WORLD WEALTH REPORT 2013

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RBC Wealth Management

Preface

Capgemini and **RBC Wealth Management** are pleased to present the *2013 World Wealth Report* (WWR), including new insight into the world's high net worth individuals (HNWIs)—those with US$1 million or more in investable assets.[1]

Despite the turbulence of the global economy, particularly in the Eurozone, both the population and wealth of global HNWIs reached significant new highs in 2012. Even though the year got off to a shaky start, HNWIs ultimately benefitted from strong market returns in spite of sluggish global GDP[2] growth.

In an exciting new development this year, we introduce results from the Global HNW Insights Survey, which we created in collaboration with Scorpio Partnership. This survey provides direct insights from HNWIs regarding their levels of confidence in the industry, their objectives, how they invest, as well as the types of relationships and services they are looking for from their wealth management firms and trusted advisors. Our survey garnered responses from more than 4,400 HNWIs in 21 countries across five regions, making it one of the largest and most in-depth studies of its kind.

Though the financial services industry has been tarnished by the crisis, HNWIs continue to have trust and confidence in the wealth managers and firms that serve them. With the global economy expected to shift towards accelerated growth in 2013 and trust in wealth managers on the rise, HNWIs expressed a high degree of confidence in being able to generate wealth in the future.

Our Global HNW Insights Survey also explored in detail the nuances of wealth manager-HNWI relationships, such as how HNWIs prefer to measure investment success, whether they show preference for seamless approach to managing wealth via a single firm and point of contact, and their interest level in digital connections. While some findings supported conventional thinking about HNWIs and their wealth management preferences, others provided insights into how some preferences are evolving. These insights highlight new opportunities for wealth management firms to improve the way they initiate and maintain relationships with all segments of the HNWI market.

Finally, we analyze the impact of regulatory changes occurring around the globe in the wake of the financial crisis. Regulatory reform is the single largest challenge facing the wealth management industry, and we review how its impact is being felt not only by firms, but increasingly also by clients. We further look into what leading firms are doing to navigate through this challenging landscape. For firms still at a nascent stage of assessing the implications of regulatory change on their businesses, we outline the strategic considerations they must begin to embrace.

As always, it is a pleasure to provide you with our findings.

Until next year,

Jean Lassignardie
Global Head of Sales and Marketing
Global Financial Services
Capgemini

M. George Lewis
Group Head
RBC Wealth Management & RBC Insurance
Royal Bank of Canada

[1] Investable wealth does not include the value of personal assets and property such as primary residences, collectibles, consumables, and consumer durables.

[2] 'GDP' refers in all cases to inflation-adjusted or real GDP.

HNWI Market Bounces Back, Pushing Population and Wealth to Record Levels

- The world's population and aggregate investable wealth of high net worth individuals (HNWIs[3]) grew strongly in 2012, reaching record levels. HNWI population increased by 9.2% to reach 12.0 million, after remaining flat in 2011. Meanwhile, aggregate investable wealth increased 10.0% to US$46.2 trillion, after declining slightly in 2011.
- HNWI wealth in 2012 represented a new level of strength, going well past the historical high of US$42.7 trillion set in 2010. Relatively stronger growth rates in higher wealth bands[4] (US$5 million or more) led the growth of overall investable wealth globally.
- North America and Asia-Pacific, the two largest HNWI regions, drove global growth, expanding 11.5% and 9.4% respectively in HNWI population, and 11.7% and 12.2% in wealth. North America reclaimed its position as the largest HNWI market as its market share of 3.73 million HNWIs overtook Asia-Pacific's 3.68 million. However, Asia-Pacific is home to the majority of the fastest-growing HNWI country markets and is expected to surpass North America again in the near future.
- HNWI wealth is forecasted to grow by 6.5% annually to US$55.8 trillion by 2015, driven mainly by growth in Asia-Pacific HNWI wealth.

NORTH AMERICA AND ASIA-PACIFIC DROVE HNWI POPULATION AND WEALTH GROWTH IN 2012

The global population and investable wealth of HNWIs both increased substantially to reach record levels in 2012. After remaining flat in 2011, the population of HNWIs grew by 9.2% worldwide, increasing by one million individuals to reach 12.0 million (see Figure 1). Global HNWI wealth also rebounded substantially, increasing by 10.0%, after declining in two of the past five years (see Figure 2). Driven by slow but stabilizing economic growth and a significant market rally, global HNWI wealth reached US$46.2 trillion, well above the pre-crisis level of US$40.7 trillion in 2007 and the previous high of US$42.7 trillion in 2010. Relatively stronger growth in the higher-tier segments of the HNWI market contributed to robust overall performance.

North America contributed significantly to global HNWI population growth by registering the highest regional growth rate (11.5%) to reach 3.73 million HNWIs. It regained its position as the region with the highest number of HNWIs, overtaking Asia-Pacific, which grew 9.4% to reach 3.68 million.

Latin America, which had the highest growth rate in 2011, decelerated in 2012, posting growth of only 4.4%, largely due to a slowdown in GDP growth and contraction in the Brazilian and Argentinean equity markets. However, Mexico was a bright spot with consistent GDP growth and strong equity market performance, leading to 6.6% growth in its HNWI population.

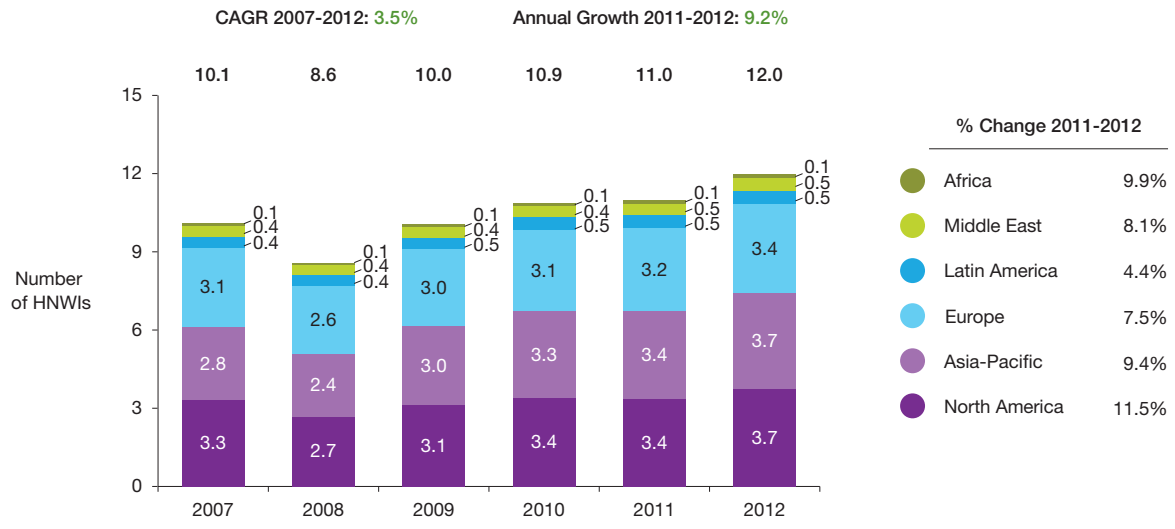
As in the previous five years, North America continued to hold the greatest share of HNWI investable wealth, with US$12.7 trillion in 2012, compared to US$12.0 trillion for Asia-Pacific, US$10.9 trillion for Europe, and US$7.5 trillion for Latin America. Wealth growth was the strongest in Asia-Pacific at 12.2%, led by strong growth in many of the region's countries, followed by North America at 11.7%. Globally, from 2007 to 2012, HNWI investable wealth expanded at a modest compound annual growth rate (CAGR) of 2.6%, slightly above the real GDP CAGR of 1.6% over the same period.

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

[4] For the purposes of our analysis, we also separate HNWIs into three discrete wealth bands: those with US$1 million to US$5 million in investable wealth (so-called 'millionaires next door'); those with US$5 million to US$30 million (so-called 'mid-tier millionaires'), and those with US$30 million or more ('Ultra-HNWIs').

FIGURE 1. HNWI Population, 2007 – 2012 (by Region)

(Million)



Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Lorenz Curve Analysis, 2013

FIGURE 2. HNWI Wealth Distribution, 2007 – 2012 (by Region)

(US$ Trillion)

Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Lorenz Curve Analysis, 2013

ASIA-PACIFIC MARKETS SURGE, BUT TOP 12 HNWI MARKET RANKINGS REMAIN UNCHANGED

More than half the global population of HNWIs continued to be concentrated in three countries – the United States, Japan, and Germany (see Figure 3). For the past three years, individuals in these countries have accounted for roughly 53% of all HNWIs, down from 54.7% in 2006. However, the market share of the top three countries is expected to erode over time as emerging markets increase in prominence.

Notably, after shifts in each of the last four years (such as when Spain dropped out of the rankings in 2010, and South Korea joined in 2011), no new countries penetrated the ranks of the top 12 HNWI markets in 2012, nor did any shift occur in the rank-order of the countries. The HNWI population of each country grew moderately (4% to 7%) to strongly (10% to 15%), with the exception of Brazil where growth was flat due to a slowdown in GDP growth and contraction in the equity markets.

Looking both within and outside the top 12 countries, many of the fastest-growing HNWI markets are located in Asia-Pacific. Hong Kong experienced a 35.7% increase in its population of HNWIs, propelled by a combination of relatively less conservative investing behavior among many HNWIs and strong equity markets. India, with 22.2% growth, benefitted from positive trends in equity market capitalization, gross national income, consumption and real estate. Both Hong Kong and India, which are notoriously volatile, overcame their poor performance in HNWI population growth in 2011 (Hong Kong lost 17.4% while India lost 18.0%). In another sign of strength in the region, the Asia-Pacific countries of Indonesia, Australia, China, New Zealand, and Thailand posted double-digit growth rates in their HNWI populations.

ULTRA-HNWI FORTUNES REVERSE COURSE, LEADING GLOBAL GROWTH IN 2012

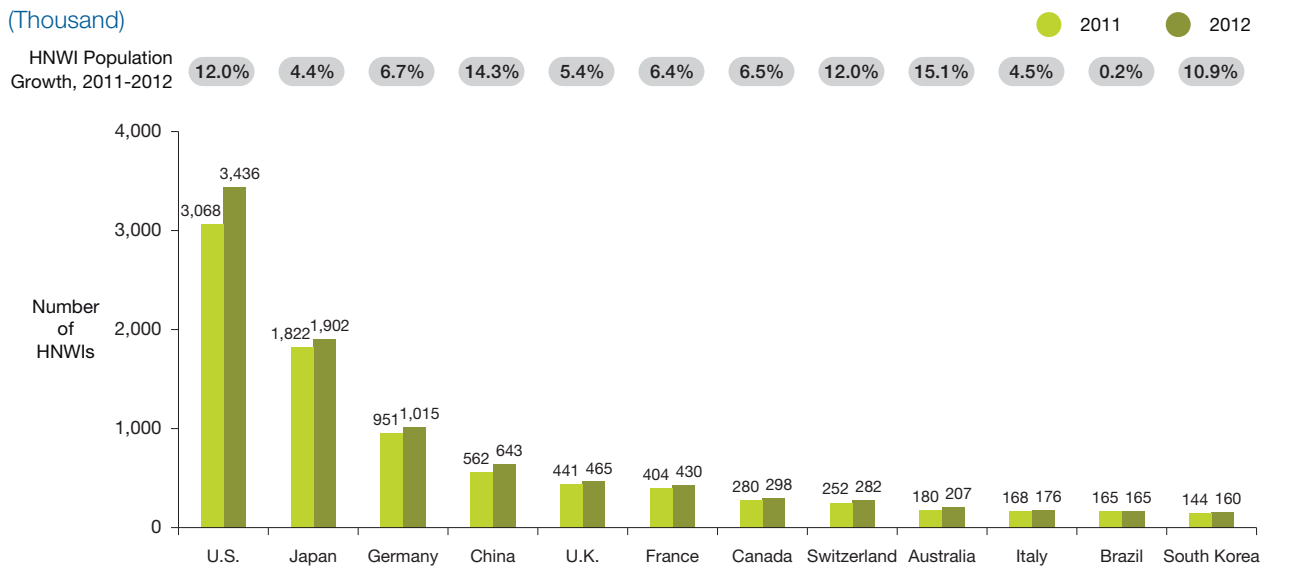
The HNWI population grew in number and wealth across all wealth tiers, with relatively stronger growth among the higher tiers (see Figure 4). Ultra-high net worth individuals (ultra-HNWIs[5]) increased in number and wealth by 11.0% in 2012, compared to a population loss of 2.5%, and a wealth loss of 4.9% in 2011.

Representing less than 1% of the global HNWI population, the world's 111k ultra-HNWIs control more than one-third (35.2%) of HNWI wealth. Global ultra-HNWI wealth would have been even greater if not for the relatively lower growth rate of ultra-HNWI wealth in Latin America (7.4%), which makes up more than one third of this wealth band.

Similar to the ultra-HNWI market, mid-tier millionaires, with between US$5 million and US$30 million in investable assets, turned slightly negative growth in 2011 into roughly 10% growth in population and wealth in 2012. This segment of 1.07 million individuals comprises 8.9% of the HNWI market and owns 22.0% of its wealth. Together, the ultra- and mid-tier markets control 57.2% of HNWI wealth.

Individuals with between US$1 million and US$5 million experienced growth in population and wealth of about 9%, up from marginal increases in 2011. These

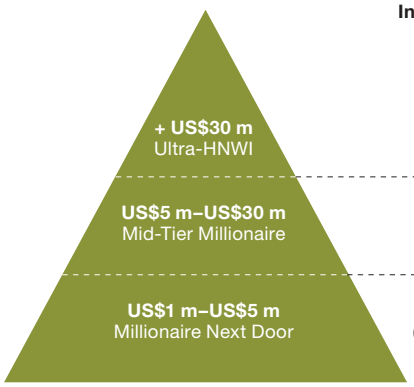
FIGURE 3. Largest HNWI Populations, 2012 (by Country)



Note: Percentage growth rates will not match column totals due to rounding
Source: Capgemini Lorenz Curve Analysis, 2013

[5] Ultra-HNWIs are defined as those having investable assets of US$30 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

FIGURE 4. Composition of Global HNWI Population by Wealth Bands, 2012



	Number of Individuals - 2012	HNWI Population Growth		HNWI Wealth Growth		% of HNWI Wealth
		2010-2011	2011-2012	2010-2011	2011-2012	2012
+ US$30 m Ultra-HNWI	111.0 k (0.9% of total)	-2.5%	11.0%	-4.9%	10.9%	35.2%
US$5 m–US$30 m Mid-Tier Millionaire	1,068.5 k (8.9% of total)	-1.0%	10.1%	-1.2%	10.2%	22.0%
US$1 m–US$5 m Millionaire Next Door	10,795.1 k (90.2% of total)	1.1%	9.1%	0.8%	9.3%	42.8%

Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Lorenz Curve Analysis, 2013

"millionaires next door," who number about 10.8 million and make up 90.2% of the total population of HNWIs, hold 42.8% of HNWI wealth.

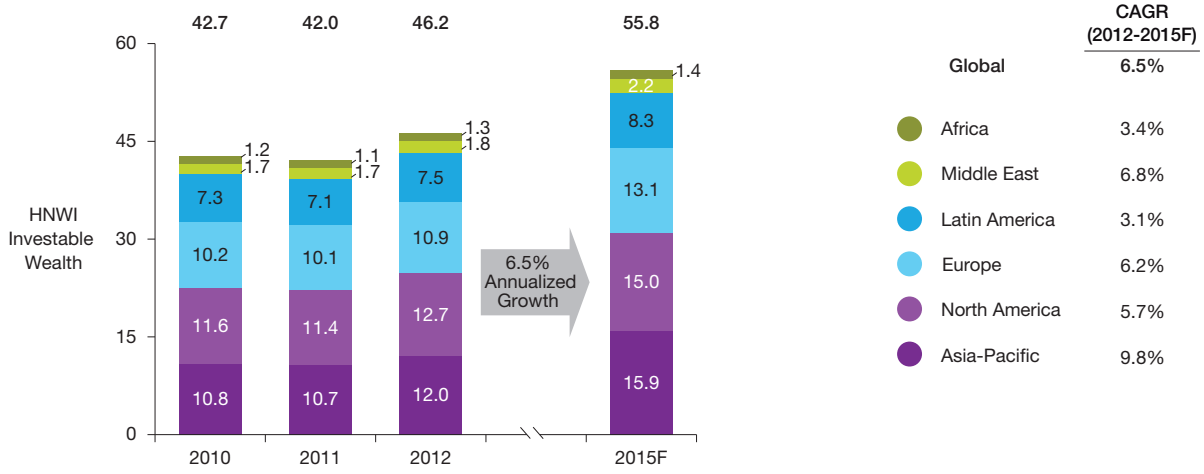
ASIA-PACIFIC EXPECTED TO LEAD ROBUST GLOBAL HNWI WEALTH GROWTH

Global HNWI investable wealth is expected to grow to US$55.8 trillion by 2015 (see Figure 5), driven mainly by growth in Asia-Pacific (CAGR of 9.8%). By 2014, Asia-Pacific is expected to reclaim its position as the region with the highest HNWI population and also register the highest level of HNWI wealth. By 2015, HNWI wealth in Asia-Pacific is expected to reach US$15.9 trillion.

In Europe, continued recovery efforts in the Eurozone are expected to help European HNWI wealth grow at a robust rate, especially given the relatively poor performance of wealth growth over the past two years.

FIGURE 5. HNWI Wealth Forecast, 2010 – 2015F (by Region)

(US$ Trillion)



Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Lorenz Curve Analysis, 2013

Strong Market Performance Leads to Substantial Growth in HNWI Wealth

Going into 2012, there was little reason to expect the year would end on a positive note for investors. Widespread investor uncertainty, even fear, emanated from all corners of the globe, undermining investor sentiment. Additionally, global economic growth was decelerating, with emerging markets slowing and some mature markets threatening another bout of recession.

By mid-year, government policies aimed at boosting stability, particularly in the Eurozone, whittled away the threat of global economic catastrophe and gave investors much-needed confidence and incentive to embrace a wider range of asset classes, contributing to generally higher market returns that tempered the reality of still-lagging global economic growth. Despite continued turmoil in parts of the global economy, HNWIs grew their wealth by 10.0% in 2012 largely on the strength of global equity markets.

Key developments in the global economic and investment landscape in 2012 worked to counterbalance one another:

- Global gross domestic product (GDP) growth decelerated as economic challenges persisted across the globe, including contraction in the Eurozone, protracted U.S. budget negotiations, and slower growth in Asia-Pacific.
- However, global risk decreased as the strong will of European policymakers helped to avert potential economic disaster, while the U.S. recovered and China managed a soft landing.
- Decreased levels of global risk outweighed investor trepidation about slow economic growth, resulting in decreased volatility levels and strong performance in select drivers of wealth. Investors responded positively to actions by policymakers, spurring broad market gains. Global equity markets rallied, bonds delivered positive performance across the board, and the global real estate market surged.
- Risks remain, but the outlook for GDP growth, market returns, and wealth creation provides cautious optimism as the U.S. economy continues to heal and Europe aspires to a sliver of growth by the end of 2013.

GLOBAL ECONOMY SLOWED, BUT AVOIDED MAJOR CATASTROPHE

Compared to 2011 when the European debt crisis raged, the U.S. experienced an unprecedented downgrading of its debt rating, unrest swirled in the Middle East, and Japan suffered a major natural disaster, 2012 was a relatively quiet year from a global macroeconomic perspective. Still, the myriad crises of 2011 cast a shadow into 2012 and widespread fiscal austerity exerted a palpable drag, resulting in sluggish GDP growth for the global economy throughout the year.

