United States Wealth Report 2015

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Preface

Capgemini is pleased to present the *2015 United States Wealth Report,* our second annual examination of trends driving the behaviors of high net worth individuals (HNWIs[1]) across the country and reshaping the wealth management industry. This year's report found that U.S. HNWI population and wealth reached record levels in 2014, helping to advance the growth of HNWI wealth around the globe. Our report details the trajectories of this growth throughout specific Metropolitan Statistical Areas (MSAs[2]) in the U.S.

Despite this solid expansion, firms need to avoid complacency in how they serve this growing market, especially given our findings related to younger HNWIs. The attitudes and preferences of younger HNWIs threaten to undermine traditional approaches. Our report offers a blueprint for navigating this new terrain by detailing the characteristics that separate younger HNWIs, including under-30s, from their older counterparts.

Wealth management firms have a long tradition of acting as stewards of steadily expanding U.S. HNWI wealth. To retain that role, they need to begin preparing now for long-term shifts in client attitudes and behaviors, rather than focusing only on short-term issues. They must embrace the traits that distinguish under-30 HNWIs, who are expected to define relationships in the future. These under-30 traits and demands are beginning to surface among older age segments, including those HNWIs aged 60 and above. Firms that do not prepare for this shift risk inadequately serving the full scope of HNWI segments in the future.

One of the most important reasons for firms to begin understanding the behaviors and demands of younger HNWIs is so they can prepare for the increasing need for digital offerings such as automated advice[3] platforms. Such services promise to be highly appealing to younger HNWIs, creating an imperative for firms to both develop and execute their strategy for providing some form of automated advisory services to their HNWI clients.

By deploying a rich set of automated advice services, wealth management firms will be much better equipped to act as the primary wealth management providers to a broad spectrum of HNWIs, as well as to mass-affluent[4] clients. Automated advice enables wealth managers to free up their time to deliver value-added services, such as financial planning and social impact advice to core HNW clients. At the same time, it lets them cost-effectively capture market share in the underserved but less profitable mass-market segment.

The opportunity for the wealth management industry to better serve HNWIs, as well as broaden its target market by addressing younger HNWI concerns cannot be underestimated. We hope you find our report useful in determining the best strategies to take advantage of this changing landscape.

Thierry Delaporte
Chief Executive Officer
Global Financial Services
Capgemini

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

[2] Metropolitan Statistical Areas (MSAs) are geographic entities defined by the U.S. Office of Management and Budget (OMB); In our analysis, we abbreviate to 'metro areas' and 'cities', but in all cases we are referring to MSAs as defined by the OMB, which generally include the named city, as well as many important neighboring counties.

[3] Automated advisors or automated advisory services refer to online-only/stand-alone firms or divisions of traditional wealth management firms that offer automated portfolio management and financial planning services and any follow-ups related to this, mainly through online/digital channels.

[4] Mass-affluent individuals are defined as those having investable assets between US$100k to US$1 million, excluding primary residence, collectibles, consumables, and consumer durables.

Executive Summary

U.S. DRIVES GLOBAL HNWI GROWTH

- U.S. HNWI wealth and population reached record levels in 2014, and they have accounted for 28.6% of new HNWI wealth added globally since 2008.
- The 12 largest U.S. metro areas, led by Texas and the West Coast, added over US$1 trillion of new HNWI wealth in the U.S., accounting for 79.8% of total U.S. HNWI wealth added in 2014.

BEHAVIORS OF YOUNGER U.S. HNWIs DRIVING WEALTH MANAGEMENT FIRMS TO ADAPT TO THE CHANGING LANDSCAPE

- Despite robust wealth growth in the U.S., relatively lower levels of trust, confidence, and satisfaction in wealth managers and firms by younger HNWIs threaten to undermine traditional wealth relationships.
- The behaviors and demands specific to under-40 HNWIs such as higher preference for digital engagement, global investing, and sophisticated financial planning are expected to become more widespread as younger HNWIs gain in prominence and over-40 HNWIs begin to adopt similar attitudes.
- The habits and behaviors of under-30 HNWIs are even more pronounced than those of under-40 HNWIs, creating a real urgency for firms and wealth managers to develop progressive strategies to adapt to evolving client needs.

AUTOMATED ADVISORS PROVIDE HUGE POTENTIAL WHILE CREATING IMPERATIVE FOR CULTURE SHIFT IN WEALTH MANAGEMENT

- As a result of converging demographic and technological trends especially around digital, and with the advent of automated advice platforms, clients are changing the way they interact with their wealth managers to get their needs serviced.
- U.S. HNWIs, especially the next generation, note a high demand for automated advisors. However, despite its rapid growth, automated advisors currently offer a limited breadth of services to a small portion of the HNWI market.
- Nonetheless, automated advice represents a huge potential market for wealth management firms to capture the underserved, low-margin mass-affluent market as U.S. HNWIs alone noted a willingness to allocate an estimated US$1.5 trillion of assets to automated advisors by 2017.
- Firms must act now to offer an automated advisory capability, not only to respond to HNWI demand and competing offerings, but to begin to develop a culture of innovation.

U.S. Propels Global HNWI Growth

- **U.S. HNWI wealth and population reached record levels in 2014, helping to drive wealth expansion globally.** An 8.6% increase in the number of U.S. HNWIs to 4.4 million and a 9.4% increase in their investable wealth to US$15.2 trillion helped advance global HNWI wealth growth, given the U.S.'s status as the largest HNWI market. U.S. HNWIs have accounted for 28.6% of new HNWI wealth added globally since 2008.
- **An increase of US$1 trillion in the 12 largest metro areas helped drive overall U.S. wealth growth.** These 12 cities, nine of which have consistently experienced annualized wealth growth at or above the U.S. average, have accounted for 22.5% of new HNWI wealth added globally since 2008.
- **Regional factors, particularly real estate growth, caused cities in Texas and along the West Coast to experience the greatest amount of expansion in HNWI population.** Houston grew the fastest, at 14.0%. Cities in the Midwest and along the East Coast added HNWIs at a slower rate.

TOP 12 CITIES ADD US$1 TRILLION IN WEALTH

U.S. HNWIs remained a dominant force in global HNWI wealth growth in 2014, underscoring their high profile in leading the worldwide HNWI recovery from the financial crisis. The number of HNWIs in the country expanded to 4.4 million, an increase of 8.6% (see Figure 1), while their investable wealth grew by 9.4% to US$15.2 trillion (see Figure 2). These record numbers extended the lead role U.S. HNWIs have played in contributing to global HNWI wealth growth in the aftermath of the crisis. Since 2008, the U.S. has accounted for 28.6% of new HNWI wealth added globally.

Much of the U.S. HNWI wealth is concentrated in 12 metro areas representing about two-thirds of HNWI population, and about three-quarters of its wealth.

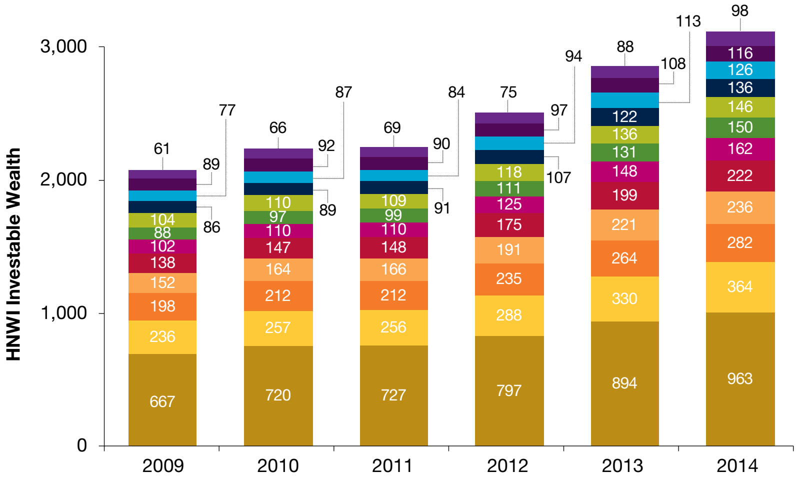
Within these 12 cities, HNWIs grew their investable wealth by US$1 trillion (or 10.1%) to US$11.4 trillion during 2014, which was above the U.S. average growth rate. This growth in HNWI wealth for the top 12 cities represented 79.8% of the new U.S. HNWI wealth added in 2014. Nine of these top 12 metro areas have had annualized wealth growth since 2008 that was at or above the U.S. average of 8.6%, helping to push both U.S. and global HNWI wealth improvement. Since 2008, the wealthiest 12 cities in the U.S. have accounted for 22.5% of new HNWI wealth added globally.

Figure 1. U.S. and Top 12 MSA HNWI Population, 2009–2014

(000s)

U.S. CAGR 2009–2014: 8.7%

	2009	2010	2011	2012	2013	2014
U.S. Total	**2.9M**	**3.1M**	**3.1M**	**3.4M**	**4.0M**	**4.4M**
Top 12 MSA Total	**2.0M**	**2.2M**	**2.2M**	**2.4M**	**2.8M**	**3.0M**



% Change 2013–14	
U.S.	**8.6%**
Top 12 MSAs	**9.0%**
Seattle	12.1%
Detroit	7.4%
Dallas	11.2%
San Jose	11.4%
Philadelphia	7.9%
Houston	14.0%
Boston	9.7%
San Francisco	11.2%
Washington D.C.	7.0%
Chicago	6.7%
Los Angeles	10.4%
New York	7.7%

Note: The total for all years are expressed in millions and the 000s in the chart title do not apply to those numbers; Chart numbers and quoted percentages may not add up due to rounding

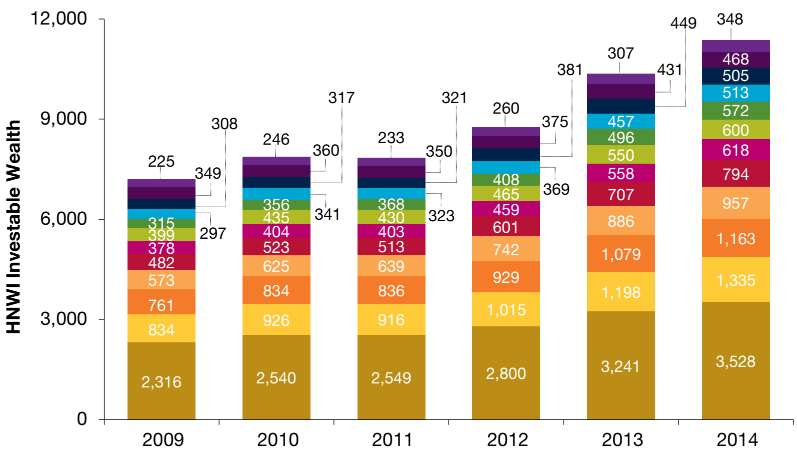
Source: Capgemini Financial Services Analysis, 2015

Figure 2. U.S. and Top 12 MSA HNWI Wealth, 2009–2014

(US$ Billion)

U.S. CAGR 2009–2014: 8.9%

	2009	2010	2011	2012	2013	2014
U.S. Total	**US$9.9T**	**US$10.8T**	**US$10.5T**	**US$11.8T**	**US$13.9T**	**US$15.2T**
Top 12 MSA Total	**US$7.2T**	**US$7.9T**	**US$7.9T**	**US$8.8T**	**US$10.4T**	**US$11.4T**



% Change 2013–14	
U.S.	**9.4%**
Top 12 MSAs	**10.1%**
Seattle	13.3%
Detroit	8.5%
San Jose	12.5%
Dallas	12.4%
Houston	15.2%
Philadelphia	9.0%
Boston	10.8%
San Francisco	12.3%
Washington D.C.	8.1%
Chicago	7.8%
Los Angeles	11.5%
New York	8.8%

Note: The total for all years are expressed in US$ trillion and the US$ billion in chart title does not apply to those numbers; Chart numbers may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2015

National factors, such as strong equity market performance and solid GDP growth, helped lift HNWI population growth in all of the top 12 metro areas. But regional factors also played a role (see Figure 3). The top six cities in HNWI population expansion were all in Texas and the West Coast, where they were aided by robust real estate growth and, especially in Texas, more dynamic economic performance.

