招商银行 CHINA MERCHANTS BANK | BAIN & COMPANY 贝恩公司

2015 China Private Wealth Report

China's private banking industry: Seeing the big picture

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Preface: Seeing the big picture

China Merchants Bank (CMB) and Bain & Company are pleased to present the 2015 China Private Wealth Report, *the fourth installment of an ongoing CMB and Bain collaboration to assess the dynamics of China's private wealth market. The jointly published* 2009 China Private Wealth Report *offered the first in-depth look at the country's private wealth market. Subsequent surveys, published in 2011 and 2013, provided updates on the growing number of high-net-worth individuals (HNWIs) and the evolving private wealth market. Our 2015 report offers the latest insights into the shifts and trends in China's fast-growing private wealth market.*

China's private wealth market has evolved from an era of opportunity in the early days, to a period of fierce competition in 2011, to a phase of building a more solid foundation in 2013—reflecting the changing dynamics within China's private banking industry. In 2015, HNWIs are adopting a more aggressive and open investment style, forcing financial institutions to provide more wide-ranging investment services to explore innovative and diversified service models in the domestic market, as well as increase overseas asset allocation. Today, with the market transitioning from rapid growth toward more stable development—from fierce competitiveness toward building a more solid foundation—investors and financial institutions must expand and adjust their strategies to better identify the kinds of investment opportunities that will provide first-mover advantage. In other words, they must shift their focus to the big picture, to a more comprehensive, innovative and diversified vision. "Seeing the big picture" is the theme of this year's report.

China's HNWIs have developed more mature and complex investment and wealth management attitudes and needs over the past few years. In 2015, HNWIs' primary wealth objectives are to create wealth at a moderate pace while preserving existing fortunes, and to pass their wealth on to the next generation in the most effective and beneficial manner. These changing attitudes and objectives have caused HNWIs' investment behaviors to evolve. They are shifting their focus beyond acquiring a high-quality lifestyle and beyond China's domestic markets, and are placing a greater emphasis on inheritance planning, on overseas investments, on embracing the Internet and seizing opportunities in innovative industries.

Meanwhile, China's private banking industry is facing increased competition. Whereas financial institutions in China previously focused primarily on establishing their brand image, they now focus more on their clients—on understanding and exploring clients' short-term and mid- to long-term wealth management needs. Financial institutions emphasize their professionalism and seek to build strong service platforms by providing differentiated services and wealth management advice, as well as expand their cross-border footprint by participating in the overseas market.

This year marks the fourth time that CMB and Bain have collaborated to produce the *China Private Wealth Report*. The 2015 report draws on many resources, primarily on knowledge and data gleaned from the 2009, 2011 and 2013 reports; on CMB's vast experience in the retail banking industry and access to high-end client resources; and on Bain's data analysis tools and research in the private banking industry. The analysis in this report relies on authoritative statistical data and rigorous methodology, which was used to create China's private wealth curve. We calculated the number of Chinese HNWIs and their total private wealth in 2014, and compared 2014 data with data from 2008 to 2013 to infer growth trends and offer predictions for 2015. Finally, our study is based on findings from surveys completed by approximately 2,800 HNWIs and interviews with more than 100 industry experts, relationship managers and HNWIs.

Our 2015 report aims to provide accurate assessments of the major trends in China's current financial market, as well as offer a reliable overview of HNWI investment attitudes, to maximize the synergy between wealth management institutions and specialized advisory firms. This report provides the research, information, insights and analyses high-end private financial institutions will need to develop successful investment strategies for their HNWI clients to achieve their wealth management objectives.

China's private banking industry has entered a critical stage of development. As China's private wealth market grows, we will likely see a return to wealth management essentials (i.e., providing professional investment, wealth management and financial services). Wealth management institutions will need to sharpen and expand their comprehensive financial service capabilities and continue to build domestic and overseas platforms to provide long-term service tailored to their customers' needs; this will be the main source of significant and sustainable growth in China's private banking industry.

Acknowledgments

This report is a joint effort between China Merchants Bank (CMB) and Bain & Company, Inc.

In 2009, CMB and Bain initiated a groundbreaking, high-level analysis of China's private wealth market. The 2011 and 2013 reports built on previous research, data and observed changes and trends. In 2015, the CMB team suggested conducting advanced research on China's private wealth market—observing behaviors and characteristics of HNWIs and the private banking industry—for the purpose of assessing the shifts and trends in China's private wealth market and determining the attitudes and objectives of the current HNWI population.

CMB relied on its high-end customer resources to gather firsthand information; it conducted 2,800 customer surveys and more than 100 interviews with customers and relationship managers. CMB also provided industry expertise, internal data and input on analytical methodologies, which laid a solid foundation for the further study and analysis of China's HNWI population. As part of their joint effort, CMB's executive team offered important suggestions for revising the analytical approaches and refining the recommendations. The authors would like to thank Huiyu Tian, president of CMB; Jianjun Liu, executive vice president of CMB; Kunde Chen, CIO; Jing Wang, general manager of the private banking division; and other CMB team members, including Lei Wang, Yingying Xia and Yang Xu, as well as CMB headquarters' marketing, investment research, product, operation, discretionary investment management and overseas branch teams.

