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# Global Wealth Management Market Trend Analysis and Forecast

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## I. Introduction

This study focuses on study of wealth management and its trends, analysis and forecast throughout a financial crisis and post-crisis period. As a result, the literature review will be presented as in a way to diagnose market of wealth management in Indian and World market scenario which will help us to understand the future prospective of World Wealth growth and will help wealth managers to understand market and design strategy to succeed.

As a consequence, in first part this literature review will consider and examine the private wealth management issues, its purpose, and its changes throughout the financial crisis with specific regard on the Indian wealth management. In Second part of Literature review will focus on the wealth management process.

## II. Research

### Research Objective

The objectives of my research project are:

- To analyze the trends of global wealth management market.
- To study investment pattern and expectation of HNWI investors, globally.
- To study the future adaption of strategies which will help wealth managers in this changing market scenario.

### Research Scope

The scope of my research projects are:

- The data which is being used to analyze the wealth management and investment pattern is from 2008-2013.
- The paper has major emphasis on study of Indian market as compared to world market.
- Data from reliable websites, white papers, journals, reliable publications are the basis of study.

### Research Design

The main focus was on secondary research analysis and interpretation supported by the primary data collected by the superiors.

### Secondary Research

Secondary research references utilized for this study include:

- Company websites, annual reports, financial reports, broker reports, investor presentations and SEC filings

- Internal and external proprietary databases, relevant patent and regulatory databases
- National government documents, statistical databases and market reports
- News articles, press releases and web-casts specific to the companies operating in the market.

## III. FEATURES OF INDIA'S INDIVIDUAL WEALTH

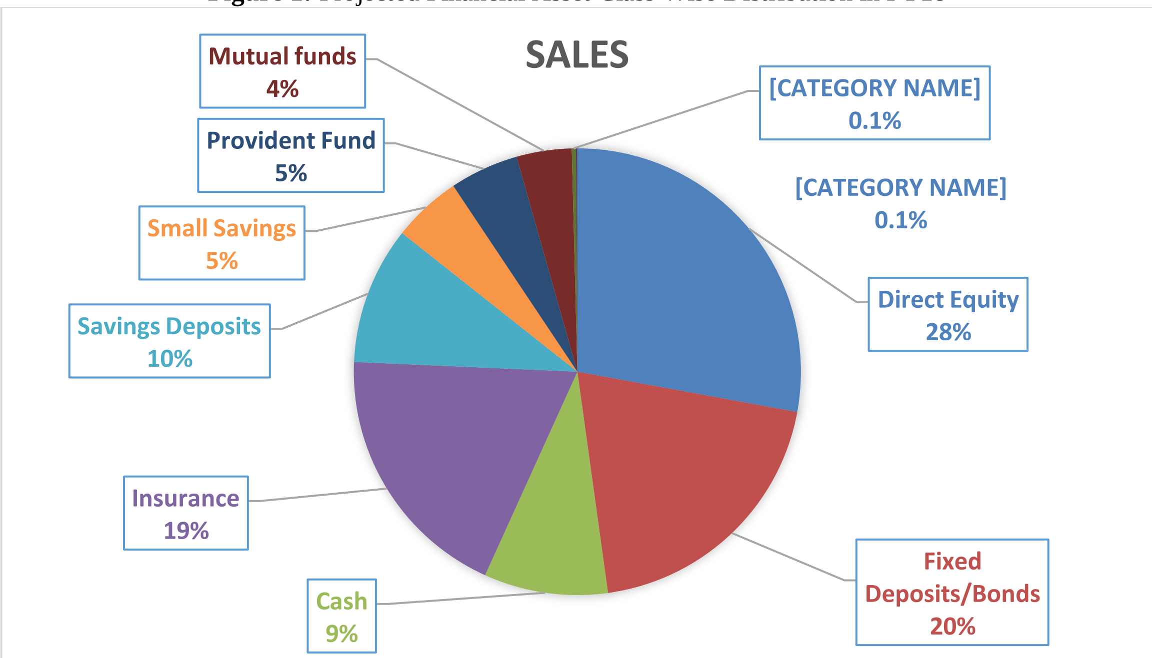
The global economy is still going through an upheaval and there are uncertainties ahead. The global economic recession and crisis has, quite expectedly, impacted India, too.