Given the absence of additional crises, this slower growth was tolerable. While the 2.2% rate of growth failed to match the exuberance of the 4.0% rate reached in 2010, the rate of deceleration slowed. North America, home to the world's largest economy, proved a bright spot in 2012, experiencing a marginal rise in GDP and spurring hopes that a more widespread recovery might gain traction. Investors, having braced for the worst, were ultimately pleasantly surprised by the lack of fireworks, and volatility settled into new low levels as the year closed.

To be sure, the Eurozone was still a primary area of concern in 2012 as the debt crisis played out via severe austerity measures, high unemployment, and shrinking economies throughout the region. Western Europe fared the worst of all the regions in 2012, with negative GDP growth of 0.1% (see Figure 6). In peripheral Eurozone countries, including Greece, Italy, Portugal, and Spain, recession deepened further, while other countries, including Ireland and France, remained in fragile states.

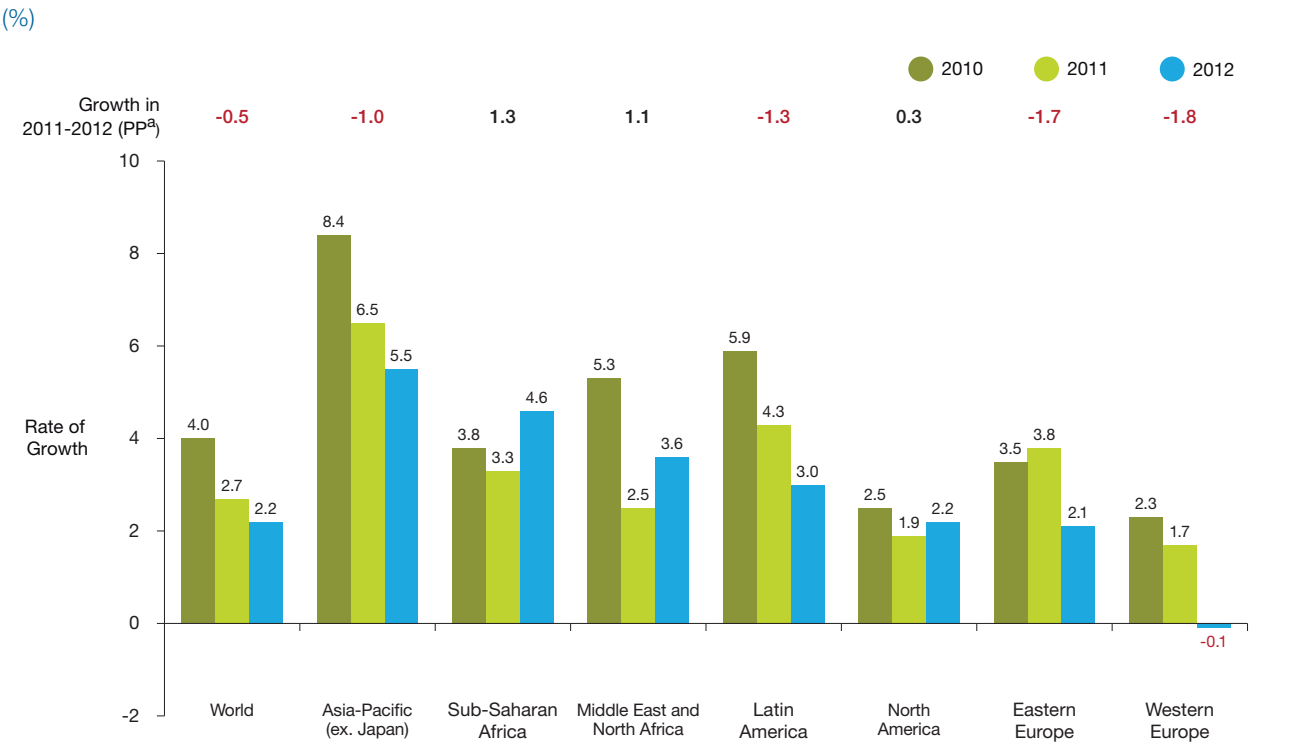
In the U.S., the presidential election and political gridlock over ongoing federal budget negotiations induced paralyzing uncertainty, particularly toward the end of the year when fears of going over the fiscal cliff topped the list of investor concerns. Crisis was ultimately averted through a last-minute deal that increased tax rates for the wealthiest individuals, but significant spending cuts nonetheless are constraining U.S. growth to no better than third gear.

The vulnerability of Asia-Pacific's export economy came into focus once again as the region's rate of GDP growth (excluding Japan) fell by one percentage point due to contracting foreign demand. However, relatively strong domestic economic and policy fundamentals helped buffer the Asian economies. Even though China saw growth slide to its lowest level in a decade, it managed to avoid a hard landing. The Indian economy languished due to stalled investments and deteriorating business sentiment. However, the industrialized Asian economies of Japan, Australia, and New Zealand bucked regional trends, expanding at reasonable rates.

POLICYMAKER INTERVENTIONS TEMPERED UNCERTAINTY

During the first half of 2012, events in the Eurozone, including the French and Greek elections and high government borrowing costs in Spain and Italy, had investors on the defensive and kept volatility high. The tide turned when Mario Draghi, President of the European Central Bank, pledged on July 26, to do "whatever it takes" to protect the Eurozone from collapse. The bank followed up on its verbal commitment with an announcement in September that it would act as the lender of last resort in government bond markets. These measures, combined with activation of the European Stability Mechanism (ESM), a permanent fund to assist struggling economies in the European Union, and further steps toward unified banking regulation, worked conclusively to allay investor fears, despite the fact that the European Central Bank (ECB) had not had the need to act on its promise by year-end 2012.

FIGURE 6. Real GDP Growth Rates, World and Select Regions, 2010 – 2012



[a] PP = Percentage Point

Source: Capgemini Analysis, 2013; Economist Intelligence Unit, March 2013 (Real GDP variation over previous year)

During the second half of 2012, many of the tensions present during the first half abated significantly. Measures of implied volatility of the S&P 500 and European equities declined below historical averages (see Figure 7). In addition, government bond yields for debt-ridden Eurozone nations fell dramatically. The biggest decrease occurred in Greece, where ten-year government bond yields fell 22.1 percentage points to 11.8% at the end of 2012. Yields fell by 6.6 percentage points to 7.0% in Portugal and by 4.0 points to 4.5% in Ireland. Yields remained elevated (at 5.3%) in Spain, which was reluctant to participate in the ECB's bond-buying program, but are still down from the 7% levels seen mid-year.

Monetary stimulus, including quantitative easing, played a central role in stabilizing the U.S. economy, whose 2.2% growth rate in 2012 surpassed the 0.6% rate registered by its G7 peers. Rising U.S. home sales and prices, greater credit availability, and low inflation aided the growth, despite the uncertainty that spiked during the last quarter due to the presidential election and ongoing disagreement over how to resolve the budget deficit.

In Asia, China similarly escaped major economic pain as its consumer base grew, housing revived, and global demand began to recover over the second half of 2012. Despite fears of a poor performance, the Chinese economy grew by 7.8%, well above the 3.8% rate registered by other countries in the Asia-Pacific (excluding Japan) region. In addition, the Chinese current account balance fell and its currency appreciated slightly against the U.S. dollar.

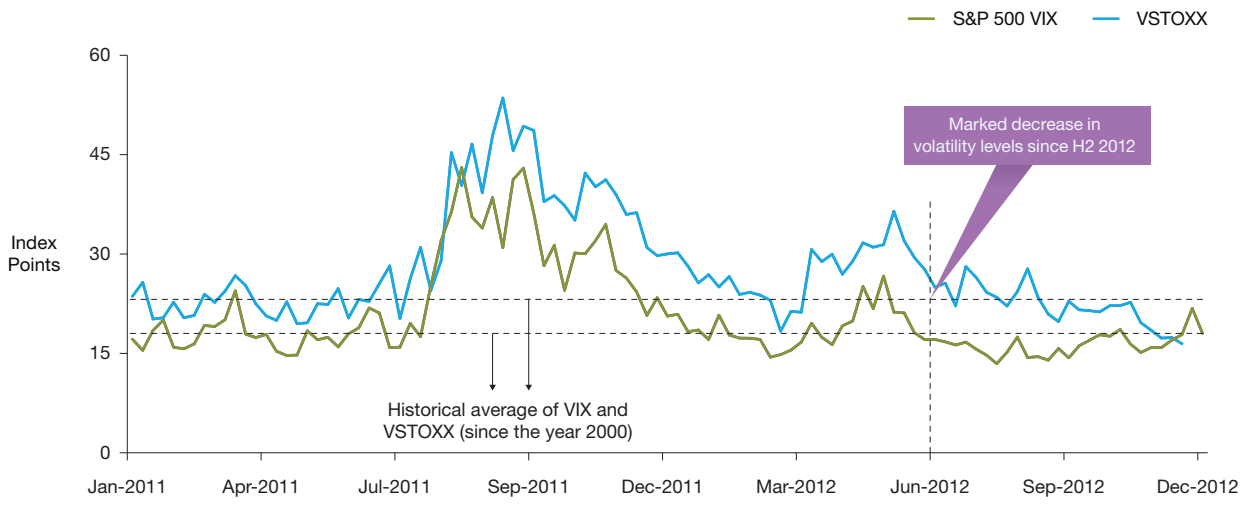
Improved confidence and reduced volatility caused global equity markets to surge during the second half of 2012, with global benchmark equity indices rallying 16.1% starting in June 2012 (see Figure 8). The European benchmark's growth of 26.5% from June through December contrasted greatly with its loss of 8.2% through May. Even markets in peripheral European economies rallied impressively, despite ending slightly negative for the year. The benchmark for Emerging Market Asia finished up by 17.8% from June, a large improvement over its performance of 1.9% through May.

On the macroeconomic front, one key plank of economic support was the sustained growth in global consumption. Overall consumption (including public and private spending), grew by 2.0% in 2012 compared to 2.1% in 2011. This growth was driven in sizeable part by public spending as post-natural disaster recovery and reconstruction efforts in various Asia-Pacific economies, including Japan, Thailand, Australia, and New Zealand, pushed global public spending up by 1.5% in 2012, more than double the 2011 rate.

Although private consumption did not quite manage to keep pace with its 2.5% growth in 2011, the 2.1% gain was nonetheless welcome and a function of rising consumer confidence, particularly in the U.S. and Asia-Pacific. As the U.S. housing market began to turn around and credit thawed, private consumption in North America edged up while Asia-Pacific also did well on account of monetary policy easing. The only region in which private

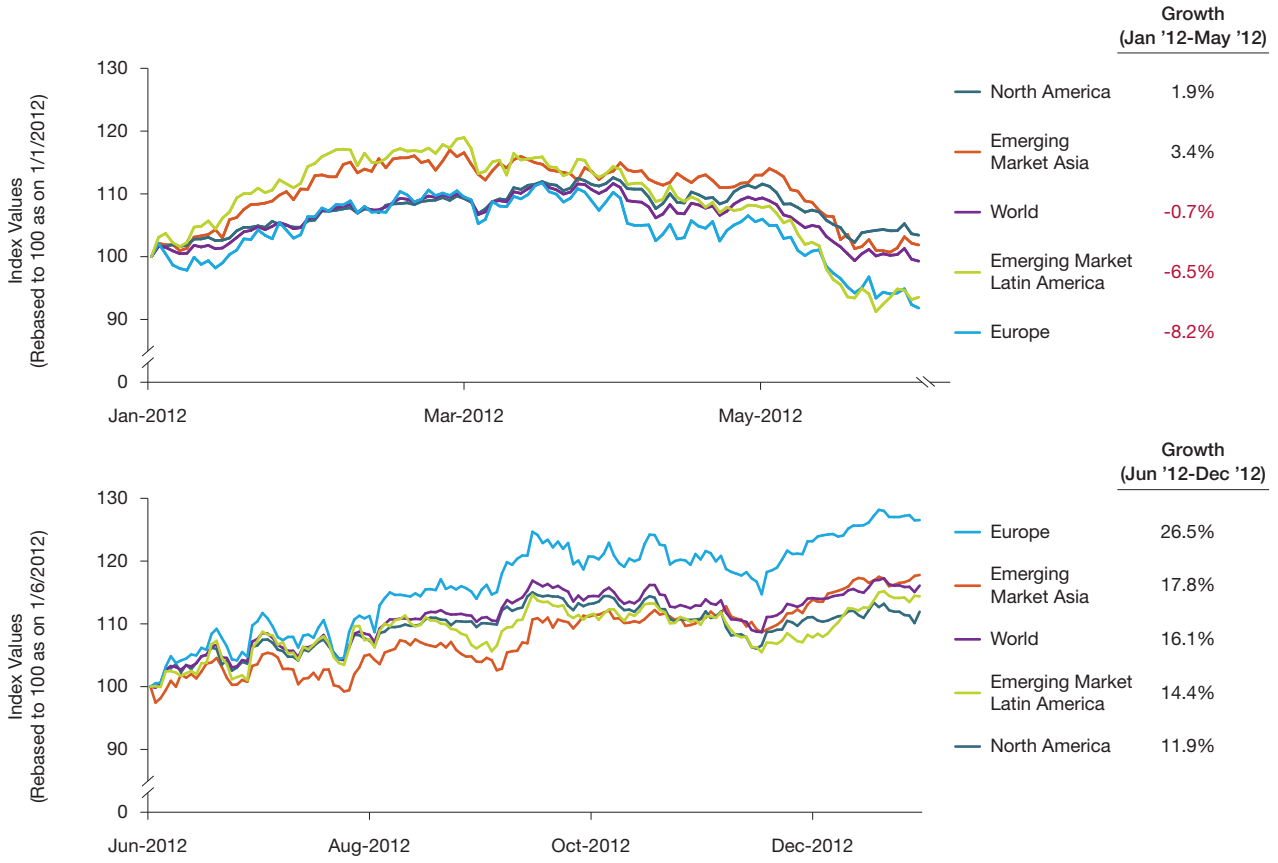
FIGURE 7. S&P 500 VIX and VSTOXX Performance, 2011 – 2012

(Index Points)



Source: Capgemini Analysis, 2013; http://www.stoxx.com/download/historical_values/h_vstoxx.txt, January 2013; http://www.cboe.com/micro/srvx/data.aspx, January 2013

FIGURE 8. Global MSCI Benchmark Index Values, 2012



Source: Capgemini Analysis, 2013; http://www.mscibarra.com/products/indices/performance/regional, Accessed January 2013

consumption decreased was Western Europe, due to a woeful labor market and poor consumer confidence. Meanwhile, household savings rates in the G7 countries mostly declined or remained flat, indicating a greater willingness by consumers to take on credit, as well as the existence of aging or unemployed populations drawing down savings.

KEY ASSET CLASSES OUTPERFORMED AS INVESTOR CONFIDENCE PICKED UP

Market performance has a very strong impact on HNWI wealth and in 2012, this effect was remarkably positive, given the healthy gains made in most markets around the world. The Global MSCI Benchmark Index increased 13.2%, with robust performances by Germany (27.2%), Mexico (27.1%), and India (23.9%), indicating reason for optimism across all regions and highlighting investor acceptance of an economy that, while slow, had greatly reduced risk and uncertainty. The broadening recovery, combined with attractive valuations and accommodating monetary policies by central banks, pushed the global rally.

Regional Equities: Despite end-of-the-year jitters over the fiscal cliff and pre-election uncertainty, U.S. stock markets performed admirably in 2012 amid signs of a U.S. recovery aided by repeated Federal Reserve interventions and rising home prices. Every measure of the market was upbeat. The broad S&P 500 gained 13.4%, marking the index's largest annual return since 2009. Dividend-paying companies and multinational blue chips delivered, with the Dow Jones Industrial Average rising by 7.3%. Investors also displayed an increased appetite for small caps, pushing the Russell 2000 up by 14.6%.

In Asia-Pacific, equity markets responded well to aggressive monetary policy moves. In India, reform measures and monetary easing helped equity markets gain by 23.9%, while strong exports in South Korea partly contributed to a 20.2% gain there. Chinese markets rallied during the second half to post gains of 19.0%. Japan also fared well with a 5.8% gain as the newly elected government pledged to turn around the ailing economy.

In Europe, stock market performance was mixed, with stronger markets outperforming and weaker ones showing negative growth. The ECB's intervention buoyed the more stable markets and attracted investors drawn to the cheaper valuations. Benchmark indices grew 27.2% in Germany, 17.7% in France, and 8.6% in Italy. Even though the peripheral economies rallied with the central bank intervention, they still ended up with negative growth for the year as they continued to suffer from excessive debt and economic inactivity.

Latin America was the only exception to the equity growth story around the world. There, lower prices for commodities and slow economic growth in Brazil, the region's largest economy, weighed heavily on performance. Only Mexico, which benefitted from the resilience of the U.S. economy and posted a gain of 27.1%, was a bright spot.

Fixed Income: Global bond markets continued to deliver solid returns in 2012, though performance varied across different segments. Global risk-free government bond yields have been stuck at historically low levels due to the continued monetary interventions by major central banks and investor concerns about the health of global financial markets. Risk-free government bond yields continued to fall in 2012, but the rate of decline slowed relative to 2011, and evidence is growing that they may have bottomed out. Government yields are likely to edge higher in 2013 if favorable economic conditions play out.

In the U.S., investors poured less money into Treasury bonds as they began to gain confidence in the economy and seek out higher-yielding asset classes. The decrease in growth in the Dow Jones CBOT Treasury Index (up only 2.5% in 2012, versus 12.2% in 2011) illustrates this investor shift away from safe-haven government bonds. At the same time, corporate bonds attracted investors seeking to take advantage of improved corporate balance sheets and put to use money freed up by Federal Reserve quantitative easing. The Dow Jones Corporate Bond Index rose by 6.1% in 2012, compared to 3.3% in 2011. Looking forward, Treasury yields in the U.S. are expected to rise marginally in the near term due to increased optimism about the performance of the U.S. economy. Meanwhile, government bond yields in some troubled Eurozone nations remained elevated due their high risk of credit default.

Real Estate: The global real estate market performed appreciably well in 2012, with strong inflation-adjusted year-on-year growth across regions. The U.S. led North America with 3.5% growth, while Hong Kong (20.4%), Brazil (9.4%), and Denmark (5.8%) led in other parts of the world. The Dow Jones Select REIT Index also rose by 18.0%, after falling by 2.4% in 2011. The U.S. market benefitted from more affordable prices (30% lower than the highs of 2007), improving household balance sheets, and a decreasing unemployment rate, while Asia-Pacific's real estate market responded well to low rates of unemployment and inflation. Performance in Europe varied, with countries like Denmark, Norway, Finland, and Sweden (which remained less affected by the debt crisis) registering solid increases, while the Eurozone countries continued to struggle as prices fell further in 2012.

Cash: U.S. Treasury bill yields had an up and down year in 2012, rising slowly at first in response to positive trends in the U.S. economy, then falling precipitously toward the end of the year as negotiations around the federal budget deficit stalled. With the economy improving and budget talks progressing, Treasury bill yields are expected to rise marginally in the near term. Money market funds outside the U.S. also performed well in 2012, though worries about a Greek government bond default forced most money market funds to reduce their exposure to European banks.