In addition to the CMB customer and relationship manager surveys, Bain & Company also interviewed many non-CMB customers and relationship managers. The Bain team built a market-size model with innovative methodologies and segmented fast-growing asset categories and conducted detailed data analyses, based on the research and survey results.

The authors extend their gratitude to Bain partners Alfred Shang, Jennifer Zeng and Sameer Chishty and manager Xin Liu. We also appreciate the efforts of team members Ida Zhang, Diana Zhu, Rainy Dong, Yue Chen, Xin Cheng and Yanan Hu.

The authors would also like to extend their gratitude to all customer and relationship managers who participated in our interviews, as well as to the CMB employees who assisted with market research and provided input to Bain's team by conducting customer surveys and interviews and helping to screen the data. We thank the Bain experts and colleagues who helped with interviews, data collection, modeling, methodologies and analytical tools.

Chapter I: Overview and trends in China's private wealth market for 2015

- China's overall individual investable assets totaled RMB 112 trillion in 2014, representing a 16% compound annual growth rate (CAGR) from 2012 to 2014.

- By the end of 2014, there were more than 1 million HNWIs with at least RMB 10 million in investable assets. Average investable assets per capita were about RMB 30 million. Aggregate investable assets for all HNWIs equaled RMB 32 trillion.

- We predict that the number of Chinese HNWIs will rise to 1,260,000 and their investable assets will reach RMB 37 trillion by the end of 2015.

- In 2014, there were seven provinces or municipalities with more than 50,000 HNWIs: Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong and Sichuan, with Guangdong being the first to have more than 100,000 HNWIs. Central and Western China led the growth, while gaps in regional distribution narrowed.

Chapter I: Overview and trends in China's private wealth market for 2015

The overall wealth market achieved steady growth, aided by a recovering capital market and a significant growth in emerging investment products*

China entered a "new normal" of slower macroeconomic growth between 2013 and 2014, downshifting from the previous high- to medium-high speed growth. National GDP growth slowed from 7.7% in 2013 to 7.4% in 2014, while the 2015 Government Work Report GDP growth target was set at approximately 7%.

Amid the macroeconomic downshift, China's private wealth market continued to grow at a rapid pace. By the end of 2014, total value of investable assets[1] held by individuals in China exceeded RMB 100 trillion to hit a new high of RMB 112 trillion, recording a 16% CAGR from 2012 to 2014—a slight drop from the 2008 to 2010 CAGR, despite the modest growth after 2010. The value of capital market products, boosted by the sharp rebound in the A-share market in 2014H2, followed the same growth curve as from 2008 to 2010, with CAGR surging from negative 2%, between 2010 and 2012, to 27%. Capital market products became a fast-growing asset class. Investment property's net value continued at the same slower pace as from 2008 to 2012, registering a lower CAGR of 8%, as a result of the macroeconomic slowdown and a tightened real estate policy. The emergence of segregated accounts of fund companies, asset management of securities companies and Internet financial products helped spur the growth of other domestic investments, which were marked by a CAGR of 53%. Furthermore, the growth of bank wealth management products remained strong at a 40% CAGR, but slowed in 2014 due to increased fund flows into Internet finance and capital markets. Individual investors' interest in overseas investment continued to increase, with a higher CAGR of 20% from 2012 to 2014 (see Figure 1).

Since the first report was published in 2009, the number of Chinese HNWIs[2] has increased dramatically. China's HNWI population exceeded 1 million in 2014, about 300,000 more than in 2012, registering a CAGR of 21% and doubling the HNWI population of 2010. Among China's 1 million HNWIs there are nearly 70,000 ultra-HNWIs[3] and about 140,000 HNWIs with investable assets exceeding RMB 50 million. In terms of private wealth, investable assets held by Chinese HNWIs totaled RMB 32 trillion in 2014, or about RMB 30 million per HNWI, with the 2012 to 2014 CAGR on a par with the 2010 to 2012 CAGR (see Figures 2 and 3).

The number of newly rich, consisting of entrepreneurs, professional managers and second-generation rich, increased significantly, as a result of fast-growing innovative industries, a maturing corporate management system and the succession of family businesses. The entry-level affluent, who have between RMB 10 million to RMB 50 million in assets, increased by 22% per year from 2012 to 2014, up three percentage points from 2010 to 2012. As the fastest-growing segment among HNWIs, ultra-HNWIs expanded their wealth by approximately 30% per year. This is because ultra-HNWIs have greater access to investment resources and diversified investment channels, enabling them to grow and accumulate wealth even in the face of a slower economic growth.

Due to the government's macroeconomic "new normal" policy of balancing healthy growth with economic reforms, China's private wealth is expected to experience a steady growth in 2015. We predict that three key investment asset classes will maintain a fast growth rate. First, the booming A-share market is expected to fuel the acceleration of capital market products. Second, other domestic investments will continue to grow at a fast pace with greater product diversification and innovation, along with increasing investor openness and sophistication. And third, overseas investments will continue to increase as investors' seek more diverse offerings of cross-border investment opportunities. Bank wealth management products, however, are expected to relinquish the high growth rate seen in the last four years due to the economic slowdown that began in 2014—a result of the relatively loose monetary policy, a decrease in risk-free interest rates and increased fund flows into the Internet and capital markets. Because the central bank will likely seek to spur economic growth by cutting the reserve requirement ratio and interest rates, and by revising real estate policy in 2015 to stimulate demand for owner-occupied housing, investment properties will maintain a somewhat slower growth rate.

