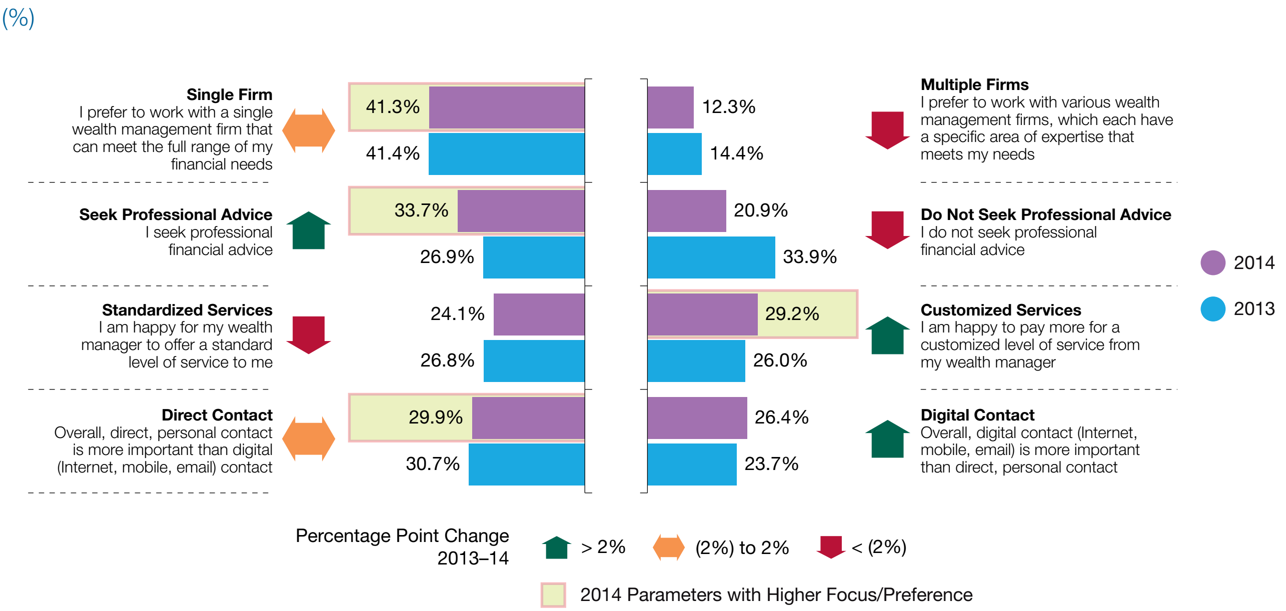
Our research into HNWI preferences and behaviors points to several clear pathways for turning around performance scores and better meeting HNWI needs. These avenues involve delivering upon stated HNWI preferences, including their desire to tap into a full range of services via a single firm, obtain expert professional advice, and receive customized services. A desire for digital versus direct contact is also increasing.

HNWIs hardened their preference for working with a single firm, despite the breadth and variety of their holdings. While the preference to work with a single firm remained virtually the same at 41.3%, the preference to work with multiple firms declined from 14.4% to 12.3% (see Figure 18). The preference for working with a single firm was especially acute for HNWIs over 60, reaching 49.2%, up from 42.5%, compared to only 8.0% with a desire to work with multiple firms.

The increasing desire to work with a single firm is the expected outcome of a number of potent forces in the industry. New, burdensome regulations, including onerous on-boarding requirements, which have surfaced in the wake of the financial crisis and are aimed at reducing risk in the system, have made it more difficult for HNWIs to maintain accounts across multiple firms. HNWIs are also no doubt responding to the complexity of managing multiple portfolios, understanding global risk exposures, and tracking accounts and performance across multiple firms.

With trust in existing wealth management relationships on the rise, it is only natural that HNWIs should seek to consolidate their holdings with a single firm. Full-service financial services firms with integrated banking models are best positioned to provide the full range of complementary products and services suitable for HNWIs, along with the scale needed to supply cost-saving synergies and financial stability. Not only can such firms offer comprehensive financial solutions through a single access point, they are well positioned, given their broad coverage, to monitor the financial health of clients and spot unfavorable risk accumulation across markets.

FIGURE 18. Notable HNWI Preferences, Q1 2013, Q1 2014



Note: Question regarding HNWI preferences were asked on a 10-point spectrum; as we asked for preferences across a 10-point spectrum containing two extreme points, the numbers indicate the percentage of respondents providing top three ratings at each extreme

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

Along with their preference for a single firm, HNWIs showed a much greater preference for seeking professional advice. In fact, this preference experienced the greatest shift of all the ones measured, with 33.7% of HNWIs now seeking professional advice, up from 26.9% a year earlier. Additionally, the proportion of HNWIs who indicated that they would not seek advice declined to only 20.9% in 2014 from 33.9% a year earlier. The trend toward advice-seeking was very pronounced in Asia-Pacific (excl. Japan), where 45.3% of HNWIs expressed a preference for advice, (up from 25.2% in 2013), compared to only 24.1% of HNWIs who prefer to not seek advice. In Latin America, HNWIs softened in their aversion to professional advice, with only 27.8% indicating they would not seek it, down from 38.9%, reflecting a directional change. A preference for advice increased among all ages, but especially for those in higher age segments, reaching 37.2% for those between 50 and 59, and 38.8% for those over 60.

By far, the HNWIs most interested in advice were those also seeking to grow rather than preserve their wealth. Almost two-thirds (65.8%) of wealth-growing HNWIs want professional advice, almost twice the global average. The combination of underutilized assets reflected by high cash levels and increasing HNWI interest for advice, particularly among wealth-growers, points to a large opportunity for firms to better guide HNWIs in understanding the full scope of the various asset classes available to them, taking into account risk appetite and the prospective long-term growth potential of various investments.

The increased desire for advice goes hand in hand with a higher preference for customized services.

HNWIs increasingly prefer customized services (29.2% versus 26.0% a year earlier). At the same time, they expressed lower preference for standardized services (24.1% versus 26.8% a year ago). The preference for customization was especially strong in the emerging markets of the Middle East and Africa (48.2%), as well as Asia-Pacific (excl. Japan), at 36.7%. It was also noteworthy for HNWIs between 40 and 49, with 30.5% expressing a desire for customized services, versus 22.5% preferring standard services. Only HNWIs over 60 preferred standardized services, with 35.0% saying so, versus 22.7% wanting customized services.

Some segments of the HNWI population are more willing to pay for customized service. Firms have an opportunity to wrap professional advice around customized service, as 32.1% of professional advice-seekers are willing to pay more for it. HNWIs under 40 are also strong proponents of paying for customized service, with 41.2% (up from 29.6% a year earlier) saying they would do so.

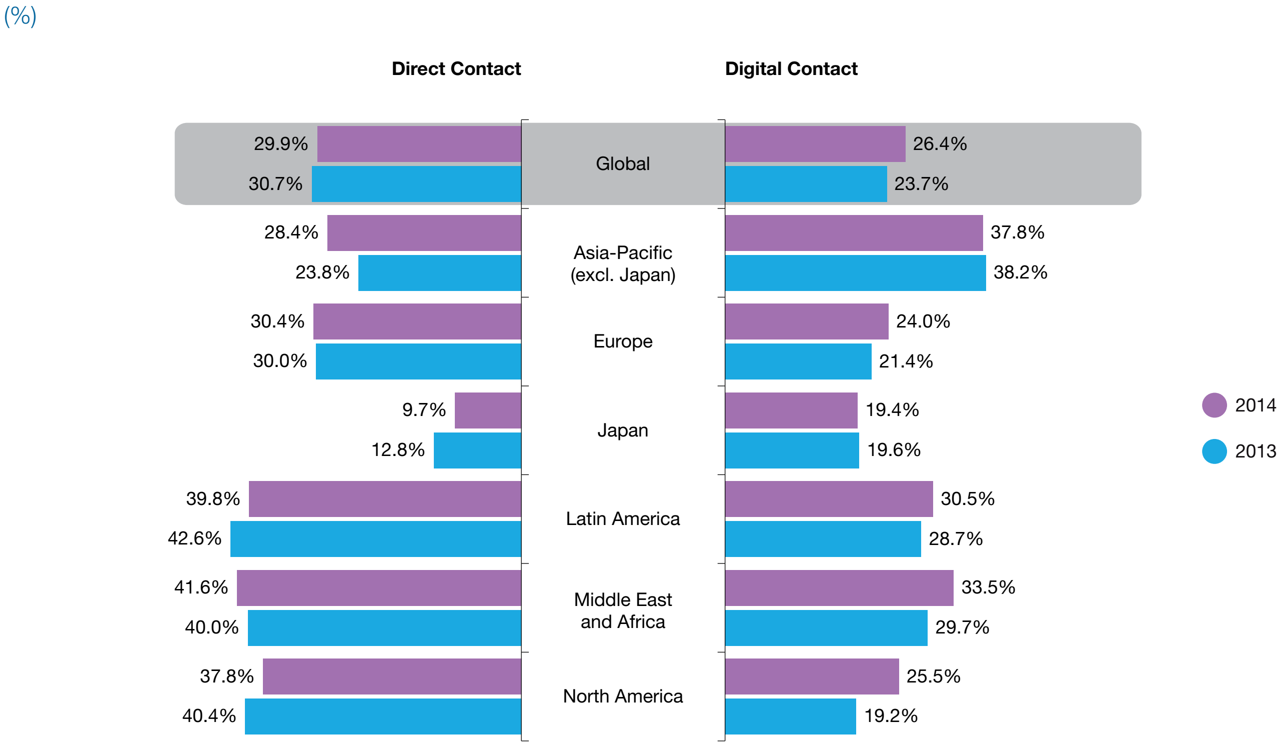
Even as the desire for advice increases, HNWIs are maintaining a growing proclivity toward digital contact, with the global preference for digital reaching 26.4%, up from 23.7% (see Figure 19). This preference was especially strong in Asia-Pacific (excl. Japan) at 37.8% and the Middle East and Africa at 33.5%. For younger HNWIs who tend to be more acclimated to a digital lifestyle, the preference for digital contact is much greater compared to their older counterparts.

For those under 40, the preference for digital increased to 36.7% from 29.1% a year earlier and to 29.0% from 24.8% for those 40 to 49.

Only HNWIs over 50 continued to express a preference for direct contact, with only 18.6% of those 50 to 59 wanting digital contact, compared to 34.8% wanting direct contact. Similarly, 42.9% of those over 60 preferred direct contact, compared to digital (21.5%).

The adoption of digital technology by wealth management firms has lagged that of the broader financial services industry. However, digital connections are ramping up in importance for HNWIs, particularly younger ones, giving firms little choice but to adapt. Though direct contact will likely remain the preferred mode of interaction for the near future, wealth management firms must provide convenient digital solutions as a complement. Firms that put in place a comprehensive and coherent strategy for digitization will be able to capitalize on the opportunities presented by digital technology, and benefit from stronger client relationships, reduced operating costs, and effective delivery of its brand and value proposition. Our spotlight section (which follows on page 34) provides an in-depth look at the current landscape of digital interactions in wealth management relationships, HNWI preferences in digital transactions, and a guide for embracing the necessary move to digital transformation.

FIGURE 19. HNWI Preference for Direct vs. Digital Contact, Q1 2013, Q1 2014



Note: Question asked on a 10-point spectrum: "Please indicate whether direct and personal contact is more important to you than digital contact (Internet, mobile, email) vs. digital contact (Internet, mobile, email) more important to you than direct and personal contact"?; As we asked for preferences across a 10-point spectrum containing two extreme points, the numbers indicate the percentage of respondents providing top three ratings at each extreme

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

HNWIs Seeking to Drive Social Impact, Presenting Opportunities for Firms

In managing their wealth, many HNWIs seek to achieve more than monetary returns. Making a positive impact on society through thoughtful investments of time, money, or expertise also ranks highly, and the numbers are telling: while 92% ascribe some level of importance to driving social impact, it is either extremely or very important to over 60% of HNWIs.

While HNWIs in all countries surveyed place strong emphasis on driving social impact, those in emerging markets, especially Asia-Pacific, regard it most highly (see Figure 20). India had the highest proportion of HNWIs who view driving social impact as either extremely or very important (90.5%), followed closely by China (89.4%) and Indonesia (89.2%). Hong Kong (82.1%) and Malaysia (81.1%) round out the top five. The prevalence of first-generation wealth creators looking to give back to their local communities is likely a key factor driving Asia-Pacific HNWIs to give back.