Alternative Investments: While some pockets of the alternative investment universe performed well, others had mixed results. Hedge funds did better in 2012 than the 2.5% decline recorded in 2011, but their growth of 7.7% was much lower than the 13.4% return delivered by the S&P 500. (The S&P 500 has outperformed hedge funds every year for the last ten, except in 2008.)

In other alternative investment areas, commodities fared less poorly in 2012 than in 2011, but continued to struggle due to waning demand from emerging economies. Compared to a 13.4% decrease in 2011, the Dow Jones-UBS Commodity Index decreased by only 1.1% in 2012. Meanwhile, the U.S. dollar remained resilient in 2012 and is expected to stabilize further in 2013. Gold prices increased for the twelfth consecutive year, but their 7.1% rise was off their 10.0% rise in 2011, and less than silver's 9.2% rise. Oil prices fell by 7.1% mainly due to the slow overall economic activity and increased U.S. domestic production. Natural gas prices increased by 5.7% as lower prices in 2011 led consumers to demand gas as a substitute for oil. Finally, both wheat and corn prices rebounded substantially in response to demand from emerging and developing economies. Wheat prices grew 5.6%, compared to a 33.8% decline in 2011, while corn prices grew 23.9%, compared to only 1.1% growth in 2011.

GROWTH EXPECTED TO GAIN MOMENTUM AS OPTIMISM TAKES HOLD

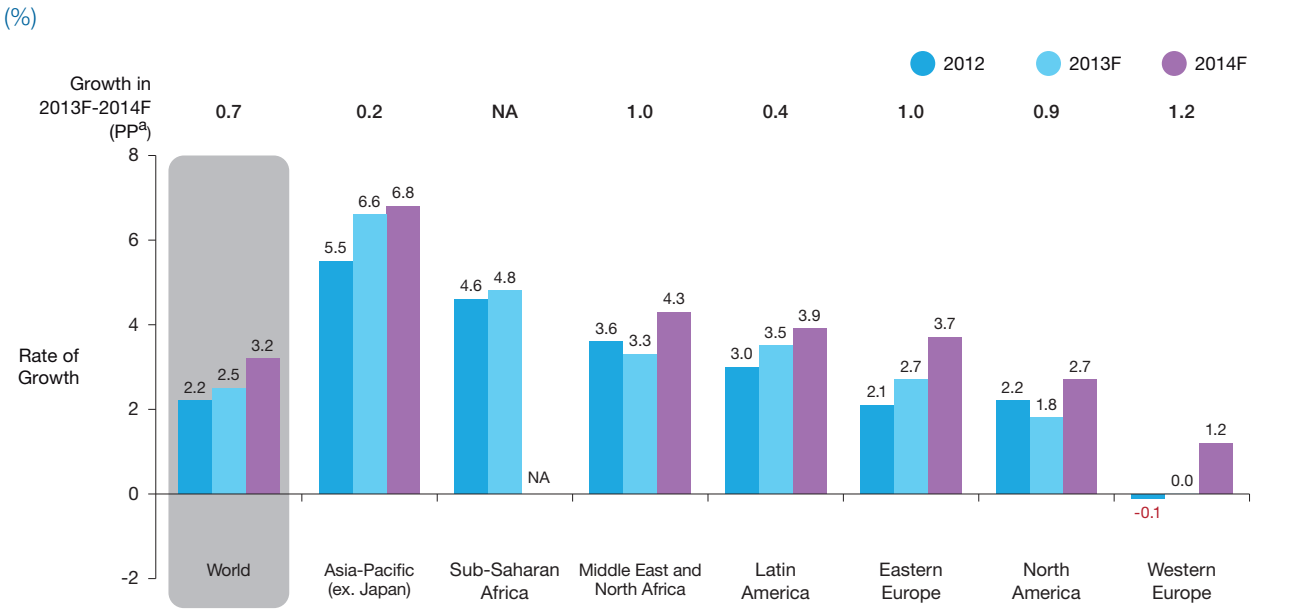
The generally strong performance of the global financial markets, in spite of slower GDP growth, has instilled reason for cautious optimism for 2013 and beyond. There are still enormous risks revolving around Europe (as indicated by the Italian elections and Cyprus bank bailouts in the first half of 2013), and dangerous precedents being set in recent bailouts. Despite this, Europe is making slow progress toward its fiscal and competitiveness goals, and this should lay the groundwork for an eventual recovery. The U.S. economy continues to gain strength, while Japan is in the midst of exciting changes that could unleash additional growth from the world's third largest economy. Worldwide, real GDP growth rates are expected to improve to 2.5% in 2013 and 3.2% in 2014, up from the 2.2% of 2012 (see Figure 9). Improved risk appetite and various policy initiatives to control debt and spur growth are predicted to seed this re-accelerated economic growth in 2013 and 2014.

Economic fundamentals are improving across multiple measures. Inflation is expected to be moderate during 2013 and 2014, even as public and private consumption expands in developing economies through public investment and job creation. While unemployment levels may remain elevated in Western Europe, they should gradually decrease in other major areas. In addition, global savings rates are expected to improve marginally in 2013 and 2014.

Given these improving fundamentals, the outlook for investment markets is cautiously upbeat, supporting the HNWI wealth forecast from Figure 5. Global equities are expected to produce respectable returns for investors in 2013, thanks to reasonable valuations, coupled with global growth and low inflation. The real estate market also has positive momentum, with housing prices and mortgage rates in the U.S. still remaining low. Alternative investments offer pockets of opportunity, including commodities, and the ability to manage foreign exchange positions tactically as central banks continue to make monetary interventions.

Expectations are more mixed for fixed income investments, cash, and gold. Risk-free bond yields remained within tight ranges during the last half of 2012 and may edge higher in 2013. At the same time, factors like the Federal Reserve's low-rate policy and quantitative easing provide a tremendous level of support for the bond market. Cash instruments, meanwhile, are expected to offer little in the way of yield, with the Federal Reserve and European Central Bank not expected to raise short-term interest rates in 2013. Finally, gold prices, which faced correction during the initial part of 2013, are expected to remain subdued in the near future, as its value as a hedge against rising prices is waning in light of the stable inflation outlook across the globe.

FIGURE 9. Outlook for Real GDP Growth Rates, World and Select Regions, 2012 – 2014F



[a] PP = Percentage Point

Note: All 2012 data from EIU; All 2013 and 2014 data from Consensus Forecasts except the Sub-Saharan Africa and MENA regions

Source: Capgemini Analysis, 2013; Economist Intelligence Unit, March 2013 (Real GDP variation over previous year); Consensus Forecasts, March 2013

Inaugural Global HNW Insights Survey Sets Industry Standard for Understanding HNWI Preferences

Wealth management has continuously evolved over the years and more changes are likely to be seen in the coming years due to increasing client sophistication, changing demographics, challenging markets, the volume and pace of regulatory change, and growing wealth in emerging markets.

The inaugural Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey represents one of the largest and most in-depth surveys of high net worth individuals ever conducted, surveying more than 4,400 HNWIs across 21 major wealth markets in North America, Latin America, Europe, Asia-Pacific, Middle East, and Africa (see Figure 10).[6] The survey not only provides valuable insights into evolving HNWI investment behaviors, but also traits regarding current wealth management approaches, relationships, and service preferences. This annual survey will enable us to profile evolving trends in HNWI behavior over the coming years.

In addition to the broad geographical coverage, which provides valuable insights into regional differences in HNWI preferences, the survey also achieved strong demographic samples, allowing deeper analysis by both age and gender (see Figure M1 on Page 43). The majority of respondents (77.2%) fell within the US$1 million to US$5 million wealth segment with an average wealth of US$1.9 million, while 10.1% of respondents had more than US$10 million. This segmentation aligns well with the global pyramid structure of HNWI populations in various wealth bands (see Figure 4 on Page 7). The source of respondents' wealth included salary, bonuses, investments, real estate (excluding primary residence), business ownership, stock options, inheritance, and proceeds from selling off a business. Salary, bonuses, business ownership, and investments made up more than two-thirds of the source of wealth for respondents.

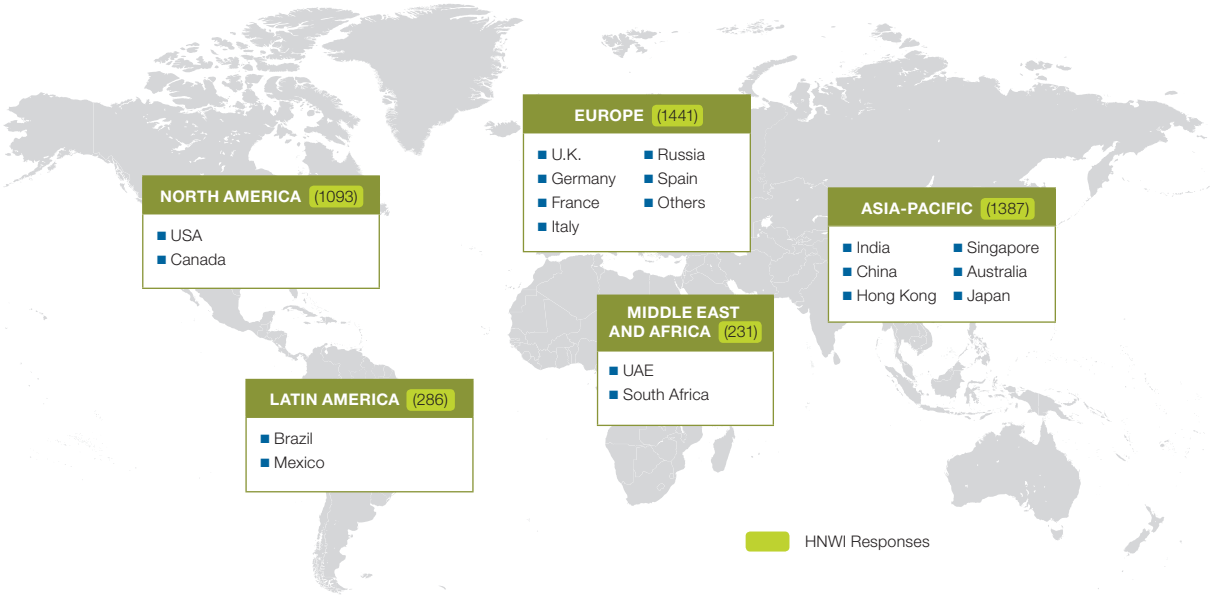
HNWI CONFIDENCE IN FUTURE WEALTH GENERATION AIDED BY INCREASED TRUST IN FIRMS AND WEALTH MANAGERS, BUT DAMPENED BY LOWER TRUST IN MARKETS, REGULATORS

This survey-driven section of our report provides interesting perspectives based on feedback from more than 4,400 global HNWIs on topics including their trust and confidence in the industry, asset allocation, and wealth management service preferences.

Trust and confidence are fundamental components of the wealth management business. Our survey results paint a nuanced picture of the level of trust clients have in their wealth managers at a time of ongoing economic uncertainty. In the first quarter of 2013, around 61% of HNWIs said they have trust and confidence in their wealth managers and firms, an increase of roughly four and three percentage points, respectively, from 2012 (see Figure 11). Strong trust levels suggest HNWIs hold their wealth managers and firms in relatively high regard when it comes to their ability to offer valued advice and service using fair and transparent practices.

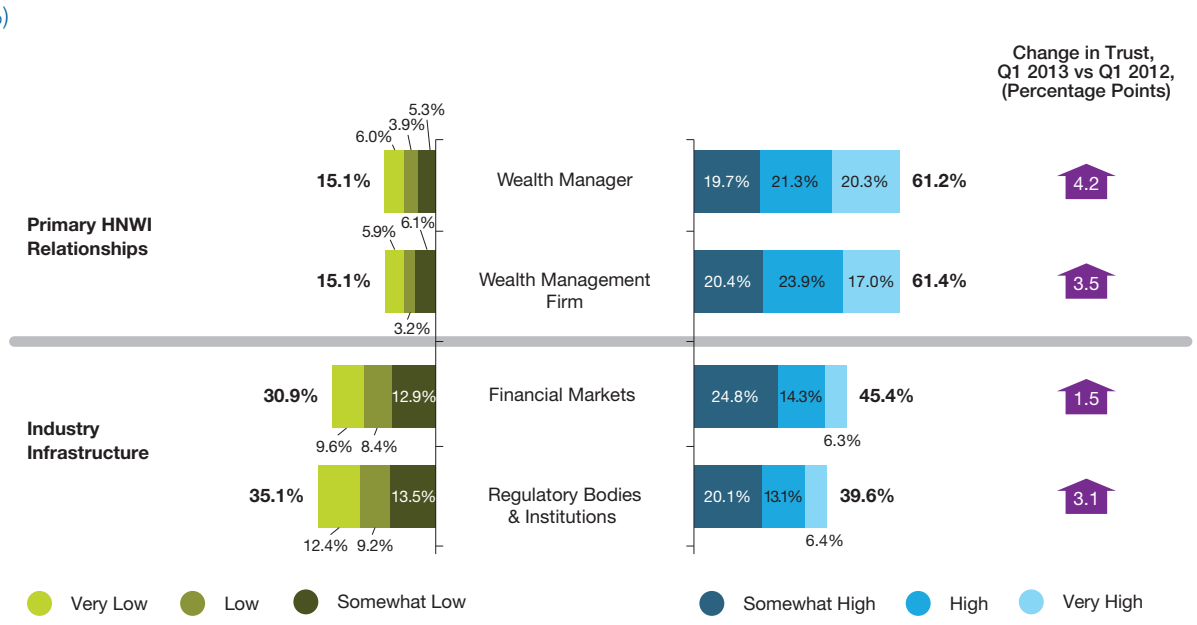
[6] The Global HNW Insights survey was conducted over February-March, 2013.

FIGURE 10. Geographic Scope of Global HNW Insights Survey, 2013



Note: Country boundaries on diagram are approximate and representative only
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey 2013

FIGURE 11. HNWI Trust and Confidence Levels in Key Stakeholders, Q1 2013



Note: Chart numbers do not add up to 100% as the medium trust values ("Neither High" and "Neither Low") lying between "Somewhat Low" and "Somewhat High" 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 levels
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey 2013

Despite continued economic challenges, 75.4% of HNWIs around the globe cited confidence in their ability to generate wealth over the next year, showcasing the strong optimism HNWIs have in the future. Such optimism is likely driven by the high trust levels in their wealth managers combined with the high marks HNWIs placed on the competency of their advisors and support staff. Wealth manager competency emerged as the single largest service priority among HNWIs, with 67.5% rating it as most important. Globally, 52.6% of HNWIs gave their advisors and support staff a strong performance rating in this area.

However, the financial crisis has had a significant impact on the industry's overall image, leading to overall low levels of HNWI trust in financial markets and regulators. In the first quarter of 2013, only 45.4% of HNWIs had trust in financial markets and only 39.6% had trust and confidence in regulatory bodies and institutions. Trust in European financial markets was especially low (30.4%), likely driven by ongoing economic uncertainty.

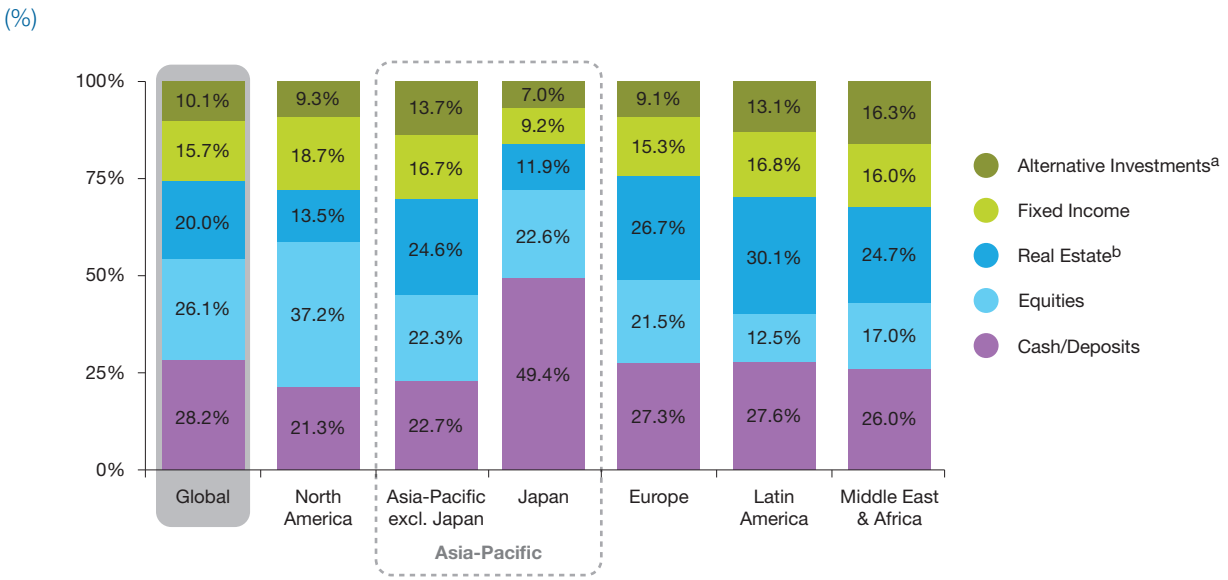
The shifting regulatory landscape emerged as a factor in the low confidence levels HNWIs have in regulatory institutions. In addition to shouldering some blame for the crisis, regulators may be seen by HNWIs to be moving at a slow pace in terms of issue resolution despite increased regulatory velocity, and creating service interruptions due to a lack of jurisdictional regulatory alignment. In Europe and North America, where the regulatory change is immense, confidence in regulatory institutions is particularly low. As we discuss in our Industry Spotlight (see page 28), the increasing regulatory burden has the potential to drive significant industry change, with material impacts for both firms and clients.

While wealth management firms will continue to face challenges in cementing the trust of HNWIs, they have a strong foundation from which to work. It will be important for firms to clearly communicate the impact of regulatory shifts to their employees, so they in turn can steer clients through the changes. Despite the industry challenges, firms and wealth managers able to present themselves as trusted advisors will be able to further build on the improving trust levels they have with HNWIs.

HNWI ASSET ALLOCATION REFLECTS CONSERVATIVE APPROACH

HNWIs exhibited a clear bias toward safety and wealth preservation, allocating nearly 30% of their financial wealth into cash and deposits. This preference for capital preservation applied to HNWIs of all ages and wealth levels, suggesting that the overall lower level of trust in the financial markets may be playing a role in HNWI asset allocation decisions. Even HNWIs who identified growth as their primary focus put 26.4% of their assets into cash, only slightly less than HNWIs primarily focused on capital preservation who put 29.7% of their assets in cash.

FIGURE 12. Breakdown of HNWI Financial Assets, Q1 2013



[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

In some cases, and perhaps not surprisingly, regional economic differences and cultural norms appeared to play a role in allocation preferences. In Japan, where conservative investing is deeply ingrained, HNWIs held almost half (49.4%) of their assets in cash. In North America, equities were highly favored over all other investments, garnering a 37.2% share. In Latin America, the real estate market, which remained strong even through the crisis, attracted the greatest amount of investment dollars at 30.1%.