* This report covers mainland China only and excludes Hong Kong, Macau and Taiwan.

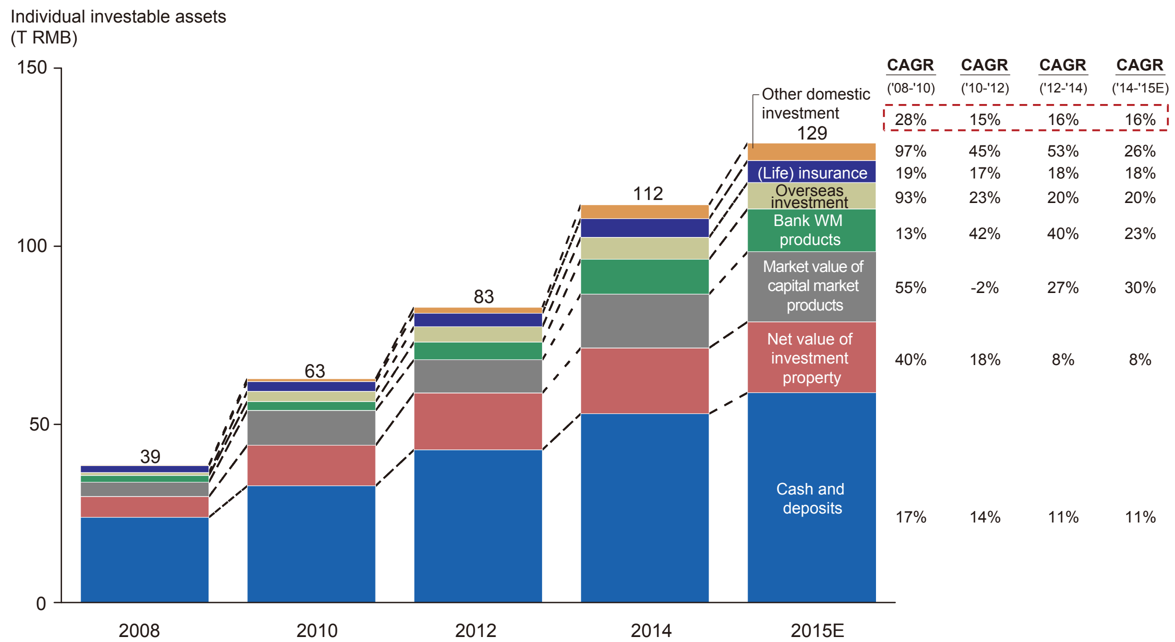
[1] Investable assets are a measurement of the total investable wealth (assets with secondary markets and certain liquidity) of an individual. Investable assets include an individual's financial assets and investable real estate. Financial assets include cash, deposits, stocks (tradable and non-tradable shares of listed companies, hereinafter inclusive), bonds, funds, insurance, bank wealth management products, overseas investments and other domestic investments (trusts, segregated account of fund companies, asset management of securities companies, private equity, gold, internet financial products and so forth), excluding assets such as owner-occupied real estate, non-listed companies held by non-private equity and consumer durables.

[2] This study defines high-net-worth individuals (HNWIs) as those who have at least RMB 10 million in investable assets.

[3] This study defines ultra-high-net-worth individuals (ultra-HNWIs) as those who have at least RMB 100 million in investable assets.

Given the impact of macro factors on China's private wealth market, we predict that China's individual investable assets will reach RMB 129 trillion in 2015, a 16% bump from 2014, which is on par with the 2012 to 2014 CAGR. Chinese HNWIs will number around 1.26 million—increasing by 22% from 2014—and hold RMB 37 trillion in assets in 2015, an increase of 17% from 2014. China's private wealth market will continue to see considerable growth potential and contain enormous market value (see Figures 1, 2 and 3).

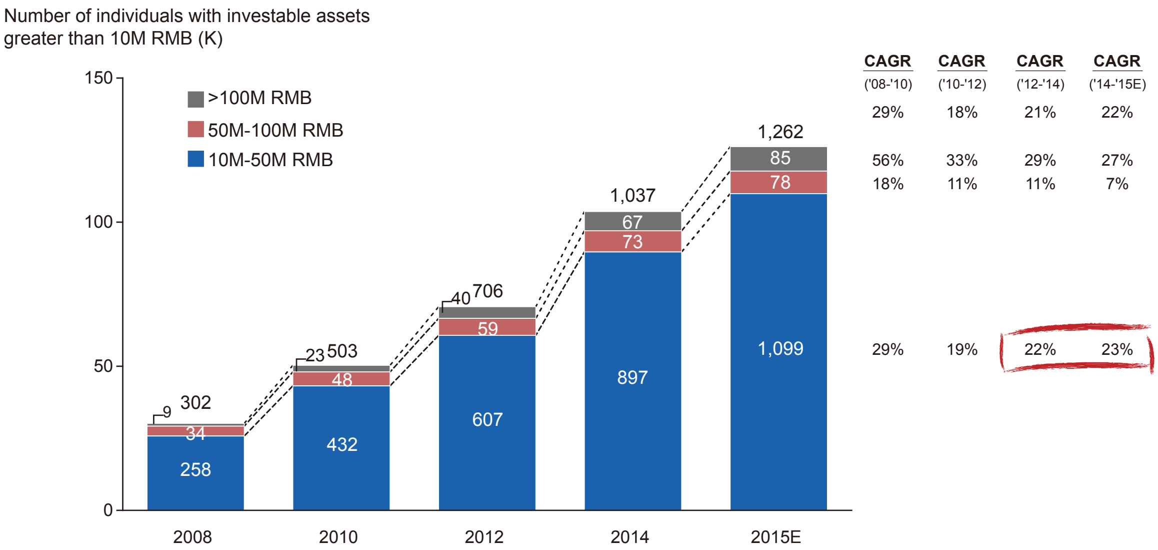
Figure 1: Total individual investable assets in China from 2008 to 2015