It is well known that - on a purchasing power parity basis – India is already, at over USD four trillion of GDP, the third largest economy in the world. In the next 15 to 18 years this size is expected to grow, as per various studies and estimates, four to five times.

India's GDP for FY13 is Rs.100 lakh crore and is expected to grow to Rs.176 lakh crore by FY18. Individual wealth in financial assets is expected to grow from the current Rs.109.86 lakh crore to Rs.228.36 lakh crore by FY18. Investment in Physical assets is expected to increase from the current Rs.92.06 lakh crore to Rs.183.15 lakh crore by FY18.

Hence the total wealth is expected to more than double from the current Rs.201.92 lakh crore to Rs.411.51 lakh crore.

**Figure 1:** Projected Financial Asset Class Wise Distribution in FY18



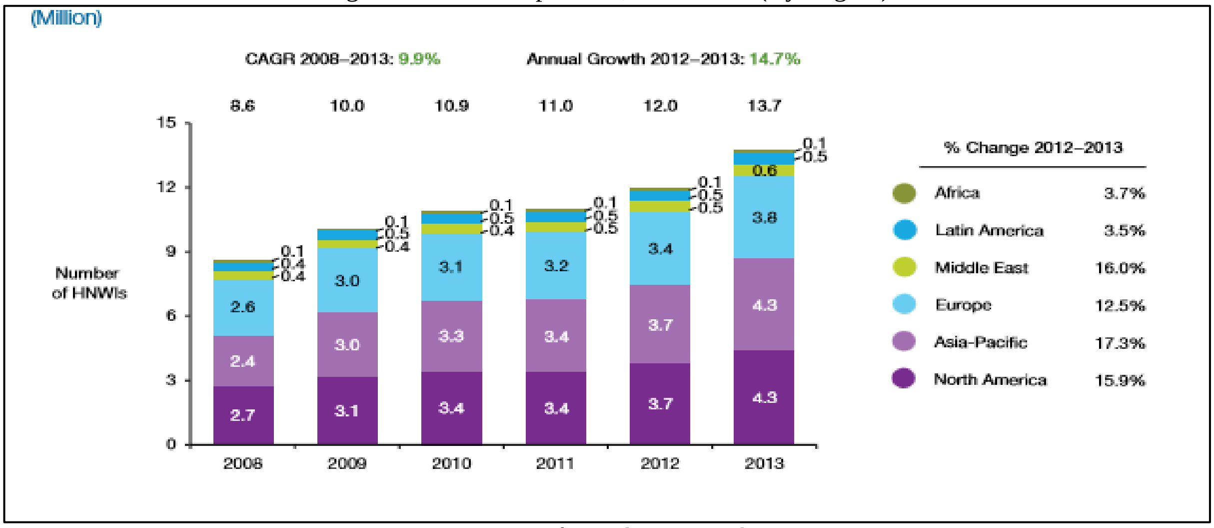

**World Market Analysis**

**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).

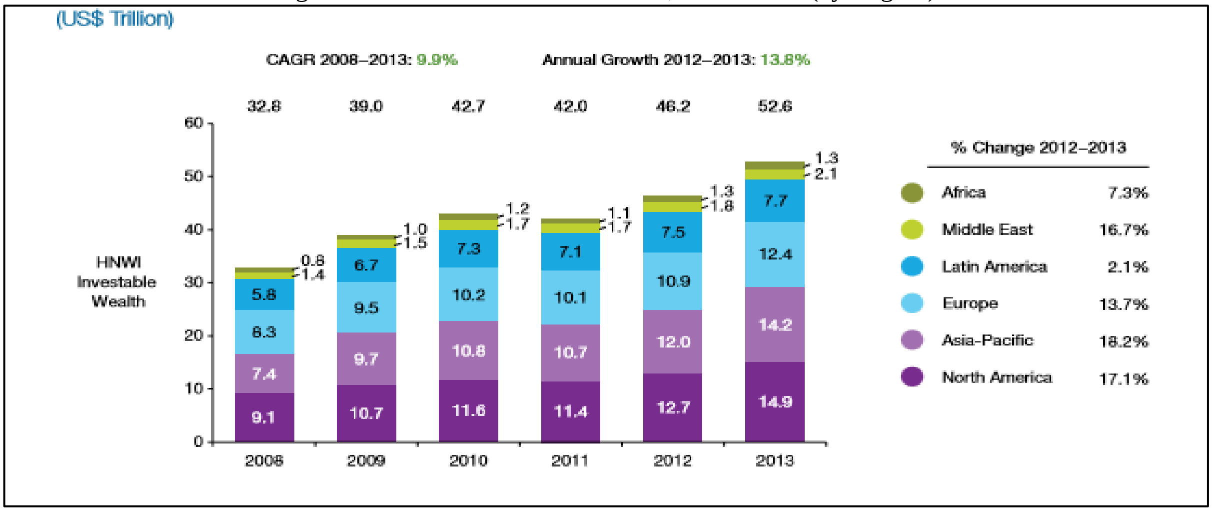
Asia-Pacific recorded the largest increase in HNWI population (17.3%) and narrowed the gap on North America—the region with the largest HNWI population at 4.33 million—to just 10k individuals. Japan, with its unprecedented HNWI population surge in 2013, and China, with strong annualized HNWI population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