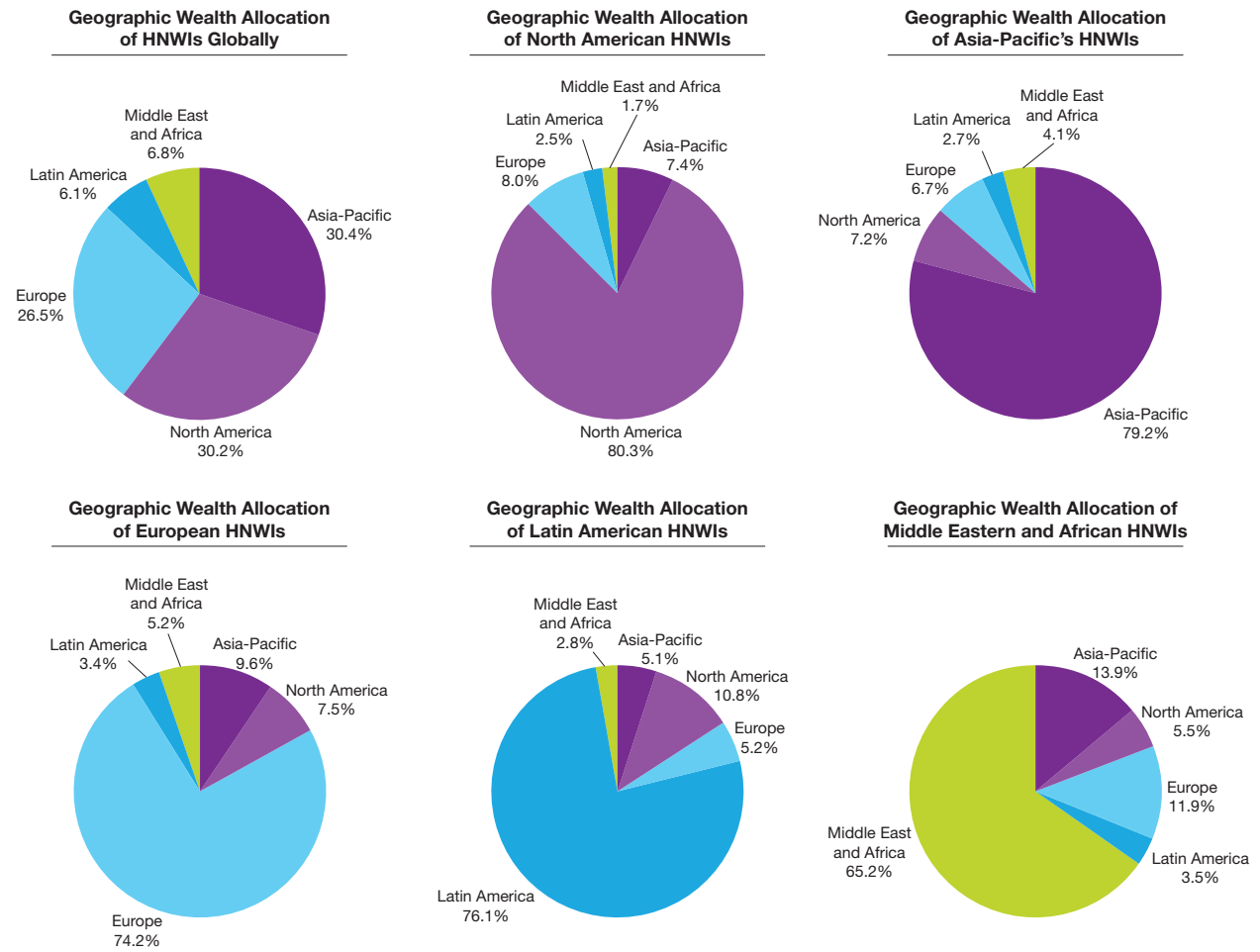
Given recent market rallies, there is little doubt that the high allocation to more stable assets has likely caused some HNWIs to miss opportunities for wealth growth. However, this is often a conscious decision as some HNWIs willingly forego returns in exchange for the safety of capital. As the global economy stabilizes and markets expand, HNWIs seeking growth will have the potential to put more of their wealth to more productive use.

Alternative investments made up only about 10% of HNWI investments globally and within that category, structured products and private equity investments were equally favored. North American HNWIs held the largest amount in structured products (27.2%). In emerging economies, particularly Asia-Pacific, foreign exchange attracted a relatively higher proportion of alternative investment dollars.

Above all, HNWIs sought to invest close to home. In every region except the Middle East and Africa (at roughly 65% domestically held), HNWIs invested 74% to 80% of their wealth in their home regions (see Figure 13). The high levels of HNWI population and wealth in North America and Asia-Pacific, combined with the focus on home markets, led to the greatest amounts of overall global HNWI investment being in those regions (approximately 30% in each).

FIGURE 13. HNWI Geographic Wealth Allocation by Region, Q1 2013

(%)



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

Art Market Continues Recovery with Strong Growth in Emerging Markets

Whether driven by personal enjoyment or pure financial return, HNWIs continue to be drawn to art as an investment. While HNWIs cited Jewelry, Gems, and Watches as their preferred Investment of Passion (IoP) with a 31.6% allocation among their IoP holdings, Art remains one of the most dynamic IoP markets, having experienced significant growth in recent years, especially in the emerging markets (see Figure 14). Now in a rebound following the financial crisis, art is increasingly becoming a meaningful element of HNWI portfolios, comprising 16.9% of IoP allocations, making it the third largest popular category. Not only can a well-chosen piece of art act as a hedge against inflation, it has the potential to outperform over the long-term, along with a low correlation with traditional asset classes.

Driven by auction house sales, the art market is lively compared to other categories that are characterized more by inheritance and private sales. Many auction houses report that art far exceeds sales of other IoP categories. Growth in art sales is being driven largely by wealth growth of HNWIs in emerging markets. Buyers purchasing art for the first time make up around 20% of contemporary art sales, with many of these new buyers coming from emerging markets such as U.A.E., Mexico, China, and Brazil, according to Lisa Dennison, Chairman, Sotheby's North and South America.

Led by the continued recovery, the global art market is beginning to approach the peak levels of 2007. Buoyant in the initial years after the crisis, the recovery lost some of its momentum in 2012 due to a major contraction in the Chinese art market, as China experienced slower economic growth. Investigations by Chinese authorities on the declared value of art imports by collectors may also have had an impact. Other parts of the market grew substantially in 2012, particularly the Old Masters market, which spiked as art investors signaled a desire to take advantage of its perceived reliability. Sales of Old Masters at the leading auction houses, Christie's and Sotheby's, increased by 56.5%.[7]

Newly created wealth in emerging economies has brought new participants into the global art market in recent years, while also spurring the rise of regional art and artists in Asia-Pacific, Latin America and the Middle East. In a sign of expanding interest, auction houses are vying for licenses to hold auctions in emerging markets. Christie's recently won a license to operate in China and will be holding auctions in Shanghai starting this autumn.[8] The establishment of new museums and galleries in the Middle East, Latin America, Hong Kong, and China is further aiding development of an international art infrastructure, helping global sales.

A look at art-purchasing behavior across the emerging markets reveals a rich diversity of interest. Much of the art growth in China is coming from new HNWIs in the provinces, with tastes tending towards buying cultural pieces synonymous with Chinese history. In Brazil, many international galleries are helping to sustain rapid art market growth and interest from HNWIs. The U.A.E. has risen quickly within art circles, thanks largely to infrastructure support from the royal families, who focus on not only showcasing global art through fairs and events, but also on developing the local artist community. HNWIs from one notable emerging market, India, are at an earlier, more nascent stage in terms of art buying, with HNWIs not yet allocating much of their portfolio into art compared to other emerging markets.[9]

The rise in the global art trade has also helped catalyze the development of art-focused investment funds and exchanges, though these vehicles remain a small corner of the total art market, partly because they remain mostly outside the purview of traditional regulatory oversight. The art finance industry is more developed in the U.S. than in Europe due to the existence of a Uniform Commercial Code (UCC) lien system, which lets borrowers keep possession of the art while allowing lenders to place a lien.[10] Europe remains an underdeveloped market for art finance in part due to a strong cultural stigma against borrowing where art is used as collateral.

Looking forward, the art market, particularly at the upper end, is expected to remain strong. Demand far outstrips supply at the high end, not just because of the rarity of masterpieces, but also because their owners are often unwilling to sell, given the difficulty of finding assets with comparable return characteristics. Sophisticated investors are likely to build upon a historical preference for "real" assets during times of economic uncertainty by seeking out exemplary works of art with high intrinsic value. The Chinese art market, which has been driving art market growth in recent years, is also likely to veer toward the high end as the cooling economy restricts demand to ultra-wealthy purchasers.

[7] "Outlook 2013," Art Market Update, The Fine Art Fund Group, January 2013.

[8] Burroughes, T., "A Sign Of Asia's Growing Wealth - Christie's Wins China License," WealthBriefing Asia, April 2013.

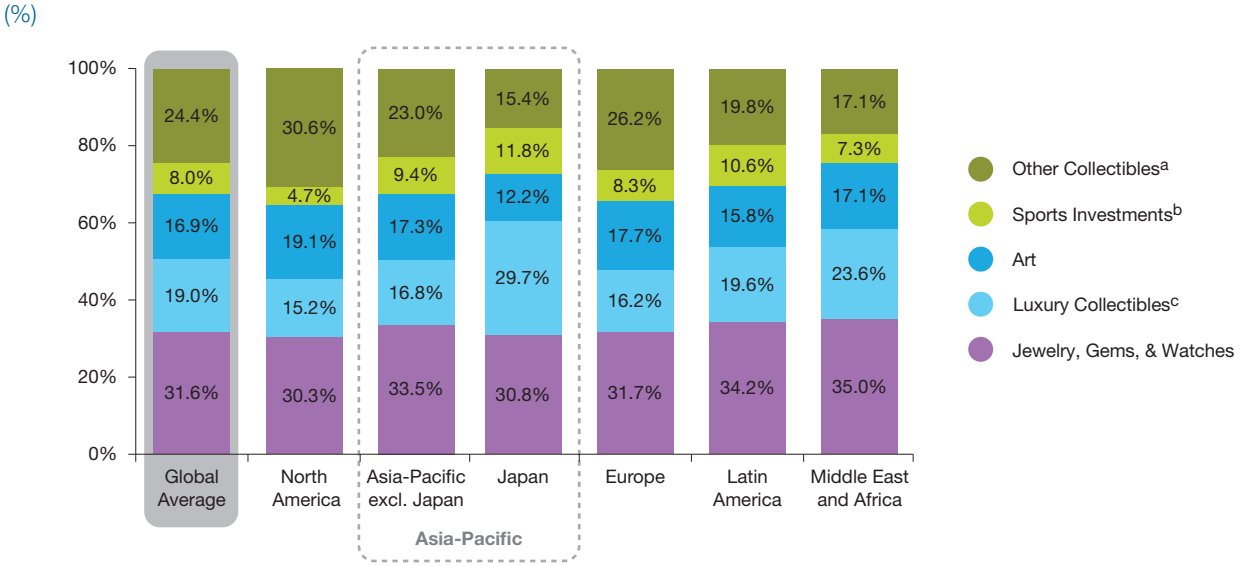
[9] Dennison, L. Sotheby's North & South America (2013, March). Telephone interview.

[10] http://artvest.com/the-truth-about-art-financing-%E2%80%93-a-two-tier-system/, Accessed April 2013.

With the art market picking up, one potential headwind to art prices comes from inheritance planning. Individuals may seek to sell works of art they have inherited due to the large tax bill they often face on the appraised value of the work. This phenomenon can lead to new and less price-sensitive supply hitting the market. With the art market undergoing resurgence, the call to sell may become even more compelling for some inheritors.

The number of art funds, particularly in developing economies where the concept is still emerging, is expected to increase, while art exchanges are likely to catch on more slowly. To generate greater interest in art as an alternative asset class, the art industry likely will need to heed a growing call for greater transparency and regulatory authority.

FIGURE 14. HNWI Allocations to Investments of Passion, Q1 2013



a "Other Collectibles" represents coins, wine, antiques, etc.
b "Sports Investments" represents sports teams, sailing, race horses, etc.
c "Luxury Collectibles" represents automobiles, boats, jets, etc.
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

HNWIs Increasingly Investing with Purpose

We are witnessing an increasing interest from HNWIs and ultra-HNWIs in mission driven investing – investing for passion and purpose, not just growth. There is a growing focus for both investors and leading corporations around the world to effect positive change in a financially sustainable way. We are also seeing new trends in philanthropy, whether it be the rise of venture philanthropy or increased 'giving while living'. Both HNWIs and firms are beginning to measure success in a whole new way. As we continue to evolve the World Wealth Report, we expect to cover these trends of 'Investments of Purpose' in greater detail.

HNWI TRAITS HIGHLIGHT NEW OPPORTUNITIES FOR WEALTH FIRMS

Our Global HNW Insights Survey findings support much of the traditional understanding of HNWI preferences and behaviors, with a few notable exceptions. We also uncovered interesting demographic and regional differences among HNWIs. In an increasingly complex world where the quality of wealth managers is the top priority for HNWIs, wealth managers must continue to make efforts to understand evolving client expectations and preferences. By gaining insights into these HNWI preferences, wealth management firms can develop strategies to better cater to HNWI needs.

Highlights from the 2013 Global HNW Insights Survey include:

- **HNWI focus on wealth preservation is pronounced globally**, but regional differences exist, with HNWIs in some emerging markets focused more on wealth growth.
- **The preference for a single point of advice and service is strong**. HNWIs have a strong preference to interact with a single wealth management firm, as well as one point of contact within that firm.
- **More HNWIs perceive their wealth management needs to be "straightforward" (focused on investments, cash, and credit) than "complex" (involving family, business ownership, or philanthropy)**. However, emerging markets such as Asia-Pacific and the Middle-East buck the global trend by assessing their needs as more "complex," likely a reflection of both the nature of how wealth is created in these markets, and of cultural elements.
- **The current demand for digital channels is robust globally, especially for HNWIs below 40 years of age**. As comfort levels with digital channels increase, it is a question of 'when' and not 'if' delivering a quality digital experience will become a critical component of the relationship and service delivery.

Survey Findings Support Many Conventional Perspectives on HNWIs, While Also Identifying Evolving Themes

We structured our Global HNW Insights Survey into three distinct parts to enable the identification of the full range of behaviors and preferences that characterize HNWIs as they interact with wealth managers and firms:

» Wealth Management Approach
» Wealth Manager Relationship
» Wealth Manager Service

Under the category of Wealth Management Approach, we analyzed how HNWIs perceive their needs: Are they straightforward or complex? Do they revolve around family or personal advice? Do they prefer to deal with multiple firms or just one? How do they measure the success of their investments? Finally, we asked whether HNWIs describe themselves as focused more on wealth preservation or growth.

The next segment of our survey, Wealth Manager Relationship, concerned HNWI preferences around broad aspects of their wealth management relationships, such as whether they prefer a single touch point or working with multiple experts, their preference towards seeking professional advice for investments, and their feelings about in-house products.

The final portion of our survey, Wealth Manager Service, studied HNWI preferences regarding their day-to-day interactions with wealth managers, such as how they prefer to receive reports and communicate with their wealth advisors.

Our survey found that safety and risk management were very important for HNWIs in Q1 2013, with a larger percentage revealing a greater focus on wealth preservation (32.7%) compared to wealth growth (26.3%). For the most part, HNWIs perceive their wealth management needs to be straightforward, involving the management of cash, credit, and investments. However, close to one-fourth describe their needs as more complex, encompassing business ownership, extended family, or philanthropic activities. This perception was even more pronounced in some emerging markets, where wealth tends to be more tied to business ownership or involve extended family.

Despite the breadth and variety of their holdings, we found HNWIs globally prefer to deal with a single trusted firm (41.4%) rather than diversify their assets across multiple firms (14.4%). This represents one of the most surprising survey results, given the pervasive industry assumption that HNWIs are happy to work with multiple firms. Wealth management firms with universal banking models able to offer a wide breadth of trusted expertise through a seamless process will likely be the beneficiaries of this trend.

In keeping with their desire to work with a single firm, HNWIs also said they prefer to work with a single wealth advisor who is accountable for the overall relationship and able to coordinate it throughout the firm. This supports a finding from our WWR 2011 Industry Spotlight on Enterprise Value,[11] in which wealth managers believed that the most important (and under-served) value lever was 'improved client experience via the advisor as Single Point of Contact (SPOC) for the enterprise.' Our 2013 analysis shows this is still the case, and may be even more acutely needed. This preference is especially important in light of the finding that the most important factor to HNWIs is the quality of their wealth manager. HNWIs also prefer to judge their portfolio's success on an absolute basis, through the achievement of financial and life goals, rather than on a relative basis, against an index or market-based benchmark.

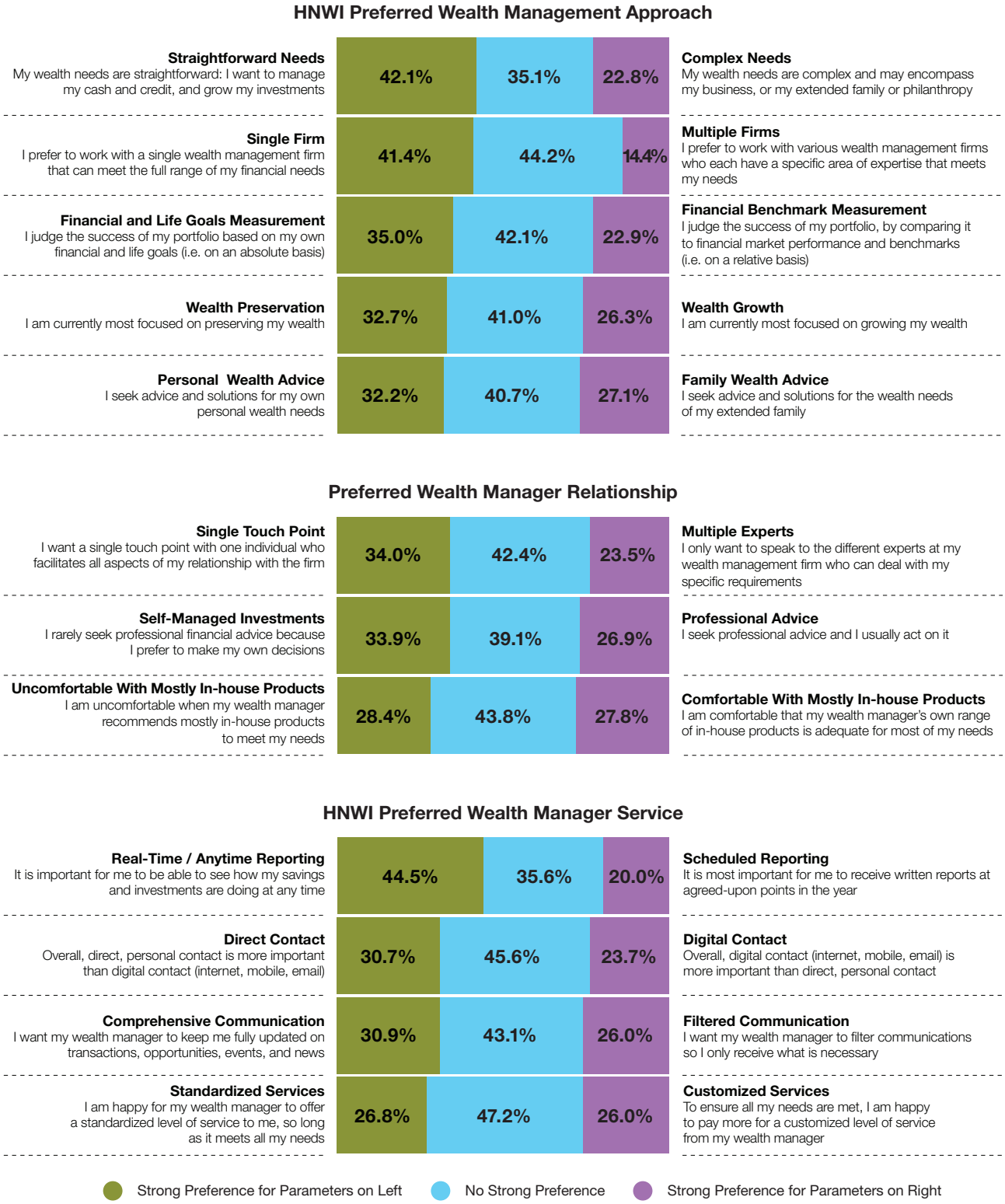
When it comes to service preferences, our survey found HNWIs are looking for additional levels of convenience beyond traditional face-to-face relationships. While a larger percentage of HNWIs (30.7%) still place greater importance on direct contact, nearly one-quarter (23.7%) note that digital interactions are more important. Asia-Pacific (excluding Japan) is leading the way in the desire for digital interactivity, with 38.2% of HNWIs there placing greater importance on digital contact, compared to 23.8% for direct. In keeping with the growing desire for digital contact, more HNWIs prefer real-time, anytime reporting versus receiving paper-based, scheduled reports. However, HNWIs place a much stronger importance on direct, personal contact in the highest wealth segment where complex interactions are more prevalent. In general, moving toward real-time, digital enablement will help wealth managers better meet evolving HNWI needs.