Notes: "Capital market products" include stock, mutual funds, bonds and over-the-counter bulletin board held by individuals; "other domestic investments" include trusts, segregated accounts of fund companies, asset management of securities companies, private placement stock products, gold, private equity and P2P products held by individuals

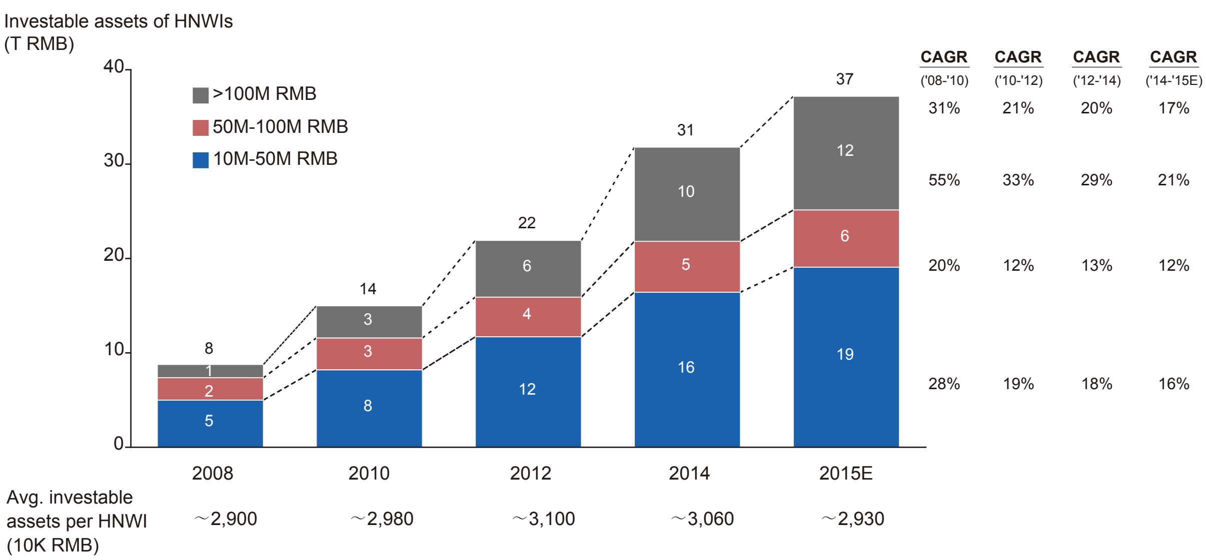
Source: Bain & Company's HNWIs Income-Wealth Distribution Model

Figure 2: Number and composition of Chinese HNWIs from 2008 to 2015



Source: Bain & Company's HNWIs Income-Wealth Distribution Model

Figure 3: Total wealth and distribution of Chinese HNWIs' investable assets from 2008 to 2015



Source: Bain & Company's HNWIs Income-Wealth Distribution Model

Chapter I: Overview and trends in China's private wealth market for 2015

China's private wealth market in 2013 and 2014, and the outlook for 2015

Macro economy

- **2013 to 2014 review.** China embraced a "new normal" macroeconomic development, with GDP growth falling from 7.7% in 2013 to 7.4% in 2014, resulting from China's economic restructuring reforms while making a modest recovery in the global economy. The CPI dropped from 2.6% in 2013 to 2.0% in 2014.
- **Outlook for 2015.** The 2015 Government Work Report requires that China's economic growth rate be modified without sacrificing momentum and that quantitative growth be supported by qualitative improvements, in order to achieve a more efficient, high-quality economy. Economic growth will downshift from the previous high-speed to medium-to-high-speed growth. targeting a GDP increase of approximately 7%. China will endeavor to optimize and upgrade its economic structure. Economic growth will come primarily from the service industry meeting consumer needs. The goal is to narrow urban-rural regional disparities while raising household income as a percentage of national income. China will see a transformation from resource-driven and investment-driven growth to innovation-driven growth, relying on the twin engines of entrepreneurship and innovation to propel development and, at the same time, increase public goods and services.