Houston recorded the largest HNWI population growth of all the cities (14.0%), pulling it from eighth to seventh place, the only shift to occur within the top-12 ranking.

Seattle was second in HNWI population growth, at 12.1%. Meanwhile, the six cities with the least amount of HNWI population growth were all in the Midwest or along the Eastern Seaboard. Chicago, suffering from relatively subdued economic growth and higher rates of unemployment, had the lowest level of HNWI population growth, at 6.7%.

U.S. HNWIs at all wealth levels helped to elevate overall HNWI growth. As in past years, ultra-HNWIs (those with more than US$30 million in assets) expanded their population and wealth more than any other segment, leading them to control 28.3% of U.S. HNWI wealth, though they comprise only 1.2% of the total number of U.S. HNWIs. Mid-tier millionaires, with between US$5 million and US$30 million in assets, also drove wealth, holding 24.4% of it while making up only 9.3% of the U.S. HNWI population. Though the wealth of millionaires next door (with between US$1 million and US$5 million in assets) was less concentrated, this segment controls a higher proportion of wealth (47.6%), compared to their global counterparts (42.9%), even though they represent similar proportions of population (~90%).

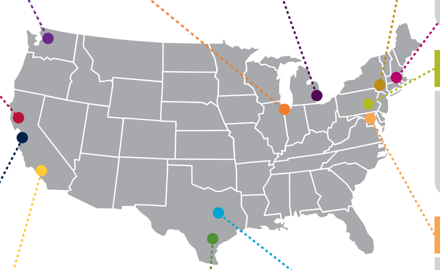
Once again, U.S. HNWIs proved to be integral to the strong growth of HNWIs worldwide. Solid increases in both their population and investable wealth helped bolster HNWI gains globally.

In addition, the performance of U.S. HNWIs exhibited depth, with both national and regional economic factors contributing, as well as all segments of the HNWI population.

Figure 3. HNWI Population and Wealth Growth, Gross Metropolitan Product Growth, Real Estate Growth, and Unemployment Rate, Top 12 U.S. MSAs, 2014

(%)

		$	GMP	Real Estate	Unem-ployment
Chicago	6.7%	7.8%	2.1%	7.6%	7.0%
Detroit	7.4%	8.5%	1.9%	NA	8.5%
New York	7.7%	7.8%	2.2%	1.0%	6.4%
Seattle	12.1%	13.3%	2.5%	6.0%	5.3%
Boston	9.7%	10.8%	2.3%	3.7%	5.2%
San Francisco	11.2%	12.3%	2.1%	10.2%	5.2%
Philadelphia	7.9%	9.0%	1.8%	0.2%	6.2%
San Jose	11.4%	12.5%	2.6%	10.3%	5.3%
Washington D.C.	7.0%	8.1%	2.5%	0.5%	5.0%
Los Angeles	10.4%	11.5%	2.4%	10.8%	7.6%
Houston	14.0%	15.2%	3.2%	9.4%	4.9%
Dallas	11.2%	12.4%	3.6%	7.2%	5.0%



Source: Capgemini Financial Services Analysis, 2015; Bureau of Economic Analysis, 2014 data accessed September 2015

Behaviors of Younger U.S. HNWIs Driving Wealth Management Firms to Adapt to the Changing Landscape

- **Despite robust wealth growth in the U.S., relatively lower levels of trust, confidence, and satisfaction in wealth managers and firms by younger HNWIs threaten to undermine traditional relationships.** These attitudes, combined with the under-40 HNWI perception that their wealth needs are less well-understood, are putting wealth managers and firms at risk, as under-40 HNWIs show a greater propensity to break ties with their wealth managers and firms in the event of their wealth needs not being fulfilled.
- **The behaviors and demands specific to under-40 HNWIs are expected to become more widespread as younger HNWIs gain in prominence and over-40 HNWIs begin to adopt similar attitudes.** Younger HNWIs exhibited demand for sophisticated financial planning services, including global investing, as well as a preference for digital engagement. Established wealth management firms are well-positioned to tackle the challenge of delivering both high-end advice, as well as services through digital channels, and their success in doing so will raise their profile among all segments of HNWIs.
- **The habits and behaviors of under-30 HNWIs are even more pronounced than those of under-40 HNWIs.** Lower levels of trust, loyalty, and satisfaction, combined with greater demands for digitalization and credit availability put under-30 HNWIs in a separate category. With under-30 HNWIs playing a lead role in driving client expectations, firms and wealth managers face an urgent need to develop strategies to adapt.

YOUNGER HNWIs EXHIBIT RELATIVELY LOWER CONFIDENCE IN WEALTH MANAGEMENT RELATIONSHIPS

U.S. HNWIs have steadily expanded their ranks and wealth over the years (see Market Sizing section, page 6), serving as a perennially reliable source of growth to the wealth management industry. Yet this pattern of upward momentum for wealth managers and firms is at risk of being undermined by new tendencies detected among key HNWI demographic groups. Specifically, younger and wealthier HNWIs are exhibiting preferences and behaviors that threaten the classic ties between HNWIs and the wealth management firms that serve them.

Under-40 HNWIs diverged significantly from those over 40 along a host of wealth management relationship measures (see Figure 4). Younger HNWIs had much lower trust and confidence in both their wealth managers (64.2% versus 75.7% for older HNWIs) and firms (63.6% versus 76.3% for older HNWIs), pointing to a fracture in the traditional wealth manager-HNWI relationship dynamic that could widen further as younger HNWIs gain in prominence. In addition, while U.S. HNWIs overall were the most satisfied in the world with their wealth managers (82.2%), younger U.S. HNWIs were less so compared to older ones (74.4% versus 83.6%).

These attitudes toward wealth management relationships played out in the behaviors exhibited by younger HNWIs.

Under-40 HNWIs were less likely to believe wealth managers understood their needs (74.5% versus 79.7% for over-40 HNWIs) and were also more likely to leave a wealth management relationship if their needs were not being met (84.7% versus 76.6%).

This propensity to leave was not the only sign of decreased loyalty as 48.5% of younger HNWIs said they had relationships with five or more firms, compared to only 9.0% of older HNWIs. Likely as a result of these multiple relationships, the percentage of assets managed by primary wealth managers for younger HNWIs was 58.0%, compared to 65.9% for older ones.

The wealthiest U.S. HNWIs[5] were outliers when it came to their preference for working with multiple firms. HNWIs with more than US$20 million in assets were more than twice as likely to work with multiple firms (30.2%) as those with between US$1 million and US$5 million (13.2%). Accordingly, only 42.1% of the wealthiest HNWIs (those with $20 million or more in assets) worked with a single firm, compared with percentages of 57.0% to 58.7% for HNWIs in all other wealth segments. This preference to work with multiple firms did not necessarily signal waning loyalty, given the high level of trust and confidence the very wealthy had in their wealth managers (79.4%), which was among the highest of all the wealth bands. Rather, the wealthiest HNWIs were likely to be motivated by a need to seek out diverse specialties to better manage their very complex financial portfolios.

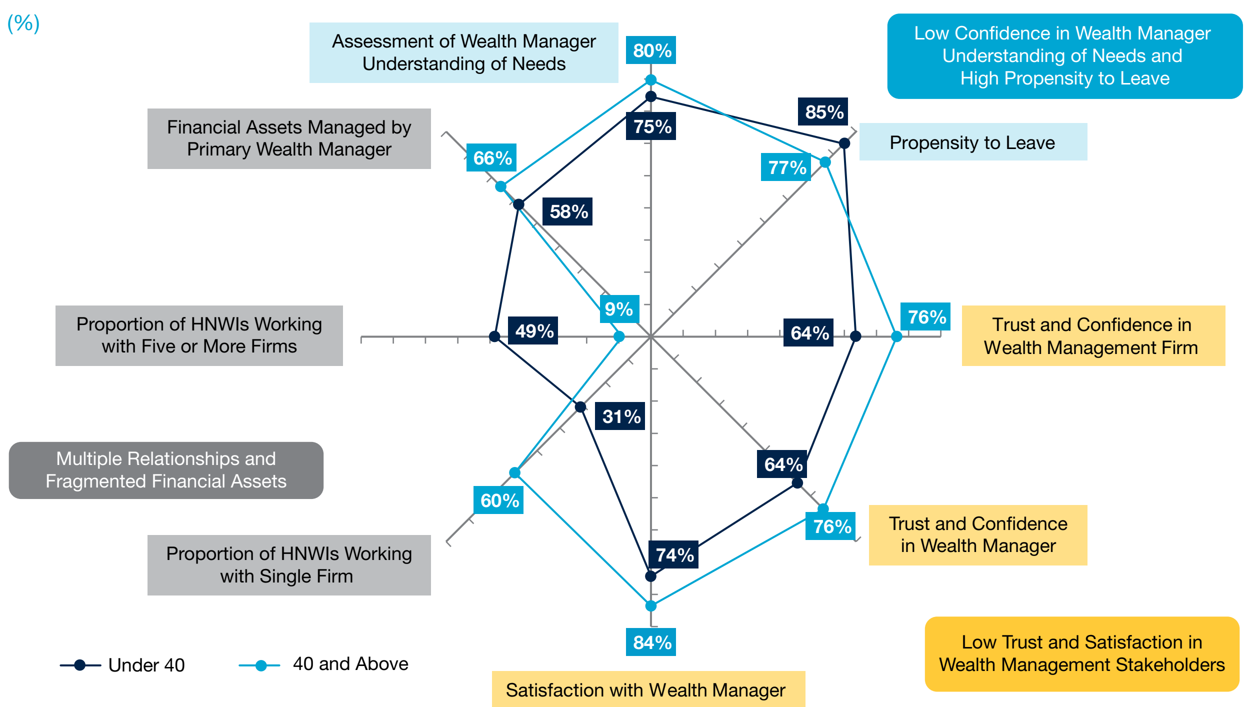
BEHAVIORS AND DEMANDS OF YOUNGER HNWIs DIVERGE SIGNIFICANTLY FROM OLDER HNWIs

Varied Concerns and Wealth Needs of Younger HNWIs Present New Opportunities for Wealth Management Firms

To overcome the tendencies that threaten their relationships with younger HNWIs, wealth managers and firms should seek to better understand and address under-40 HNWI concerns and needs.

Younger HNWIs had higher levels of concerns across a broad range of issues, with average concern levels reaching 68.1% versus 52.8% for older HNWIs, a difference of more than 15 percentage points.

Figure 4. Preferences and Wealth Management Approach of U.S. HNWIs by Age Band, Q1 2015



Note: Questions asked: "On a scale of 0%–100%, how satisfied are you with your primary wealth manager"?; "Currently, to what extent do you agree or disagree with the following statements?– I have trust and confidence in the wealth managers and firms". Results were analyzed based on agreement and disagreement to arrive at the percentages for HNWI trust and confidence. Respondents were asked to rate on a scale of 1–7 and the above percentages represent the sum of rating from 5–7; "How many wealth management firms do you work with"?; "What percentage of your financial assets are managed by your primary wealth manager"?; "Would you consider leaving your primary wealth manager or wealth management firm as a result of the following reasons"?; "On a scale of 1–7 (where 1=Not at all and 7=Extremely well), how strongly do you think your primary wealth manager understands your overall wealth needs"?