While our Global HNW Insights Survey findings support many conventional perspectives on HNWIs, several themes emerged that present a more nuanced view of HNWI behavior and preferences. These insights regarding HNWI attitudes toward wealth preservation, a single point of contact, increased convenience, and real-time access through digital channels offer new perspectives into HNWI expectations regarding their wealth manager relationships and services (see Figure 15). Our survey also shows these attitudes differ by region, age, and wealth level, further highlighting opportunities available to firms that have more robust segmentation models. Perhaps surprisingly, the survey did not reveal major differences in attitudes by gender.

[11] "World Wealth Report," Capgemini and Merrill Lynch, 2011.

FIGURE 15. HNWI Behaviors and Preferences, Q1 2013

(%)



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

Global HNWIs Show Clear Focus on Wealth Preservation, though Some Emerging-Markets HNWIs Seek Growth

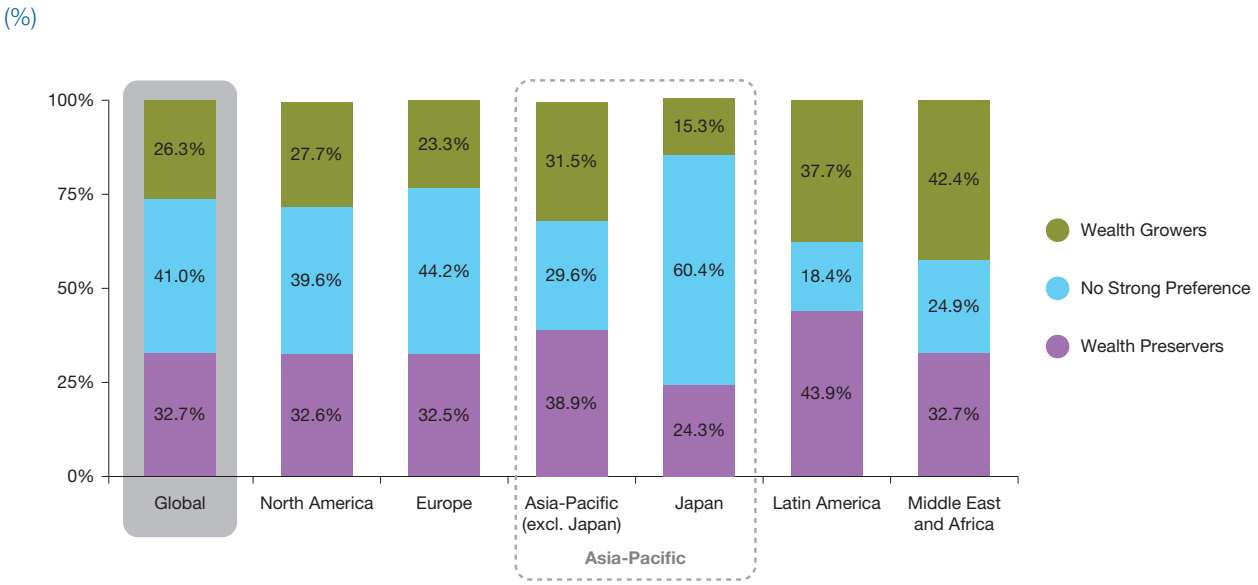
Despite 75.4% of HNWIs citing confidence in their ability to generate wealth over the next year, a preference for a generally conservative approach is widely held. A higher percentage of HNWIs indicate a focus on wealth preservation (32.7%) compared to wealth growth (26.3%) (see Figure 16). This tendency toward wealth preservation is stronger among older HNWIs and those in upper wealth segments, as 44.8% of HNWIs who hold US$20 million and above in investable assets and 34.8% of those who fall into the 60-plus age band are focused on wealth preservation. Regional differences also exist with HNWIs in the emerging markets of Middle East and Africa relatively more focused on wealth growth. The majority of Japanese HNWIs did not show a strong preference for wealth growth or preservation, perhaps reflecting an uncertain mindset towards their wealth strategies and leading to large cash and deposit holdings of 49.4%.

Asset allocation preferences also reflected the focus on wealth preservation. Even in the face of robust overall growth in equity markets over the last three years – the MSCI World Index grew by 6.9% annually from 2010 to 2012 – the majority of HNWIs globally continued to favor capital preservation instruments, such as cash and deposits (see Figure 12 on Page 16).

Traditionally, and driven by industry practice, HNWIs have largely measured the success of their portfolios on a relative basis using yardsticks like market indices or benchmark returns. Our survey showed, however, a movement away from this conventional measure. HNWIs are now more inclined to judge a portfolio's success on an absolute basis, such as its ability to help them achieve personal financial and life goals like retiring comfortably, sending a family member to university, or buying a vacation home. Thirty-five percent of HNWIs now prefer to judge their portfolio using such absolute measures, while only 22.9% prefer to use relative benchmark returns to evaluate success.

Measuring wealth performance on an absolute basis was of particular importance among HNWIs in higher wealth segments. Of HNWIs with US$20 million and above, 44.3% prefer an absolute measure. Interestingly, on a regional basis, HNWIs in mature markets were considerably less likely to use an absolute measure compared to their counterparts in emerging markets.

FIGURE 16. Focus on Wealth Growth vs. Wealth Preservation, Q1 2013



Note: Question asked on a 10-point spectrum: Please indicate your focus on growing your wealth vs. preserving your wealth? "Wealth Preservers" and "Wealth Growers" are percentage of respondents providing a top three rating across the spectrum extremes for wealth preservation focus vs. wealth growth focus; "No Strong Preference" are the remaining percentage of respondents with responses near the mid-point on the spectrum

Chart numbers may not add up to 100% due to rounding

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

Less Is More - Dealing with One Firm and Point of Contact Is Preferred

Given the breadth and variety of HNWI holdings – from real estate and equity products, to fixed income and collectibles – and the global HNWI wealth footprint, many observers might expect HNWIs to seek interaction with multiple firms and experts to help them achieve their wealth goals. However, our survey found that HNWIs in fact prefer to interact with a single firm and point of contact. Just over 41% of HNWIs prefer to deal with a single firm able to meet a full range of financial needs, compared to only 14.4% who prefer multiple firms (see Figure 17).

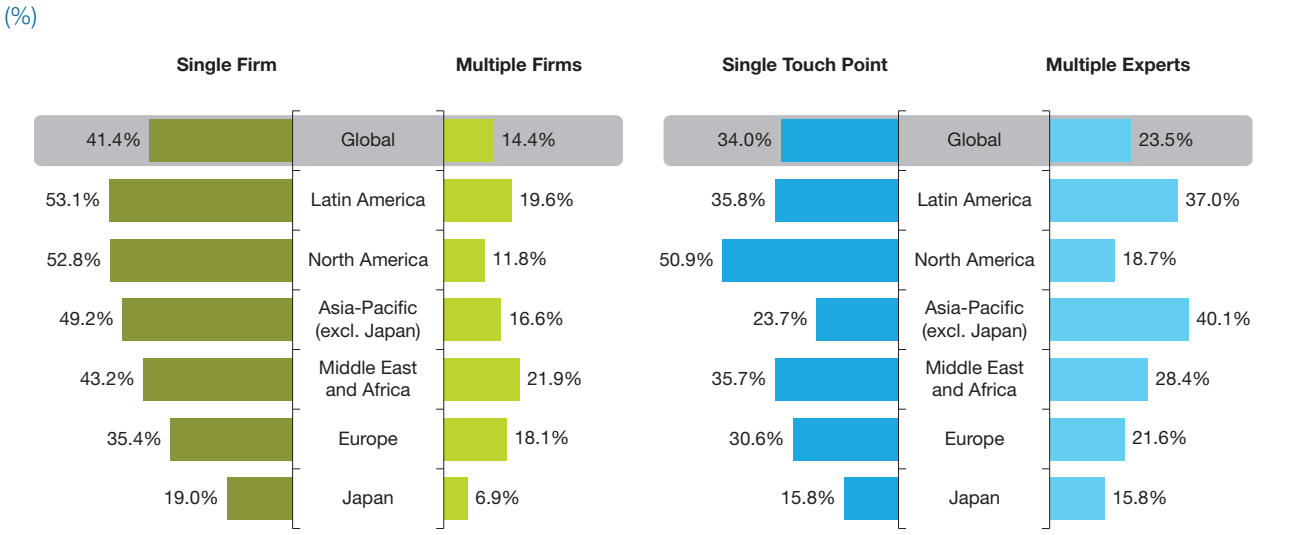
Despite this finding, significant segments of the HNWI population, particularly those in higher wealth bands and emerging markets, maintain relationships with multiple wealth firms. This is likely due to the reality that single firms, especially smaller local ones, are often not able to meet all of a HNWI's varied needs. In addition, HNWIs likely recognize the potential value of receiving different viewpoints from multiple firms and advisors. Given our survey findings, HNWIs appear to have a high likelihood of consolidating with a single firm, as long as it can meet the full breadth of their needs, as well as minimize the up-front burden involved with moving accounts.

The desire to work with a single firm is understandable in light of the growing complexity of managing multiple portfolios, understanding global risk exposures, and tracking performance across different firms. An increasing number of regulations concerning client and risk intelligence, including Anti-Money Laundering (AML) and Know Your Client/Customer (KYC), further complicate the process of dealing with multiple firms.

In line with the preference for working with a single firm, 34.0% want a single touch point at the firm to facilitate all aspects of the relationship, compared to 23.5% who prefer to interact with multiple experts. This preference is especially pronounced in North America, where more than half of HNWIs prefer a single firm (52.8%) and a single touch point (50.9%). HNWIs in the highest wealth segment we surveyed (US$20 million and above in investable assets[12]) overwhelmingly favored working with a single firm (59.7%), while those in higher age brackets (60+) also prefer a single touch point (48.0%).

The preference of HNWIs to maintain relationships with a single firm and point of contact will require them to fully understand the value propositions of competing wealth management firms before determining which is best able to fulfill all their needs. Most likely, HNWIs will gravitate toward firms that have integrated banking models, allowing them to take advantage of the wide range of complementary

FIGURE 17. HNWI Willingness to Work with a Single vs. Multiple Firms and Preference for Single Touch Point vs. Multiple Experts, Q1 2013



Note: Questions asked on a 10-point spectrum: Please indicate your preference for working with multiple wealth management firms (who each have a specific area of expertise that meets your needs) vs. a single firm (that can meet the full range of your financial needs)?; Please indicate your preference for dealing with a single touch point (who facilitates all aspects of your relationship with the firm) vs. different experts at your wealth management firm (who can deal with your specific requirements)?

As we asked for preferences across a 10-point spectrum containing two extreme points, the above numbers in the figure 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

[12] 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 an ultra-HNWI remains US$30 million and above. For analysis purposes, the upper survey band serves as a reliable proxy.

products and services. The deployment of multi-expert advice teams, which retain one dedicated wealth manager as single point of contact, is one approach firms can use to capture some of this potential. Such a single point of contact (embedded within cross-enterprise expert teams) was identified as a key industry requirement in our 2011 World Wealth Report.[13] Accordingly, wealth managers who possess both a breadth and depth of wealth expertise will become increasingly valuable.

HNWIs also offered new perspective on the popular concept of "open architecture."[14] For years, many wealth managers have been moving away from offering only proprietary products and adding solutions developed and run by third-party providers under the so-called open architecture framework. This openness enables firms to offer the best solution to meet client needs, regardless of whether the solution is part of the firm's product line-up.

Our survey found that HNWIs are equally divided in terms of their comfort level with mostly in-house products being recommended. Approximately 28% were comfortable with being offered mostly in-house products, while an equal percent were not. North America stood out as an exception. There, 43.4% of HNWIs expressed a high level of comfort with in-house products, with only 19.8% saying they felt uncomfortable when mostly in-house products are recommended. Overall, this finding suggests most HNWIs have a high level of confidence in their wealth management firm's ability to provide the products that best suit their personal needs and objectives, regardless of the mix of in-house and third-party solutions.

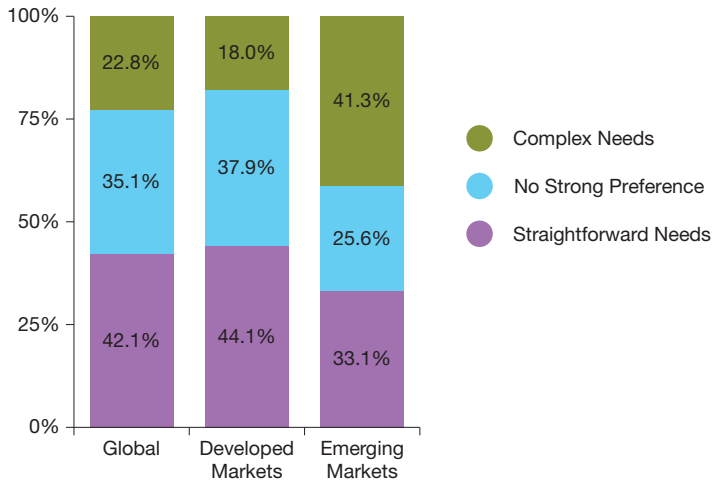
HNWIs Perceive Their Financial Needs to Be Straightforward and Personal

HNWIs are traditionally thought to have complex wealth management needs. Yet our survey found that 42.1% of HNWIs globally define their wealth needs as straightforward, involving the management of cash and credit, and growing their investments. Only about one-quarter (22.8%) say their wealth needs are more complicated, encompassing business ownership or extended family or philanthropic activities (see Figure 18).

An examination by region, however, uncovers important differences in HNWI perceptions of their financial needs in emerging versus mature markets. HNWIs in the emerging markets of Latin America, Middle East and Africa, and Asia-Pacific (excluding Japan) have higher rates of business ownership, higher consideration for extended family in wealth planning, and higher allocations to real estate and alternative investments, including foreign exchange (see page 16). As a result, 41.3% of HNWIs in emerging markets describe their wealth management needs as more complex, compared to only 18.0% in developed markets.

FIGURE 18. Nature of HNWI Wealth Needs by Markets, Q1 2013

(%)



Note: Question asked on a 10-point spectrum: Please indicate whether your wealth needs are straightforward (managing cash and credit, and growing your investments) vs. complex (encompassing business, or extended family, or philanthropy)?; "Straightforward Needs" / "Complex Needs" are percentage of respondents providing a top three rating across the spectrum extremes for straightforward needs vs. complex needs; "No Strong Preference" are the remaining percentage of respondents with responses near the mid-point on the spectrum

Emerging markets include the countries of Brazil, China, Hong Kong, Singapore, India, Mexico, South Africa, and UAE while other countries form part of developed markets

Chart numbers may not add up to 100% due to rounding

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

[13] "World Wealth Report," Capgemini and Merrill Lynch, 2011.

[14] Open architecture refers to the practice of offering high quality products, irrespective of the products being managed in-house or by external investment managers, to ensure that clients receive the products most suitable to them and free from conflict of interest.

Regional differences also persisted with respect to the tendency of HNWIs to seek advice for personal versus family wealth. HNWIs in North America say they are more focused on their individual wealth needs (46.1%), while HNWIs in emerging markets are more apt to seek advice on family wealth. In fact, the preference of 61.3% of Latin American HNWIs for family-wealth advice is more than double the global average.

HNWIs did not exhibit any clear preference for receiving customized versus standard services. The number of HNWIs who say they are satisfied with standard service is almost the same as the number who say they are willing to pay for more customized services. Notably, regional differences again surfaced, with HNWIs in emerging markets, particularly Asia-Pacific, indicating a willingness to pay more for customized services, perhaps due to their needs being more complex, encompassing business, extended family, and philanthropy. Globally, 50.4% of HNWIs who described their needs as complex indicated they were comfortable paying more for customized services, compared to only 26.0% of HNWIs overall.

A focus on growing wealth emerged as an important determinant in whether HNWIs seek professional advice or prefer to manage their wealth on their own. Almost 59% of HNWIs with a focus on wealth growth prefer to seek some amount of professional financial advice compared to 44.3% of HNWIs globally. In terms of strong preferences, about one-third of HNWIs (33.9%) indicated that they rarely seek professional advice and prefer to make their own investment decisions, while 26.9% showed a strong preference for receiving professional financial advice.

Current Demand for Digital Channels Stronger than Expected

The Global HNW Insights Survey also indicates a potential shift from the traditional belief that HNWIs generally expect and place greater importance on face-to-face interactions. While more HNWIs identified direct contact as most important (30.7%), the importance of digital contact was stronger than expected, with 23.7% of the global respondents placing more importance on digital contact than direct.

Not surprisingly, younger HNWIs expressed a greater importance in interacting with their wealth managers through digital connections (see Figure 19). With the wide proliferation of mobile and Internet-connected devices around the world, it follows that digital connections would make in-roads in wealth management, particularly among younger age sets. Globally, 29.1% of respondents under 40 years old prefer digital contact, while only 20.2% prefer direct contact. The importance for digital contact was more prominent in emerging markets, especially Asia-Pacific (excluding Japan) where 38.2% of the HNWIs viewed digital contact more important, compared to 23.8% prioritizing direct contact. However, direct contact remains more important than digital contact in other regions and for HNWIs in higher wealth and age bands.

Considering HNWIs' narrow current gap of preference between direct and digital contact and the rising number of younger HNWIs in the emerging markets, it is likely a matter of when, not if, the importance of digital contact will surpass direct for some segments. Direct contact, meanwhile, will continue to play a critical role, creating an imperative for firms and wealth managers to deliver a seamless experience to HNWIs through both direct and digital channels to ensure high client satisfaction.

The digital movement aligns with the desire of many HNWIs to self-manage a portion of their wealth, as digital connections provide greater access and control over investment and account information. Almost 45% of HNWIs who want to manage their assets on their own prefer digital contact to utilize services such as making investments, monitoring portfolios, and obtaining research reports. The digital trend also aligns with a clear preference for real-time versus scheduled reporting. Globally, 44.5% of HNWIs favor real-time reporting compared to 20.0% who prefer their reports on a scheduled basis. These findings indicate that HNWI demands continue to evolve with the times. While the quality of the wealth manager will continue to be the most important facet of the relationship, other factors, such as real-time reporting and digital channels, will increasingly play a role.

