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UNDERSTANDING ASIA'S HIGH NET WORTH MARKET

April Rudin of the Rudin Group looks at growth in the wealth management industry in Asia-Pacific.

WHERE IN THE WORLD IS THE WEALTH growth? Look east. Asia-Pacific is working hand-in-hand with North America to lead the growth of the world's high net worth individual population and financial wealth. Last year, APAC contributed the most to the global HNWI population growth at 42.4%, according to Capgemini's 2018 world wealth report. The region also added 41.4% of the new HNWI wealth, while North America accounted for 27.4% of the global increase in HNWI wealth. Here we'll take a look at Capgemini's latest global wealth report and its insight into the shifting landscape of HNWI wealth in Asia.

APAC set a new record last year, reaching 6.2 million HNWI and USD21.6 trillion in HNWI wealth. That's taken the region to 34.1% of the global HNWI population and 30.8% of the global HNWI wealth. It's no surprise that China continues to be one of the key HNWI markets in the world, leading global wealth alongside the US, Japan and Germany. Those four markets accounted for 62% of all new HNWIs created in 2017. China held 1.1 million of the HNWI population, and USD5.8 trillion of wealth as of the end of 2016. Elsewhere in Asia, India was actually the fast growing market globally in 2017, with a 20.4% HNWI population and 21.6% wealth growth. Capgemini predicts that by 2025 Asia-Pacific will hold more than USD40 trillion in HNWI wealth. Perhaps that's why the region's HNWI are reportedly some of the most optimistic about their ability to generate wealth!

The region's growth is helped (or sometimes hindered) by its interest in growth-oriented investments. HNWI in APAC (ex-Japan) tend to invest more in higher risk-return instruments than equity benchmarks. Strong equity market performance across the region helped contribute to the wealth growth in 2017. While China's equity market lagged in 2016, it was able to reverse course in 2017, with the country posting 19% market capitalization growth.

Many HNWI can thank their wealth managers for their investment success. Chinese HNWI reported 46.9% returns on discretionary portfolios in 2016, surpassing the 36.2% returns on advisory portfolios and 31.5% on self-service portfolios that year. Similarly in 2017, HNWI using a discretionary approach performed better than their peers. Within the next two years, APac HNWI are expected to increase their firm managed assets by 26.7%. Younger HNWI globally are expected to increase their firm managed assets as well. But notably, a hybrid, wealth manager and self service, style approach is considered most important to 68% of APAC (ex-Japan) HNWIs, especially the younger investors.

Interestingly, the growth of Asian wealth, coupled with the growth of technology, is changing some of the wealth management tactics the Western world has long relied on. One of the key areas to look at is the surge of big technology companies edging toward financial services and eyeing the potential of wealth management for business opportunities. Outside of the usual American names, Amazon, Apple, Facebook, Google, and Microsoft, Chinese tech companies have been leading the push. In 2016, Baidu created its own investment management fund, Baidu Capital. Last year, Alibaba's Yu'e Bao, founded in 2013, became the world's largest money market fund. The company's Ant Financial has also been making rapid progress. As of this year, the company's wealth management arm says that it has 622 million users with USD345 billion in assets under management. Last year, Tencent invested USD360 million in Chinese investment bank China International Capital Corporation. This year, Tencent received a license to sell mutual funds to WeChat's 1 billion users.

While older, Western HNWIs have expressed skepticism and distrust of technology companies managing money, younger people are more open to the idea of giving their cash to big tech. It makes sense, considering these are the people that grew up with tech in their daily lives, and they saw their

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parents and grandparents burned by traditional financial institutions during the financial crisis.

Similarly, the finance industry seems to agree that Asia-Pacific will embrace technology in wealth management before other regions of the world. About 87.1% of APAC (ex-Japan) HNWIs showed a desire to use big tech wealth management services in 2018.

These dynamics will undoubtedly continue to pivot and morph in the coming years, but the one thing that seems unlikely to change is Asia's growing wealth. As wealth management firms solidify their business in the 21st century, they'll find it necessary to keep one eye on Asia at all times.

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