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

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

The concerns weighing most heavily on younger HNWIs had to do with rising education costs (a difference of 37 percentage points from older HNWIs), ensuring their children's well-being (a difference of 31 percentage points), and the availability of quality education (a difference of 30 points).

Younger HNWIs also exhibited specific wealth management needs that set them apart from their older counterparts. Under-40 HNWIs were more likely to view their financial needs and portfolios as both complex and global in nature, causing them to place greater emphasis on wealth managers to have a wide geographic reach (by 8 percentage points compared to over-40 HNWIs). They were also more likely to want managers to have the ability to engage additional experts to address their specific financial situations (by 5 percentage points).

These characteristics of younger HNWIs present traditional wealth management firms with a powerful opportunity.

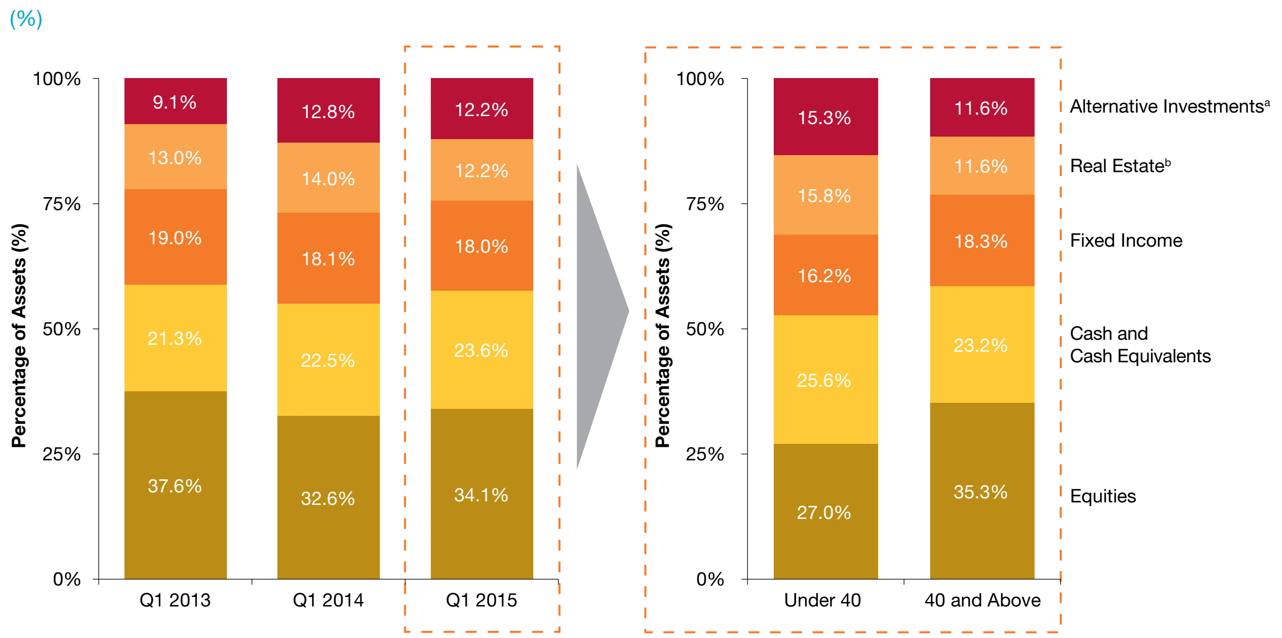
With their high levels of concern, complex needs, and demand for additional experts, younger HNWIs exhibit a strong preference for sophisticated financial planning capabilities.

At the same time, they are proponents of lower-cost, digital service delivery. The combination gives firms a chance to showcase the strengths of their existing advisory and financial planning services alongside more automated investment management services. Such an approach may well serve as the primary business model of the future[6] (see Spotlight on page 19).

Younger HNWIs Are More Global in Their Search for Returns, but Less Bullish on Equities than Other HNWIs

Wealth managers and firms can also better serve younger HNWIs by paying attention to their investment patterns. Notably, under-40 HNWIs, who have witnessed several severe bear markets during their life spans, were much less likely to allocate assets toward equity investments, with only 27.0% of their portfolios allocated to this asset class, compared to 35.3% for over-40s (see Figure 5). In keeping with this pattern, under-40 HNWIs were somewhat more likely (by 2.4 percentage points) to allocate to cash, compared to their older counterparts.

Figure 5. Breakdown of U.S. HNWI Financial Assets, Q1 2015



a. Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity
b. Excludes primary residence
Note: Question asked: "What percentage does each of these asset classes approx. represent in your CURRENT financial portfolio"?; Chart numbers may not add up to 100% due to rounding
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2013, 2014, 2015

[6] *2015 World Wealth Report*, accessed October 2015 at http://www.worldwealthreport.com.

Younger HNWIs did not appear to move away from equities in favor of relatively more conservative investments. Compared to older HNWIs, under-40 HNWIs were more likely to invest in real estate and alternative investments, and to maintain cash for the purpose of taking advantage of unique financial opportunities (18.2% versus 8.0% for older HNWIs).

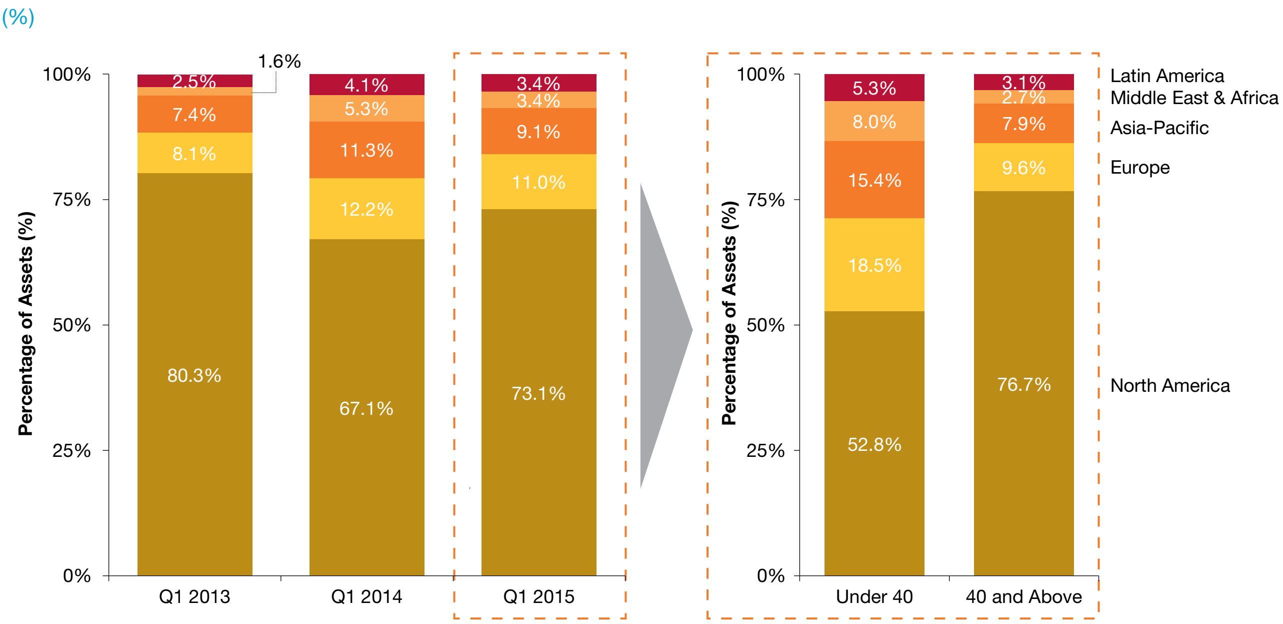
Younger HNWIs were also more ambitious about investing globally, putting almost half (47.2%) of their assets toward international investments, compared to only 23.3% for older HNWIs (see Figure 6).

Younger HNWIs Are Strongly Demanding Credit

Use of credit proved to be another distinguishing characteristic of younger and wealthier HNWIs. While U.S. HNWIs had the lowest levels of credit across the world in their portfolios (14.0% compared to a global average of 17.8%), those under 40, as well as those with more than US$20 million in assets, held much higher levels. At 29.2%, HNWIs under 40 held almost three times more credit than those over 40 (11.3%). And the wealthiest HNWIs held twice the credit of those in the lowest wealth segment (25.6% versus 13.0%).

Higher credit usage went hand in hand with younger and wealthier HNWIs also placing greater importance on credit availability and the ease of tapping it at the outset of a wealth management relationship (see Figure 7). Under-40 HNWIs were nearly twice as likely to be concerned about credit availability when choosing a wealth management provider (56.4%), compared to over-40s (28.6%). And HNWIs in the highest wealth bracket were more concerned about credit availability than those in the lowest (45.2% versus 33.0%).

Figure 6. Breakdown of U.S. HNWI Geographic Allocation, Q1 2015

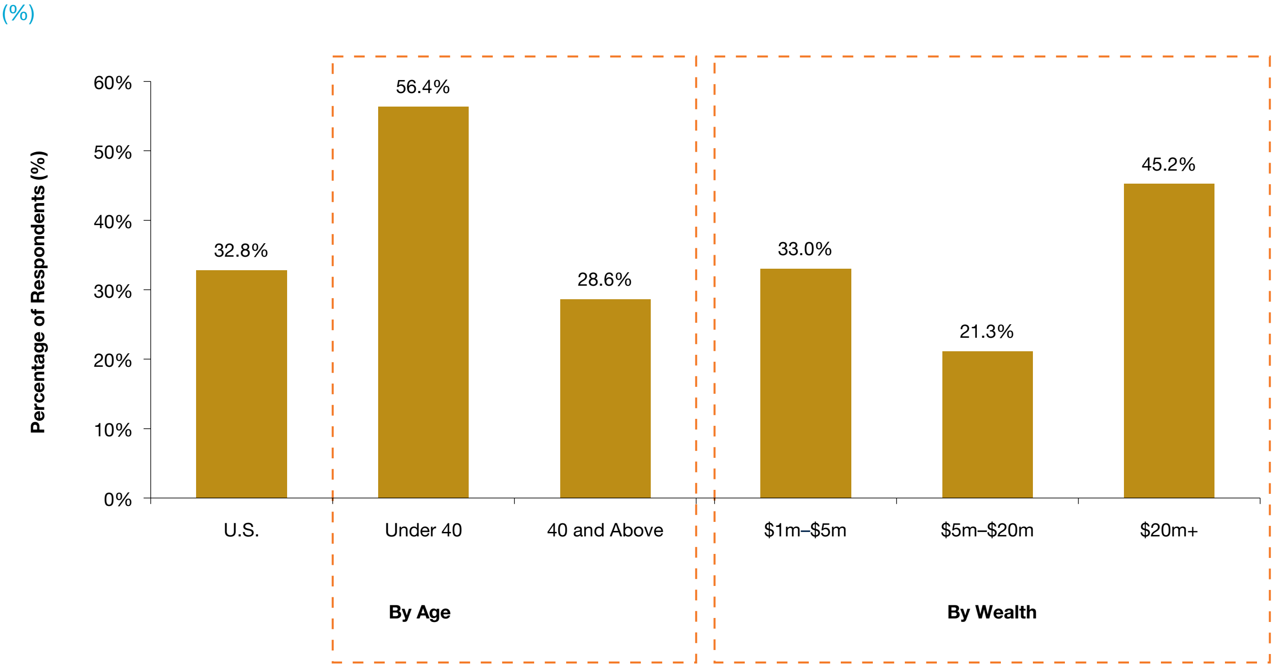


Note: Question asked: "Can you please indicate the approximate geographical allocation of your investments CURRENTLY"?; Chart numbers may not add up to 100% due to rounding

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2013, 2014, 2015

The reasons for holding credit vary by age and wealth level. On average, U.S. HNWIs were most concerned about having credit so they could take advantage of investment opportunities and purchase real estate. Younger and wealthier HNWIs, however, had a greater tendency to use credit for business purposes (23.0% for under-40 HNWIs versus 4.7% for over-40s, and 15.9% for the wealthiest HNWIs versus 5.6% for those with US$1 million to US$5 million in assets). Younger HNWIs were also more likely than older ones to use credit for real estate (23.0% versus 15.4%).