While the desire to make a positive social impact cuts across all wealth segments, emphasis on it correlates with wealth level. More HNWIs between US$10 million and US$20 million rate it as extremely or very important (74.3%), compared to those with between US$5 million and US$10 million (68.5%) and those with more than US$20 million (62.0%). At 57.9%, HNWIs with the least wealth (between US$1 million and US$5 million) are slightly below the global average.

Age plays a strong role in the desire of HNWIs to strive for social good. While 75.0% of those under 40 cite driving social impact as either extremely important or very important, the tendency declines about 10% with each age segment, reaching a low of 45.4% for those 60 and older.

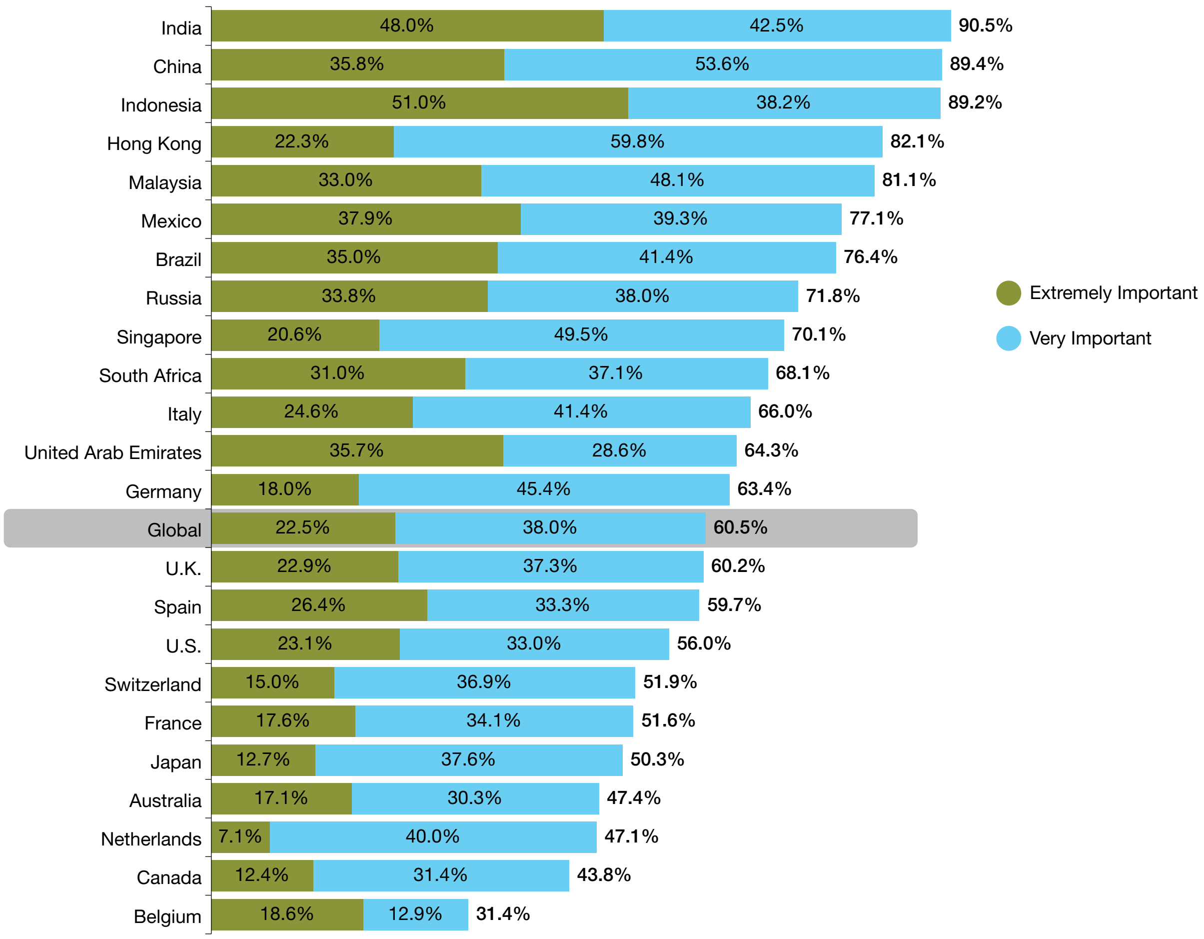
Values play a large role in driving HNWIs' socially conscious activities (see Figure 21).

The desire to be true to personal or family values and to instill those values in their children top the list of HNWI motivations, with 87.5% and 80.9% of HNWIs, respectively, stating those drivers as important. A feeling of responsibility to give back is important for 76.5% of HNWIs.

Among the wide range of factors that motivate HNWIs to target making a social impact, personal and family values are the most important, especially for HNWIs in North America and Latin America (90.7% and 88.6%, respectively), as well as for those in higher age brackets and wealth segments. HNWIs also ranked the desire to instill social values in family and children as a top driver behind their allocations of wealth, time, and expertise to make a positive social impact. This finding underscores a key concern of older, wealthier HNWIs: that the next generation has the maturity and social values to adequately manage significant inherited wealth.

FIGURE 20. Importance of Social Impact for HNWIs, Q1 2014

(%)

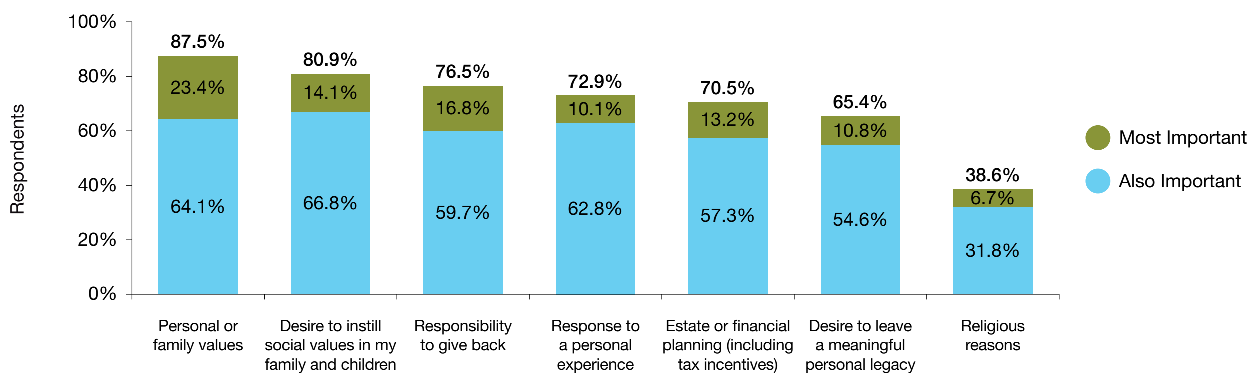


Note: Question asked: "How important is it to you to give time, money and/or expertise with the goal of generating positive social impact"? Respondents were asked to rate among 5 levels of importance: (1) This is extremely important (i.e. critical); (2) This is very important; (3) This is important; (4) This is somewhat important; and (5) This is not important at all

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

FIGURE 21. Importance of Key Drivers of Social Impact for HNWIs, Q1 2014

(%)



Note: Question asked: "What most drives you to allocate a portion of your wealth, time or expertise to make a positive social impact"? Respondents were asked to rate among 3 levels of importance: (1) This is most important; (2) This is also important; and (3) This is not important at all; Chart numbers and quoted percentages may not add up due to rounding

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

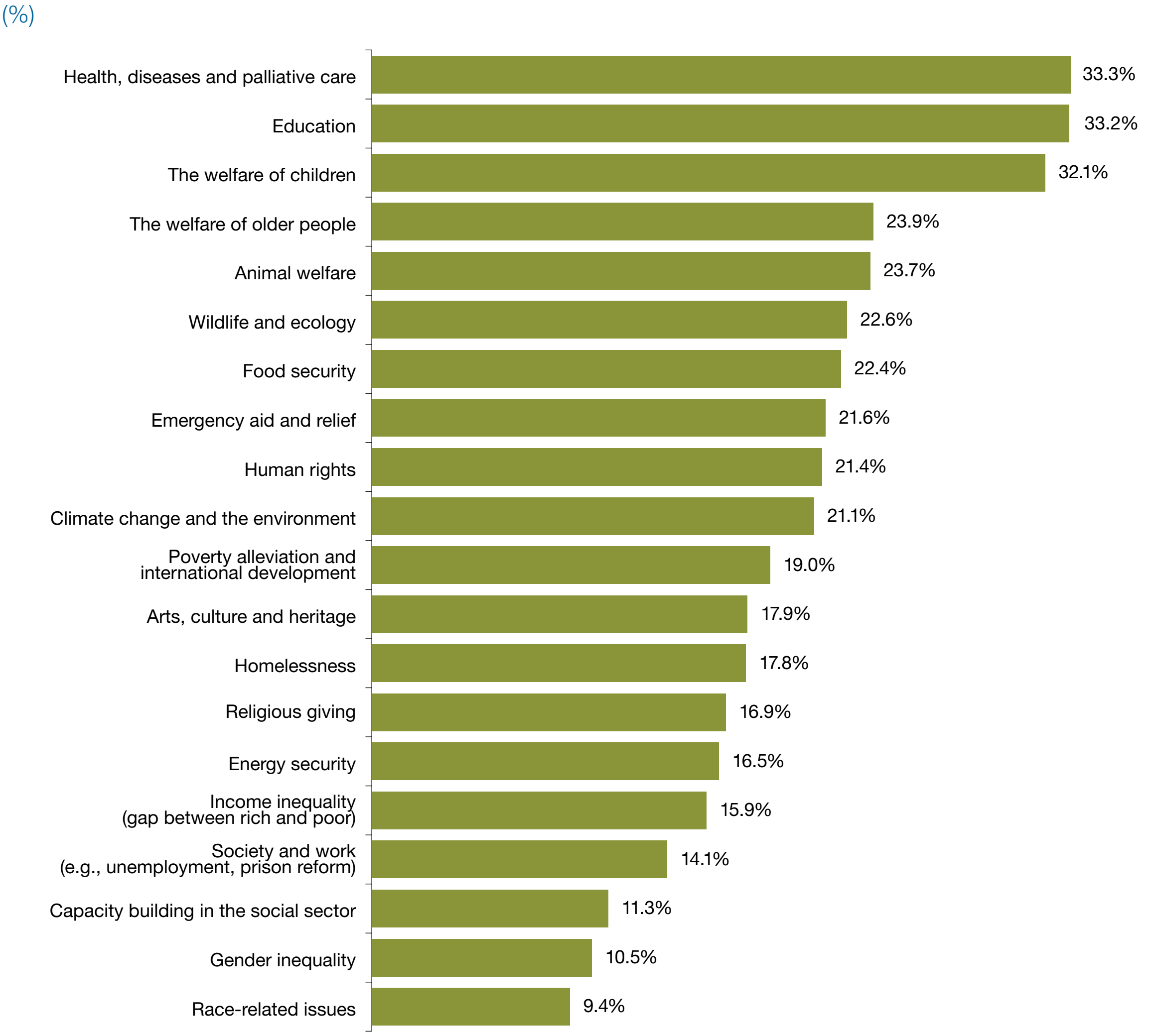
A feeling of responsibility to give back to society is the third most important driver of socially conscious HNWI activity, and is most pronounced among those in Asia-Pacific (excl. Japan) and North America. The majority of HNWIs globally inclined toward this driver are females between the ages of 50 and 59.

While religion was not a top driver globally for HNWIs' social impact activities, some countries in Asia-Pacific stood out as exceptions, such as Indonesia and Malaysia, where a high proportion of HNWIs cited religion as one of their top three social impact drivers.

