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CRAZY RICH ASIANS, OR NOT SO CRAZY AFTER ALL?

AUTHORS

Anutosh Banerjee, Partner

Marco Studer, Engagement Manager

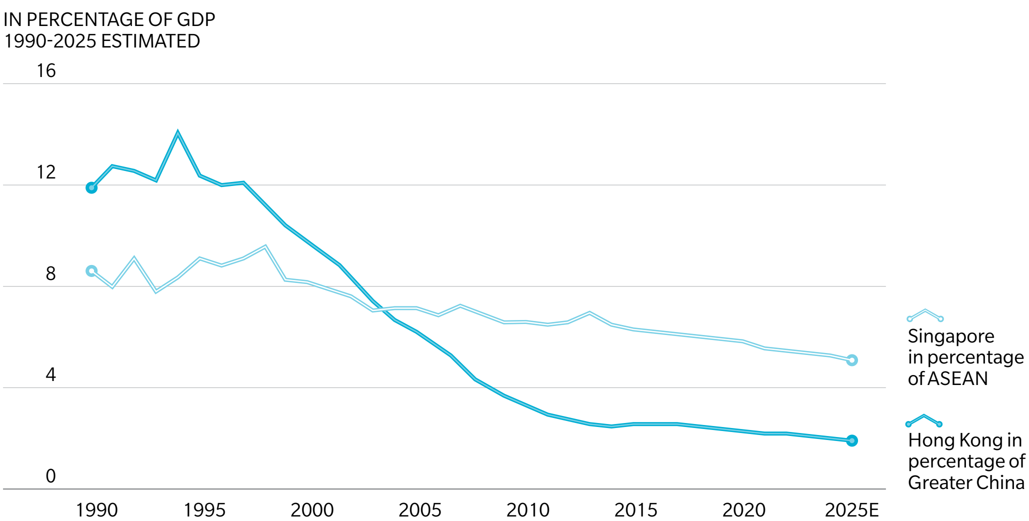
Angela Cheng, HNWI Research Specialist

THE CHANGING TIDE OF WEALTH GROWTH IN APAC

ASEAN and China have experienced fast growth in the past decades. The growth of emerging markets like China, India and Indonesia has outpaced that of developed economies like Hong Kong and Singapore.

In early 1990s', Hong Kong represented about 15% of Greater China GDP (Mainland China, Hong Kong and Taiwan). But today it is a mere two percent. Singapore fared only slightly better compared to ASEAN, from nine percent in 1998 to today six percent.

Exhibit 1: Hong Kong and Singapore lost relevance vs. onshore markets

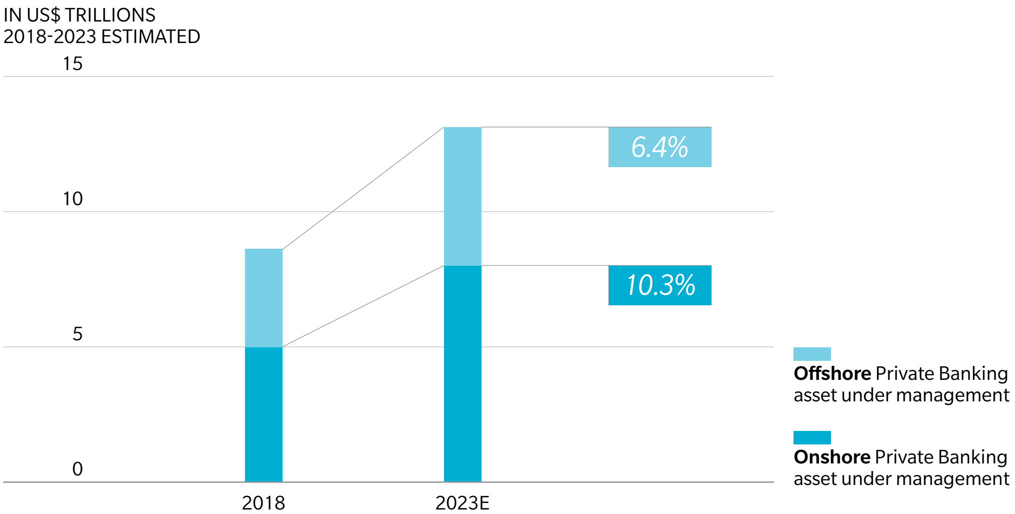


Source: BMI, Oliver Wyman analysis

What does it mean for Wealth Managers? **We expect onshore Private Banking (PB) asset under management (AUM) to grow ~1.6x faster than in offshore hubs.**

In the past, wealth management in Asia has been operated primarily to help Asian high-net worth individuals (HNWIs) to diversify their assets from onshore to offshore. Going forward, wealth management needs to reposition and retool their business model to capture onshore wealth growth.