Figure 7. Importance of Availability/Ease of Availing Credit when Beginning a Relationship with a Wealth Management Firm, Q1 2015



Note: Question asked: "On a scale of 1–7, How important is the availability/ease of availing sufficient credit when making a choice on beginning a relationship with a wealth management firm"?; Ratings of 5,6, and 7 have been shown in the chart above

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

Younger HNWIs Exhibit Higher Demand for Digital Interactions and Social Impact Guidance

Asset allocation was not the only factor that differentiated younger HNWIs. Their preferences for engaging in digital interactions and driving social impact were also notable (see Figure 8). Over time, older HNWIs are expected to adopt similar preferences as younger ones, particularly in the areas of digital connections and social impact.

Most under-40 HNWIs (85.1%) noted they already conduct all or most of their wealth management interactions through digital channels, nearly twice the amount of over-40s (43.2%). And they are nearly twice as likely to prefer digital contact (27.9% of HNWIs versus 14.0% for over-40s).

Besides offering digital channels, firms seeking to retain and attract younger HNWIs need to ensure these channels work seamlessly with other access points. A majority of under-40 HNWIs (78.0%) said they would leave a firm if access to channels were not integrated. Only about half of over-40 HNWIs (49.3%) felt as strongly.

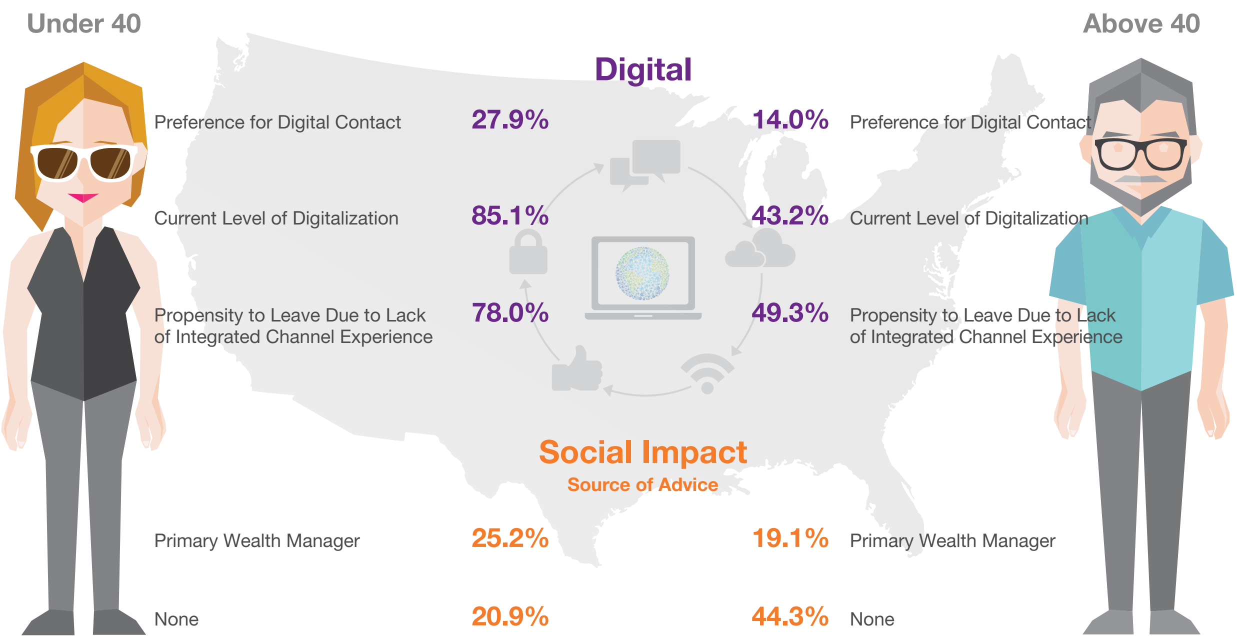
Younger and wealthier HNWIs are also counting on their wealth management providers to give them advice on the types of social impact opportunities that are available and how best to take advantage of them. These two segments already had the highest proportion of HNWIs receiving advice on social impact, with 79.1% of under-40 HNWIs and 70.2% of those with more than US$20 million of assets getting advice from some source, the most common ones being a family member, a friend, or a primary wealth manager.

Though U.S. HNWIs overall were most likely to get social impact advice from a family member (25.4%), the youngest and wealthiest of them placed the highest importance on getting such advice from their wealth manager. Among younger HNWIs who received advice, 69.4% said they wanted further social impact advice from their wealth manager. So did 62.8% of those with more than US$20 million of assets.

Social impact advice takes many forms, from translating causes into tangible opportunities, measuring the effectiveness of investments, identifying goals, and implementing different strategies. Under-40 HNWIs and those with more wealth expressed much greater interest in all these aspects of social impact advice compared to their older and less wealthy counterparts.

Figure 8. Key Digital and Driving Social Impact Differences by Age, Q1 2014 and Q1 2015

(%)



Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2014, 2015

Female HNWIs Stand Apart

Much like younger and wealthier HNWIs, female HNWIs were found to possess characteristics that diverged from the typical HNWI profile.

Female HNWIs tend to be more concerned about various aspects of their wealth, with average concern levels reaching 57.0%, compared to 52.7% for male HNWIs, a difference of 4.3 percentage points.

Specific concerns included a fear of identity theft and personal financial crime (by a difference of 12 percentage points from male HNWIs), anxiety about the environment (by a difference of 10 points), and the threat of income not keeping up with inflation (by 10 points). Female HNWIs also identified specific needs that set them apart from males, including a requirement for smooth account opening procedures (by a difference of 10 percentage points from male HNWIs) and a strong brand reputation (by 8 points).

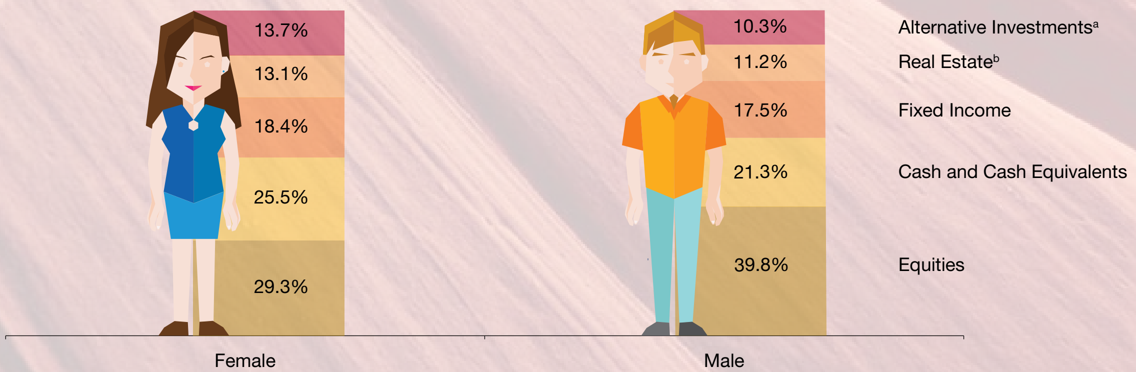
Various aspects of asset allocation and social impact investing also separated female HNWIs from male HNWIs.

Females were more likely to hold cash than males (25.5% versus 21.3%) and less likely to hold equities (29.3% versus 39.8%) (see Figure 9). Female HNWI cash holdings were more likely to go toward supporting lifestyle needs (39.9% versus males at 33.2%), while male HNWI cash holding was more for providing security against volatile markets and investing in unique opportunities. In terms of driving social impact, females gave the highest importance to professional guidance in measuring effectiveness (42.1%), while males gave highest importance to guidance in identifying opportunities (34.4%).

Like the sub-sets of younger and wealthier HNWIs, female HNWIs represent a distinct market worthy of attention. For one, female HNWIs are increasingly creating wealth of their own. In addition, as spouses, they tend to be first in line in the event of wealth transfers from male HNWIs. These characteristics are creating new incentives for wealth management firms to begin catering specifically to female HNWIs.

Figure 9. U.S. HNWI Asset Allocation by Gender, Q1 2015

(%)



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

b. Excludes primary residence

Note: Question asked: "What percentage does each of these asset classes approx. represent in your CURRENT financial portfolio"?; Chart numbers may not add up to 100% due to rounding

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

UNDER-30 HNWIs UNDERSCORE NEED FOR CHANGE

The distinctions separating younger HNWIs from all other U.S. HNWIs are important to note, given this segment's role as a highly desirable client base whose prominence is only expected to grow over time. But strictly examining only under-40 HNWIs does not go far enough in describing up-and-coming generations. Under-30 HNWIs, representing those under 30 and possessing certain unifying characteristics, such as a natural affinity for technology and a distrust of traditional institutions, represent still another demographic segment worthy of attention. By understanding under-30 HNWIs, wealth managers and firms can even better anticipate the behaviors and preferences of the HNWIs of the future.

The attitudes, concerns, and investment activities of under-30 HNWIs tended to be even more pronounced than those of the under-40 HNWIs, underscoring the need for wealth management firms to be prepared to address shifting HNWI needs and demands.

Especially when compared to the typical current U.S. HNWI client, who generally is at least 60 years old, under-30 HNWIs exhibited significantly different attitudes and behaviors (see Figure 10). Virtually all of the traits associated with under-30 HNWIs call for wealth managers and firms to step up and deliver more satisfying experiences that address the full scope of their wealth concerns over the next decade or so.

CONCLUSION

Older-generation HNWIs have long acted as the core client base for wealth management firms. Over the years, the industry has successfully addressed the needs of this group, leading to excellent satisfaction scores, as well as the risk of complacency. Today's younger HNWIs, which represent the industry's future client base, are traveling along a different trajectory, exhibiting attitudes and preferences that do not dovetail with the standard type of service that wealth management firms have traditionally delivered to their most valued clients. As these younger HNWIs become older and more prominent, wealth management firms will need to make major shifts in the type and variety of services they offer to HNWIs.

Wealth management firms can overcome current deficits in how they are serving the up-and-coming generation by better focusing on their specific needs, concerns, and preferences. Under-40 HNWIs, and especially under-30 HNWIs, significantly lag older ones in their levels of trust and confidence, while also diverging from them with regard to a host of measurable traits.