HEALTH, EDUCATION, AND CHILDREN'S CAUSES ARE TOP PRIORITIES FOR HNWIs

HNWIs devote their time, wealth, and expertise to a variety of causes: especially health, education, and child welfare, with about one-third of HNWIs currently allocating resources toward each (see Figure 22). Health, a category that includes palliative care and combating diseases, witnessed higher allocations from HNWIs who were over 60 (37.3%) compared to their younger counterparts who are under 40 (29.6%). In addition, female HNWIs also cited health as a top priority (36.0%),

FIGURE 22. Social Causes of Importance for HNWIs, Q1 2014



Note: Question asked: "To which of the following issues are you currently allocating wealth, time or expertise"? Percentage means: Percent of HNWIs who are currently allocating their wealth, time or expertise into that particular social cause

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

compared to 31.2% for their male peers. Health also received high allocations from HNWIs in Asia-Pacific (excl. Japan) (39.4%), and North America (35.6%).

Education emerged as the second most important priority for HNWIs overall. In particular, 35.3% of those over 60 deemed education as a top priority. Additionally, 50.2% of HNWIs in Latin America ranked education highly, followed by the Middle East and Africa at 46.5%. Child welfare represents the third most important area of focus for HNWIs, where all regions except Japan ranked the cause highly.

The welfare of older people also attracts a significant amount of HNWI attention, with 23.9% allocating resources toward it, making it fourth on the list of causes. HNWIs in the Middle East and Africa (34%) and Latin America (32%), and HNWIs primarily with between US$10 million and US$20 million, indicate the highest concern for the elderly.

HNWIs USE WIDE VARIETY OF MECHANISMS TO DRIVE SOCIAL IMPACT

HNWIs employ a number of mechanisms as they strive to meet their social impact goals (see Figure 23). These range from charitable giving and volunteering, to investment and business decision-making with social good in mind. While their methods do not follow a discernible trend at the global level, there are indications that generational preferences are beginning to play a role in how HNWIs achieve social impact.

No single mechanism for achieving social impact stands out. They range from choosing investments that have social impact as a clearly defined goal, with 14.5% stating that as most important, and giving to charity on an ongoing basis (14.4%). At 21.0%, North Americans are most focused on regular charitable giving, along with HNWIs globally over 60. Notwithstanding the fact that no single mechanism stood out, it is worthwhile to note that making investment choices with a clearly defined objective to create positive social impact, was rated as the most important, beating out the more commonly accepted mechanisms of charitable donations and volunteering, suggesting a trend that HNWIs are increasingly venturing beyond traditional conduits to fulfill their social impact goals.

FIGURE 23. Mechanisms Used by HNWIs to Make a Positive Social Impact, Q1 2014

(%)

Note: Question asked: "Which of the following activities is the most important to you with the goal of generating positive social impact"? Percentage means: Percent of HNWIs who are considering that particular mechanism as most appealing in generating positive social impact

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

Third and fourth on the list of methods are to volunteer time (13.8%) and professional knowledge (12.7%). Japanese HNWIs and those in lower-wealth segments are most likely to engage in these types of non-financial efforts. The tendency of younger HNWIs to volunteer is consistent with the observation of a number of firm executives that younger HNWIs are looking to be more hands-on, while those over 60 are more likely to focus on more traditional methods, such as charitable giving or donations made to acquire naming rights. Rounding out the top five is making strategic business decisions that have socially conscious goals (12.6%).

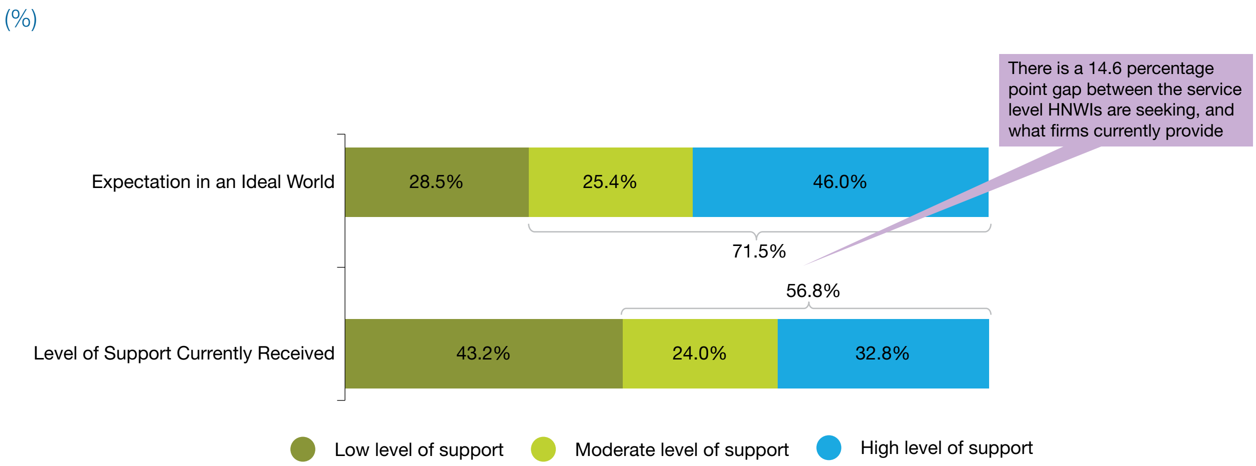
The methods HNWIs employ to achieve their social impact goals are evolving as a younger generation of wealthy individuals begins to have more influence. While 29.1% of HNWIs over 60 engage in ongoing charitable giving, less than half (13.1%) of those under 40 do. Younger HNWIs are more inclined to adopt the newer approach of tying social goals into business decisions. Of HNWIs under 40, 14.2% make business decisions this way, compared to only 9.7% of HNWIs over 60.

STRONG OPPORTUNITY FOR FIRMS TO INCREASE SUPPORT FOR SOCIAL IMPACT

As HNWIs continue to explore ways of aligning their social impact goals with the way they manage their wealth, the firms that serve them have an opportunity to guide, educate, and support them. Our research shows that HNWIs desire more support from their wealth managers in fulfilling their social impact goals (see Figure 24). We identified a 14.6 percentage point shortfall between the support HNWIs currently receive and what they say they would like to have. Although the gap existed in every region, the degree varied by region. Latin America displayed the largest service gap at 26.2%, followed by the Middle East and Africa (23.5%). The service gap was smallest (6.1%) in Asia-Pacific (excl. Japan), where current support levels are relatively high (81.7%), compared to other regions.

We have outlined a range of approaches (see Figure 25) to drive social impact, with each approach featuring its own set of principles and investment dynamics, with some focusing more on financial return on investment (ROI) and others more on social ROI. Firms that offer guidance into the nuances of each approach stand to emerge as leaders in this still-evolving area of interest. Some wealth managers have already set up dedicated teams to address the growing HNWI awareness and interest in the full range of mechanisms available to drive social impact.

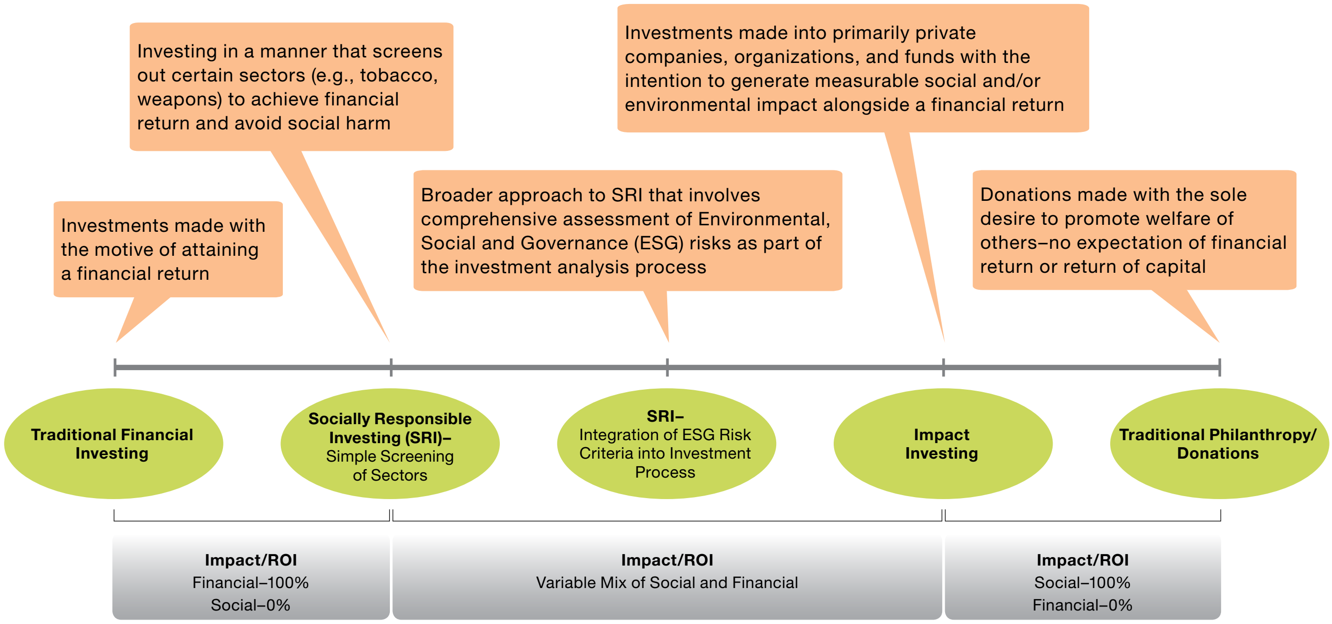
FIGURE 24. Service Gap From Wealth Management Firms to Fulfill HNWIs' Social Impact Goals, Q1 2014



Note: Questions asked: "What level of support do you currently receive, from wealth management firms to help you fulfill your social impact goals"? and "In an ideal world what level of support would you like from wealth management firms to help you fulfill your social impact goals"? 0 = No support; 10 = High level of support; Low level includes rating from 0–4, Moderate level includes rating from 5–6, High level includes rating from 7–10; Chart numbers and quoted percentages may not add up due to rounding

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

FIGURE 25. Social Impact Continuum



Note: We define "driving social impact" as an investment of time, money and/or expertise with the goal of generating positive social impact
Source: Capgemini Financial Services and RBC Wealth Management Analysis, 2014

Socially Responsible Investing (SRI): One of the better known approaches is SRI, which has the aim of achieving financial return along with social good by encouraging upstanding corporate practices. Some narrowly define SRI as seeking to avoid investments in ethically questionable businesses like tobacco, gambling, and guns, while others view the mandate more broadly as seeking to encourage proactive corporate policies like environmental stewardship, consumer protection, and diversity.

SRI typically involves investments into publicly traded companies. It is an investment approach adopted by many large pension funds, a primary example being Norway's, which is one of the largest institutional investment funds in the world and one of the largest organizations in SRI. The fund screens out companies that do not meet its investment guidelines, while engaging in positive dialogue with the management teams of the companies in its portfolio. By acting as a role model, the fund has helped influence the investment practices of private-sector banks.

Socially responsible investing can also be undertaken through comprehensive assessment of Environmental, Social, and Governance (ESG) issues related to the investment analysis and decision-making process. Socially responsible investors believe that responsible corporate behavior and strong ESG performance contribute to long-term, sustainable returns. Environmental criteria evaluate how a company performs as a steward of the environment, while social criteria assess how a company manages relationships with its stakeholders and the communities where it operates. Governance criteria cover a company's leadership, internal controls, and shareholder rights.

Proponents of ESG are increasingly committed to applying environmental, social, and governance principles and criteria throughout their portfolios, not just via a small discretionary component, effectively integrating ESG with the overall investment and risk management discipline. The principles of ESG dovetail with the belief of younger HNWIs that social impact need not come at the cost of diminished financial returns. More than ever, there is a growing realization that it is simply best practice for firms to manage their business sustainably and efficiently and that socially, environmentally responsible business practices also lead to long-term profitability.

Impact Investing: These investments are made in companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.[10] Contrary to traditional investing, the intention of impact investors is to allocate capital (debt, equity, or hybrids) to investments where they expect to receive both a financial return (ranging from return of principal to market-beating returns) and a defined social impact. Often, some or all of the financial return is re-invested in the social initiative to ensure its sustainability. Additionally, the business models for investees (whether they are for-profit or non-profit enterprises, funds, or other financial vehicles) are intentionally constructed to deliver financial and social value. Finally, a distinguishing feature of impact investing is that both investors and investees are able to demonstrate how their intentions translate into measureable social impact.