Real estate market

- **2013 to 2014 review.** The real estate market experienced a recovery in 2013 and a downturn in 2014. As a result, the national real estate policy aimed for more modest growth, as part of a comprehensive, long-term plan to provide housing for more people while curbing real estate speculation. Since 2014, China has accelerated market-oriented reforms of its real estate market by easing restrictions on real estate purchases and loans in select regions. In general, the proportion of investment properties decreased in the previous two years, and the growth rate of investment properties dropped significantly from an 18% CAGR during 2010 to 2012 to 8% during 2012 to 2014.
- **Outlook for 2015.** Beginning in 2015, the Chinese government issued a set of policies to strengthen the real estate market, which includes extending business tax exemptions and reducing down-payment costs for second-home buyers. These policies are designed to stimulate demand for owner-occupied housing. We expect that these policies will have a limited impact on investment properties—the real estate market is reaching a turning point as a result of China's changing demographics, the impending real estate registration system, restrictions on real estate purchases in some regions, a booming stock market and higher opportunity cost of investment property. As a result, the investment property market is expected to grow at about 8%.

Stock market

- **2013 to 2014 review.** Slower macroeconomic growth led to a weaker stock market between 2013 and 2014H1. A set of steady-growth policies launched in 2014H2 helped relieve investor concerns about a hard landing and triggered expectations for a new round of reforms to ignite the economy. Enthusiastic investors powered a rally in the A-share market, with the SSE composite index hitting 3,200 points in 2014.
- **Outlook for 2015.** Investors' money will continue to flow into the stock market thanks to the moderately loose monetary policy, the benefits of comprehensive economic reform and the increase in private wealth. This bull market is expected to continue in 2015.

Mutual funds

- **2013 to 2014 review.** The emergence of Internet finance (e.g., Alibaba's Yu'ebao) led to step-change growth in money market funds and helped spur dramatic growth in the total net value of mutual funds with a CAGR of 24%, up from 15% during 2010 to 2012, as compared with the mediocre performance by stock funds, bond funds, mixed funds, etc.
- **Outlook for 2015.** More organizations like securities companies, insurers and other professional asset management institutions are now allowed to apply for mutual fund licenses. As a result, we expect that the types of mutual fund institutions will become more diverse. Meanwhile, the official approval process for mutual fund products has loosened and product offerings will be more market-oriented.

Cash and deposits

- **2013 to 2014 review.** The central bank maintained its robust, somewhat tight monetary policy, with broad money supply (M2) increasing by 13.6% in 2013 and 12.2% in 2014. As a result, the balance of cash and deposits increased steadily, at a CAGR of 11% from 2012 to 2014.
- **Outlook for 2015.** The central bank is expected to maintain a robust and moderately tight monetary policy in 2015. We expect that the broad money supply (M2) will increase by 12%, and that cash and deposits will grow steadily.

Bank wealth management products

- **2013 to 2014 review.** Despite the quick ramp-up before 2013, bank wealth management products witnessed slower growth since the end of 2014 with a CAGR of 40%, down from 42% during 2010 to 2012, driven by declining yields, the emerging Internet market and a resurgent capital market.
- **Outlook for 2015.** The China Banking Regulatory Commission (CBRC) is expected to reform banks' wealth management services and promote greater professionalism. This measure will help investment banks improve risk management while supporting sound development, making it a more substantial part of China's asset management industry. Previously, bank wealth management products benefited from the banks' extensive distribution network and solid customer base. But the rebounding capital market and the decrease in risk-free interest rates will render these products less attractive, resulting in a decrease in bank wealth management products. The CBRC's Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (Draft), issued in December 2014, is expected to increase the issuance cost of expected return products. As a result, banks will shift to net-value products with flexible investment targets, transparent pricing and lower issuance cost. Given the outlook for expected-income and net-value products, bank wealth management products are projected to enjoy sustained growth, albeit at a slower pace.

Insurance

- **2013 to 2014 review.** China's low insurance penetration allows for strong future growth. The China Insurance Regulatory Commission (CIRC) issued a policy allowing insurers to set fixed interest rates on basic life insurance, which helped them better differentiate their products and facilitated the sustainable growth of the life insurance market.
- **Outlook for 2015.** The penetration rate of insurance has significant growth potential in China due to increased disposable income, improved awareness of wealth preservation and a growing aging and urban population. Allowing insurers to invest premiums more broadly will help boost returns on insurance investments and hence improve the competitiveness of insurance products. Overall, the life insurance market is expected to grow faster in 2015 than in the previous two years.

Other domestic investments

Financing-type trust products

- **2013 to 2014 review.** For the past two years, the high-speed train of the trust industry has started to slow down, as financing needs decreased due to slower macroeconomic growth, a deleveraging trend and declining investments from real estate developers and local governments. Trust products were exposed to redemption risks, while investors took a more rational look at high-yield financing of trust products. The balance of financing trust products directly held by individuals increased by a CAGR of approximately 40%, a drop from the nearly 60% CAGR between 2010 and 2012.
- **Outlook for 2015.** Rules related to the traditional financing of trust products, released at the end of 2014, will bring more rigorous regulation and risk control requirements to the trust industry. As the assets for financing trust products are mostly sourced from real estate and financing platforms, high-quality assets in these areas will remain in short supply. Meanwhile, the competition for high-quality assets will become fiercer, as the competition in the asset management market intensifies and new products (e.g., segregated accounts of fund companies) emerge. The growth rate of financing trust products is expected to decrease.