Figure 2: HNWI Population, 2008-2013 (By Region)




Source: Capgemini financial services analysis,2014

Figure 3: HNWI Wealth Distribution, 2008–2013 (by Region)




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.

**Ultra-HNWI segment outperforms in all regions except Latin America**

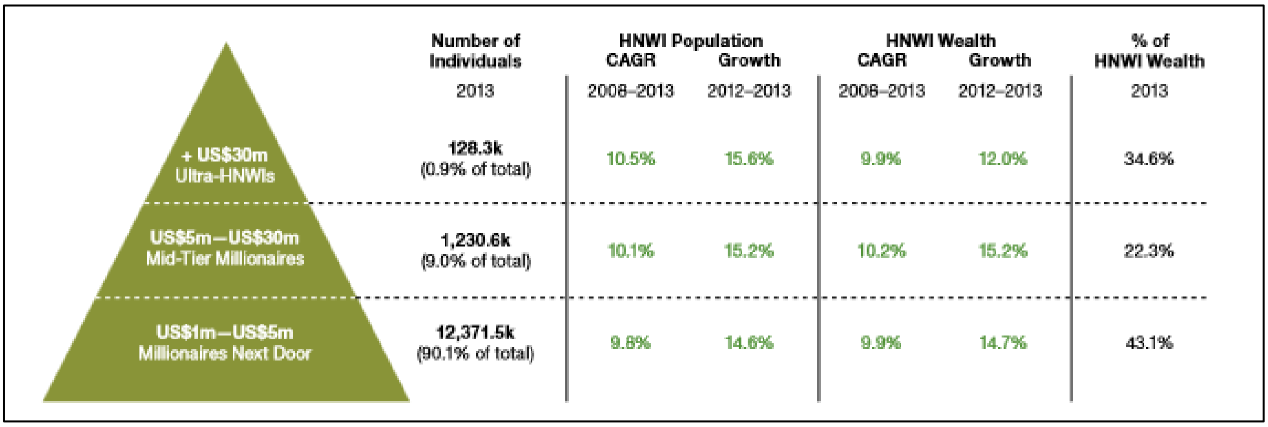
Despite the fact that they number only 128k and make up just 0.9% of the total HNWI population, ultra-HNWIs, with more than US$30 million of assets, held more than one-third (34.6%) of global HNWI wealth (see Figure 3). Mid-tier millionaires, with US$5 million to US$30 million of assets and numbering 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 4 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% |