The United Kingdom's Big Society Capital (BSC), formed in 2011, is an important facilitator of this type of social investing. Formed in 2011 by the U.K. government, its goal is to foster a marketplace of intermediaries and investors in the social sector, enabling investors to deepen their engagement with communities as well as generate capital to be used for future investment. The U.K. government understood that private capital would increasingly be needed to replace diminished government funding of social initiatives. Other governments are now seeking to foster the development of social impact investment markets in their countries.

Bridges Ventures, a specialist fund manager committed to creating attractive financial returns for both investors and society at large, is an example of an entity that employs this type of social investing model. Since its inception in 2002, Bridges Venture has launched three sustainable growth funds that invest in businesses that can play a role in meeting social or environmental challenges while delivering market-rate returns, two property funds—one that invests in environmentally sustainable buildings and in areas of regeneration and another that invests in care facilities—and two social sector funds that support enterprises delivering high social impact.

Within impact investing, there are several specific approaches to generating social impact. *Venture philanthropy* is a more hands-on approach to driving social impact. These impact seekers take an active, higher engagement role in a company or project with the aim of generating societal benefits. Some venture philanthropists may assume board and mentorship roles, and take on responsibilities aimed at directing the venture's strategic and operational decisions, compared to less hands-on donors. Depending on their own missions and the ventures they choose to support, venture philanthropists may provide non-returnable grants or they may provide financing with an expectation of a risk-adjusted financial return, in addition to the social benefit. Institutional investors, for example, might actively mentor and fund a growing socially focused company, much the way a venture capital firm does. Individuals might provide early-stage funding to a project that offers potential profit along with more direct engagement in a cause. Individual investors, such as ultra-HNWIs, may harness their entrepreneurial skills, networks, and bottom-line focus to engage in social projects such as providing a reliable source of drinking water in impoverished regions.

In addition to more established modern approaches to engaging in impact investing, such as *private equity funds* with a social purpose, new types of investment vehicles, such as *social impact bonds* that repay investors only if certain social outcomes are achieved, represent nascent innovations that may fundamentally change the way social needs and projects are funded. Proceeds from social impact bonds are directed into social programs to enable sustainable, long-term change. These types of products draw on the capabilities of the public and private sector working together with impact investors, to address some of society's toughest issues.

Green bonds represent another emerging product area for investors seeking to direct capital toward social and environmental good. In March 2014, Toyota Financial Services issued the auto industry's first-ever asset-backed green bond, where proceeds are applied to fund new retail finance and lease contracts of green vehicles that meet specific criteria.[11] In the same period, leading food and home products supplier Unilever issued the first green sustainable bond where proceeds will be used to fund global projects focused on managing greenhouse gas emissions, water use, and waste disposal.[12]

Traditional Philanthropy/Donations: At the far end of the spectrum, philanthropy is focused solely on achieving social impact rather than a financial return, though it often serves estate and tax planning purposes for HNWIs. Traditionally, philanthropy has not been viewed as an investment upon which a clear return is expected (other than potential tax savings), but simply as an outright grant or donation to a non-profit, often through a foundation.

The once-strict definition of philanthropy is evolving as more modern forms of philanthropy begin to resemble social impact investing. Some wealth management firms are now giving HNWIs the opportunity to donate to firm-chosen causes that benefit from pooled capital and impact monitoring. In addition, ultra-HNWIs with a

[10] "Finance for Good: A Primer on Impact Investing in Canada", RBC Social Finance and MaRS Centre for Impact Investing

[11] "Toyota Financial Services Claims The Industry's First "Green" Bond", Forbes, March 2014

[12] "Unilever Issues First Ever Green Sustainability Bond", Unilever, March 2014

desire to effect long-term, systemic change are increasingly moving away from making gifts to singular institutions to driving progressive alliances between cross-disciplinary stakeholders focused on similar causes. In these scenarios, experts from various constituencies, such as governments, universities, hospitals, and private philanthropies, pool their capabilities to effect social good, leading to sustainable change being advanced more rapidly than what would otherwise be possible with unilateral efforts.

CHALLENGES AND OPPORTUNITIES PERVADE THE SOCIAL IMPACT ARENA

The evolving landscape concerning HNWIs' social impact goals offers both prospects and pitfalls for wealth management firms. The biggest opportunity is for wealth managers to deepen their relationships with socially conscious HNWIs. The wide variety of mechanisms for driving social impact makes it possible for firms to customize their services to meet the needs of different tiers of HNWIs seeking greater involvement in social causes. SRI, for example, is an attractive option for HNWIs in lower-wealth segments, given the wide range of existing mutual funds available. Additionally, these funds typically use well-understood criteria to invest in sectors and companies that are familiar to the investing public.

Asset managers are increasingly integrating ESG into their models, making ESG-screened portfolios more accessible to a wider range of investors. For the time-constrained individual wealth manager who may struggle to navigate through the complexity and time requirements of impact investing, these customized solutions may be more appropriately reserved for ultra-HNWIs. In an effort to build internal capability to address client demand, some firms have begun to invest seriously in this space, forming dedicated teams and/or training existing wealth managers on how to broach the social impact conversation with HNWIs.

At the same time, the social impact goals of HNWIs are placing new demands on the industry. Wealth management firms will have to overcome several challenges as they help HNWIs navigate this still-maturing world. The integration of ESG risk analysis, for example, requires expertise that firms may have to incorporate into their asset management models, as well as education and training for both asset managers and frontline wealth managers. Impact investments into early-stage private companies or funds of such companies pose additional challenges in meeting suitability requirements, given the lack of historical return data. Finally, given the growing demand by HNWIs to measure the social impact of their investments and philanthropic efforts, there is a vital role for firms to play in directly helping HNWIs categorize and evaluate the type of societal impact that an investment offers.

One of the significant challenges faced by firms and the broader philanthropic industry at large regarding social impact is the lack of standardized and reliable metrics that allow for effective measurement, management, and communication of the investment.

Despite pockets of skepticism of the feasibility of creating useful measurement models, given data around social impact is often unavailable or difficult to attribute, industry professionals continue to seek innovative ways to refine their measurement approach, such as through the creation of multi-factor measurement models that consider the type, scale, and depth of impact. We are aware of one particular market participant making significant headway on the development of quantitative tools to measure and model the global economic transition to a low carbon economy. It is expected that social impact will become more and more quantifiable, and concerted efforts by the industry to further advance and refine measurement models will lead to more products, greater adoption, and greater market credibility.

The vast majority of HNWIs around the world believe that driving social impact is important, especially the younger generation. Wealth management firms that invest time to understand the importance clients place on driving social impact and who work with their clients to identify appropriate mechanisms to fulfill these goals will deepen and grow HNWI relationships over time, and importantly, retain more assets as wealth transfers to the next generation. Some firms are building social impact principles into their portfolio offerings, and others are taking the lead in offering targeted social-investing services to HNWIs of different wealth segments. Others have ventured beyond traditional strategies, such as the issuance of green bonds, as mentioned earlier, to deliver financial return while fulfilling environmental mandates. Beyond investment products and services, some firms are looking to provide opportunities for clients to invest along with the firm in driving social good, converting corporate-level commitments into valued client experiences that are truly differentiated. Such opportunities can translate into satisfied and loyal clients who become brand ambassadors for the firms they partner with to make a social impact.

Going forward, as wealth transfers from one generation to the next—and especially as HNWIs are increasingly unwilling to accept a trade-off between social impact and financial return—there remains a meaningful role for firms to play to help HNWIs drive social impact. Many firms have already taken steps to support HNWIs in this area but it's clear that more can be done, as more is expected.

Transforming Wealth Management in a Digital Age

Digital technology has disrupted the business model of many firms, particularly those whose value proposition is built upon their ability to deliver a high-touch and highly personalized client experience through direct interactions. Wealth management stands vulnerable as an industry whose established business models are being recalibrated by digital technology, creating both challenges for firms in delivering positive client experiences, as well as enormous opportunity. This spotlight offers in-depth data and insights on how HNWIs engage with firms, serving as a guide to firms as they navigate the possibilities that digital technology brings to servicing clients and improving their overall experience, as well as other opportunities such as harnessing the power of big data to generate meaningful intelligence to drive strategic decisions throughout the firm.

- **HNWIs are demanding digital capability from the wealth management industry, regardless of their age, wealth level, geography, or need for advice.**
  - More than half of HNWIs say all or most of their wealth management relationship already is conducted digitally, and nearly two-thirds expect this to be the case in five years.
  - Ultra-HNWIs and advice-seeking HNWIs are among those asking for more digital interactions, contrary to conventional thinking.
- **HNWIs prioritize digital capabilities that keep them informed and that enable transactions, but favor direct interactions (i.e., in-person, phone) to engage with firms for advice.**
  - The demand by HNWIs for emerging forms of digital interaction within wealth management, such as mobile applications, video, or social media, remains low compared to that for websites, although the gap is expected to close as these emerging technologies become more commonplace in the wealth management industry.
- **HNWIs under 40 are leading the way toward greater use of the emerging mobile applications, video, and social media channels.**
  - More than double the amount of HNWIs under 40 view emerging channels as important for certain wealth management capabilities, compared to those over 40.
- **About two-thirds of HNWIs would consider leaving their wealth management firm if an integrated and consistent client experience across all channels were not provided.**
  - Two-thirds also say they are likely to leave firms that do not allow them to transact digitally.
- **Firms need to adopt a transformative mindset that ingrains digital throughout the experience.**
  - Future leaders will shift their mindset so that digital is not in itself the goal, but rather is essential to the client experience, prioritized based on how clients want to engage with their wealth managers and the firm.
  - Building a digitally enabled company will require wealth management firms to explore new ROI methodologies, assess the implications of acquiring or nurturing digital capabilities in-house, and extract meaningful intelligence from customer-derived big data.

RISING IMPORTANCE OF DIGITAL IN WEALTH MANAGEMENT

The importance of building deep, personal ties with HNWI clients has never been disputed in the wealth management industry, a business where trust stands as a core pillar. These days, however, the ways in which firms are nurturing that trust are expanding. While the in-person client-wealth manager relationship remains the primary choice of contact for most HNWIs, including in-person meetings and regular telephone calls, HNWIs today are also markedly open to, and in fact expectant of, interacting with their wealth managers digitally.

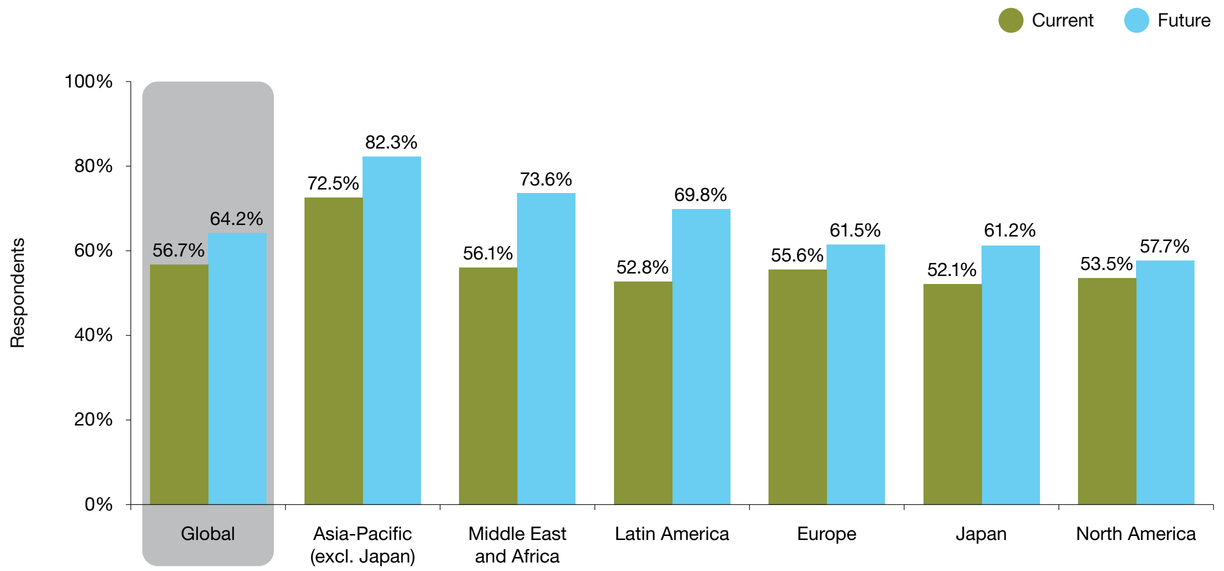
Currently, 56.7% of HNWIs say all or most of their wealth management relationship is conducted via digital channels. More tellingly, 64.2% expect this relationship to be conducted through digital channels in five years (see Figure 26). Digital demand is particularly strong (72.5% and 82.3%, respectively) in Asia-Pacific (excl. Japan). The trend toward digital is also expected to play out very strongly in the other emerging markets of Latin America and the Middle East and Africa, where digital demand is expected to expand by 17.0 and 17.5 percentage points, respectively, over the next five years.