Asset management plan of fund subsidiaries and securities companies

- **2013 to 2014 review.** Since its inception at the end of 2012, the asset management plan of fund subsidiaries developed rapidly between 2013 and 2014, as it attempted to meet the personalized, more complex investment needs of institutional investors and HNWIs by expanding the scope of its investments and offering greater flexibility. It raised funds from HNWIs and tapped into idle financial assets to support development of the real economy, providing banks and business enterprises with new resources and conduits for asset securitization in the form of private placements. The balance of fund companies' segregated balance accounts, held by individuals, increased nearly 170% between 2013 and 2014. The 2012 new CSRC asset management policy expanded the scope of securities companies' investment opportunities and changed the approval system of collective asset management plans into a filing system. In the second half of 2014, the bull market drove the rapid growth of asset management products for securities companies to invest in the secondary market. The balance of security companies' asset management products held directly by individuals increased by nearly 140% of CAGR during the period from 2012 to 2014.

- **Outlook for 2015.** With the rapid development of fund subsidiaries, the risk factor is likely to increase—due to the more flexible business model—so the CSRC will in all probability continue to fine-tune regulations on business risks in 2015. Market leaders will ensure clearer corporate governance structures, greater professionalism and expertise, stronger management capabilities and more dependable risk management guidelines. By virtue of the expanded scope and greater flexibility of their investment offerings, fund subsidiaries will remain a key platform for equity and alternative investments and will continue to grow in 2015. Regarding asset management plans of securities companies: As investors show more interest in equity products, and as regulations for non-standard investments become stricter, securities companies will shift their business focus from issuing/selling investment products to becoming active aggregate asset-management businesses, to improve their investment capabilities. Securities companies have launched products invested in the over-the-counter bulletin board, which offer more options for investors. Therefore we predict continued growth in 2015.

Private placement stock products

- **2013 to 2014 review.** In 2013, a weak stock market led to a decrease in private placement stock products and in 2014, a bull market led to an increase. Overall, the number of private placement stock products held by individuals increased by about 12% from 2012 to 2014.
- **Outlook for 2015.** Compared with mutual funds and the segregated accounts of fund companies, private placement stock products provided a more flexible investment strategy and, in general, offered investment and management institutions more market-oriented incentives. In addition to the typical long positions, these products will be able to deliver a more flexible hedging strategy as the derivatives of share price index futures (e.g., SSE 50 index and CSI 500 Index) have been launched. Because private equity is less correlated with the yields of private placement hedge funds, long equity strategy, bonds and investment property, it is expected to attract investors who want to spread risks and diversify their portfolios. Private placement stock products are likely to maintain the rebound momentum of the previous year in 2015.

Private placement hedge funds

- **2013 to 2014 review.** The official launch of share price index futures (SPIF) has spurred the rapid growth of hedge funds, a new investment product, in the last two years. Unlike stocks and fixed-income investment products, hedge funds typically draw on diversified sources of return and yield higher risk-adjusted gains. In China, the investment strategies of hedge funds include market neutral, Alpha, statistical arbitrage, event-driven, market-driven and long-short strategies.
- **Outlook for 2015.** Hedge fund strategies will continue to diversify, including macro, industry, short strategy and commodity trading advisors (CTA), due to an increase in the number of hedge tools and the expanded and more diverse scope of investment opportunities. Hedge funds will increasingly become an important vehicle for HNWI asset allocation, as they are not highly correlated or even negatively correlated to stock, bonds and property investment.

Private equity investment products

- **2013 to 2014 review.** In 2013, growth of private equity investments and fund-raising slowed due to the fact that the frozen IPO market no longer offered a reliable exit for private equity investment. In 2014, the rebound of the IPO market, combined with the increased valuation of the Second Board Market and the market maker system of the over-the-counter bulletin board (OTCBB) helped revive private equity investment and fundraising activities. Technology, media, telecom (TMT),[4] healthcare, clean technologies and Internet were the hottest investment themes. The Interim Measures for the Supervision and Administration

[4] Technology, media, telecom (TMT) refers to the IT industry in the Internet era.

on Private Equity Funds, released by the CSRC in August 2014, promise greater regulatory oversight over private equity funds, especially for private equity investments, signaling a new phase of sounder, more orderly development in the private equity industry. Individual private equity investments recorded a 4% CAGR between 2012 and 2014, up from a negative CAGR between 2010 and 2012.

- **Outlook for 2015.** Macro policies look favorable for the private equity industry. The new administration has encouraged entrepreneurship and innovation by instituting multilevel capital market reforms (including the establishment of OTCBB), by initiating a new IPO registration system and by promoting mixed ownership for state-owned enterprises (SOE), to provide more opportunities for private equity investments and ensure that exit channels are accessible. In addition, China's macro environment and business development needs will further boost the growth of private equity investments. The Chinese economy has shifted from high growth rates to more steady growth, in the face of challenges to structural reform. Moreover, companies that depend entirely on organic growth will encounter obstacles, resulting in a need for technology upgrades and industrial consolidation, which will create more opportunities for M&A funds and industrial funds. However, market factors may precipitate slower growth in the wake of the strong rebound in the private equity industry. The valuation will rise as the competition on targets gets fiercer. Overall, the private equity market will face both opportunities and challenges.