Source: Capgemini, RBC report

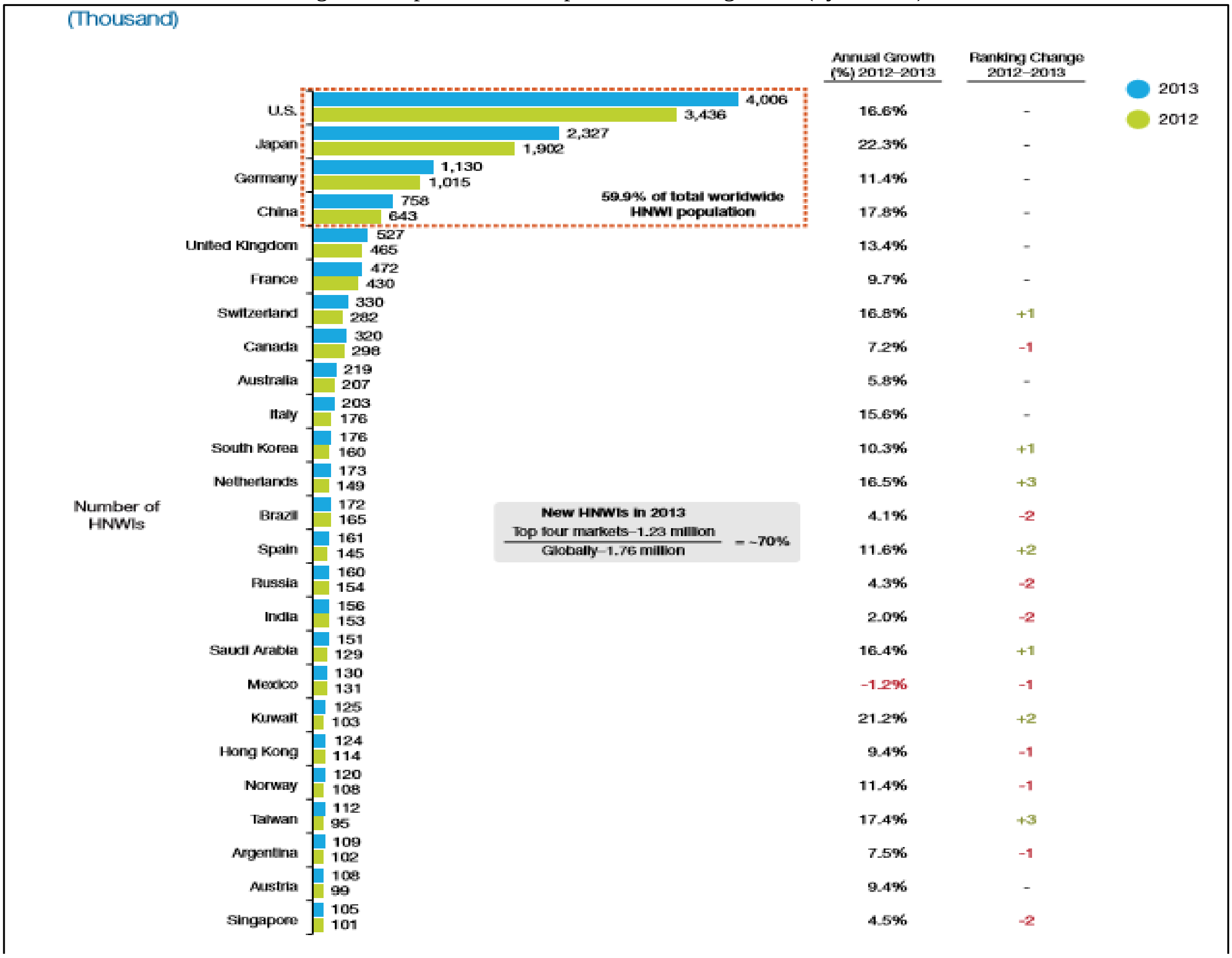
**Top four markets generate majority of HNWI growth in 2013 – Clear performance trends emerge since 2008 financial crisis**

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.

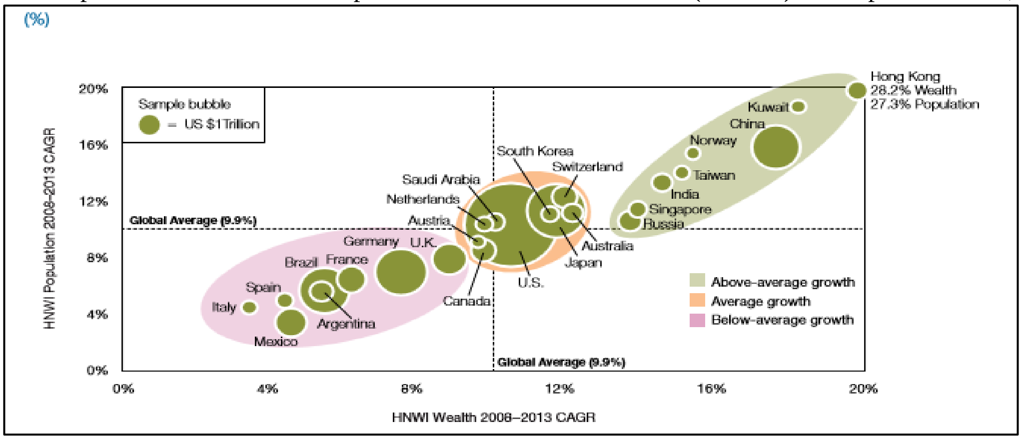
That distinction went to Ireland and United Arab Emirates (UAE), both of which benefited from strong performance in the equity markets and, in the case of UAE, significant recovery in real estate, helping to expand HNWI growth by nearly 25% in both countries.