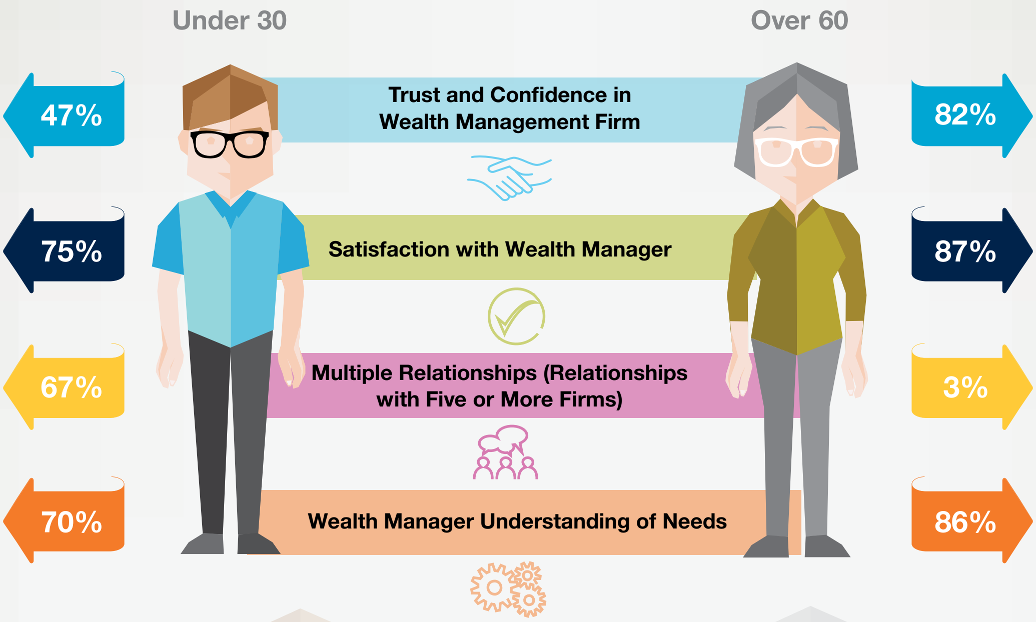
It is not enough for wealth management firms to focus on the broad category of younger HNWIs. With the HNWIs in the 30–39 category constituting a substantial portion of the industry's current younger client base, and their behaviors and needs being different from those of under-30 HNWIs, firms need to understand that the change in behavior is accelerating.

Also, it is safe to say that each subsequent generation of young HNWIs will bring with them new cultural and technological norms, driving trends around what is considered normal behavior in society, and advancing the spread of these behaviors through their interactions with family members across generations. Hence, firms will need to anticipate and quickly react to these ongoing disruptions. As a first and important step, they should begin addressing the demand for digital interactions and developing a plan for the emergence of automated advisors (see Spotlight section, page 19).

As younger HNWIs move into later stages of their lives, some of their current behaviors may soften or evolve. However, given their wide divergence from the older generation, as well as their vastly different economic, social, and technological backgrounds, today's younger HNWIs are expected to continue to behave very differently from the current generation of established clients.

Figure 10. Key Differences of Under 30 HNWIs with Older (Over 60) HNWIs

(%)



	Under 30		Over 60	
TOP CONCERNS	Availability of Quality Education	83%	68%	Rising Costs of Healthcare
	Ensuring Children's Well-Being	80%	68%	My and My Family's Health
	Rising Education Costs	73%	62%	Assets Lasting through Lifetime
TOP WEALTH NEEDS	Effective Use of Time through Convenient and Valuable Meetings	80%	90%	Understanding of Needs and Concerns
	Strong Investment Performance	80%	90%	Strong Investment Performance
	Fee Transparency	80%	90%	Understanding of Risk Tolerance
ASSET ALLOCATION	Allocation to AI	16%	11%	Allocation to AI
	Allocation to Real Estate	19%	10%	Allocation to Real Estate
	Allocation to Equities	21%	37%	Allocation to Equities
	International Investments	51%	17%	International Investments
CREDIT	Importance of Availability of Credit when Beginning a Relationship with a Firm	47%	23%	Importance of Availability of Credit when Beginning a Relationship with a Firm
	Usage for Investments and Returns	43%	42%	Usage for Investments and Returns
	Usage for Business Purposes	37%	13%	Usage for Real Estate Investment
DIGITAL	Current Level of Digitalization	85%	30%	Current Level of Digitalization
	Future Level of Digitalization	89%	34%	Future Level of Digitalization
	Propensity to Leave Due to Lack of Integrated Channel Experience	77%	40%	Propensity to Leave Due to Lack of Integrated Channel Experience
SOCIAL IMPACT Source of Advice	None	15%	51%	None
	Primary Wealth Manager	27%	16%	Primary Wealth Manager

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

Automated Advisors Provide Huge Potential while Creating Imperative for Culture Shift in Wealth Management

- **As a result of converging demographic and technological trends especially around digital, and with the advent of automated advice platforms, clients are changing the way they interact with their wealth managers to get their needs serviced.** Led by under-40 U.S. HNWIs, nearly half or more U.S. HNWIs expect all or most of their wealth management relationship to be conducted digitally in the next five years.
- **U.S. HNWIs, especially the next generation, note a high demand for automated advisors. However, despite its rapid growth, automated advisors currently offer a limited breadth of services to a small portion of the HNWI market.** The high demand for automated advisors by the next generation is a factor that will help push automated advice into mainstream adoption over the next decade or so. Contrary to the thinking of many wealth managers, HNWIs with US$20 million and above also exhibit a high willingness to use automated advice. While assets managed by the top U.S. standalone automated advisors increased by 265.7% from March 2014 through September 2015 to US$8.2 billion[7], the overall size of this nascent market is relatively small compared to the total U.S. HNWI market of US$15.2 trillion.
- **Nonetheless, automated advice represents a huge potential market for wealth management firms to capture the underserved, low-margin mass-affluent market.** U.S. HNWIs alone noted a willingness to allocate an estimated US$1.5 trillion of assets to automated advisors by 2017. Including the mass-affluent client segment, the potential of this market expands to an estimated US$4.2 trillion.
- **Firms must act now to offer an automated advisory capability, not only to respond to HNWI demand and competing offerings, but to begin to develop a culture of innovation.** Automated advisors are likely to just reach the tip of the iceberg in terms of industry disruption, creating an imperative for firms to develop the capability to effectively manage not only the current shifts but a full wave of disruption expected to follow soon, which might have the potential to impact more important areas such as advice.

YOUNGER HNWIs PROPEL RISE OF AUTOMATED ADVICE

As noted in the *2015 World Wealth Report*, the wealth management industry is undergoing one of its most disruptive periods since the 2008 financial crisis, with both external and internal factors acting as constraints. A key challenge exists in the form of changing demographics, with the younger generation exerting new demands on how wealth management services are delivered.

Chief among these demands is a desire to digitally interact with wealth management firms. Most under-40 U.S. HNWIs (87.1%) expect all or most of their wealth management relationship to be conducted digitally in the next five years, compared to nearly half of the over-40 HNWIs who do (see Figure 11). This preference for digital interactions is just one of the divergent behaviors exhibited by younger HNWIs that are having significant impact on wealth manager and firm value propositions (see Page 10).

[7] Capgemini Financial Services Analysis, 2015 based on company data from U.S. Securities and Exchange Commission Historical Archive of Investment Adviser Reports, October 2015 (Exempt Reporting Advisors), accessed October 2015 at http://www.sec.gov/foia/iareports/inva-archive.htm.

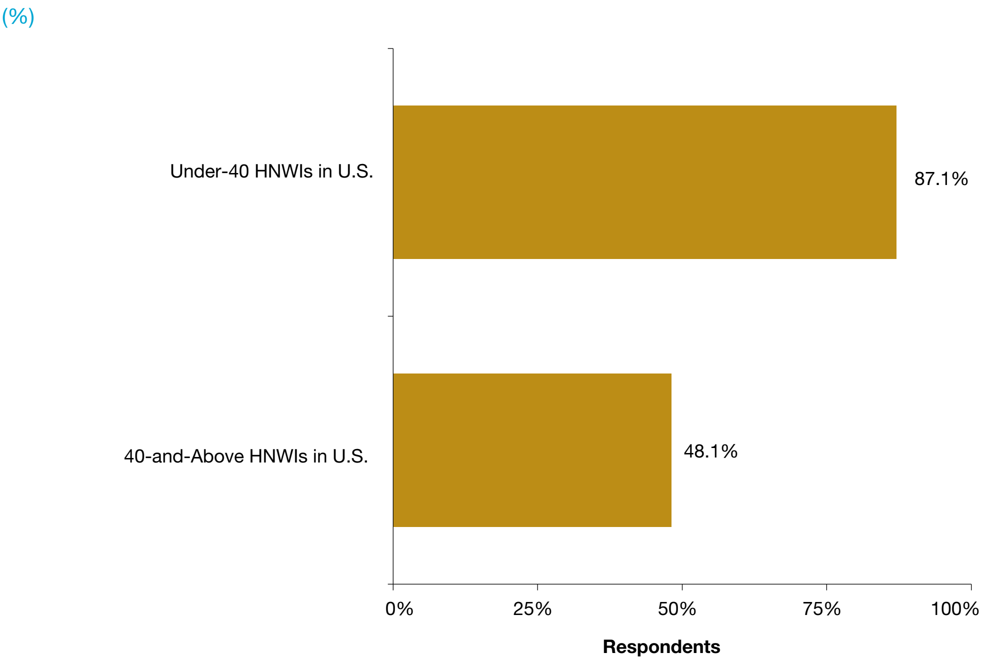
While under-40 HNWI demand for digital interactions is high, it is important to recognize that nearly 50% of over-40 HNWIs also prefer digital. Wealth management firms that can rise to the challenge of delivering a wide range of services through digital channels, while also delivering personalized advice, stand to benefit greatly from this shift in HWNI preferences.

High demand for digital services among younger HNWIs is occurring just as a wide variety of technology-based platforms aimed at transforming the client-advisor experience is becoming available. As analyzed in the *2015 World Wealth Report*, these platforms offer a broad spectrum of functionality, including aggregating clients' financial information, harnessing social media cues to support improved marketing to clients, and creating investment communities to share ideas and portfolios.

Automated advice platforms aim to be a supplement to traditional wealth management by delivering low-fee automated investment management services. These new entrants, offering computer-based portfolio management and financial planning services mainly through online or digital channels, are expanding at a rapid pace. Applying a set-it-and-forget-it approach, these automated advisory services combine well-designed user interfaces with investment plans that are customized to a degree on individual goals and designed to maximize returns.

Automated advice platforms stand in stark contrast to the type of holistic wealth management services offered by traditional firms. In strictly focusing on low-cost investment management, they overlap with only the most already commoditized areas of traditional wealth management. Even so, established firms must recognize the ways in which automated advice may shift client expectations, and be prepared to respond with a well-articulated plan for creating a competitive differentiation.

Figure 11. Proportion of U.S. HNWIs Considering Entire or Most of Their Future Wealth Management Relationship to Be Digital, by Age, Q1 2014



Note: Question asked, "In FIVE YEARS, to what extent would you like your wealth management relationship to be conducted through digital channels"?
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2014

Given the high interest of younger HNWIs in digital interactions, the potential of automated advisors to penetrate the market is significant. Globally, 48.6% of HNWIs said they would consider using automated advisors for a portion of their portfolios; in the U.S., 33.6% said they would (see Figure 12). Among younger HNWIs, the percentages were much higher. Almost three-quarters of under-40 HNWIs in the U.S. (72.1%) said they would be willing to use automated advisors for part of their portfolios.