Distinct HNWI Differences Identified between Developed and Emerging Markets

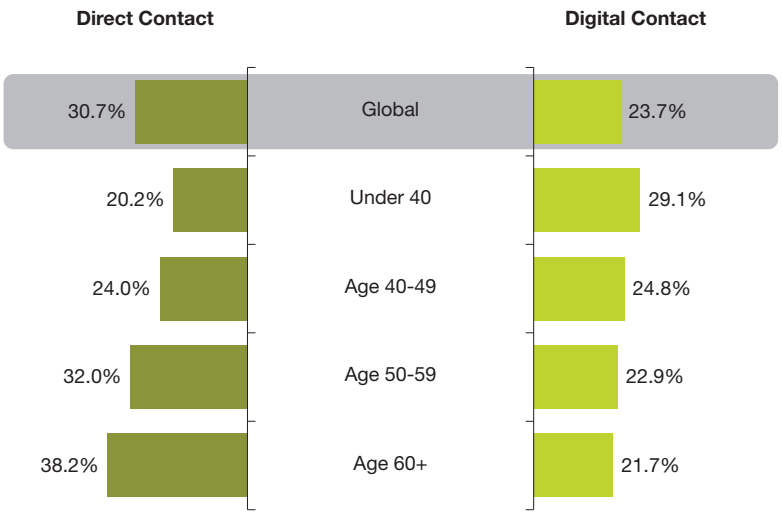
Given cultural differences and the fact that geographic regions around the world are in different stages of the wealth generation cycle, it follows that some important distinctions regarding HNWI preferences surfaced across the developed and emerging markets.

While numerous regional differences exist (some of which were covered earlier), the key ones for emerging-markets HNWIs are:

» A clearer focus on either growing or preserving wealth compared to developed markets (except HNWIs from the Middle East and Africa), with fewer HNWIs indicating no strong preference toward a particular strategy;

FIGURE 19. HNWI Preference for Direct Contact vs. Digital Contact by Age Band, Q1 2013

(%)



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 above numbers in the figure 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

» A preference towards having access to multiple experts, a greater likelihood to seek advice on family wealth and perceive their needs as relatively more complex;
» A higher importance placed on digital versus direct personal contact with wealth managers.

HNWIs in developed markets, meanwhile, showed:

» A greater focus on preserving, rather than growing, wealth though also a high percentage of HNWIs with no clear preference for a particular strategy;
» Especially in North America, a strong preference toward maintaining relationships with a single firm and touch-point. This preference aligns well with their perception that their needs are generally more straightforward and focused on individual wealth.

This sampling of differences between HNWIs in emerging and developed markets indicates that wealth management firms need to tailor their approach to the diverse needs and expectations of their global clientele. For example, firms serving emerging-market HNWIs may need to upgrade their integrated models and improve training for individual wealth managers to accommodate the relatively more complex needs of that clientele. Firms in these markets will also need to tailor the way they measure and report the performance of HNWI portfolios, and help them identify and meet their personal financial objectives, especially those in higher wealth bands who largely prefer to judge their portfolio's success on an absolute basis.

With HNWIs exhibiting a strong demand for digital channels and with one-third preferring to oversee their own investments, wealth management firms will also need to define a delivery strategy that includes multiple channels. By providing a seamless experience across channels, firms stand to grow and deepen relationships with HNWIs. Most importantly, given the diversity of HNWI expectations and behavior patterns, wealth management firms will need to understand the nuances around age, region, gender, risk appetite, and source of wealth among HNWIs, and devise strategies accordingly to handle the diverse needs and expectations of their global clientele.

Regulatory Complexity Is Transforming Firm and Client Dynamics in the Wealth Management Industry

In the wake of the financial crisis, regulators have been active like never before, ushering in a period of unprecedented regulatory transformation. The new environment has the potential to deliver meaningful positive change for investors, in areas such as transparency, wealth manager competency, and more uniform and timely reporting. This upsurge in the volume and velocity of regulations, while designed to protect the industry and investors, has had the unintended consequence of being highly disruptive, significantly impacting established business models and creating challenges for firms in delivering positive client experiences. The reforms address broad areas of the financial services business and impact the wealth management industry in particular, having important implications on the ways in which wealth managers engage and serve clients.

The impact of regulatory change on the wealth management industry is far-reaching:

- The volume and pace of regulatory change is the single largest challenge facing wealth management firms, creating significant and increasing costs related to both compliance and non-compliance, and constraints in delivering an integrated client experience.
- Increasing regulatory complexity is driving significant shifts within the industry, including consolidation, evolving value propositions and service levels for HNW clients, and a need for firms to adapt strategies given increased regional regulatory asymmetry.
- Firms in general are making necessary tactical investments in several areas to overcome regulatory challenges; however opportunities exist for firms to drive more transformational and incremental value, using compliance as the catalyst.
- Clients and regulators also have a key role to play in the evolution, primarily through increased collaborative dialogue on the part of regulators, and, on the part of clients, a better understanding of their responsibility to provide compliance-related information by working in tandem with their trusted wealth managers and firms.

DAUNTING SCOPE OF REGULATORY CHANGE IS LARGEST INDUSTRY CHALLENGE

One of the primary consequences of the financial crisis has been a global movement to add and enhance regulations aimed at protecting both the banking system and the individuals who participate in it. Compounded by the seismic pressure on the global financial system in recent years, the evolving regulatory environment represents the single largest challenge facing wealth management firms.

The major themes underlying recent regulatory intervention are:

- Customer Protection
- Prevention of Financial Crime
- Transparency
- Market Stability
- Tax Compliance and Disclosure

The widespread pain caused by the crisis has galvanized regulators around the world to impose far-reaching rules that address a broad platform of issues and add to the considerably large body of rules already in place (see Appendix B on Page 44). Many of the mandates affecting wealth management firms are focused on client protection, with new directives instructing firms on the suitability of their advice and details of client interactions, such as how wealth managers market products, execute trades, and present themselves to clients. Regulators have also expanded existing AML and KYC obligations in a bid to arrest financial crime and prevent tax evasion. Still other regulations are focused on high-level issues such as the stability of markets and the safety of the global financial system.

In Europe, themes of financial stability and investor protection have played out in the form of additional regulatory measures such as Part II to the Markets in Financial Instruments Directive (MiFID II). MiFID II enhances consumer protection and seeks to reduce systemic risk through initiatives such as clearly defining powers for national regulators to shield clients from inappropriate products, and supporting greater transparency across a wider range of instruments and markets. Similarly, the supplement to Europe's Alternative Investment Fund Managers Directive (AIFMD Level 2) dictates investor-friendly mandates such as more detailed reporting, higher levels of due diligence, and the development of a conflict of interest policy.

One of the biggest more recent rules affecting firms in the **United Kingdom** is the Retail Distribution Review (RDR), which mandates the unbundling of fees, additional transparency requirements, and minimum wealth manager competency levels. In addition, regulatory authorities in the United Kingdom have split the duties of the old Financial Services Authority (FSA) with the aim of creating a more responsive regulatory regime. The new Financial Conduct Authority (FCA) is mandated to protect consumers and to this end, it has been granted broader powers to regulate how firms market financial products. The new Prudential Regulation Authority (PRA), meanwhile, seeks to preserve financial stability by monitoring risks posed to the financial system.

In the **United States**, the ambitious Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) is unprecedented in size and scope. Dodd-Frank includes a breathtaking amount of change covering every aspect of the U.S. financial markets, from consumer protection to financial stability, from private fund regulation to proprietary trading, and from derivatives to corporate governance. The sweeping legislation has led to several new regulatory entities, including a council to oversee systemic risk, a liquidation authority, a regime to oversee private funds, an architecture to regulate Over the Counter (OTC) derivatives, and a bureau with broad rule-making and enforcement powers to protect consumer financial interests.

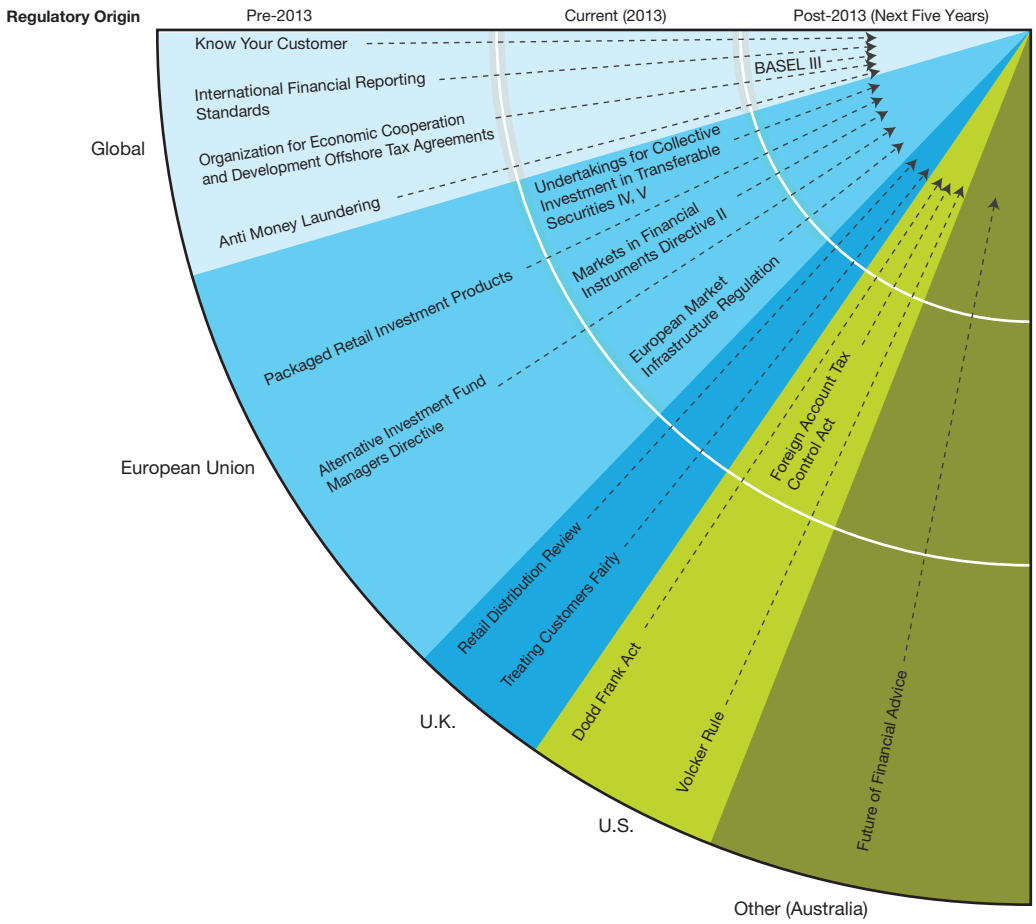
Additionally, in a bid to combat tax evasion, the **U.S.** government in 2010 enacted the Foreign Account Tax Compliance Act (FATCA), which requires individuals to report their financial accounts held overseas, and foreign financial institutions to disclose account details of their U.S clients to the Internal Revenue Service (IRS). FATCA is expected to increase costs related to identifying and verifying U.S. clients, and complying with additional government requests for information. Given the significant anticipated cost and challenges, several firms have decided to limit or halt services to U.S. clients, leading to a narrower choice of wealth managers for U.S. citizens. Many European firms may also have to contend with European versions of FATCA-inspired regulations that would lead to enhanced due-diligence, reporting, and documentation costs.

Although the Asia-Pacific region was less adversely affected by the financial crisis than other regions, regulators in several Asia-Pacific markets have nonetheless accelerated the regulatory transformation process. In **Australia**, the Future of Financial Advice (FOFA) package addresses remuneration issues and includes a number of consumer protection reforms, such as the requirement that wealth managers act in the best interests of their clients (via the 'best interests duty' component of the legislation), and for firms to disclose fees in annual statements. The Monetary Authority of **Singapore** (MAS), meanwhile, has introduced a series of proposals in the past few years aimed at bringing the standards of its wealth management industry in line with those of more mature markets. For example, it launched the code of conduct for the private banking industry (PB Code) to enhance the competency levels of private banking professionals and foster high standards. MAS has signed Organization for Economic Co-Operation and Development (OECD) offshore tax agreements with several countries for exchanging information on potential tax evaders in the interest of maintaining a strong reputation and attracting more offshore clients. Additionally, in line with the Financial Action Task Force (FATF) recommendations of 2012, MAS will be making changes to the relevant tax laws starting July 1, 2013, to criminalize the laundering of tax proceeds as a money laundering predicate offense.

For global wealth management firms, the volume and pace of regulatory change has created significant challenges in achieving compliance across diversified businesses. Institutions are finding it difficult to formulate an effective, coordinated response throughout all jurisdictions, while also maintaining the high service-delivery standards required in an industry where firms differentiate themselves through the client experience. Regulatory variations in different regions add to the complexity of compliance, hampering the ability of firms to provide a globally consistent client experience, especially for the significant proportion of HNW and ultra-HNW clients with cross-border needs and investments.

Aside from the burgeoning scope of regulations, institutions face added pressure due to a lack of regulatory clarity in some instances, tight implementation timelines, and the sheer number of regulations that are changing or being introduced, all while seeking to limit disruptions to clients. Many of the newer regulations are already being implemented or are set to have their biggest impact in 2013 or soon after (See Figure 20). At the same time, many regulatory provisions have not yet been finalized, despite rapidly approaching (or already passed) deadlines. For example, in the U.S., as of April 2013, regulators had missed more than 60% of Dodd-Frank rulemaking deadlines, making it difficult for firms to understand, assess, and plan to address the changes.[15]

FIGURE 20. Timeline of Periods of Highest Regulatory Impact



Note: The figure, covering select major regulations, provides an illustrative timeline of periods of highest regulatory impact for firms. For example, while FATCA actions have been underway since 2010, the greatest firm impact began in 2013 and is expected to continue in the coming years. There are several local regulations affecting the wealth management industry that are not listed here such as the 'Market Abuse Directive' (MAD) in some European countries

Source: Capgemini Analysis, 2013; WWR Executive Interviews, 2013; www.fca.org.uk; www.bankofengland.co.uk; www.wsj.com

[15] "Dodd-Frank Progress Report," DavisPolk, April 2013.

Costs of Compliance and Non-Compliance Are Increasing

For wealth management firms already struggling to rationalize still-depressed, post-crisis levels of assets under management against rising costs, the growing regulatory burden presents a significant challenge. Though leveling off, firm cost-to-income ratios have been on the rise since 2007, increasing from 63.7% to 80.0% in 2011.[16] While more conservative client portfolio composition has been one driving factor for shifts on the income side, a major driver has been increased costs from the cascading flow of expenses related to regulatory compliance. These regulatory costs take many forms (see Figure 21).

Simply adhering to the rules has become more complicated and costly. Achieving compliance now involves a significant amount of time from many individuals and departments at all levels to track and understand the evolution of rules, realign policies and procedures, upgrade platforms and technologies, develop and implement plans, train employees, and document and report on compliance. Despite being highlighted as a key cost driver by firms around the world, most struggle to quantify the full financial impact of the new regulatory environment.

Since the crisis, bank fines for non-compliance have been hitting historic highs. The biggest reported payout to-date–almost US$2 billion for a single firm for money laundering–happened in 2012, while the rest of the top ten bank fines of all time have occurred since 2009.[17] Aside from the expense of paying penalties and settlements, and hiring legal representation, the cost of regulatory non-compliance often includes damage to reputation, which could have a significant impact on client trust and confidence, not to mention a firm's stock price.

Besides these direct costs, firms also have to manage the less obvious opportunity costs associated with compliance. With wealth managers and other front-office staff now spending relatively more time on compliance-related issues, less time is spent on the core and higher value activities of building client relationships and delivering advice. Firms may also have to contend with de-marketing prospects and clients who are too difficult or costly to onboard, further challenging profitability. Additionally, increased costs incurred by regulators themselves in the form of heightened staffing, IT, and central support service costs are likely to be passed onto firms in the form of higher fees.

All told, anecdotes from many of the firm executives we interviewed, including those in compliance, indicate a significant increase in time and resources spent on compliance activities, including related demands on front-line practitioners. While many executives found it difficult to quantify compliance costs since they also encompass "business as usual" costs, there are indications that spending related to compliance and risk consumes around one-fourth of operating budgets of firms in the Americas, and is likely to stay at least at this level for the next three years as the regulatory burden demonstrated in Figure 21 continues. When taking into account the indirect costs of compliance, the overall financial impact is likely to rise further still.

FIGURE 21. Overview of Regulatory Costs

Cost of Compliance	Cost of Non-Compliance
People Costs: ▪ Cost of hiring additional Full Time Employees (FTEs) with legal and regulatory expertise ▪ Increasing salaries of compliance experts **Documentation Costs:** ▪ Revamping marketing materials and client communications including Key Information Documents (KIDs) ▪ Tracking legislation evolution ▪ Updating and implementing new policies **IT and Infrastructure Costs:** ▪ Automating client on-boarding systems ▪ Upgrading existing software and hardware ▪ Building strong, scalable operations and infrastructure **Opportunity Costs:** ▪ Lower wealth manager productivity on revenue generation activities ▪ Lost revenue ▪ De-marketing costs	**Fines / Penalties:** ▪ Heavy fines ▪ Bans on business activities **Legal Costs:** ▪ Lawsuits and legal representation ▪ Discovery and defense **Reputational Costs:** ▪ Lower brand value ▪ Client and employee attrition ▪ Negative impact on stock price **Correctional Costs:** ▪ Extra time and investment to become compliant ▪ Restitution to clients **Additional Costs:** ▪ Increased regulatory scrutiny on businesses / franchises in other jurisdictions ▪ Potential ripple effect on projects needing regulatory approvals

Source: Capgemini Analysis, 2013; WWR Executive Interviews 2013

[16] Private Banking Benchmarking Reports, 2007-2012, Scorpio Partnership.

[17] "Biggest Bank Fines," Reuters, December 2012.

REGULATORY IMPACT FAR-REACHING, CREATING CHALLENGES FOR BOTH FIRMS AND CLIENTS

While regulations have an impact on how firms operate and how clients are served, the level and extent of that impact varies from one regulation to another and from one wealth area to another (see Figure 22). The level of impact is also different for both firms and clients. For example, while both firms and clients are highly affected by regulations related to on-boarding and advisory services, firms are much more impacted than clients by regulations related to prospecting and wealth manager competency development.