Figure 5 Top 25 HNWI Population Ranking, 2013 (by Market)




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. All four of these markets experienced the benefits of an improved global economic outlook and increasingly positive investor sentiment.

Figure 6 HNWI Population and Wealth Compounded Annual Growth Rates (CAGRs) for Top 25 Markets, 2008–2013

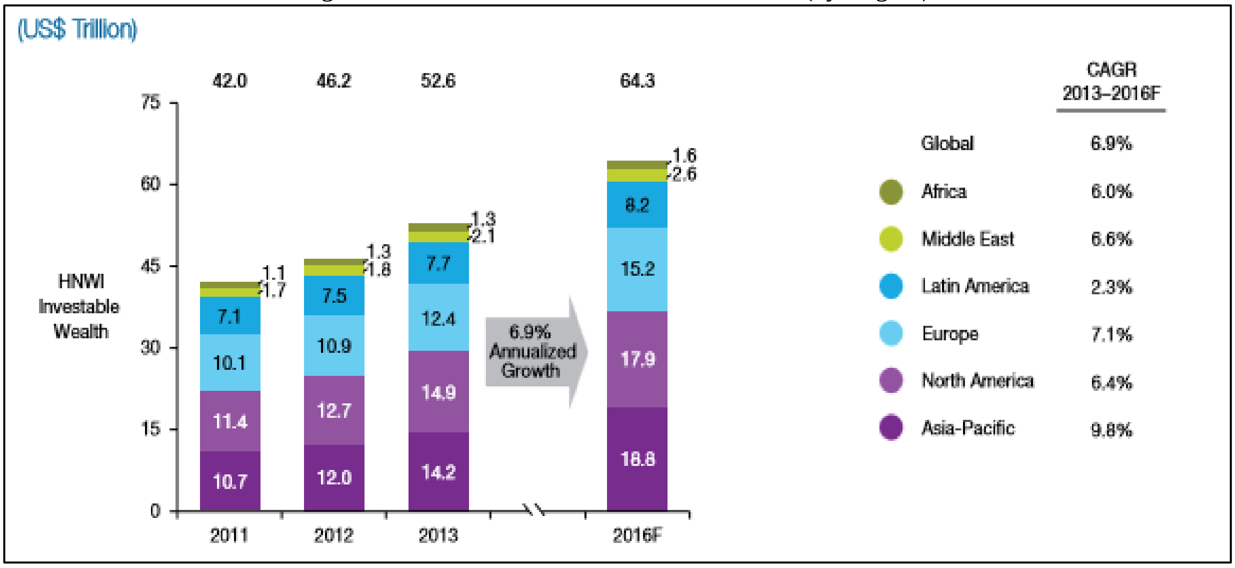



Over the last five years, Asia-Pacific has emerged as a leading source of wealth growth. All the Asia-Pacific markets in the top 25 registered above-average HNWI population and wealth growth from 2008 through 2013 (see Figure 5). Also driving global growth were the large and mature markets of U.S. and 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.