Internet financial products

- **2013 to 2014 review.** In the last two years, we have seen a lot of innovative products emerging in the Internet finance market, including P2P lending,[5] equity crowdfunding, asset securitization, bill-based wealth management, private placement bonds and private placement plans, which have caught the eye of mass investors. These products developed rapidly due to the convenience of the Internet but lagged behind other investment products in overall volume.
- **Outlook for 2015.** Internet finance is expected to flourish. As a supplement to the traditional bank financing channel, it will provide flexible and more diverse investment and financing products to small- and medium-sized enterprises (SMEs) and individuals. Given the mixed growth expectation, the CBRC has recently established a Financial Inclusion Affairs Department to regulate Internet finance. Because both investors and the general public are increasingly aware and accepting of Internet finance products, an efficient supply of funds will give a substantial boost to the Internet finance sector.

Gold investment

- **2013 to 2014 review.** A strong US economy, a decrease in quantitative easing (QE) and reduced global inflation expectations caused gold prices to drop significantly in 2013. Gold prices remained low throughout 2014. Nevertheless, Chinese investors increased their investment in gold for a short period following the price drop, but investment demand kept going down in the face of weak gold prices from 2013 to 2014. The net value of gold investments held by individuals increased by about 5% between 2012 and 2014.
- **Outlook for 2015.** From a fundamental and technical viewpoint, there is limited upside potential for gold prices. Most investors are on the sidelines due to increased fund flows into the capital market, and the gold market is expected to remain weak in 2015.

Overseas investments

- **2013 to 2014 review.** As investors sought to diversify and balance their portfolios, overseas investments continued to grow dramatically with a CAGR of 20%, outperforming the overall wealth market. Hong Kong has attracted most of the overseas financial assets by virtue of its proximity, lower tax rate and professional financial services. Meanwhile, investors expanded their investment in the industries and real estate in developed countries like the US and Australia, driven by migration and due to optimistic expectations for local real estate markets.
- **Outlook for 2015.** Chinese investors' interest in overseas investments will remain strong. As Chinese investors expand their overseas asset allocations and become more knowledgeable about overseas markets and, given investors' lowered expectations of RMB appreciation, overseas investments will increase and become more diverse. The overseas investments market is expected to increase by approximately 20% in 2015.

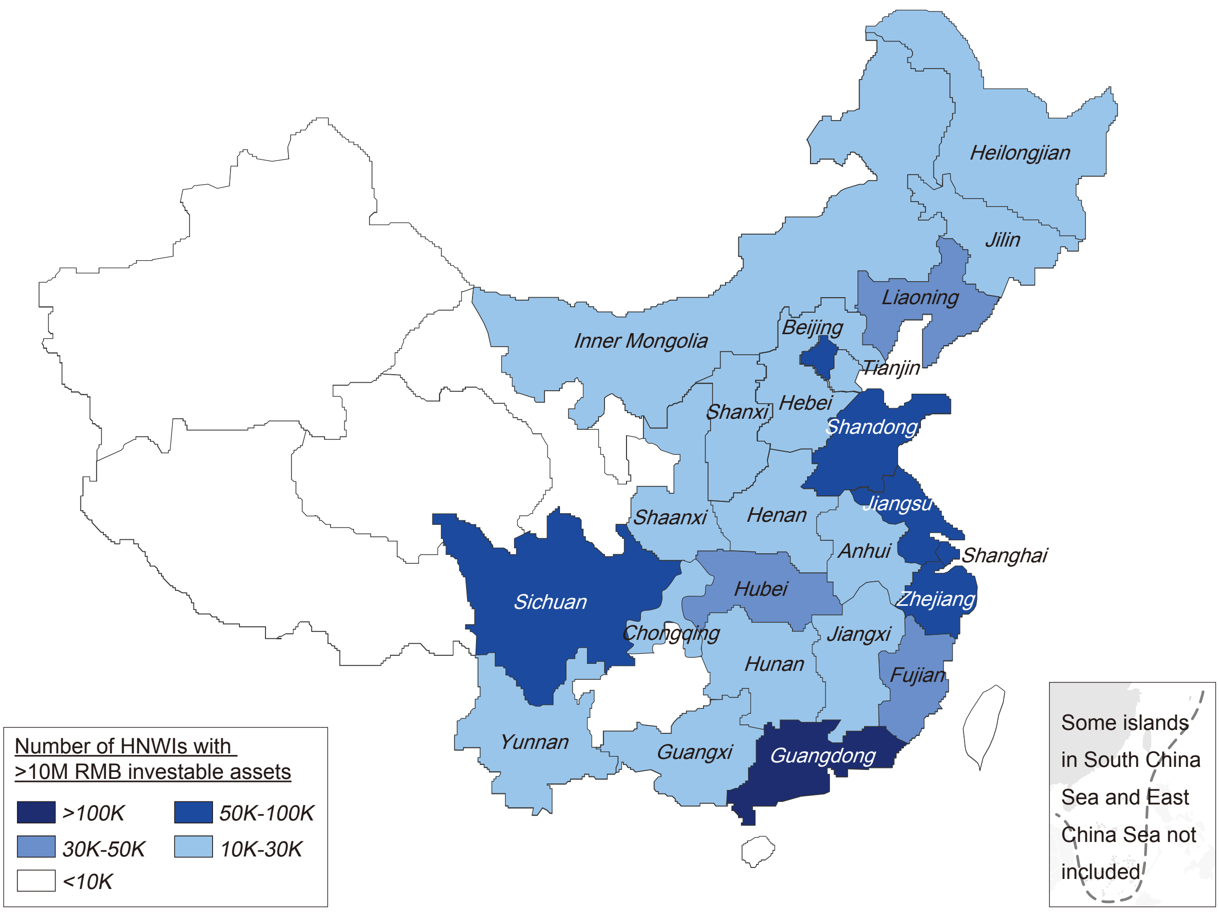
[5] P2P (peer-to-peer) lending is the practice of individuals lending a small amount of money to other individuals through the Internet.