Demand for digital interactions is on the rise everywhere. Across all ages and wealth levels, HNWIs expect they will increasingly use digital channels to manage their wealth. The rates are especially high for those under 40 (76.6% now and 82.5% in five years).

The already high rate of acceptance of digital channels by HNWIs shatters a couple of long-held beliefs about the use of digital services in wealth management.

FIGURE 26. HNWIs’ Current and Desired Level of Digitalization in Wealth Management, Q1 2014

(%)



Note: Questions asked: “To what extent would you say that your wealth management relationship is CURRENTLY conducted through digital channels”?, “In FIVE YEARS, to what extent would you like your wealth management relationship to be conducted through digital channels”? The percentages refer to respondents who chose (1) or (2) of the following: (1) My entire/I would like my entire wealth management relationship to be conducted digitally; (2) Most of my/I would like most of my entire wealth management relationship to be conducted digitally; (3) Some of my/I would like some of my entire wealth management relationship to be conducted digitally; (4) No part of my/I would not like any part of my entire wealth management relationship to be conducted digitally

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

The first myth is that digital is only relevant to mass affluent clients, and that ultra-HNWIs in particular are not interested in having a digital wealth management experience. In fact, 50.5% of ultra-HNWIs already consider their wealth management relationship to be all or mostly digital, and 54.6% expect it will be so in five years. Demand for digital from ultra-HNWIs only moderately lags those of HNWIs in the lowest-wealth tier (55.9% now and 64.4% in five years). Further, ultra-HNWIs are almost equally likely as the lowest-tier HNWIs (with wealth of US$1 million to US$5 million) to consider leaving firms that do not provide digital access to specific wealth management capabilities, such as accessing portfolio information, executing transactions, and transferring money between accounts.

The other misconception our research exposed is the myth that digital services are only important to self-directed HNWIs. In fact, advice-seekers also value digital channels. Currently, 49.4% of advice-seeking HNWIs consider their wealth management relationship to be all or mostly digital, and 57.1% expect it will be in five years. These findings underscore the central role digital channels can play in serving all types of clients, even those accustomed to personalized, high-touch interactions.

Increasing expectations of digital tools among wealth management clients is perhaps not a surprise, given the pervasive technological forces that permeate across most industries today, including retail and banking. These forces have fundamentally altered consumer habits and expectations, and have spread to the wealth management industry with serious implications. For example, since the advent of Google, which revolutionized the way information is accessed, HNWIs now expect the same level of responsiveness and ability to access their own financial data. Likewise, HNWIs are expecting the same online client service standards that are comparable to those set by Apple and Amazon, as well as the quality of social media experience set by Facebook. At the same time, HNWIs will demand strong levels of security as these forces become more prevalent in wealth management.

The ubiquity of high-quality online services has deeply affected an expanding set of HNWIs who have grown up on digital technology (or even built their wealth from it) and are seeking firms able to speak their digital language. At the same time, digital technology appeals to many older HNWIs who have adopted various technologies in their daily lives.

DIGITAL MOST IMPORTANT FOR INFORMATION GATHERING AND TRANSACTING

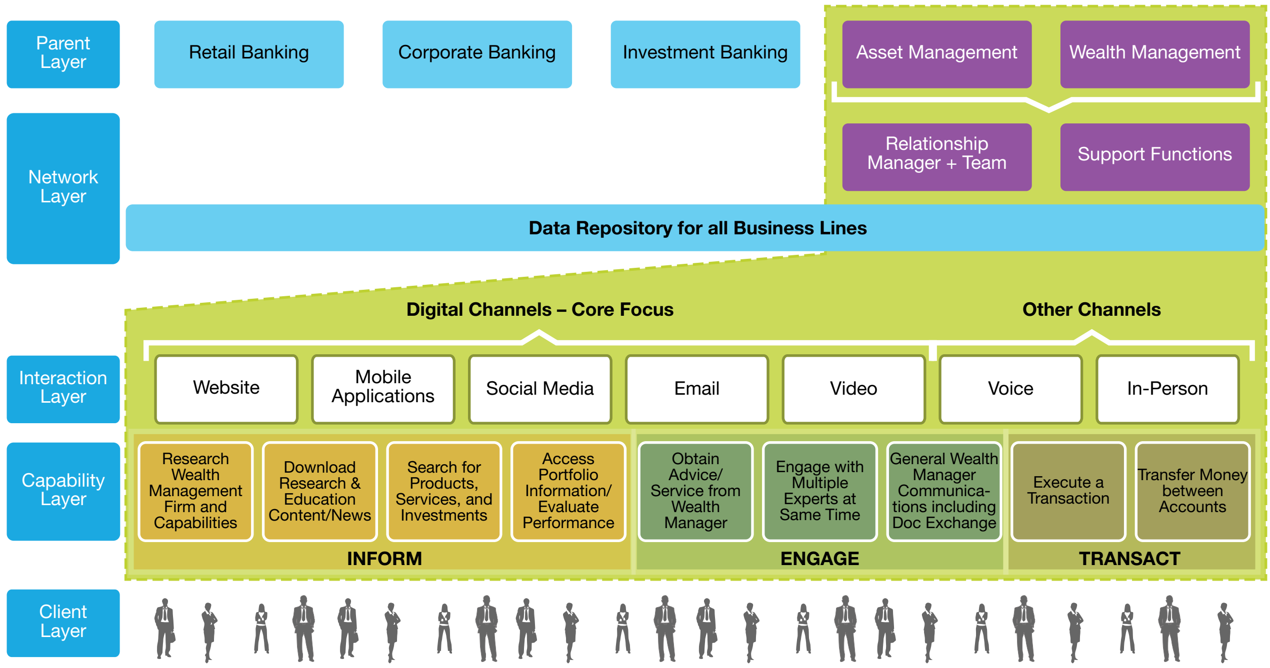
Day-to-day interactions between HNWIs and wealth managers cover a wide range of activities that serve to inform clients, engage them, and enable transactions to be carried out, either by HNWIs themselves, or on their behalf. Inform-type capabilities encompass researching the wealth management firm and its capabilities, downloading research and education, accessing news and content, searching for products, services, and investments, as well as evaluating portfolio information and performance. These are distinct from Engage-type capabilities, which include obtaining advice and service from the wealth manager, engaging with multiple experts at the same time, and conducting general communications with the wealth manager, including document exchange. Finally, Transact-type capabilities include executing transactions and transferring funds between accounts (see Figure 27).

Each one of these Inform, Engage, and Transact capabilities can be executed through any one of a number of channels, including websites and mobile applications, as well as in-person or telephone interactions. Regardless of the mode of interaction, a client should be able to access their own account information from all the individual business lines they deal with.

While in-person interactions have long been the standard in wealth management and continue to hold sway, the margin of preference for them is slight and expected to fade as the next generation gains in prominence. Already, HNWIs under 40 have cited websites as equally important (59.8%) as in-person meetings (58.5%). As the variety of digital technologies expands, the connections that occur between wealth management firms and HNWIs are expected to become increasingly diverse. Besides websites, which have a well-established base of HNWI users, other digital channels, including mobile applications, video, and social media, are gaining traction. Over time, as their use in the general population expands, these emerging digital channels are expected to play a larger role in wealth management as well.

The movement toward digital channels will not happen all at once. We found that the type of activity being conducted plays a large role in HNWI channel preferences (see Figure 28). Currently, HNWIs prefer websites more than in-person or phone interactions for executing transactions (61.9% versus 53.0%) and transferring money between accounts (63.1% versus 49.3%). They are also more likely to turn to websites when they want access to information, such as portfolio updates or investment research. But for communication or engagement with wealth managers, HNWIs prefer direct interaction through in-person meetings or telephone conversations.

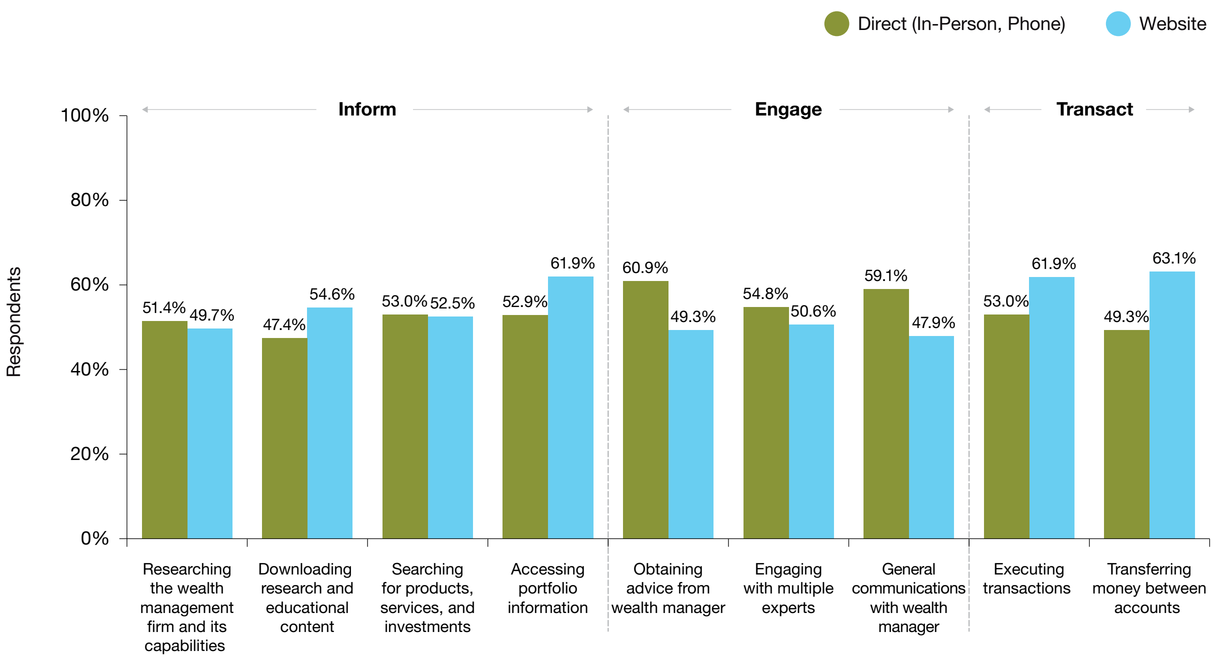
FIGURE 27. Understanding the Channel Landscape in Wealth Management



Source: Capgemini Financial Services Analysis, 2014

FIGURE 28. Importance of Direct vs. Website Interaction for Different Wealth Management Capabilities, Q1 2014

(%)



Note: Weighted average of percent of respondents who ascribed a level of importance of 7 or higher, on a 10-point scale, to various activities
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

The preference for digital channels over direct ones to execute transactional functions is consistent across the globe (see Figure 29). HNWIs in North America and Asia-Pacific (excl. Japan) have the strongest preferences for executing transactions over websites (70.6% and 70.1%, respectively) versus directly (58.3% and 59.1%). In Europe, the trend was consistent, but the numbers not as dramatic, with 58.7% of HNWIs preferring websites for transactions and 49.8% preferring direct interaction.

A similar pattern emerged with respect to Inform capabilities. HNWIs in Asia-Pacific (excl. Japan) express the largest preference for using websites rather than direct contact to obtain information (65.6%), followed by those in North America (60.7%), and then those in Europe (53.0%).