**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 7 HNWI Wealth Forecast, 2011–2016F (by Region)

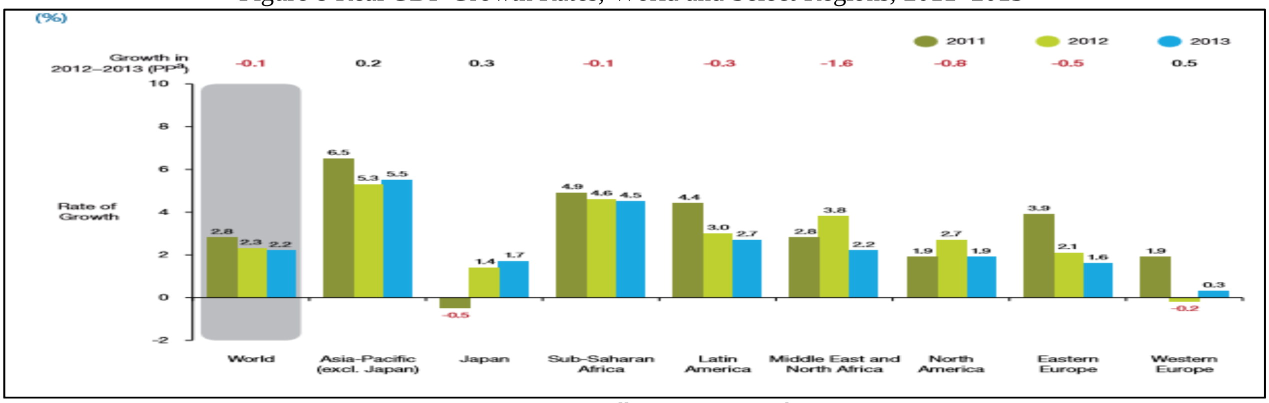



**Positive economic developments offset disappointing GDP growth**

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.

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 8 Real GDP Growth Rates, World and Select Regions, 2011–2013