Exhibit 2: We expect onshore APAC[1] PB AUM[2] to outgrow offshore by 1.6x



1 Asia refers across the entire document to APA including Japan and Australia/New Zealand; offshore refers to the investable assets held in Hong Kong and Singapore.

2 Private banking AUM includes investable assets and deposits – excluding investments in real estate or other private assets.

Source: Oliver Wyman Wealth Sizing Model

The strategic shift of focus from offshore to onshore requires a deep understanding of the shifting client base and their needs.

WHO ARE THE CRAZY RICH ASIANS?

There is limited evidence of the behavior of Asian HNWIs. However, many preconceptions exist of Asian HNWIs being risk seeking, very cash rich and expect all things digital.

We see a more differentiated picture – both by country and by customer persona. A Chinese third generation wealthy living in Hong Kong will have very differentiated needs from an Indonesian state-owned enterprise Executive.

We combined our primary research results over last years to share a more cohesive picture. It also gets evident that there are large differences across countries and personas.

Exhibit 3: Decoding Asian HNWIs – findings across countries and personas

AVERAGE FOR APAC IN PERCENTAGE OF TOTAL SURVEY RESPONDENTS
(SAMPLE = 700)

21% of AUM held in CASA or term deposits	**Indonesians hold most cash** **~30%** of AUM held in cash. Many HNWIs still prefer holding their assets in term deposits or retail government securities that provide attractive yield
9% expected return per annum over next 5 years	**Singaporeans expect less return** **~6%** expected return per annum. This is high, but in line with local equity market returns over last 20 years[1]
93% believe to have average or above investment abilities	**Chinese are most confident** **~97%** believe to have at least average investment abilities; 55% believe to be above average
69% moved more money onshore in last 3 years	**Thai clients moved money home** **~93%** moved more money onshore. This coincides with a strong local market evolution and regulatory opening of offshore investments for onshore booked accounts
52% relied on own research to find their primary WM	**HK clients trust banks the least** **~34%** relied on their existing bank or an advertisement to find their primary WM

1 Average 10-year return of Strait TImes Index (STI) is 3.7% price return and ~3% average dividend yield per annum.

Source: 2019 Oliver Wyman Survey of ~700 Asian HNWIs (AUM>US$1 million)

High cash allocation combined with high return expectation and belief in own investment abilities require more focus on investor education.

Many Asian HNWIs made their fortune through hard work and business acumen. ~US$1 trillion of PB AUM sits with Business Owners between US$5 to 50 million AUM; and ~US$3.5 trillion with billionaires usually owning large Conglomerates. Most of Asian HNWIs made their wealth from business ownership.

It is hence not surprising that they show strong self-confidence and risk appetite. However, going forward it will be difficult to satisfy high return expectations with still much of assets being invested in cash. There still seems to be a need and market gap to facilitate better investor education. Particularly, on behavioral finance aspects as there seems to be a clear confidence bias in the investor base.

Shift to onshore investments is both a demand and supply-side consideration.

Onshore assets in many markets have been the most lucrative in last years and enabled Asian HNWIs to achieve aggressive return targets. However, going forward it will be difficult to satisfy high return expectations with still much of assets being invested in cash. There still seems to be a need and market gap to facilitate better investor education. Particularly, on behavioral finance aspects as there seems to be a clear confidence bias in the investor base. We see continued demand for more onshore investments, particularly as local capital markets have deepened significantly (e.g., Indonesia retail savings bonds). But, supply side considerations also are still in place. Some countries still see capital controls in place and local Wealth Managers have used these to build up stronger wealth propositions.