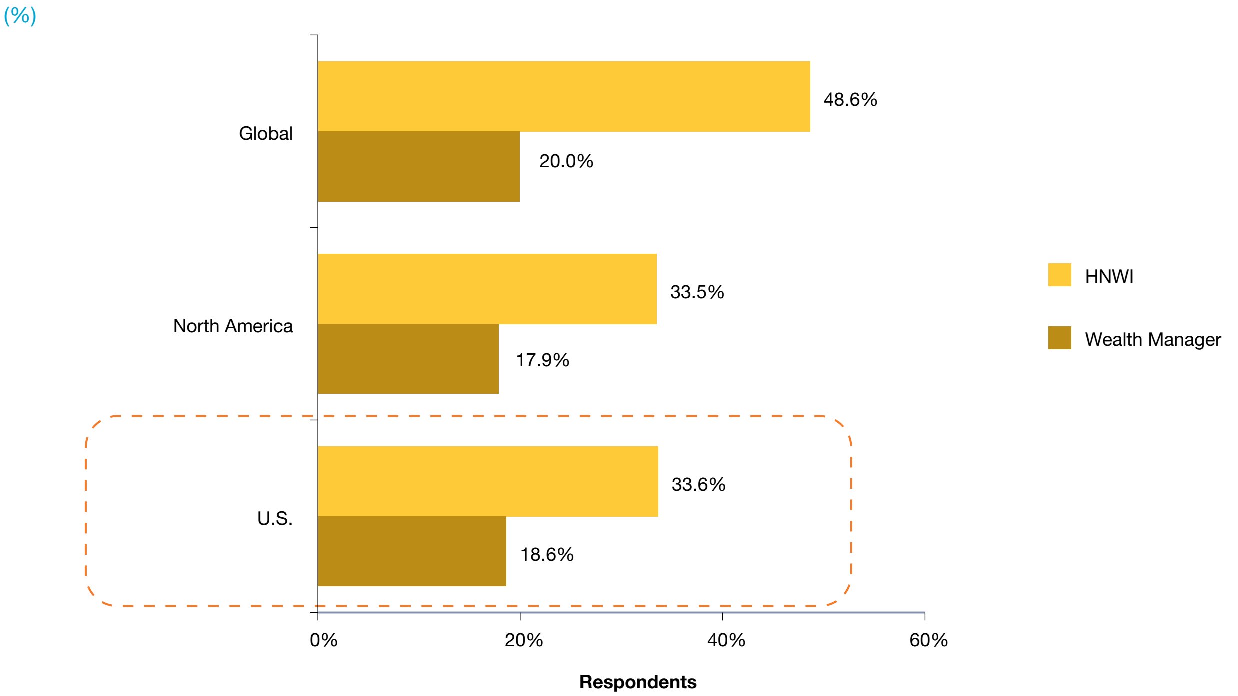
In keeping with the strong preferences detailed in our HNWI Behavior section (see page 16), the under-30 segment demonstrated even more pronounced demand for automated advisors. These under-30 HNWIs, who are expected to drive future wealth management relationships, were the most enthusiastic about automated advice, with 86.7% of them saying they would be willing to use it (see Figure 13). Of those, more than three-quarters (76.9%) said they would even consider having more than half of their portfolios managed by an automated advisor.

The high demand for automated advice among under-30 HNWIs is already extending to other age bands and as under-30s grow in wealth and prominence, it is expected to lead to mainstream demand and adoption for automated advice.

Wealth managers who are able to deliver holistic services, while also utilizing a set of more automated and digital services will hold appeal for all types of HNWIs, and will move far ahead of weaker wealth managers that have yet to understand and adapt to the new demands. It will be important for them to focus on providing holistic financial planning and creating a differentiated value proposition without which it will be difficult to survive the current evolution.

Another area of potential growth for automated advice, though less expected, emerged in the ultra-HNWI segment. While the complex wealth needs of ultra-HNWIs would seem to dictate a desire for face-to-face service, HNWIs with US$20 million or more in assets indicated a higher willingness to use automated advice.

Figure 12. U.S. HNWI and Wealth Manager Assessment of HNWI Propensity to Use Automated Advisory Services, Q1 2015



Note: Questions asked: “Would you ever consider having a portion of your wealth managed by an automated advisory service”?; “In your view, would your HNW clients consider having a portion of their wealth managed by automated advisors”?

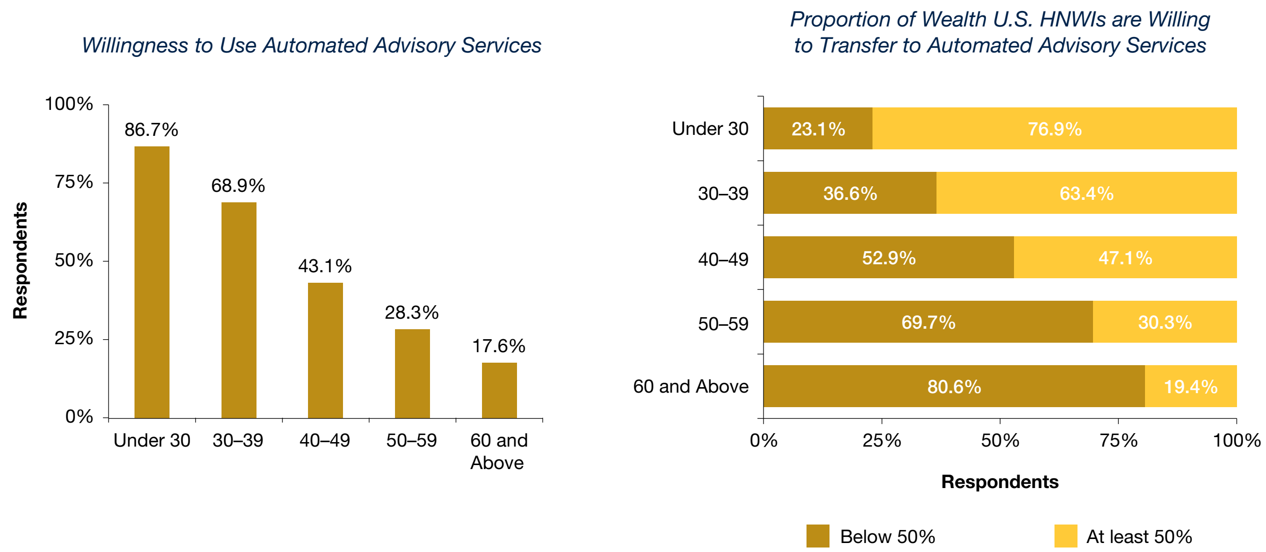
Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

Of all the wealth segments, ultra-HNWIs were the most willing to use automated advice (38.1%), compared to 33.0% of those with between US$1 million and US$5 million. Just how relevant automated advice will be for the wealthiest clients is not clear. As one U.S. wealth manager noted, "For HNWI and ultra-HNWI clients we need to have an expert dealing with the ever-changing market and their wealth, so I don't think this new automated advisor would be of much help".

In general, wealth managers and firms greatly underestimated HNWI willingness to use automated advice. Only 20.0% of wealth managers globally and 18.6% in the U.S. said they thought HNWIs would consider taking advantage of automated advice. One wealth manager in the U.S. summed up the outlook of many by saying, "It is a very complex tool, and the customers rather prefer manual tips from an expert for better understanding". While this is a valid viewpoint with respect to many clients, wealth managers and firms risk missing out on the growth of a vibrant new market if they continue to adhere to potentially outmoded ways of thinking about HNWI preferences, particularly among under-30 clients and higher wealth bands.

Figure 13. U.S. HNWI Willingness to Use Automated Advisory Services and to Transfer Proportion of Their Wealth to Automated Advisory Services, by Age, Q1 2015

(%)



Note: Questions asked: "Would you ever consider having a portion of your wealth managed by an automated advisory service"?; "How much of your portfolio would you consider transferring to an automated advisor"?

Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

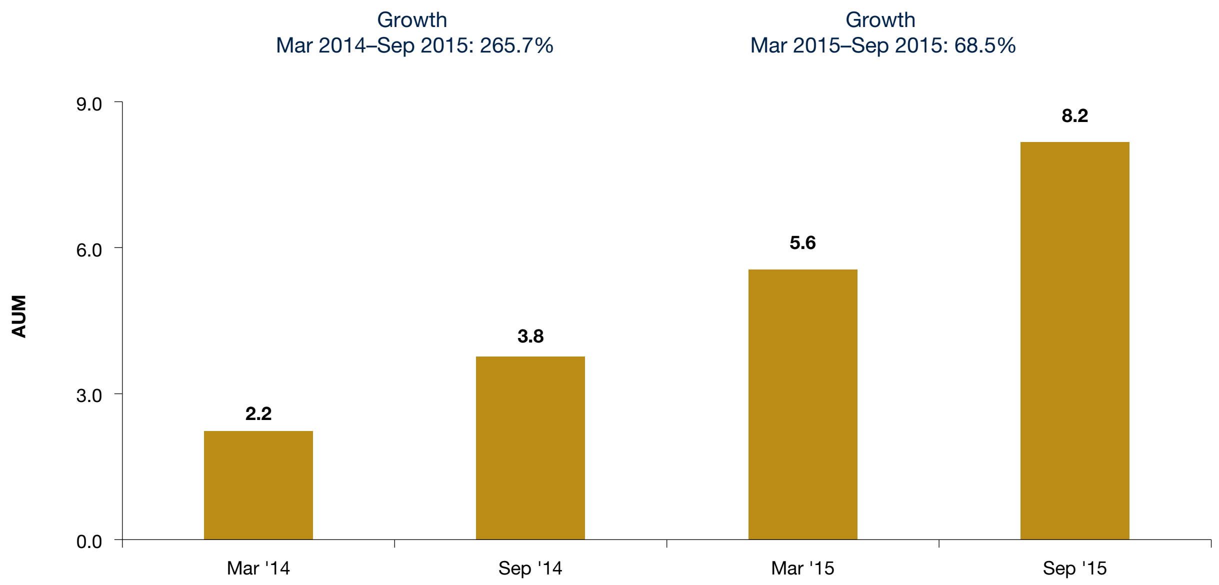
HIGH APPEAL AND POTENTIAL OF AUTOMATED ADVICE IN THE U.S. POINTS TO OPPORTUNITIES FOR FIRMS

By harnessing the high demand for automated advisory services, especially from younger clients, the standalone automated advisors have made significant progress in gaining a toehold in the market. Total assets managed by the top nine U.S. standalone automated advisors more than tripled, increasing by 265.7% from March 2014 to September 2015 (see Figure 14). During that time, automated advisors added US$6 billion of assets under management (AUM), reaching a total of US$8.2 billion. Venture capitalists have also taken notice. In 2014, they poured US$289.7 million of funding into automated advisory companies, up from US$9.0 million in 2010, an increase of 138% annually.[8]

[8] CB Insights, "The Rise of the Robo-Advisor – Wealth Management Disrupters Garnering More VC", February 18, 2015, accessed October 2015 at https://www.cbinsights.com/blog/robo-advisor-wealth-management/.

Figure 14. U.S. Assets Managed by U.S. Top Nine Standalone Automated Advisors, Mar 2014–Sep 2015[a]

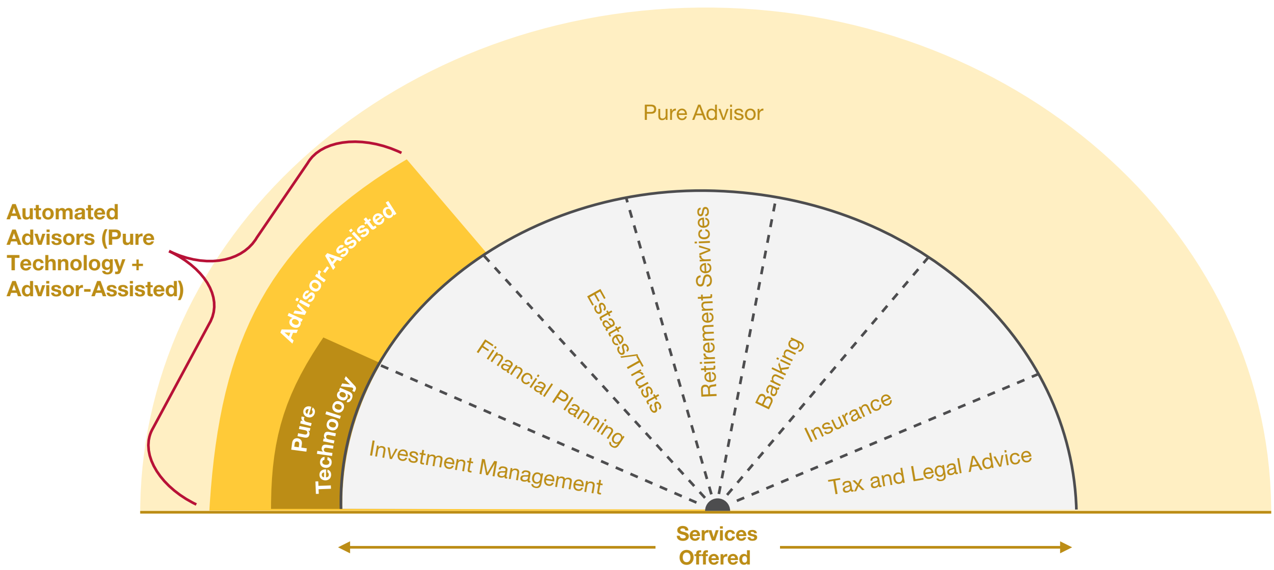
(US$ Billion)



a Total AUM includes AUM by Wealthfront, Betterment, Personal Capital, Assetbuilder, Rebalance IRA, FutureAdvisor, Sigfig, Wisebanyan, and Liftoff