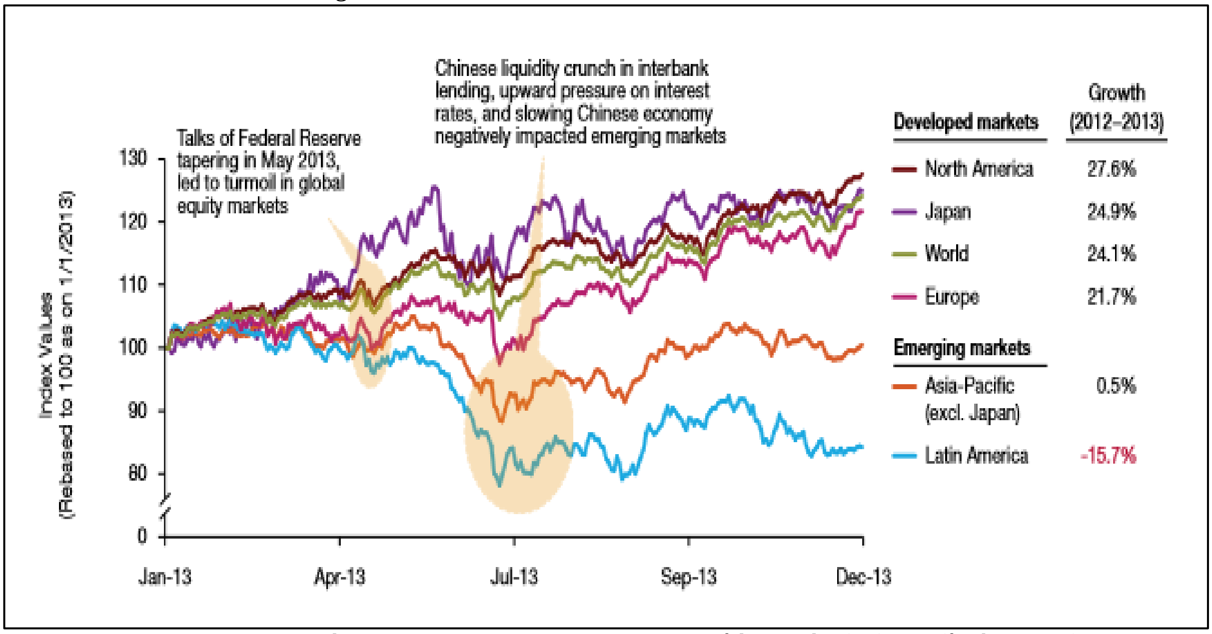



Source: Economist Intelligence Unit, March 2014

**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. 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.

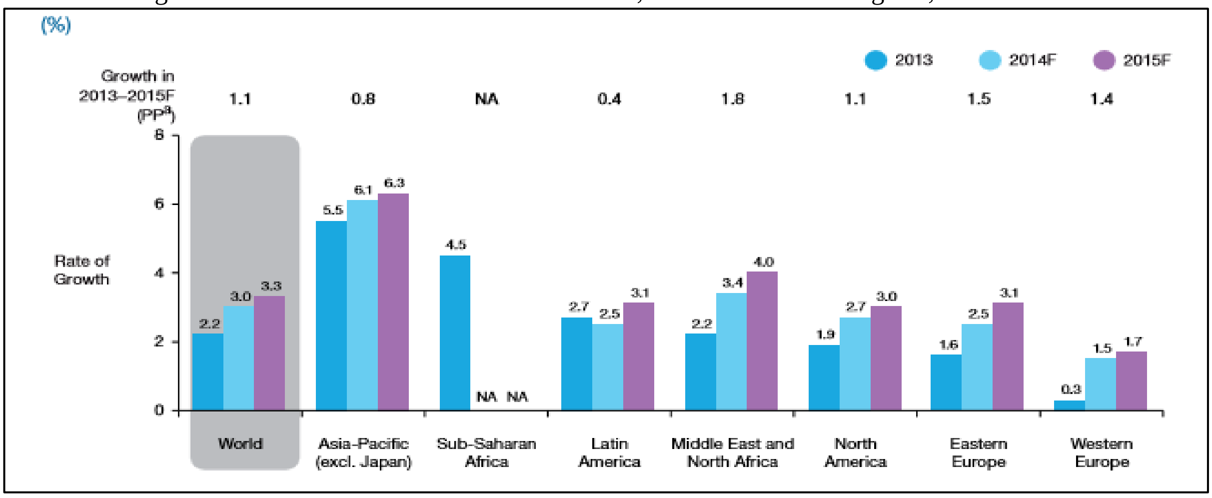
Figure 9 Global MSCI Benchmark Index Values, 2013




Source: MSCI Barra Indexes, January 2014; State Street Investor confidence Index (ICI), 2014(for the writeup)

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.

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




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.
Source: economist Intelligence Unit, March 2014; consensus Forecasts, March 2014

**Emerging Technology Trends in Global Wealth Management – Client Focused**

With improvement in macro-economic and market performance in 2009 and 2010, HNWI wealth and population are both on the rise. Emerging markets in Asia Pacific, Latin America, and Africa are witnessing unprecedented growth in HNWI wealth as the power equation is slowly shifting to the East.

These changes have led to the emergence of the following key client-focused trends in the wealth management industry:

1. Increased leverage of mobile and social media platforms to strengthen market presence and cater to HNWI demands.
2. Increased spending in the online space to cater to the growing percentage of technologically savvy clients.
3. Increased spending on client reporting tools to improve transparency and client satisfaction.

**Increased Leverage of Mobile and Social Media Platforms to Strengthen Market Presence and Cater to HNWI Demands**

## IV. Background and Key Drivers

Improvements in mobile technology have led to higher use of smartphones across the globe. Smartphones provide clients with a rich user experience and capabilities that now compete with traditional desktops and laptops. The last few years have also witnessed increased maturity of social media platforms that are used by hundreds of millions of users globally. Various financial institutions across the globe leverage this channel to offer better service and to increase their customers' convenience. However, wealth management firms until recently were shying away from both these platforms, not truly convinced of their applicability in the high net worth space. Many drivers now warrant focus on these platforms:

- HNWIs are increasingly using mobiles to check their financial accounts, particularly the growing proportion of young HNWIs (< 45 years).
- Adoption of smartphones and social media platforms has also been higher amongst the younger generation of HNWIs.
- Advisors are demanding these capabilities that provide them with information on the go and help them understand HNWIs choices and preferences.

Wealth management firms have recently increased their focus on leveraging mobile and social media platforms to enhance their business offerings.