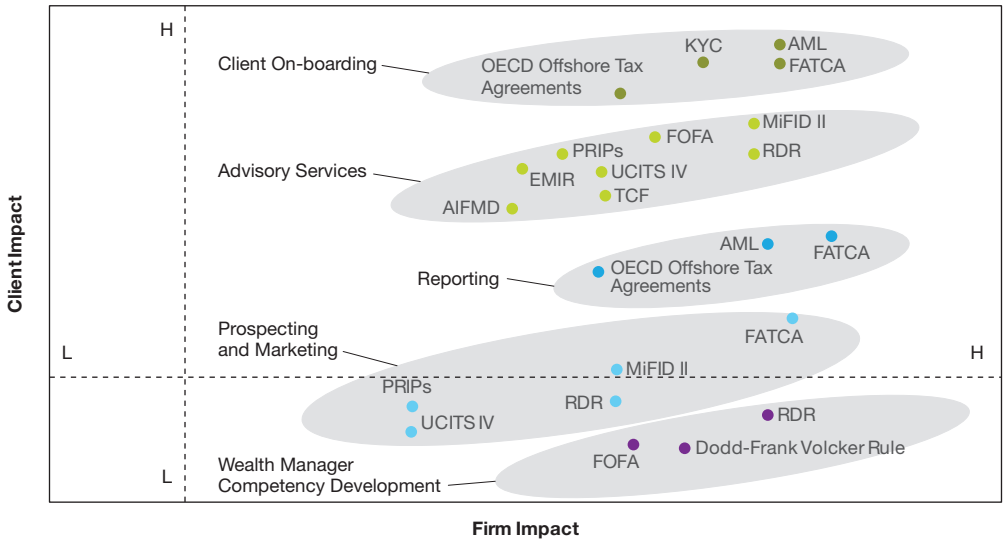
From a competitive standpoint, firms able to minimize client impact during the most visible compliance areas of on-boarding and advisory services will likely benefit from today's expanded regulatory focus. Similarly, firms that use regulatory change as a catalyst to tie IT investments to more holistic improvements, will be in a position to gain in a challenging environment.

Customer protection is clearly one of the top priorities for regulators. Initiatives such as the Key Information Document (KID) under the Packaged Retail Investment Products (PRIPs) directive in Europe provide clear benefits in the form of increased transparency and product clarity.

The provision calls for the use of simple language to describe the features of investment products, as well as their risks and associated costs. With financial services products becoming increasingly complex, clients will be able to use KIDs to better compare products and analyze their fees. Firms will need to invest considerable time and resources into upgrading, reprinting, and distributing new marketing materials and product information sheets that comply with the new mandates.

The requirements for more timely reports to monitor portfolio performance, driven by regulations such as MiFID II and AIFMD, as well as uniform reporting structures across portfolios, will also facilitate the ability of clients to compare and contrast products and strategies. Clients could further benefit if firms leverage the data collected through the account opening process and customer/client relationship management (CRM) systems (keeping in mind data protection laws) to develop and offer customized services. Armed with better information and well-served by wealth managers whose competency levels have been enhanced due to the new minimum standard requirements, investor-focused regulations could well lead to a virtuous circle of more satisfied clients, fully engaged in the industry and eager to increase their participation in it.

FIGURE 22. Level of Regulatory Impact on Firms and Clients



Note: Parameters considered are estimated investment required, potential impact on revenues, time taken to implement, and extent of efforts put in; For detailed description of regulations please refer to Appendix B on page 44

Source: Capgemini Analysis, 2013; WWR Executive Interviews 2013

Though they seek to protect investors, some regulations may have an unintended negative impact on the client experience. As regulators seek to curb money laundering, tax evasion, and related financial crime, once simple on-boarding processes have turned into a thicket of burdensome obligations and duties for both clients and firms due to enhanced KYC and AML regulatory guidelines. New rules impose stricter requirements related to identifying and knowing clients, resulting in a significantly higher administrative burden for both parties. In addition, the rules may lead to sensitive conversations in which clients are asked to provide documents that go well beyond personal identification, to prove that sources of wealth are legitimate.

In a bid to prevent tied selling and improve transparency, regulations such as RDR and MiFID II seek to unbundle fees. Unbundling enhances transparency by helping HNWIs understand the breakdown of fees and make more informed service choices. However, some clients, not accustomed to paying a separate fee for advisory services, may perceive such services as too costly to justify, which may lead firms to recoup fees in other ways, develop new service-delivery standards, or even seek out merger partners (or simply be acquired), as we discuss on page 34. Similarly, other regulations around uniform fiduciary standards, wealth manager competency levels, and product suitability could negatively affect clients in the form of higher fees or a narrower choice of products and wealth managers.

These requirements and conversations are even more challenging in cultures where clients are less familiar or comfortable with discussing and documenting these personal, and often, family details. Firms can reduce the strain of such interactions by communicating the strength of their compliance cultures and the key role compliance plays in the firm's longevity and reputation. To help guide clients through the new procedures, firms would benefit from making specific investments in areas such as automating parts of the on-boarding process and the hiring and training of knowledgeable and experienced relationship managers.

Integrated Wealth Platform and Related Client Service Suffers

As client demographics and needs continue to evolve, there has been an associated long-term industry shift from investment management to integrated wealth management, with firms across all regions positioning and structuring themselves to help clients through every stage of their financial lives from wealth generation to preservation, retirement planning, and ultimately to intergenerational wealth transfer and philanthropic causes.

At the same time, certain regulations designed to benefit clients are making it more difficult for firms to deliver the seamless integrated experience that clients have come to expect. For example, smaller firms may find it especially difficult to serve clients with cross-border investment needs due to the challenges and costs associated with complying with varying regional regulations. This could force clients to consider developing relationships with additional firms to ensure all their needs are met, a situation that would run counter to their stated preference for one-stop service (see page 24) and would require them to go through additional on-boarding processes with any new firms they engage.

Meanwhile, challenges in delivering an integrated wealth offering could constrain firm profitability. Wealth management firms have long adhered to a bundled fee structure that takes into account the significant fixed costs required to deliver a full suite of complementary products. Moves underway to unbundle fees will likely make it less profitable for firms to serve lower-wealth HNWIs who have less tendency to use higher-fee, advice-based services.

REGULATORY COMPLEXITY DRIVING SIGNIFICANT SHIFTS IN WEALTH MANAGEMENT LANDSCAPE

There is no question that the impact of regulation is transforming the wealth management industry. At a macro level, firms have to contend with major initiatives, such as the Basel III regulations that are increasing capital requirements, driving up capital and liquidity costs, and putting pressure on profitability. At a more micro level, every firm is being confronted with scores of recent regulations requiring excessive amounts of time, effort, and resources to address. The industry-level transformation is playing out across three dimensions: Industry consolidation as small- and medium-sized firms struggle to build scale; Regional asymmetry creating an uneven playing field; and Regulatory complexity driving shifts in value propositions and service levels for HNW clients.

Industry Consolidation As Small- and Medium-Sized Firms Struggle to Build Scale

As firms respond to the pressure that increased regulatory scrutiny is putting on profit margins, the wealth management landscape will likely shift. One outcome is greater clarity of purpose as firms squeezed by mounting regulatory costs hone strategies to emphasize their particular strengths, and abandon areas with less promise. For small- and medium-sized firms, even seemingly simple requirements such as upgrading investor communications

to make them easier to understand present considerable challenges. Small firms and independent financial advisors, overwhelmed by the regulatory burden, may find it difficult to survive given their lack of scale and decide to seek out merger partners to help rationalize compliance costs over a larger base of clients and assets. Another alternative for small firms is to develop niche offerings that would be more attractive to the ultra-HNWI population.

As small firms re-focus, competitive power may shift to larger firms, especially market leaders with strong profits and available discretionary spend. Large firms, especially the market leaders, are generally better positioned than small- and medium-sized firms because of their greater capacity to make the necessary investments in compliance while still investing in other strategic areas. Firms that have maintained strong reputations, where others have stumbled, will also be well-positioned to leverage their statures to win new clients and assets. Reputation emerged as a key factor in a client's decision to choose a particular firm. Globally, 48.4% of HNWIs said they would pay more to do business with a firm with a solid reputation, while in emerging markets such as Latin America, and Middle East and Africa, nearly 70% of HNWIs would pay more.

Globally, the wealth management industry is ripe for consolidation as struggling banks looking to shore up their capital ratios under Basel III consider spinning off non-core businesses. Firms could also decide to exit certain markets due to the regulatory constraints in those regions. An example of consolidation activity is Julius Baer's purchase of Merrill Lynch Bank of America's non-US wealth management divisions, providing a strong base for the firm in Asia. Similar consolidation efforts have taken place in other Asia-Pacific markets as several firms that entered these markets were unable to realize profits and were forced to exit. In the U.S., more than US$3 trillion worth of assets have consolidated into larger firms since 2008, driven by three major M&A deals. In two of these cases, the consolidation resulted from severe situations in which the seller could no longer survive on its own.

Medium-sized firms may occupy the most difficult position under the new regulatory regime. Challenged by low profit margins and a lack of scale, they have less ability to spread compliance costs over a larger asset base and may be perceived as neither having the complex service set (depth and breadth of offerings) nor the niche, customized service offerings that many HNWIs, especially those within the upper wealth bands, require and expect.

Regional Asymmetry Creates Uneven Playing Field

For firms that operate globally or have plans to expand outside their home countries, regulatory change around the world presents a significant challenge. As the scope of regulations continues to expand under the auspices of various regulatory bodies, issues of regional consistency and harmonization have emerged. Not only do rules differ in each country, but so do tax implications, governance practices, product templates, reporting structures, legal systems, and accepted approaches to compliance.

Over the years, the development of so-called passport schemes to support the distribution of mutual funds across borders has helped to ease fragmentation. Undertakings for Collective Investments in Transferable Securities (UCITS), for example, has succeeded in creating a pan-European regulatory framework for mutual funds. But such passports are not universally accepted. In the Asia-Pacific region, the lack of a passport scheme, combined with the difficulty of registering funds and obtaining licenses throughout the region, creates significant barriers to entry for expanding firms. In general, most Asia-Pacific markets present huge entry challenges for global firms due to the uneven playing field created by variations in regulations.

Firms looking to operate globally need to make sure they have in place a solid regulatory infrastructure, including compliance experts with strong knowledge of local regulations and IT systems capable of supporting the regulatory measures, before they enter new markets. If not, or if existing capability is not easily transported into the new market, one effective approach is to outsource compliance to firms that have the requisite infrastructure and local regulatory expertise. This approach helps firms focus on their core advisory services with confidence that compliance processes are in knowledgeable and capable hands. Additionally, global firms entering new markets through acquisition should ensure through the due diligence process that the target firm has strong regulatory controls and practices already in place.

Regulatory Complexity Driving Shifts in Value Propositions and Service Levels for HNW Clients

As many of today's regulations impact long-held operating and revenue models, some firms are responding through shifts in their standard methods of serving clients.

In the United Kingdom, for example, RDR requires wealth managers to unbundle the costs of products and advice, and move from product commissions to a revenue model based on up-front disclosure of advisory fees. FOFA in Australia lays down similar requirements. As a result, firms are reconsidering the ways in which they serve clients and how they articulate the value of advice, in order to recapture lost

revenues driven by the change. Firms will likely need to invest in technology aimed at supporting cost-effective and efficient service models, especially for clients in lower wealth bands.

RDR also attempts to raise professional standards by specifying the minimum standards expected from wealth managers offering independent advice to clients. Clients will see the benefit of this requirement in the form of more highly trained professionals, as well as a weeding out of lower-tier advisors and firms. According to the FSA,[18] around 18% of independent financial advisors are likely to exit the market for failing to meet the requisite level of qualification.[19] While the presence of only highly qualified and competent wealth managers in the field is beneficial for clients, some could see their service disrupted due to wealth manager exits.

A movement in the United States toward a uniform fiduciary standard could have a similar impact. Institution of a single, more stringent fiduciary standard will mean higher operating costs as firms move to meet new licensing and educational requirements. Ultimately, these costs are likely to be passed on to clients and affect service levels. A study conducted by National Association of Insurance and Financial Advisors (NAIFA)[20] found that imposing a uniform fiduciary standard could lead to reduced product access and product choice, and have a negative impact on the affordability of clients services. The new standard could also result in reduced choice for investors in terms of which firms they work with and how they pay for services.

In general, regulatory pressures are making it increasingly difficult for firms to serve clients as profitably as in the past. To counter this, firms might offer just execution-only and discretionary asset management services to clients having smaller portfolios, and spend the majority of their advisory time on clients in higher wealth bands.

Despite the meaningful benefits of regulation in the form of improved transparency of fees, increased competency of wealth managers, timely reports and product disclosures, some clients, especially those in lower wealth bands, could experience reduced service offerings as firms seek to optimize their profit margins. The costs of many compliance-related initiatives, such as revamping client communications and processes, and providing continuous professional development for wealth managers, are significant and could increase the burden on both firms and ultimately clients.

REGULATIONS DRIVING FIRMS TO RE-ASSESS KEY STRATEGIES

As the number of regulations impacting wealth management firms increases, few firms will be able to effectively offer all kinds of wealth services to all client segments across all geographical markets. The regulatory pressure in effect is creating a need for firms to articulate a clear strategic pathway for the future. In the process of making regulatory-driven investments, firms are struggling to extract incremental value for clients. As they chart their course, the development of a clear strategic vision around the following areas may help them overcome this struggle:

Target Clients

For many firms, offering the full range of services across all segments of the HNWI market is simply no longer viable. This reality requires firms to clearly define their target client segments, taking into account the level of regulatory impact on each segment and the importance of that particular segment to the firm's profitability. For example, while it has become more costly to serve clients in lower wealth bands, this fast-growing segment is likely to produce clients who will eventually move into upper bands. A balanced approach to selecting target segments is, therefore, necessary.

It will also be important for firms to evaluate whether their current capabilities in serving particular client segments continue to offer an advantage over competitors. For example, several firms have found that complying with FATCA presents more challenges than benefits, and have therefore stopped offering their services to U.S. citizens. This could prove to be an advantage for firms that have the processes in place for FATCA compliance, as they can attract and meet the needs of those U.S. clients turned down by other firms.

As a starting point on this journey, we have identified key service differences by wealth band that need to be taken into account as the regulatory environment forces firms to make more targeted decisions about their client segments:

» Lower band HNWIs (US$1 million to US$5 million) and upper-tier HNWIs (over US$20 million) are most satisfied with their current firm service offerings, with more than half of them giving their firms grades of over 70%. For mid-tier HNWIs, the score is below 48%. This strong differential demonstrates the opportunity firms have to target specific segments where strong capability and value can be demonstrated, instead of trying to provide all services to all segments.

[18] FSA has since been split into two agencies, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

[19] "Investor adviser numbers start to drop post RDR," ftadviser.com, Jan, 9, 2013.

[20] "Consumer and NAIFA Member Survey," LIMRA International, 2010.

» Upper-tier HNWIs appear far more demanding, requiring firms to have excellent human capital and a strong value proposition across multiple service elements, a requirement that will preclude many firms from the outset. Compared to other segments, HNWIs holding more than US$20 million in investable assets attach by far the greatest importance to firms possessing strength and capability across a wide range of service areas: fee structure transparency; account opening processes; communication of value offered; strong firm reputation; detailed reporting; quality staff; and appropriate advice, products, and services delivered.

» HNWIs in lower wealth bands by contrast held the lowest expectations in terms of the above criteria, with the notable exception being the quality of staff.

Target Geographies

Firms that enter new markets without due consideration to local regulations or the availability of legal, compliance, fiduciary, and advisory expertise risk having to exit the market entirely or merge with firms that do have the required expertise. A critical assessment and analysis of a firm's current regulatory capabilities, including the availability of local expertise and robust IT systems, is a precursor to any decision to operate in new markets.

Firms planning to operate in emerging markets such as the Asia-Pacific and the Middle East must also take into consideration the cultural sensitivities of HNW clients in these regions. Traditionally, HNW clients in these areas have not been subjected to the same level of intense scrutiny and burden when it comes to AML and KYC guidelines as their counterparts in developed markets. As a result, firms seeking to expand into these areas would have to ensure relationship managers receive the proper training to enable them to capably address any sensitive issues.

Firms without sufficient local regulatory expertise and supporting infrastructure should think twice before making significant investments in establishing new operational centers. It will also be important to anticipate the likely evolution of regulations as rules deemed to have a positive impact have a tendency of being transferred from region to region. Firms operating in European markets, for instance, should be prepared for the evolution of FATCA-inspired local regulations. Many of the executives we interviewed expressed concern about this anticipated regulatory cascade.

As regulation forces firms to re-think their regional expansion strategies, our survey offers guidance on the service areas firms should prioritize, and where service should not be compromised, in light of various regional disparities among HNWIs:

» Globally, a smooth account opening process is viewed as table-stakes by HNWIs. Though client on-boarding has been highly affected by new regulations (see Figure 22), firms cannot afford to let changes in the on-boarding process have an adverse impact on clients. Almost half of HNWIs surveyed said they are likely to leave their current firm if on-boarding service scores dropped below 59%, indicating firms risk losing assets and clients if they cannot maintain current service levels when complying.

» Suitability, a key regulatory objective, also resonates with HNWIs. When asked whether they would pay more for higher service levels around the delivery of appropriate products, service, and advice, more than 56% said they would, with emerging market HNWIs the most likely to pay a lot more. Firms will need strong front-line staff to ensure client expectations around suitability are met. The regulatory burden is also significant given that the responsibility for determining suitability lies with wealth managers and firms, even if it is contrary to clients' stated wishes.

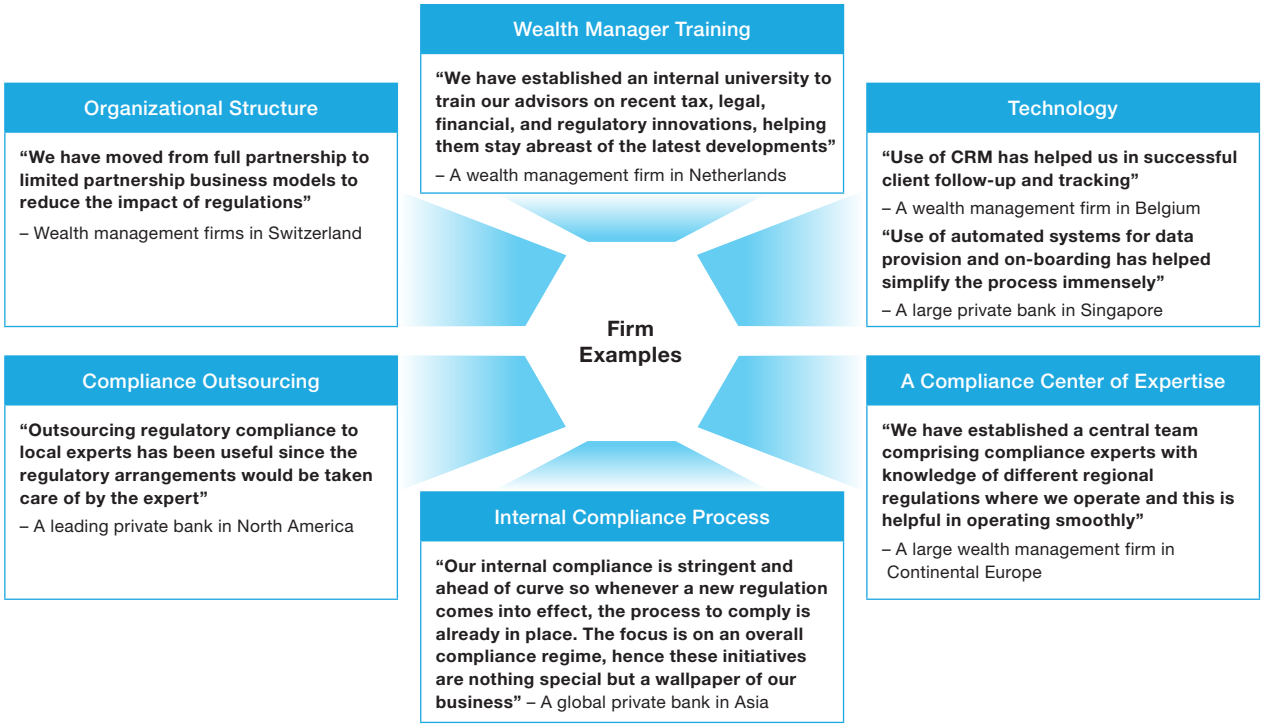
» As discussed on page 34, a strong brand reputation can be a differentiator, particularly in markets such as Latin America and Middle East and Africa (and Asia-Pacific to a slightly lesser extent). As a result, firms with demonstrated track records around compliance should seek ways to communicate this message to potential clients. This approach is not without risk, however, as even firms that are best-in-class with respect to compliance likely will not have perfect track records.