Source: Capgemini Financial Services Analysis, 2015; Company data from U.S. Securities and Exchange Commission Historical Archive of Investment Adviser Reports, October 2015

Figure 15. Sample Overview of the Services Offered by Digital and Traditional Wealth Management Firms



Source: Capgemini Financial Services Analysis, 2015

Existing players have also started taking a note of this trend and some firms such as Vanguard and Charles Schwab have already rolled out their automated advisors. These services from existing players have already tasted early success and as an example Charles Schwab CEO, Walt Bettinger, mentioned in a shareholders meeting in May that their automated advisor had secured more than $2 billion in client assets and 28,000 customer accounts within two months of its debut. These assets under management increased to US$4 billion, spanning across more than 55,000 customer accounts by the end of the third quarter in 2015.[9]

As it expands, automated advice is taking on different forms (see Figure 15). Pure technology-driven models focus strictly on drawing up and implementing semi-personalized investment plans, and are growing at a fast clip. Some firms add financial planning to the mix by combining technology-driven investment management with advisor discussions (often carried out through digital channels). This advisor-assisted model is growing at a more moderate, but healthy, pace.

Despite this momentum, the presence of automated advisory services still remains small compared to the dominant advice model, in which human advisors provide a full set of offerings, including estate planning, retirement services, investing, and insurance, mostly to wealthier individuals in face-to-face settings.

Overall, standalone automated advisors have captured US$8.2 billion in assets, compared to U.S. HNWI wealth of US$15.2 trillion in 2014 [see page 6]).

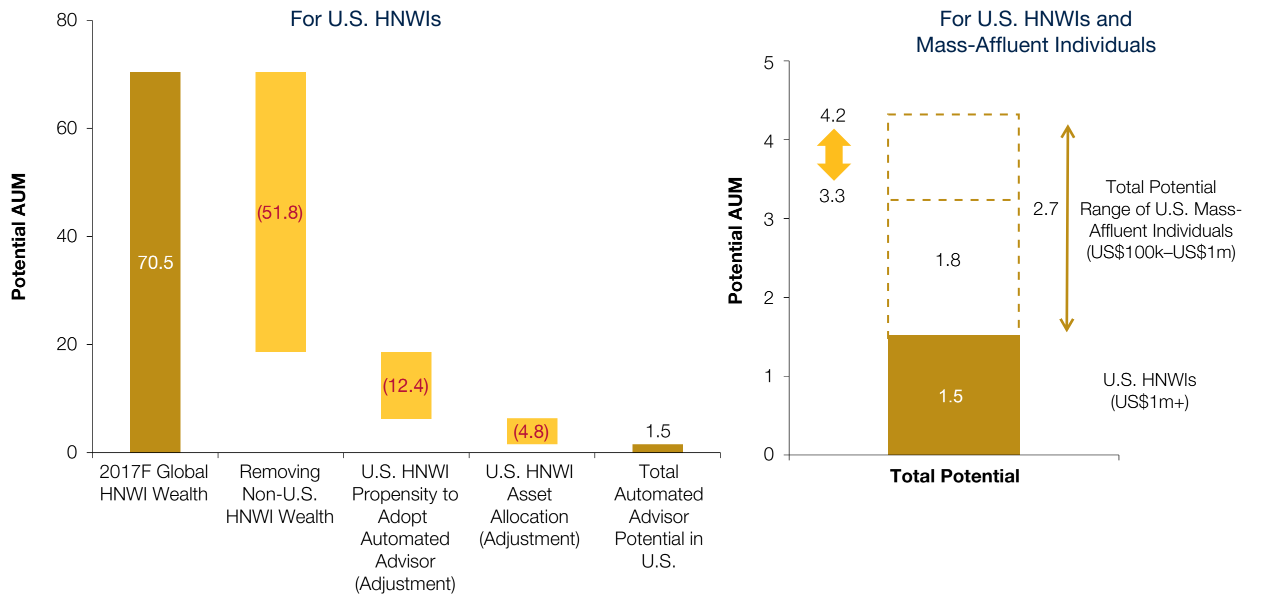
While technology-driven and advisor-assisted providers (including from traditional firms) have made inroads, they continue to offer a limited set of services, mostly for less wealthy clients. Given the still-nascent stage of automated advice, traditional firms and new ones alike have just as much opportunity to claim a sizable share of this burgeoning market.

The future potential of this new market is vast. By 2017, we expect U.S. HNWIs alone to be willing to allocate assets amounting to an estimated US$1.5 trillion to automated advisor models, whether offered by traditional or new providers (see Figure 16). This prediction takes into consideration the total forecasted investable wealth of U.S. HNWIs along with their propensity to adopt automated advice, and the proportion of their assets expected to be allocated to automated advisors.

The market potential is even greater—US$3.3 to US$4.2 trillion—when mass-affluent individuals, with assets in the range of US$100k to US$1 million, are taken into account. Automated advice allows wealth management firms for the first time to cost-effectively serve the typically low-margin, largely underserved mass-affluent market.

Figure 16. Estimated Potential Market for Automated Advisory Services in the U.S., 2017F

(US$ Trillion)



Source: Capgemini Financial Services Analysis, 2015

[9] Financial Planning, "Schwab's Plan To Re-engineer Automated Investment Advice", accessed November 2015 at http://www.financial-planning.com/news/industry/schwabs-plan-to-re-engineer-automated-investment-advice-2694865-1.html.

Existing full-service wealth management firms are well-positioned to serve HNWIs and mass-affluent clients who have an interest in automated advice. Their skills, experience, and resources give them an advantage in developing automated advice systems that appeal to HNWI clients, while cost-effectively meeting the needs of those in lower wealth tiers.

Given the high level of client demand and growing competition from non-traditional players, wealth management firms must make it a high-level priority to develop a strategy for investing in automated advice. Doing so will allow them to cost-effectively serve a vibrant portion of the wealth management market, while also freeing up resources to help them better serve the core HNWI client base with higher-end, value-added services.

EVOLUTION OF AUTOMATED ADVICE REMAINS UNCERTAIN

With the emergence of automated advice still in a very early stage (see Figure 17), there is no way to predict just how it will unfold, beyond knowing that it will be highly disruptive. The scope of automation may well expand to include various operating, compliance, and reporting tasks currently handled by human advisors. This development need not be a threat to wealth management firms. Rather, full-service firms can work with automated advisory platforms in a complementary fashion to offload basic back-office and commoditized investment management tasks, such as rebalancing, accounting, and statement generation, which do not necessarily require human assistance.

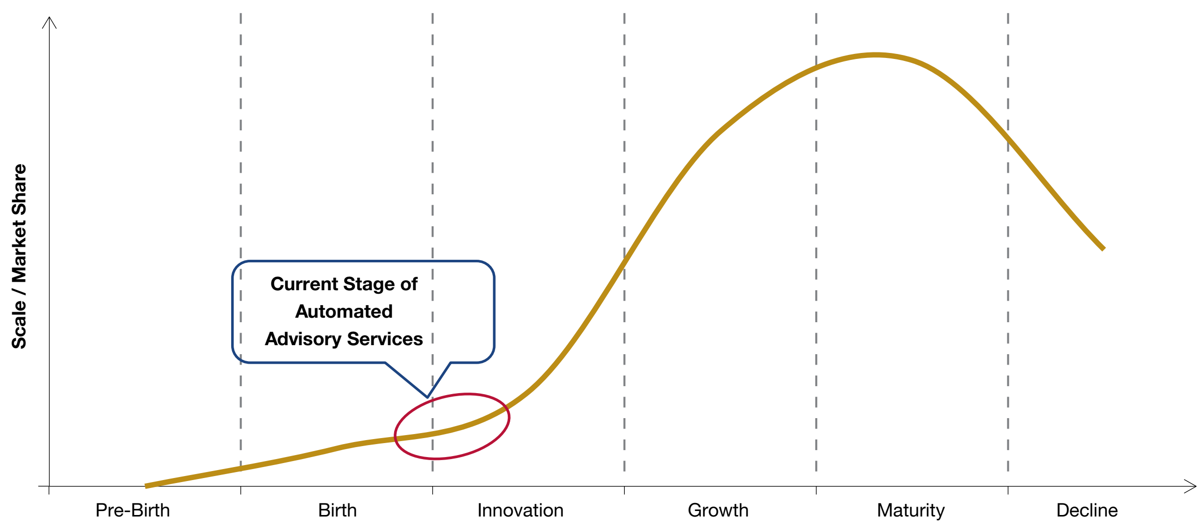
Such a set-up would let wealth managers focus more exclusively on client-facing tasks aimed at building better relationships, such as servicing, prospecting, and goals-based financial planning (see the *2015 World Wealth Report*). And firms would be further freed up to focus on strategies that would help them stand out from the competition. As the market evolves, firms will also have the ability to choose between developing in-house automated advisory services that directly connect to clients, or white-labeling platforms provided by a third party.

The offloading of back-office tasks is far from the only benefit of automated advice platforms.

Automated advice lets firms cost-effectively serve clients at all levels of the wealth spectrum and deliver a broader range of service offerings (see Figure 18). Firms also benefit from the opportunity to cross-sell, particularly to younger clients. Increased advisor efficiency will not only reduce costs, but give wealth managers a chance to focus more on building relationships, which will be a key differentiator in helping them to retain clients and expand their target markets.

Clients also reap benefits in the form of lower fees and investment thresholds, and greater transparency. For mass-affluent individuals who have steered away from traditional wealth management firms because of high investment thresholds, automated advisors are particularly appealing. Lastly, for many clients, the ease and convenience of automated advice is expected to make for a more pleasant customer experience.

Figure 17. Automated Advisor Life Cycle in Wealth Management Industry



Source: Capgemini Financial Services Analysis, 2015

But automated advice is not without its challenges. Firms that have spent decades building their reputations as full-service providers may risk diluting their brands by promoting an automated alternative. Some industry stakeholders are even questioning the validity of standalone automated advisors, arguing that they may be violating investment laws.[10] Then there are the difficulties of developing and integrating the systems, and of getting advisors to adopt them. Rigorous training of advisors would be necessary to avoid gaps in service. In general, firms have a very high bar to cross to meet the expectations of today's savvy clients, especially younger ones who have grown up as digital natives.

Clients also face shortcomings, in the form of limited investment options, less personalization, and the lack of person-to-person contact. Those seeking detailed financial planning may not be satisfied with the standardized approach automated advisors use to allocate assets. And still untested is the performance of automated advice in the event of a serious economic downturn.

Despite these challenges, the advance of automated advice is inevitable, and will require firms to develop strategies to best take advantage of it (see Figure 19).

The current crop of technology-based and human-assisted advisor platforms is likely to proceed along a steady path of growth and enhancement until an eventual consolidation results in a limited number of standalone automated advisors offering highly innovative retail and institutional capabilities.