## V. Analysis

Until recently, wealth management firms were not able to gauge how mobile and social media platforms would fit into their business models. Even today, many firms are struggling to develop a business case. Nevertheless, many have now focused their efforts in this direction. Some key benefits derived from mobile and social media are:

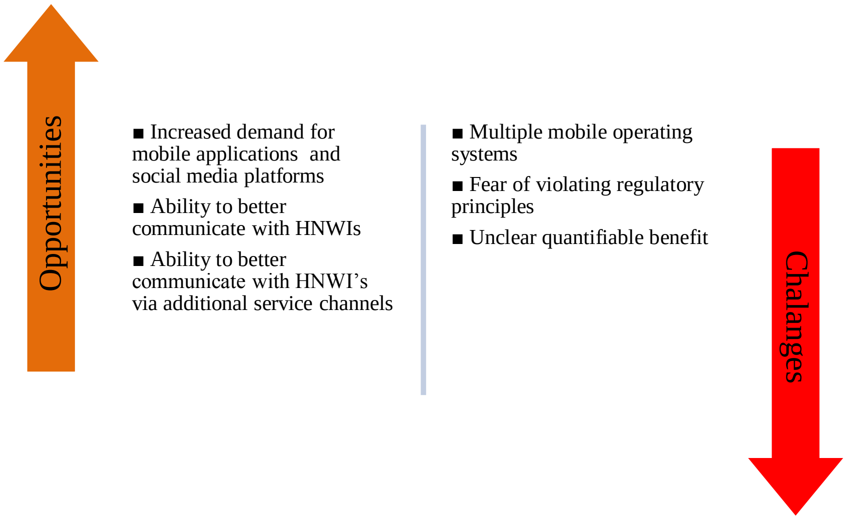
- Quickly communicating with clients across mobile platforms.
- Understanding client behavior by interacting via social media platforms, by analyzing their posts, messages and subscriptions, and preferences.
- Better relating to younger HNWIs that have integrated these technologies to a greater extent into their daily lives.

Better relating to real-life experiences gained by clients

## VI. Implications

Wealth management firms need to be strategic in leveraging mobile and social media platforms or else they might risk falling behind. While, both platforms do provide innovative ways to interact with users, they also add challenges in terms of their effective usage (Figure).

Figure 11 Opportunities and Challenges Presented by Mobile and Social Media Technologies




Some firms still shy away from social media platforms in fear of violating regulatory guidelines. Others are finding it daunting to choose from multiple choices offered by these technologies.

## VII. Findings

- Overall wealth held by individuals in India is expected to double to Rs.411 lakh crore in the next 5 years. However the ratio of financial assets to Physical assets in total wealth are expected to broadly remain the same.
- The Wealth held in Real Estate (excluding Primary Residence of the Individual) is expected to double in the next 3 years.
- In the coming years with improvement in the economy and the percentage of households owning primary homes set to increase to greater than 90%, the fresh inflow into physical assets will increase at a decreasing rate.
- With expected upturn in the economy there will be a gradual shift of more financial savings being invested in equities.
- Even with a higher minimum investment size, alternative investments such as high yield debt, private equity, real estate funds and hedge funds will remain popular among the HNIs.
- With the expansion of workforce and pension benefits being limited for the newer generation from employers/government, retirement/pension funds are expected to grow at a rapid pace in the next decade.
- Global HNWI and wealth growth led by North America and Asia-Pacific.
- Top four markets generate majority of HNWI growth in 2013 – clear performance trends emerge since 2008 financial crisis.
- Mobile and social media platforms provide wealth management firms with an opportunity to communicate quickly with their clients and to better understand client behavioral traits.
- Young tech savvy HNWIs are now demanding new technology-specific services such as video conferencing, screen sharing, and the ability to view portfolio holdings online.
- Higher priority put on client reporting tools by HNWIs when choosing a wealth management firm makes it a key enabler for advisors to improve client service.

## VIII. CONCLUSION

Despite the trials of the last few years and the challenges that lie ahead, wealth management is an attractive growth industry for the long term with return on equity superior to that of any other financial-services segment. As noted earlier, the number of HNWIs is growing two to three times faster than GDP growth in many regions of the world; that, plus the continued strong economic activity in the world's most robust emerging markets, bodes well for the industry.

Yet this positive outlook does not make the industry's transition any easier to manage today. Given the regulatory load, changing client behavior, and new competitors enabled by digitization, the costs of doing business have never been higher and earnings are under intense pressure. However, I believe that by focusing on the trends in this report will help wealth managers to navigate the industry's transformation and capitalize on the continuing global recovery in 2014 and 2015.

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