Opportunities for Firms to Differentiate through Less Tactical, More Strategic Compliance-Driven Investments

Globally, firms in different regions that made appropriate and timely regulatory investments have been able to navigate the complex regulatory environment relatively more easily than their competitors. These tactical investments, while not necessarily creating significant opportunities to add value to clients, helped firms meet their compliance requirements (see Figure 23).

The examples of tactical investments made by firms are largely focused on simply meeting regulatory requirements. In order to extract strategic value and possible competitive differentiation from regulatory investments, greater consideration should be explored regarding areas of possible firm-level transformation, potentially leading to business efficiencies for firms and additional value for clients. Decisions and investments in specific areas such as technology and process, people and culture, and client communications are likely to provide opportunities with the greatest potential to drive strategic value (see Figure 24).

FIGURE 23. Tactical Investments by Firms



Source: Capgemini Analysis, 2013; WWR Executive Interviews 2013; Capgemini Subject Matter Experts, 2013

FIGURE 24. Potential Compliance Areas to Drive Incremental Value

Source: Capgemini Analysis, 2013; WWR Executive Interviews 2013

Technology and Process
Regulatory imperatives can act as the push many firms need to make transformative investments, and technology in particular offers a strong opportunity to turn tactical regulatory efforts into strategic advantages. Investments in CRM, reporting, process automation, and risk management, for example, are all necessary for achieving compliance. Done in a strategic manner, they can also be leveraged to extract additional value for both firms and clients. In effect, more strategic decisions and investments related to technology have the potential to separate best-in-class firms from others.

Consider the requirement to consolidate line-of-business AML records into an integrated bank-wide AML dashboard. By adding client and data analytics, AML consolidation can be leveraged to improve client centricity. One of the leading firms in the U.S., for example, used such data to perform in-depth analyses of client profiles and transactions, enabling them to leverage the results to suggest products and services to clients. By making similar strategic investments, firms can further convert obligations into opportunities.

Additionally, investments in automation, especially those that free up the time spent by wealth managers on compliance-related issues that could otherwise be used for revenue-generating activities, can drive firm efficiency and client service improvements.

People and Culture
The strength of a firm is ultimately grounded on the strength of its people. Not surprisingly, wealth manager competency has been identified by HNWIs as a top priority (see page 16), and having highly skilled and experienced wealth managers is therefore one of the biggest differentiating factors for wealth management firms.

To improve competency, firms can enhance training programs to not only cover new regulatory requirements, but also strengthen the ability of wealth managers to consistently deliver against the firm's value proposition. Wealth managers should also be skilled in tailoring the core global offering to meet the needs of local clients, such as trade finance in France or commodities trading in China. In such cases, simply training may not be sufficient given the deep expertise needed, forcing firms to re-evaluate hiring approaches. Market entry and expansion strategies can also be supported by directly hiring strategic teams (in addition to building the infrastructure) that can provide access to booking centers, innovative services and products, and insight into the local culture. Such local teams must be assembled with future scalability in mind.

Best-in-class firms that operate in geographically diverse locations will seek to impart knowledge to wealth managers regarding the cultural practices and norms specific to the areas in which they operate. Such training can help wealth managers overcome cultural resistance to the type of intense questioning and documentation of clients that now characterizes key regulatory requirements, particularly KYC and AML.

In addition to experienced wealth managers, it is imperative to have strong legal and compliance expertise, particularly within the middle office. Even with automation, compliance staff must approve or review decisions, such as those related to KYC, at numerous touch-points along client on-boarding and other processes. Complexities raised by regional regulations, culture, jurisdictions, service offerings, and wealth segments will force these individuals to have to make frequent judgment calls. Leading firms will not get it right every time, but over time will develop a working body of precedents that marry rule-based and principle-based compliance approaches.

The most important people-related shift is also generally the most difficult for most firms to achieve. Leading firms advocate developing and nurturing a culture of compliance that includes a clearly articulated set of values, processes and norms. These principles must not only be embraced by senior leadership, but be embedded within the front-line staff to underscore the firm's overall commitment to trust and integrity.

Client Communications
It will also be important for firms to establish and champion clear communication strategies that enable wealth managers to have constructive discussions about regulatory requirements with their clients. Firms can clearly articulate that some of the "pain points" in the servicing of accounts – particularly requests for detailed personal information and documentation – are not tied to firm policies, but to KYC and AML regulatory requirements imposed on the industry at large in order to protect clients, maintain transparency, and reduce risk.

More subtly, wealth managers need to ensure they manage client expectations, since more complex processes driven by regulation will require more time to be spent on these areas during client servicing. This clarity in communication will assist in minimizing client frustration and increasing their understanding about their own responsibilities in today's environment.

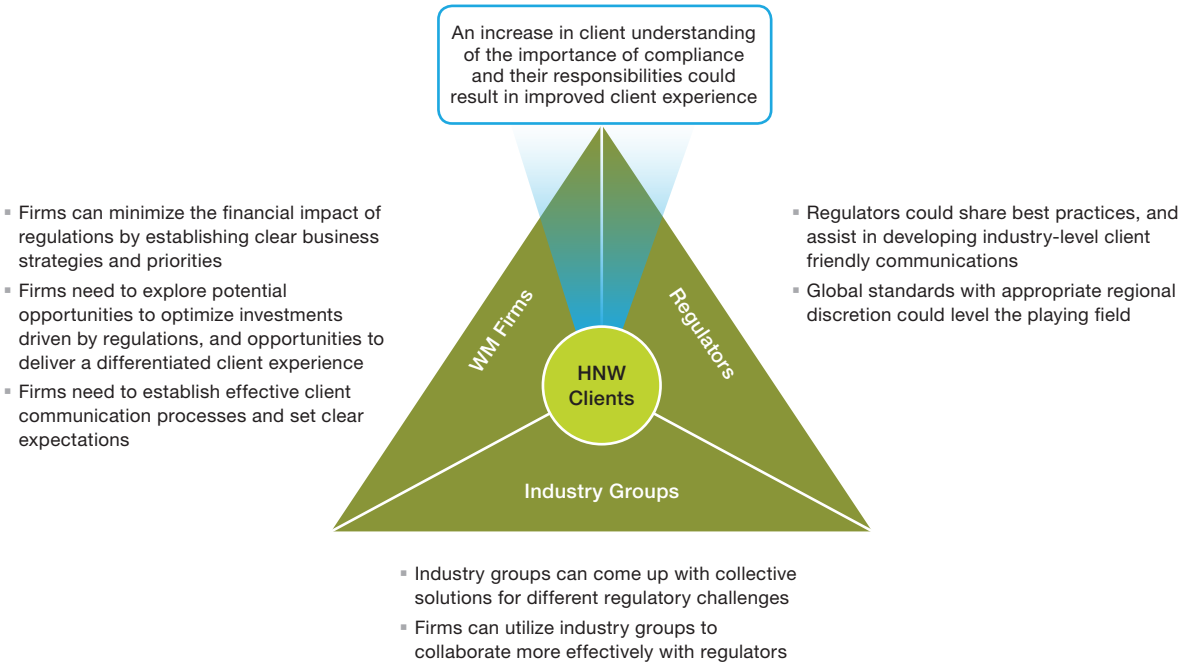
Contributions from All Stakeholders Can Help Minimize Regulatory Complexity

Firms that can incorporate compliance into their overall business strategies and not treat regulations in isolation will be better placed to succeed in minimizing the financial impact of regulations and be better equipped to deal with any new and upcoming regulations. Additionally, continued efforts to collaborate with regulators and educate clients will likely go a long way toward smoothing the rough edges of regulatory reform (see Figure 25).

Regulator support could prove to be invaluable for firms and clients in effective implementation of compliance. Regulators could explore the facilitation of industry-wide workshops with participation from all firms, as some regulators already do mostly at a local level, and partner more closely with other industry organizations, such as the Securities Industry and Financial Markets Association (SIFMA), in the U.S. to help drive collective solutions. The workshops could act as an additional channel for regulators to discuss upcoming regulations or modifications to existing ones so that firms have sufficient time to plan, as well as to share their views. Regulators could also consider collecting and sharing best practices and assist in developing industry-level client communications to outline both client and firm responsibilities. One notable example of a regulator that has taken a collaborative approach with constituents, while maintaining a focus on client protection, is the Monetary Authority of Singapore. Where possible, regulators who engage clients throughout the regulatory process, from design to impact assessment and monitoring, will be well-positioned to drive positive industry change.

One of the biggest regulatory challenges for the wealth management industry is increasing regional regulatory asymmetry. Clients around the world are experiencing different standards when interacting with firms in different regions. Such disparities also present complexity for global firms operating in multiple regions. Global regulatory standards could help to level the playing field for all, and more importantly, make it easier and more cost-effective for firms to deliver a positive client experience.

FIGURE 25. Key Stakeholders to Effective Compliance Implementation



Source: Capgemini Analysis, 2013; WWR Executive Interviews 2013

While clients are right to demand consistently high service levels as firms manage the compliance burden, they can also play a useful role in accommodating regulatory change. Clients with a better understanding of the importance of compliance will find it relatively easier to deal with different requests for information from their wealth manager, ultimately facilitating more effective advice and solutions. In addition, the upfront administrative burden for clients would be worth the benefits of being associated with firms having strong, transparent, and compliant business practices. However, it is up to firms to communicate this rationale and more importantly, to develop, communicate, and meet client experience and service standards.

Given the complexity and regional variation of regulations, many firms take a tactical compliance approach by addressing requirements in a one-off manner. Today's regulatory environment opens up the opportunity for firms to do much more than that, by taking a hard look at many aspects of their operations, from who their core clients are, to how they charge for services, to how they invest strategically in technology.

Firms have an important role to play in assisting regulators in their efforts to maintain clean markets and enhance the industry's reputation. Through adherence to well-planned compliance standards, they can actively contribute to the social good and client protection. Even at the cost of short-term financial impact, firms and wealth managers should first and foremost be thinking of clients' best interests and protecting the firm's reputation. Finding the right balance between a culture of compliance and profitability is a delicate and continuous process. Done strategically, it can help firms leverage potential opportunities and stay ahead of their competitors.

Ultimately, the regulatory burden is not going away and will likely only increase. Firms that can make decisions and investments to incorporate the scope of regulatory change at a strategic rather than tactical level, stand to gain the most both in efficiencies and an improved ability to meet or exceed client needs and expectations.

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Scorpio Partnership, led by Sebastian Dovey and Cath Tillotson, for their strong collaboration in developing and administering our inaugural Global HNW Insights Survey which is one of the largest and in-depth surveys of high net worth individuals ever conducted.

We extend a special thanks to those firms and regulators that gave us insights into events that are impacting the wealth management industry on a global basis.

The following firms and regulators are among the participants that agreed to be publicly named:

ABN AMRO Bank (Luxembourg) S.A.; ABN AMRO MeesPierson; ABN AMRO Private Banking International; AFM (Authority for the Financial Markets); Association of Foreign Banks in Switzerland; Banif Banca Privada; Bank Insinger de Beaufort N.V.; Bankhaus Lampe KG; Banque de Luxembourg; Banque Degroof Bank; Banque Havilland; Banque Privée Espirito Santo; Belfius Private Banking; BNP Paribas Wealth Management Asia; BNP Paribas Wealth Management Luxembourg; BNP Paribas Wealth Management España; BNYM Mellon; BSI AG; CIBC Wealth Management; Citibank (Switzerland) AG; Debtwire; DZ PRIVATBANK S.A.; Geneva Financial Center; HSBC Private Bank; HSBC Trinkaus & Burkhardt AG; ING Private Banking; ING Private Banking Belgium; J.P. Morgan (Suisse) SA; Killeen Holdings; Lombard Odier; Lombard Odier & Cie (Switzerland); National Bank of Abu Dhabi; Petercam; Pictet & Cie; Rabobank Private Banking; RBS Private Banking India; Religare Macquarie Private Wealth; Robeco Group; Royal Bank of Canada; Scotiabank; SNS Securities; Sotheby's North & South America; Theodoor Gilissen Private Bankers; Swiss Bankers Association; Swiss Private Bankers Association; Van Lanschot Bankiers.

Appendix A
METHODOLOGY

MARKET SIZING

The World Wealth Report 2013 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.

GLOBAL HIGH NET WORTH INSIGHTS SURVEY, 2013

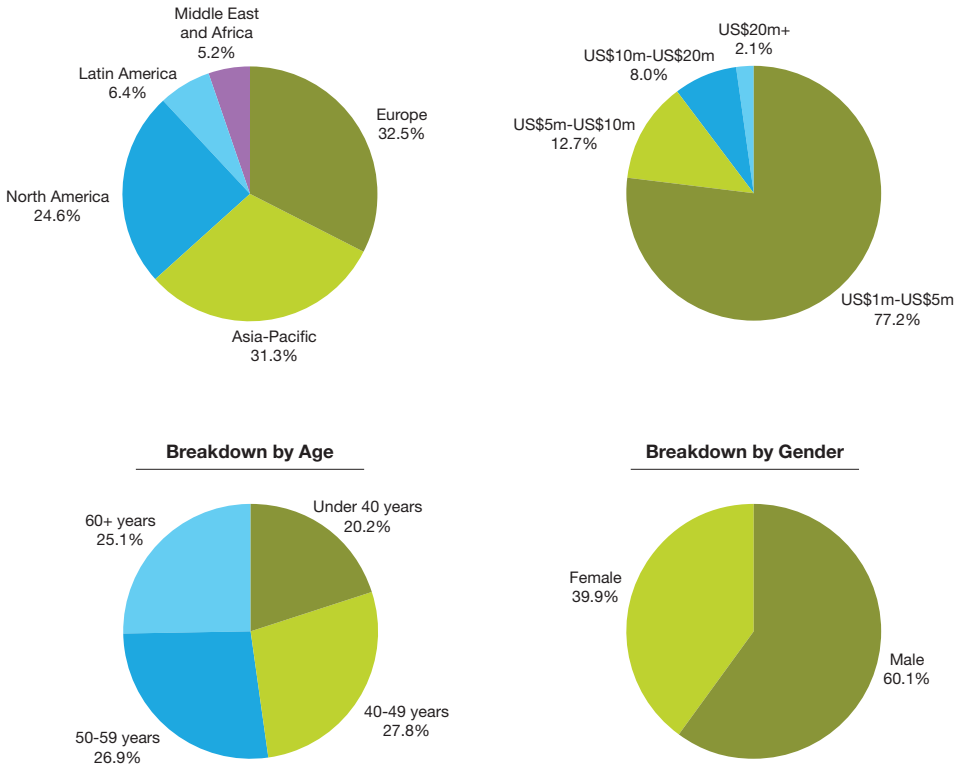
The Capgemini, RBC Wealth Management, and Scorpio Partnership 2013 Global HNW Insights Survey queried more than 4400 HNWIs across 21 major wealth markets in North America, Latin America, Europe, Asia-Pacific, Middle East, and Africa. Respondent demographics broken down by region, age, gender, and wealth band are captured in Figure M1. The survey also captured responses in the US$0.5 million to US$1 million wealth band, with the total number of survey responses exceeding 5600.

The Global HNW Insights Survey, one of the largest surveys of HNWIs, was administered in collaboration with Scorpio Partnership, a firm with fifteen years of experience in conducting private client and professional advisor interviews in the wealth management industry, in February and March 2013.

The survey primarily focused on three key areas: HNWI trust and confidence; HNWI asset allocation; and HNWI behavior. The first focus area targeted HNWIs 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 and future asset allocation patterns of global HNWIs, including investments of passion holdings. The third and final key focus area, "HNWI behavior," studied HNWI preferences and behaviors with respect to their objectives and approach to wealth management, their relationships with wealth managers, and the type of service they expect.

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.

FIGURE M1. Global HNW Insights Survey Demographic Breakdown, Q1 2013



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

Appendix B GLOSSARY OF MAJOR REGULATIONS AFFECTING WEALTH MANAGEMENT FIRMS AND THEIR ORIGIN

Regulation / Regulatory Initiative	Origin	Brief Description
Know Your Customer (KYC)	Global	Regulations that mandate collecting extensive customer details to curb illegitimate money transfer and prevent tax-evasion practices
International Financial Reporting Standards (IFRS)	Global	The goal is to develop a single set of high quality, understandable, enforceable, and globally accepted financial reporting standards in the public interest
Organization for Economic Co-operation and Development (OECD) Offshore Tax Agreements	Global	Offshore centers which signed these agreements with any country would have to share the financial details / investments made by citizens of that country in the offshore center
BASEL III	Global	BASEL III sets out stringent capital and liquidity requirements for financial institutions offering banking services to clients
Anti Money Laundering (AML)	Global	Stringent regulations that aim to curb money laundering practices that are mainly used to fund terrorism, drugs, and other illegal activities
Undertakings for Collective Investments in Transferable Securities (UCITS)	EU	The goal of UCITS is to bring efficiencies to the management of funds and increase investor protection through simplified product disclosure
Packaged Retail Investment Products (PRIPs)	EU	According to this regulation, all investment manufacturers will have to produce a "Key Information Document" (KID) for each investment product and all KIDs should have a standardized look and feel for easy comparison
Markets in Financial Instruments Directive II (MiFID II)	EU	Firms are mandated to declare the nature of their products and disclose their fees upfront
Alternative Investment Fund Managers Directive (AIFMD)	EU	This sets out rules pertaining to several financial aspects such as calculation of assets under management, conflict of interest, risk management, and liquidity
European Market Infrastructure Regulation (EMIR)	EU	This regulation aims to regulate the OTC derivatives market and strives for systemic risk mitigation and increased transparency
Retail Distribution Review (RDR)	U.K.	Sets out rules pertaining to fee disclosure, and minimum levels of professional competencies for wealth managers
Treating Customers Fairly (TCF)	U.K.	TCF aims to raise the standards in which firms carry out their business and introduce changes that benefit customers and increase their confidence in the financial services industry
Dodd-Frank Act and Volcker Rule	U.S.	Dodd-Frank Act includes broad swaths of financial services industry covering every aspect of U.S. financial services including consumer protection, financial stability, private fund regulation, proprietary trading, derivatives, and corporate governance
Foreign Account Tax Compliance Act (FATCA)	U.S.	According to FATCA, foreign firms offering financial services to U.S. citizens would have to disclose their financial details directly to the IRS or be subject to 30% withholding tax
Future of Financial Advice (FOFA)	Australia	FOFA provides guidelines on several aspects, such as a prospective ban on conflicted remuneration structures including commissions, and introduction of fiduciary standards for wealth managers

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Capgemini's wealth management practice can help firms from strategy through to implementation. Based on our unique insights into the size and potential of target markets across the globe, we help clients implement new client strategies, adapt their practice models, and ensure solutions and costs are appropriate relative to revenue and profitability expectations. We further help firms develop, and implement the operational infrastructures—including operating models, processes, and technologies—required to retain existing clients and acquire new relationships.

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