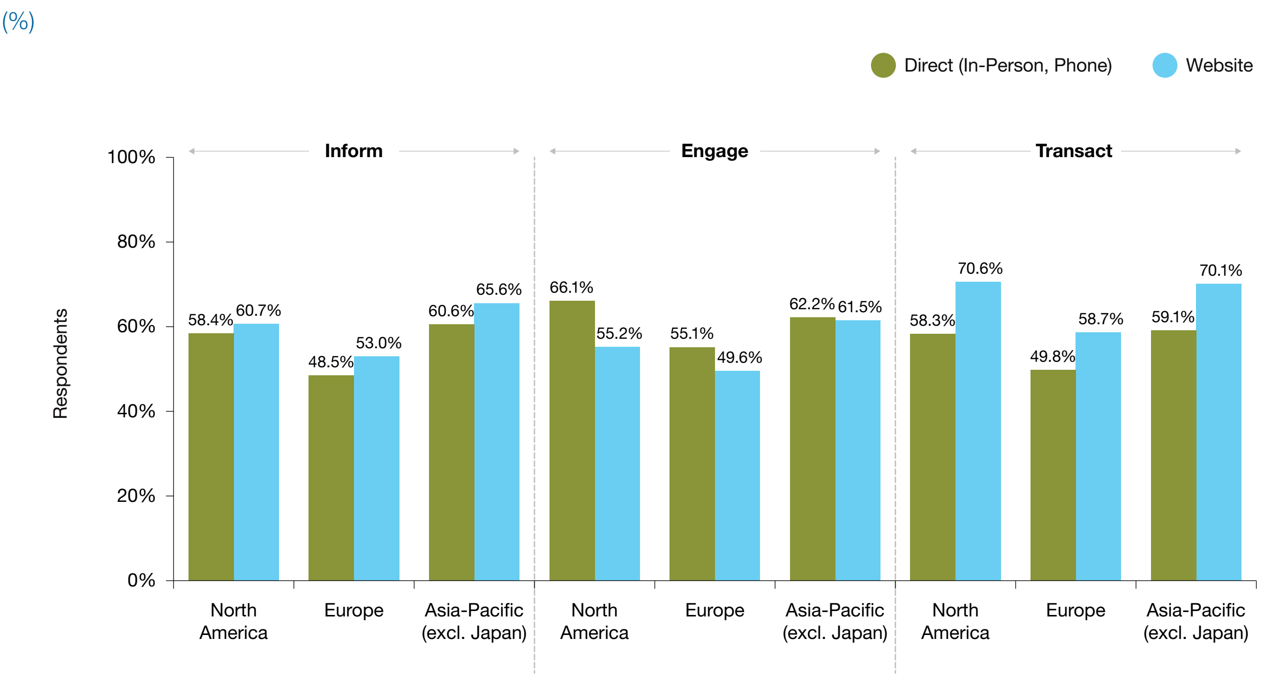
HNWI preferences shift when it comes to engaging with their wealth managers. Whether in search of advice, input from multiple experts, or just general communications for service and support, HNWIs—especially those in North America—exhibit a strong preference for direct rather than digital interactions. By a margin of 11.6 percentage points, HNWIs globally would prefer to get advice directly (60.9%), rather than through websites (49.3%). A similar margin exists in their preference that general communications occur directly (59.1%) rather than via websites (47.9%). Finally, 54.8% prefer to gather input from multiple experts via direct contact instead of through websites (50.6%).

Although HNWIs are increasingly turning to established digital channels, such as websites and email, for certain types of wealth management services, they do not seem yet to be widely demanding newer, more modern, emerging forms of digital interaction, such as mobile applications, video, and social media. For all three types of Inform, Engage, and Transact wealth management capabilities—only one-third or fewer of HNWIs cite mobile applications, video, or social media as important, with social media rounding out the bottom of the list in each case (see Figure 30). However, with certain emerging digital channels expected to gain users at an even faster rate than websites did, there is little doubt they will play an increasingly important role in how HNWIs interact with wealth managers over time.

Of the three emerging forms of digital interaction, mobile applications received the highest level of acceptance among HNWIs. Thirty-three percent cite it as an important channel for engagement, 32.4% for getting information, and 31.5% for transactions. While mobile applications can often provide much the same functionality as the website, it offers the added elements of spontaneity and convenience through a compact, dynamic interface.

Video has some traction in the area of engagement, with 30.0% of HNWIs citing it as an important channel for those types of capabilities. There is little doubt that conversations conducted via video (with leading firms such

FIGURE 29. Importance of Direct vs. Website Interaction for Different Wealth Management Capability Areas, by Region, Q1 2014



Note: Weighted average of percent of respondents who ascribed a level of importance of 7 or higher, on a 10-point scale, to various activities
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

as Cisco offering more advanced capability) and social tools, such as FaceTime, can be more effective than traditional telephone interactions. They can be particularly useful in servicing ultra-HNWIs whose family members and advisors are dispersed around the world by bringing all parties together in a manner that closely resembles the valuable in-person experience, making it easier to discuss complex financial matters.

Video also offers many of the same advantages as in-person meetings, as it lets wealth managers view facial expressions and body language, giving them additional insight into HNWI needs and possible concerns. Almost as many HNWIs (28.2%) say they see video as important for gathering information. The many educational videos available today on advisor websites and even YouTube attests to the effectiveness of this channel in disseminating educational information. Only 21.3% of HNWIs see video as relevant for transacting.

Social media currently occupies the lowest level of importance for HNWIs, with only 26.5% finding it useful for accessing information, 25.9% for engagement, and 19.8% for transacting.

Despite the low level of importance ascribed by HNWIs, there is a risk that weak social media capability could lead to HNWIs forming an unfavorable judgment on a firm's overall advice, products, and services, fairly or unfairly.

FIGURE 30. HNWI Channel Importance by Capability, Q1 2014

(%)

Note: Weighted average of percent of respondents who ascribed a level of importance of 7 or higher, on a 10-point scale, to various activities

Inform capabilities include researching the wealth management firm and its capabilities, downloading research and education news/content, searching for products, services, and Investments, as well as accessing portfolio information and evaluating performance

Engage capabilities include obtaining advice and service from the wealth manager, engaging with multiple experts at the same time, and conducting general communications with the wealth manager, including document exchange

Transact capabilities include executing transactions and transferring funds between accounts

Question asked: "In more detail, how important is it to you that your main wealth management provider can support <select activity> using the following channels? Please indicate your response using the sliding bars. 0 = not at all, +10 = extremely 1. In-person 2. On the phone 3. Email 4. Bank's website and/or secure web portal 5. Mobile applications 6. Video or video conferencing 7. Social media sites"

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

Social Media Adoption Set to Climb

Demand from HNWIs for social media services may be tepid, but is not expected to remain so for long. Numerous catalysts—related to demographics, competition, technology, and regulations—will cause an increase in the importance of social media well beyond the current level of 25% of HNWIs.

- **Demographics:** Perhaps the most important driver may be the growing prominence of HNWIs under 40, a tech-savvy group that is far more open to using social media than older generations. Among under-40 HNWIs, 40.5% cite social media as important for accessing information, 36.3% for engaging with wealth managers and firms, and 33.5% for executing transactions.
- **Competition:** While HNWI trust and confidence is on the rise (see section 'Trust Levels Jump across the Board' on page 16), firms are aware they must work for it every day. Social media offers the opportunity to reinforce trust by providing a platform for open, meaningful dialogue, which is capable of also driving business. Studies in the U.S. show that 49% of wealth managers have acquired new clients through social media; of those, 29% brought in US$1 million or more in financial assets.[13] As individual wealth managers become increasingly aware of the power of social media to attract clients, they are leading often-hesitant firms to greater acceptance.
- **Technology:** Social media software customized for the wealth management industry is becoming increasingly available, providing functionality such as content libraries, contact management tools, and data analytics, while ensuring compliance in terms of monitoring, archiving, and wealth manager practices. A software package might, for example, prevent individual wealth managers from liking posts, ensuring they do not run afoul of regulators for inadvertently dispensing advice.
- **Regulations:** Regulatory institutions, notably the Financial Industry Regulatory Authority (FINRA) in the U.S., have become more proactive in educating themselves and developing pragmatic guidance, giving firms more comfort in moving ahead with social media initiatives that were once stalled by a lack of regulatory clarity.

Wealth managers and firms are taking advantage of a variety of social media platforms and activities. While all platforms have multiple benefits, LinkedIn holds the greatest potential for networking and general business development.[14] Facebook offers an important window into the personal lives of HNWIs and Twitter allows for brand and reputation management. While firms are not permitted to offer advice over social media, there is growing recognition that HNWIs use social networks to validate the advice they receive through other channels.

Hearsay Social, a leading social business platform in the financial services industry, outlines a social media strategy comprised of four core pillars:

- **Be Findable:** Social networks have become the personal directories of the modern era, so the most important starting point is to be findable by potential and current clients, as well as centers of influence and potential talent recruits.
- **Grow Networks:** A critical mass of participating HNWIs and other key groups, such as centers of influence and top industry talent, is necessary in the social network.
- **Listen:** Firms need to be able to listen and act on key triggers and opportunities, such as HNWI life changes, including marriage, a new baby, or buying a home. This is a more advanced skill set for firms, but third parties are increasingly providing the algorithms and natural language-processing techniques required. Additionally, listening is critical for brand development and reputation management.
- **Communicate:** Firms must become more comfortable with letting wealth managers engage with clients over social media. Although communication for some firms will occur through pre-approved content libraries, other firms are moving to real-time, two-way interactions over social media.

Numerous challenges to social media's expansion in wealth management remain. Globally, there continues to be a significant lack of regulatory clarity over what can and cannot be done. Firms are also not clear on how to measure success. Typical metrics, such as number of followers, engagement levels through shared content, and earned impressions,[15] are yet to be adopted by many wealth management firms, as are the IT and data tools used to measure effectiveness.

Ultimately, firms need to adopt the same transformational mindset shift when embarking on a social media strategy as when thinking about their digital channel strategies overall. Simply adding the tools will not be enough. Only through trained and engaged individual wealth managers and top-down leadership commitment will social media adoption and ROI appear.

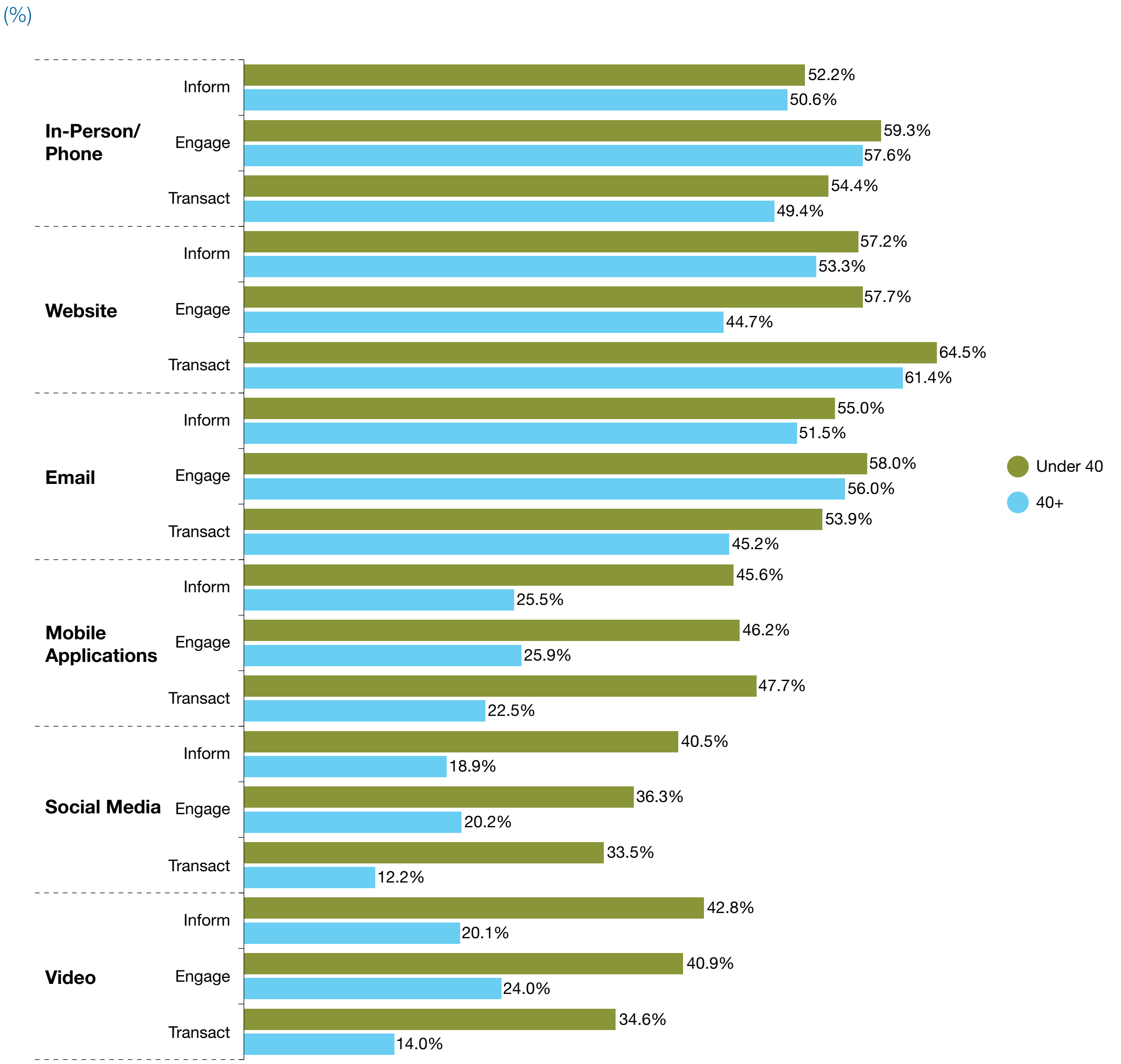
[13] "Financial Advisors and Social Media: Making the Connection", Putnam Investments, July 2013