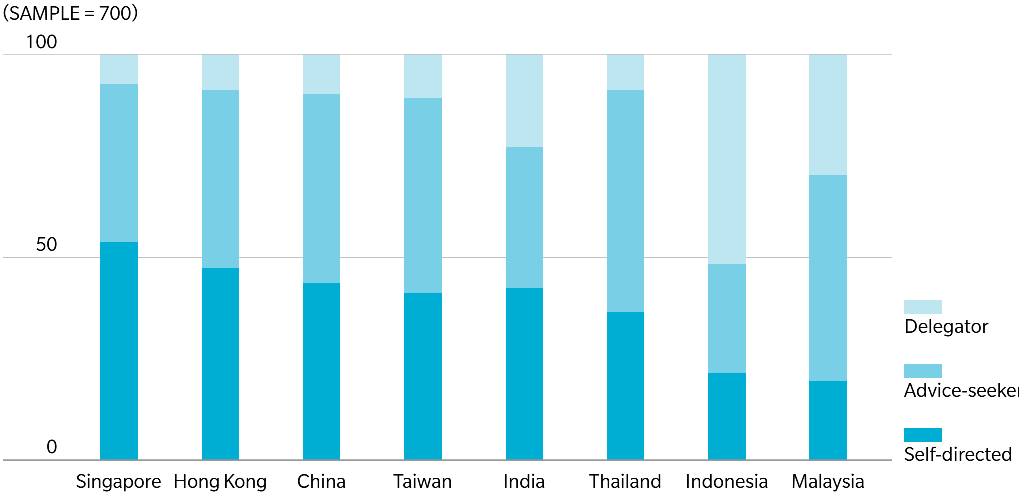
Trust in banks & receiving advice is improving, but still low; clients are not yet willing to pay directly for advice that is mostly not personalized yet.

Trust from Asian HNWIs has been strongly rooted in the family and extended outward to include friends and colleagues. These are still the primary sources for Asian HNWIs to find their primary Wealth Manager.

Most Asian HNWIs describe themselves as advice-seekers, while it is not common yet across markets to trust a third-party and delegate all investment decisions.

Exhibit 4: Asian HNWIs by advisory type

IN PERCENTAGE OF TOTAL SURVEY RESPONDENTS
(SAMPLE = 700)



Source: 2019 Oliver Wyman Survey of ~700 Asian HNWIs (AUM>US$ 1 million)

We see trust in onshore markets often reside with large financial services groups that have a strong brand. This opens an opportunity for these players to cater to advice-seekers by offering personalized investment recommendation. To become truly personalized, some of these players are starting to aggregate data across different financial services platform.

We see some of these dynamics play out in China and other APAC markets, where large brands like PingAn use a data-driven approach to provide more personalized advice (e.g., through Lufax). These platforms are the digital equivalent of 'advisory mandates' (more common in European bank offerings) and will be a relevant alternative for onshore advice-seekers that we believe represent the largest and most attractive client group in Asia.

HOW SHOULD BANKS POSITION THEMSELVES FOR GROWTH?

An increasing portion of wealth growth takes place on-shore. But market specific requirements need to be considered.

For example, in China Private Banking is arguably an unlicensed business on the advisory side. As result many players consider entering from a product angle (either through Securities JV, or onshore AM licenses that become important). This stands in contrast to how global Private Banks position themselves usually and hence needs sufficient internal education of expectations across the entire management team.

Global Private Banks are forced to act and move increasingly onshore if they want to stay relevant. But, the key question is initially about which markets to prioritize. We expect a minimum platform size of US$10 billion is required in each market. Hence, the question becomes in which markets does the PB have possibility to achieve this.

To reduce the minimum platform size required, we see global Private Banks increasingly establishing partnership, joint-ventures or greenfield digital platforms onshore. Digital and as part of that greenfield digital platforms will have to play a larger role in accessing onshore wealth. The change required for many Private Banks is huge. Most still live in the world of their advise happening in private, i.e., ideally only on paper and/or hidden in a safe. The future onshore will be more digital and transparent.

Having access to unique licenses, partners or digital capabilities can provide a global Private Bank a head-start of several months.

Local Private Banks have so far generally been unsuccessful in persuading their client that they can deliver high quality advice. As result, clients onshore were driven to be increasingly self-directed and not willing to pay for advice.

We believe local Private Banks still have a significant head-start. But, they have to start better serving the ~40% clients that are advice seeking by delivering on below agenda.

Exhibit 5: Local private bank agenda

AGENDA	KEY CONSIDERATIONS
Build true customer understanding	• Run client discovery to truly understand pain-points • Use analytics to complement customer understanding and build fundament to deliver personalized advice • Improve value proposition & branding to solve pain-points
Introduce advisory proposition	• Establish advisory philosophy • Achieve differentiation in offering compared to onshore and offshore Private Bank propositions • Structure offering to achieve a gradual shift from lower-tier offerings to higher tier offerings
Increase sales model efficiency	• Ensure access to good RMs long-term and build capacity • Build efficient digital end-client and front-office capabilities • Build a data-driven sales management approach

To implement on these agenda items – local Private Banks can either decide to build themselves, partner with a global peer or a FinTech. Going alone across all these elements will likely be the most costly option.

Both local and global Private Banks have hence an incentive to partner, but past experience has shown that this is not as straightforward to make it work.

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ASIA PACIFIC	EMEA	AMERICAS
+65 6510 9700	+44 20 7333 8333	+1 212 541 8100

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