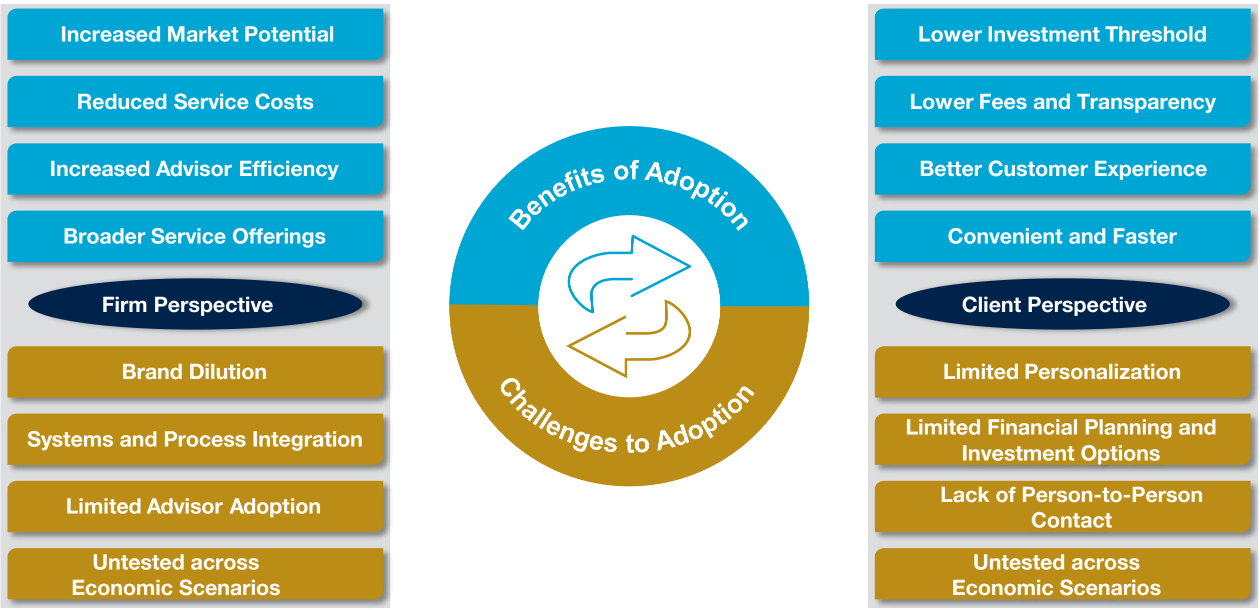
Traditional wealth management firms, meanwhile, are expected to follow one of two paths. Big firms may build or acquire automated advisory services, while smaller firms and independent wealth managers might partner with standalone automated advisors. Some leading asset managers are taking steps along these lines. In addition, a few private banks are also in the planning stages of implementing these services. A leading U.S. private bank, for example, seeking to improve retention and lower the cost of serving clients with less than US$1 million in assets, is considering white-labeling a third-party automated advice service. The automated service will act as a complement to the existing advice-centric model.

Over time, automated advisory services will likely become a commoditized capability, requiring wealth management firms to develop value propositions based on providing more personalized advice and more intimate service (see *2015 World Wealth Report*).

Wealth management firms may not be able to predict the exact evolution of automated advisory services, but they must at least recognize its inevitable advance.

Managing the emergence of automated advice begins with acceptance, not denial, of its importance. Rather than presuming a HNWI preference for human-only assistance, wealth management firms must acknowledge the growing demand, potential, and prominence of automated advisors.

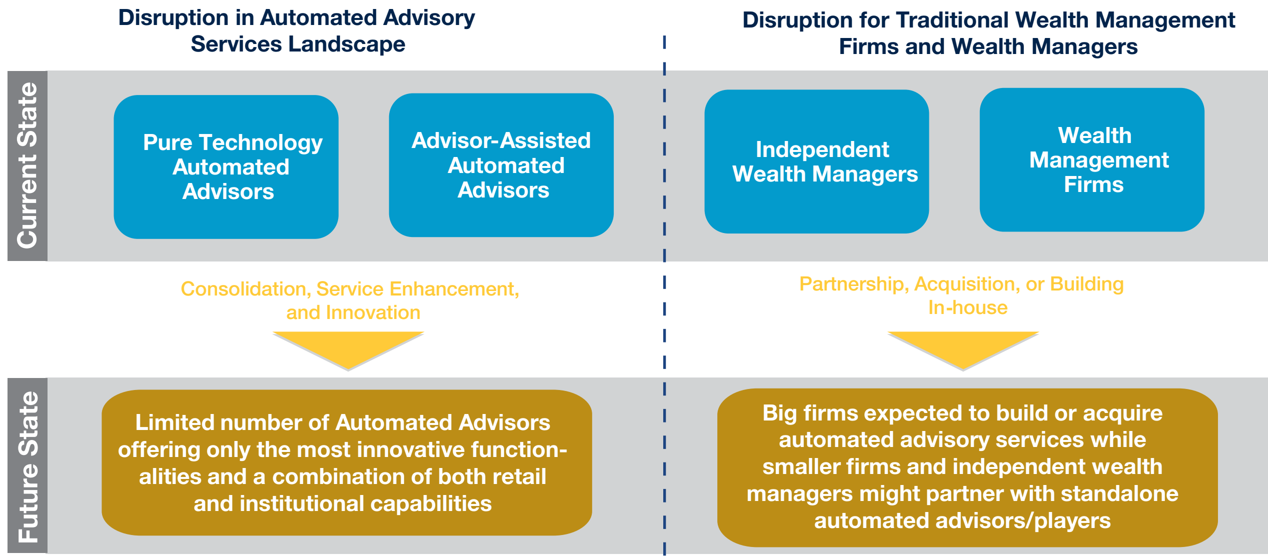
Figure 18. Benefits and Challenges to the Adoption of Automated Advisors



Source: Capgemini Financial Services Analysis, 2015

[10] On Wall Street, "Robo Firms May Violate Investment Laws, Asset Manager Argues", accessed October 2015 at http://www.onwallstreet.com/news/industry/robo-firms-may-violate-investment-laws-asset-manager-argues-2694408-1.html.

Figure 19. Potential Ways to Tackle Disruption by Automated Advisors



Source: Capgemini Financial Services Analysis, 2015

After the acceptance phase, firms need to continually monitor and evaluate the evolution of the technology, as well as ongoing levels of client satisfaction. Doing so is a prerequisite to being prepared for whatever turns the market may take. Finally, firms need to be proactive in developing a plan for automated advice, yet flexible and agile in implementing it.

Beyond discussing the importance of the automated advisory services, firms will need to quickly start focusing on when and how to implement them. Not having a plan is not an option.

The key for firms will be to acknowledge that automated advisors might just be the starting point of a disruptive phase for wealth management. Innovation in technology is increasingly fast-paced, exponential, and takes unexpected forms, creating the possibility of further changes impacting areas of the wealth management value proposition such as advice. As under-30 HNWIs inherit and create wealth, they may place value on peer-to-peer networks and data-enabled platforms to secure advice (and measure impact) on everything from philanthropy to tax to overall financial planning.

The innovation-driven future is impossible to predict, which makes it even more important for firms to prepare by fostering a culture around innovation and change. Making progress on the current industry disruptor of automated advice would be a good start.

CONCLUSION

Demographic trends and technology are converging to propel a radical new way of delivering wealth management services to clients. These automated advice platforms already have plenty of momentum, attracting assets under management and venture capital alike.

Wealth management firms cannot afford to underestimate the attraction of automated advice, particularly for under-30 clients. Given the demand, firms may well want to aim high. One evolutionary path may turn out to be rapid adoption, supported by exceptional innovation in delivering highly sophisticated automated advice. If this or similar paths play out, firms will want to be ready for it.

At a minimum, firms must recognize the significant demand for automated advice from younger clients, and that the evolution of such services, no matter what form they take, will have a significant impact on the wealth management industry.

In addition to short-term concerns, leading firms will need to focus on understanding and addressing the emerging landscape. The sooner wealth management firms begin preparing for the advance of automated advice and start the transformation journey, the better off they will be. Automated advice may well be the starting point of a series of disruptions affecting wealth management firms in the future, as client demands and behaviors undergo massive shifts.

Appendix

MARKET SIZING METHODOLOGY

The *2015 U.S. Wealth Report* market sizing model is based on the model used in the *2015 World Wealth Report*, which covers 71 countries accounting for more than 98% of global gross national income and 99% of world stock market capitalization. The *2015 U.S. Wealth Report* market sizing focuses on the U.S. and 12 core Metropolitan Statistical Areas (MSAs) within the U.S., as defined by the U.S. Office of Management and Budget (OMB): Boston, Chicago, Dallas, Detroit, Houston, Los Angeles, New York, Philadelphia, San Francisco, San Jose, Seattle, and Washington D.C.

We estimate the size and growth of wealth in various regions, countries, and globally 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 in a given geographic area, and second, the distribution of this wealth across the adult population in that geographic area. Total wealth levels by geography are estimated using statistics from recognized sources to identify the total amount of savings per geography in each year. These are summed over time to arrive at total accumulated wealth. As this captures financial assets at book value, the final figures are adjusted based on stock indexes to reflect the market value of the equity portion of HNWI wealth.

Wealth distribution is based on formulized relationships between wealth and income. We use the Lorenz curves to distribute wealth across the adult population in each geography. Each year, we continue to enhance our macroeconomic model with increased analysis of local economic factors that influence wealth creation.

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.

2015 GLOBAL HIGH NET WORTH INSIGHTS SURVEY

The Capgemini and RBC Wealth Management Global HNW Insights Survey queried more than 5,100 HNWIs across 23 major wealth markets in North America, Latin America, Europe, Asia-Pacific, the Middle East, and Africa. A total of 1,085 HNWIs were surveyed in the U.S. across various MSAs.

The Global HNW Insights Survey, the largest global survey of HNWIs across the globe, was administered in January and February 2015 in collaboration with Scorpio Partnership, a firm with 17 years of experience in conducting private client and professional advisor interviews in the wealth management industry.

The 2015 survey covered three key areas: HNWI asset allocation, HNWI preference for credit, and HNWI preference for driving social impact. The first focus area measured current asset allocation patterns of HNWIs, as well as the geographic allocations of their investments. The second focus area looked into the key areas of use and importance of credit and the reasons for holding credit. The third focus area on driving social impact, addressed the importance of various actors and professionals in supporting HNWIs to fulfill their social impact goals, and expectations on support needed from their wealth managers and wealth management firms in the various areas of social impact.

In addition, the 2015 survey also focused on the evolving landscape of the wealth management industry and the evolving role of the wealth manager. It surveyed HNWIs about their wealth-related concerns and needs, their satisfaction with their wealth manager and firms in fulfilling these needs, and queried their thoughts on new, disruptive players in the industry.

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.

2015 CAPGEMINI WEALTH MANAGER SURVEY

The inaugural 2015 Capgemini Wealth Manager Survey queried more than 800 wealth managers across 15 major wealth markets in North America, Latin America, Europe, and Asia-Pacific. Around 102 wealth managers were surveyed in the U.S. across various MSAs.

The survey was administered in January and February, 2015, in collaboration with Oxford Economics.

The survey focused on the evolving role of wealth managers, and emphasized analysis of four key areas: wealth managers' assessment of HNWI needs and concerns; wealth managers' assessment of the importance and satisfaction on the key capabilities provided by the firm; wealth manager views on digital capabilities for clients, themselves, and automated advisory services; and wealth manager judgment regarding their firm's expectations from them.

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 size of the actual market (by HNWI population).

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

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Washington D.C.	+1 571 336 1720

Capgemini Corporate Headquarters

Paris	+33 1 49 67 30 00
New York	+1 212 314 8000

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For more information, please contact: **wealth@capgemini.com**

For press inquiries, please contact:
Mary-Ellen Harn at +1 704 490 4146

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