[14] "Social Media's Growing Influence Among High Net Worth Investors", LinkedIn and Cogent, May 2012

[15] Earned impressions, or earned media, occur when a user ends up passing the information along to somebody who might be interested

The current low level of HNWI interest in the more emerging digital channels of mobile applications, video, and social media mask the very strong acceptance of those channels by HNWIs under 40 (see Figure 31). To cite a few examples, 47.7% of HNWIs under 40 see mobile applications as important for conducting transactions, compared to 22.5% of those over 40. Forty percent view social media as an effective tool for gathering information, versus only 18.9% of over-40s. And 40.9% of under-40 HNWIs see video as important for engagement, compared to only 24.0% of over-40s.

FIGURE 31. HNWI Channel Importance for Wealth Management Capability Areas, Q1 2014



Note: Weighted average of percent of respondents who ascribed a level of importance of 7 or higher, on a 10-point scale, to various activities
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

ATTRITION RISK RISES WITH LACK OF DIGITAL SERVICES

The pressure on firms to adopt a digital mindset is only expected to grow as younger HNWIs acquire greater wealth and prominence. Already, the stakes are very high.

Around two-thirds (66.5%) say they expect their wealth management experience to be integrated across all channels (meaning, for example, that they can initiate an action on one channel and finish it on another) with a consistent level of service throughout.

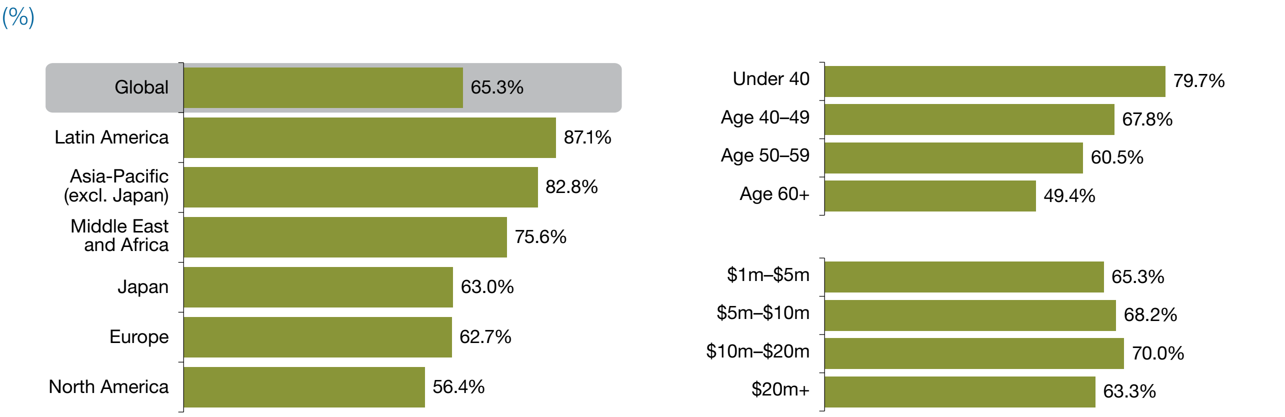
Further, 65.3% of HNWIs globally said they would consider leaving their wealth management firm if an integrated experience is not provided (see Figure 32).

Two-thirds of HNWIs also say they will consider leaving firms that do not allow them to transact digitally. This sentiment was consistent across all age and wealth levels, with only the oldest (over-60) and wealthiest HNWIs (US$20 million+) exhibiting a slightly lower propensity to leave. Nearly as many HNWIs globally (61.8%) say they would consider leaving if they could not access portfolio information digitally. These findings indicate that firms that lag behind digitally may be in for a shock when HNWIs sever relationships with firms due to unmet expectations.

HNWIs are currently least likely to leave if they cannot use digital connections to engage with multiple experts (37.0%), though that sentiment is not likely to persist for long. Fifty percent of HNWIs under 40 said they would leave if there were no way to engage digitally, compared to only 20.5% of those over 60. This year's survey results clearly indicate that the need to meet HNWI expectations will become especially acute, as the demand for digital capability from firms continues to grow, regardless of the HNWI's age, wealth level, and need for advice.

HNWIs in emerging markets are especially demanding on this point. Eighty-seven percent of HNWIs in Latin America and 82.8% of those in Asia-Pacific (excl. Japan) would leave because of a lack of an integrated experience, compared to only 56.4% in North America. Younger HNWIs also expressed an outsized preference for an integrated experience. Eighty percent of those under 40 said they would consider moving to another firm without it. An integrated experience is also important across all wealth levels and also for 68.6% of self-directed HNWIs, who would consider moving to another firm without it.

FIGURE 32. HNWI Propensity to Leave Wealth Management Firm Due to Lack of Integrated Channel Experience, by Region, Age, and Wealth Band, Q1 2014



Note: Question asked: "To what extent do you agree or disagree with the following statement? 1. I expect my wealth management experience to be integrated across all channels (personal, phone, digital) with a consistent level of service across all channels, for example, I should be able to start an activity on any channel and finish on any another channel", and "If your main wealth management provider could not offer this type of integrated wealth management experience, would it prompt you to consider moving to another firm"?

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

SUCCESS IN DIGITAL OFFERS MULTIPLE BUSINESS BENEFITS

Despite the growing digital sophistication of wealth management clientele, the industry has not kept pace. Having come late to digital development, wealth management firms often offer sub-par services compared to the standards being set in other industries, such as retailing and banking. While individual firms are making inroads, the industry as a whole still needs to do more to address the digital demands of HNWIs.

Top executives are increasingly recognizing this need.

"We will be out of business if we do not move on!" said one managing director of a large European universal bank.

While some executives interviewed noted that ultra-HNWIs are less likely to want digital services, virtually all agreed that they are critical for younger clients and those in less wealthy segments.

"Next-gen clients of private banking have a very high demand for digital services," said one COO/CIO of a global wealth firm in Asia-Pacific.

Firms have more to gain by going digital than just the chance to retain tech-savvy clients. By engineering a full digital transformation, firms also stand to drive strong bottom-line results. A study conducted by Capgemini Consulting in collaboration with the MIT Center for Digital Business shows that firms that succeed in digital transformation are significantly more profitable than those that do not.

Achieving digital transformation starts with digital intensity, which encompasses not just investments in technology, but a shift in mindset and behavior aimed at realizing the technology's full value. Digital intensity, such as improved customer engagement or greater efficiency, must be combined with transformation management intensity, which encompasses all the leadership skills, including vision, governance, culture-building, and engagement that are required to realize the full potential of digital technology.

The research shows that firms that possess both high digital intensity and high transformation management intensity are 26% more profitable than the average firm (using the measurements of net profit margins and earnings before interest and taxes). Firms without that combination turn in strikingly lower profits: they are 24% less profitable than the average. Further, making investments in digital technology without having strong transformation management capability has negative implications. These firms were found to be 11% less profitable than the average.

The benefits of embracing digital technology come in many forms (see Figure 33). Firms with established digital capabilities are apt to have more connections and touch points with clients, deepening relationships, and boosting retention. Digital channels also offer the opportunity to reduce the administrative load for wealth managers and greatly streamline physical operations, driving significant savings of as much as 30% by automating back-office operations.[16] Further, a strong presence on digital platforms not only has the effect of burnishing a firm's reputation as a forward-thinking, modern institution, but affords it the opportunity to monitor and mold that reputation.

Individual wealth managers also stand to benefit from digital technology. Mobile devices let them meet clients away from the office without sacrificing anything in the way of information or visualization, usually even enhancing what is shared. They can also use social platforms to make their marks as industry experts.

Effecting a firm-wide digital transformation, of course, is not a trivial investment, especially in an era of still-constrained profitability. And the chances of costly technology mis-steps are rife, given the pace of technological change and the complexity of existing legacy systems. Firms and wealth managers also do not always have the benefit of regulatory clarity when it comes to determining their responsibilities with respect to some of the newer digital channels.

Despite these challenges, several firms have made major strides in prioritizing digital channels. Some leading North American firms have sought to make every type of transaction that can be conducted online or in-person—from opening accounts and depositing checks, to viewing streaming quotes and making trades—integrated and available through every type of mobile device. The capabilities of these high-end mobile platforms are indistinguishable from more traditional online ones, offering everything from aggregated views of financial

FIGURE 33. Benefits and Challenges of Digitalization for Key Stakeholders

	HNWIs	Firms	Advisors
BENEFITS	▪ Real-time, 24/7 access and alerts ▪ Improved and integrated client experience ▪ Increased transparency around cost of advice and products ▪ Improved access to multiple experts	▪ Effective delivery of value proposition and brand ▪ Client acquisition and retention ▪ Strengthen campaign targeting through improved understanding of client ▪ Improved overall risk management and strategy design through increased availability of data ▪ Increased automation/efficiencies ▪ Increased agility to respond to news/rumors	▪ Ability to engage with clients in the manner they prefer ▪ More valuable and engaging discussions through dynamic visualization tools ▪ Improved productivity and less office-dependent ▪ Business development opportunities through social media tools ▪ Improved internal collaboration across business lines ▪ Building/deepening intergenerational client relationships
	HNWIs	**Firms**	**Advisors**
CHALLENGES	▪ Privacy and security concerns ▪ Ingrained preference for non-digital relationship–especially older and higher wealth bands (though increase in demand is expected)	▪ Constrained general profitability, with high cost of digital transformation a further challenge ▪ Fast pace of technology change ▪ Proliferation of new and unstructured data ▪ Complex legacy systems and lack of integration between front, middle, and back office ▪ Regulatory constraints and lack of clarity ▪ Balancing client convenience and data security ▪ Resistance to change by staff who are skeptical of the benefits of digital	▪ Lack of training and familiarity with digital tools ▪ Lack of digital adoption by their firm

Source: Capgemini Financial Services and RBC Wealth Management Analysis, 2014; WWR Executive Interviews, 2014

[16] "Digital Transformation Review: Gearing Up for Digital Operations", Capgemini Consulting, January 2014

accounts, graphical tools, and real-time charts, to instant secure communication with wealth managers. By packing in so much functionality, these firms are striving to ensure no barriers exist to mobile adoption and an advanced client experience. One large, global firm recently embarked on a three-year program in which digital has been identified as the top area of investment with a vision of becoming the complete digital universe of a client's financial life.

In another example of digital leadership, a large Swiss bank has taken the long-term view that the platform of the future will be the mobile device, with expenditure on mobile applications and solutions for individual wealth managers now surpassing those for more traditional desktops. One of the marquee solutions within this long-term digital vision has been a composite application developed for the iPad, allowing wealth managers to work collaboratively with clients by accessing proprietary firm tools in real time, from anywhere.

Another Swiss firm provides state-of-the-art education and training to clients through a demo course that takes clients step-by-step through every type of function they will encounter on the live system. This firm has also taken a page from the retailing industry, turning the investment purchasing process into a one-stop shopping experience in which clients can assess their needs, learn about different investment options, research them using real-time information, and use search tools to find the best solutions. By walking clients through the process, this firm is easing the potential for frustration and leading the way toward more positive online experiences.

Some initiatives reflect efforts to own a niche. A large wealth manager in the U.K., for example, pioneered a new concept in client experience with the introduction of an online portal, available through any digital platform, that lets HNWIs browse ideas for participating in exceptional, one-of-a-kind events. By making it easy to access such exclusive, high-end services, the firm hopes to deepen and cement relationships with HNWI clients.

A small U.K. private bank has taken a different route to relationship-building, launching a digital portal that seeks to engage HNWIs around a variety of topics. The private online network is a forum for like-minded individuals to connect, offering commentary on the economy, future trends, entrepreneurship, family businesses, and philanthropy. With the portal, the bank is putting education and information dissemination at the forefront of client relationships.

Keeping one step ahead of the desires of HNWIs is critical. The broader landscape is rife with examples of industries that failed to anticipate the changing needs of its clients and lost ground to more nimble innovators. In the payments industry, small start-ups took share away from global giants by presenting more convenient options for moving money around. In the medical device industry, makers of expensive heart-monitoring equipment were blindsided by affordable smartphone apps that challenged the belief that patients need to physically visit their doctors to get excellent care.[17] The wealth management industry has a gap to close to stay on course with other industries that are adopting and integrating digital technologies to deliver on client expectations, and should heed the warning signals of change.

TO UNLOCK ROI, FIRMS MUST ADOPT A TRANSFORMATIVE DIGITAL MINDSET

Preparing wealth management firms to meet the new dynamics of the digital age is a multi-part process that will require a departure from existing norms. Current ROI models, for example, will not suffice. The following points offer a broad roadmap aimed at helping to set firms on the right course.

- **Shift the business mindset**

  Future leaders will shift their mindset so that digital will no longer be viewed as a channel, but an integral part of the business model that addresses HNWI expectations for an integrated experience across all channels.

  Digital is not in itself the goal; rather, it is essential to the client experience and firms need to prioritize based on how clients want to engage with their wealth managers and the firm.

  The wealth management firms that succeed in being where their clients want them to be will proactively and aggressively adopt a digital mindset, recognizing that not going digital is not an option. They will build a vision that revolves around how HNWIs want to interact with the firm, not how it is most expedient for the firm to interact with HNWIs.

[17] "Could a Smartphone be the Future of Medicine"?, NBC News, April 2014

Additionally, digital technology should be viewed as an enabler rather than a disintermediator of the client-advisor relationship. There are significant opportunities for both digital and personal interactions to be united to augment the client relationship, such as when an advisor leverages the web or video technology to facilitate multi-generational client conversations, or when digital channels are used to support the aggregation and distribution of documentation in the client on-boarding phase. Successful firms will incorporate both human and digital interactions to deliver the integrated and seamless experience that HNWIs are looking for.

- **Develop an ROI model built on cross-enterprise engagement**

  Building a digitally enabled company requires reinventing typical ROI approaches, which are not up to the task of measuring the investments required to infuse a digital mindset throughout a firm. Rather than simply identifying key performance indicators, firms need to develop more comprehensive ROI models that take into account the level of digital engagement required of wealth management staff throughout every level and line of business of the firm. The success of digital transformation is based on end-user adoption, and the entire enterprise, including back-, middle-, and front-office staff, needs to be engaged.

  Today, one particular firm manages its digital spend as a balanced portfolio, comprised of individual investments that each carry a distinct risk/return profile. For example, risk-related type investments, which do not yield high returns but keep the firm in business, are funded to fulfill compliance, regulatory, and safety requirements. A second type of digital investment relates to efficiency, which enables the firm to reduce the cost of operations. A third type addresses growth, which helps the firm develop existing products and services, and potentially move them into different markets. Finally, some investments are made to drive innovation and meet longer-term strategic goals. These take into account what is not being done today, but should be a focus in the future.

- **Make build vs. buy decisions**

  At some point along the path toward digital transformation, firms will encounter the decision of whether to build or buy. Building functionality in-house presents a series of challenges, given the complexity of existing systems and ongoing pressures to upgrade legacy systems before making other types of investments. Third-party vendors offer an often more affordable way to acquire software expertise and keep up with the fast pace of technological change. But they sometimes do not have the business knowledge required to develop services that directly correspond to firm needs. Plus, many firms prefer to retain control over competitive or strategic features that they see as providing a crucial advantage. At most firms, the decision to buy or build will be made on a case-by-case basis, yet no firm should expect to fix all legacy issues before moving ahead with building digital capability.

- **Implement quick wins to build momentum**

  Wealth management firms should seek early successes in digital transformation through smaller initiatives that will let them lay the groundwork for larger investments. Providing tablet devices that let wealth managers use visualization, such as dynamic reporting and scenario planning to engage with clients, is a relatively easy way to promote digital benefits and get wealth managers on board. High-profile initiatives that address immediate HNWI needs, such as bringing client reporting to the website, as well as offering the ability to transact digitally and to join online social communities, serve to prevent client attrition. At the same time, organizations are very mindful of the need to get the basics right. One firm, for example, has invested in technology to allow for real-time single-customer account views, though adoption and leverage has lagged because the core success factors of speed and ease of use were not adequately put in place.

- **Develop big data opportunities**

  The ultimate goal for a digitally transformed firm is to have a complete picture of all the types of interactions the firm is having with clients and a clear sense of how effective those touch points are in both meeting client expectations and achieving the financial goals of the firm.

The sum total of all a firm's client interactions will generate data that firms should be able to mine to gain meaningful intelligence aimed at driving strategic decisions.

While many firms have made significant customer relationship management investments, many have struggled to realize the investment's full value. Given the increasing amount of data and intelligence now available across the different channels, it will be crucial for firms to figure out how best to utilize that intelligence to provide lasting differentiating capability. Those that figure out how to convert data into meaningful information that they can act on will become the high-performance firms of the future.

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Appendix

METHODOLOGY

MARKET-SIZING METHODOLOGY

The 2014 *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: first, the estimation of total wealth by country, and second, 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 summed over time to arrive at total accumulated country wealth. As this captures financial assets at book value, the final figures are adjusted based on world stock indexes to reflect the market value of the equity portion of HNWI wealth.

Wealth distribution by country is based on formulized relationships between wealth and income. Data on income distribution is provided by the World Bank, the Economist Intelligence Unit and countries' national statistics. We then use the resulting Lorenz curves to distribute wealth across the adult population in each country. To arrive at investable wealth as a proportion of total wealth, we use statistics from countries with available data to calculate their investable wealth figures and extrapolate these findings to the rest of the world. Each year, we continue to enhance our macroeconomic model with increased analysis of domestic economic factors that influence wealth creation. We work with colleagues around the globe from several firms to best account for the impact of domestic, fiscal, and monetary policies over time on HNWI wealth generation.

The investable asset figures we publish include the value of private equity holdings stated at book value, as well as all forms of publicly quoted equities, bonds, funds, and cash deposits. They exclude collectibles, consumables, consumer durables, and real estate used for primary residences. Offshore investments are theoretically accounted for, but only insofar as countries 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, especially 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.

2014 GLOBAL HIGH NET WORTH INSIGHTS SURVEY

The Capgemini, RBC Wealth Management, and Scorpio Partnership 2014 Global HNW Insights Survey queried more than 4,500 HNWIs across 23 major wealth markets in North America, Latin America, Europe, Asia-Pacific, the Middle East, and Africa. Respondent demographics, as broken down by region, age, gender, and wealth band, are captured in Figure M1.

The Global HNW Insights Survey, the largest global survey of HNWIs, was administered in January and February 2014 in collaboration with Scorpio Partnership, a firm with 16 years of experience in conducting private client and professional advisor interviews in the wealth management industry.

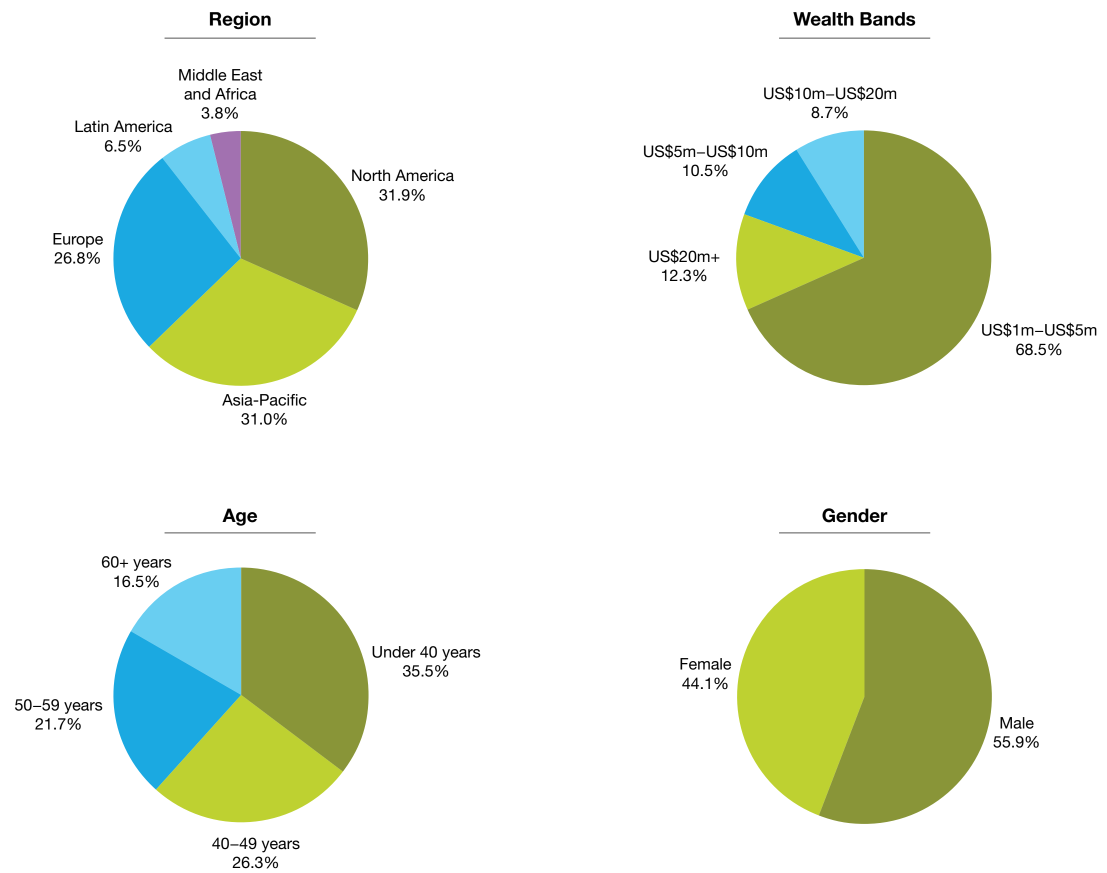
The 2014 survey was built on analysis conducted around three key areas in 2013: HNWI trust and confidence, HNWI asset allocation, and HNWI behavior. The first focus area targeted HNWI levels of trust and confidence in key industry stakeholders, including wealth management firms, individual wealth managers/advisors, financial markets, and regulatory bodies and institutions. The second focus area, asset allocation, measured current asset allocation patterns of global HNWIs, as well as the geographic allocations of their investments. The third focus area, HNWI behavior, studied HNWI preferences and behaviors with respect to their objectives and approaches to wealth management, their relationships with wealth managers, and the type of services they expect.

In addition, the 2014 survey expanded its focus to include two new areas. The first, on driving social impact, addressed the importance of various drivers and causes that motivate HNWIs to give, the mechanisms they use to fulfill social impact goals, as well as the support they expect from their wealth management firms. The other new section, a spotlight on the rising importance of digital, surveyed HNWIs on their preference for digital interaction with firms for various wealth management activities and their expectations of firms to deliver an integrated digital client experience.

To arrive at the 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 Demographic Breakdown, Q1 2014



Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

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