Seven provinces and municipalities had HNWI populations exceeding 50,000. Central and Western China experienced the greatest increases, which helped narrow regional gaps in wealth distribution

Guangdong was the first province to have more than 100,000 HNWIs, and Sichuan was the first inland province to have more than 50,000.

Since the first private wealth report was published in 2009, the HNWI population has increased significantly across China. By the end of 2014, most provinces had more than 10,000 HNWIs, with Central and Western China leading the growth, thus narrowing the gaps in regional wealth distribution and reflecting a dynamic regional economic development. Seven provinces and municipalities had HNWI populations of more than 50,000: Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong and Sichuan, with HNWIs numbering 130,000 in Guangdong. Three provinces—Liaoning, Fujian and Hunan—had HNWI populations of between 30,000 and 50,000. And 24 provinces and municipalities had more than 10,000 HNWIs, with Sichuan the first inland province to have more than 50,000 HNWIs. The region benefited from a national policy to develop Central and Western China and a comprehensive strategy for developing designated provincial areas including Chengdu, Mianyang, Panzhihua and Xichang (see Figure 4).

Figure 4: Regional distribution of Chinese HNWIs in 2014

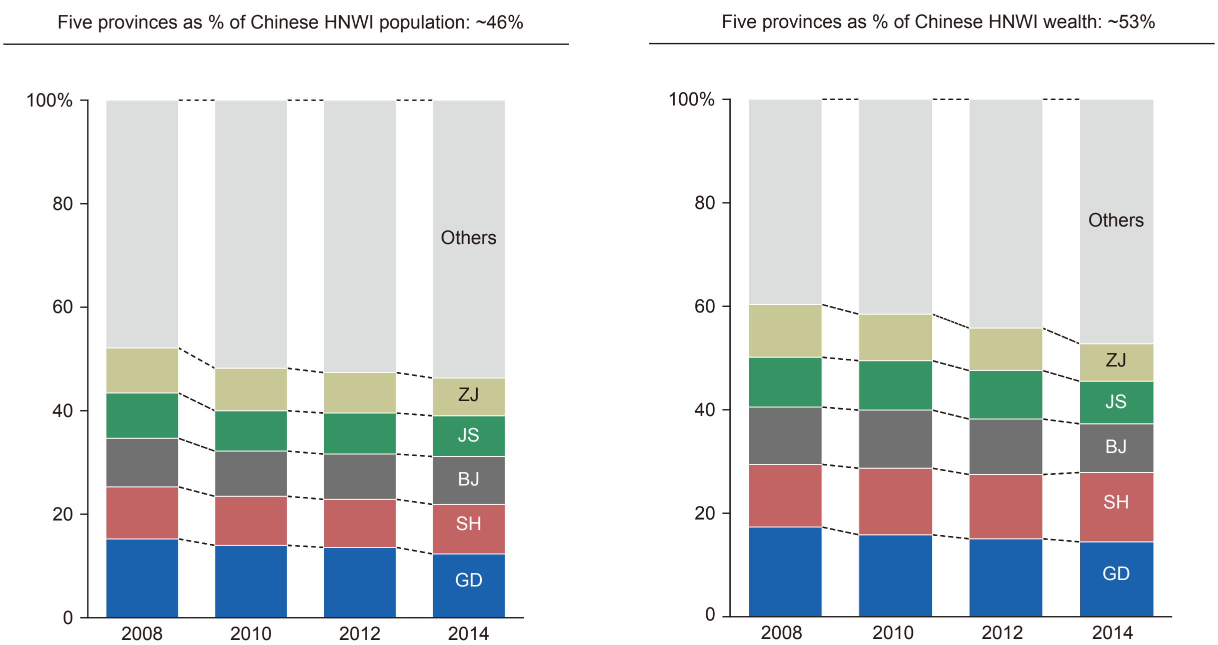


Source: Bain & Company's HNWIs Income-Wealth Distribution Model

A more balanced geographic distribution of HNWI population and wealth

From 2012 to 2014, we saw a decline in the gaps in regional concentrations of HNWIs, and the geographic distribution of HNWIs became more balanced. Five eastern coastal provinces and municipalities—Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang—were home to 46% of the total HNWI population and 53% of the total HNWI wealth in China, a decrease of four percentage points and two percentage points, respectively, from 2012 (see Figure 5).

Figure 5: Five provinces as a percentage of national HNWI population and total wealth by the end of 2014



Source: Bain & Company's HNWIs Income-Wealth Distribution Model

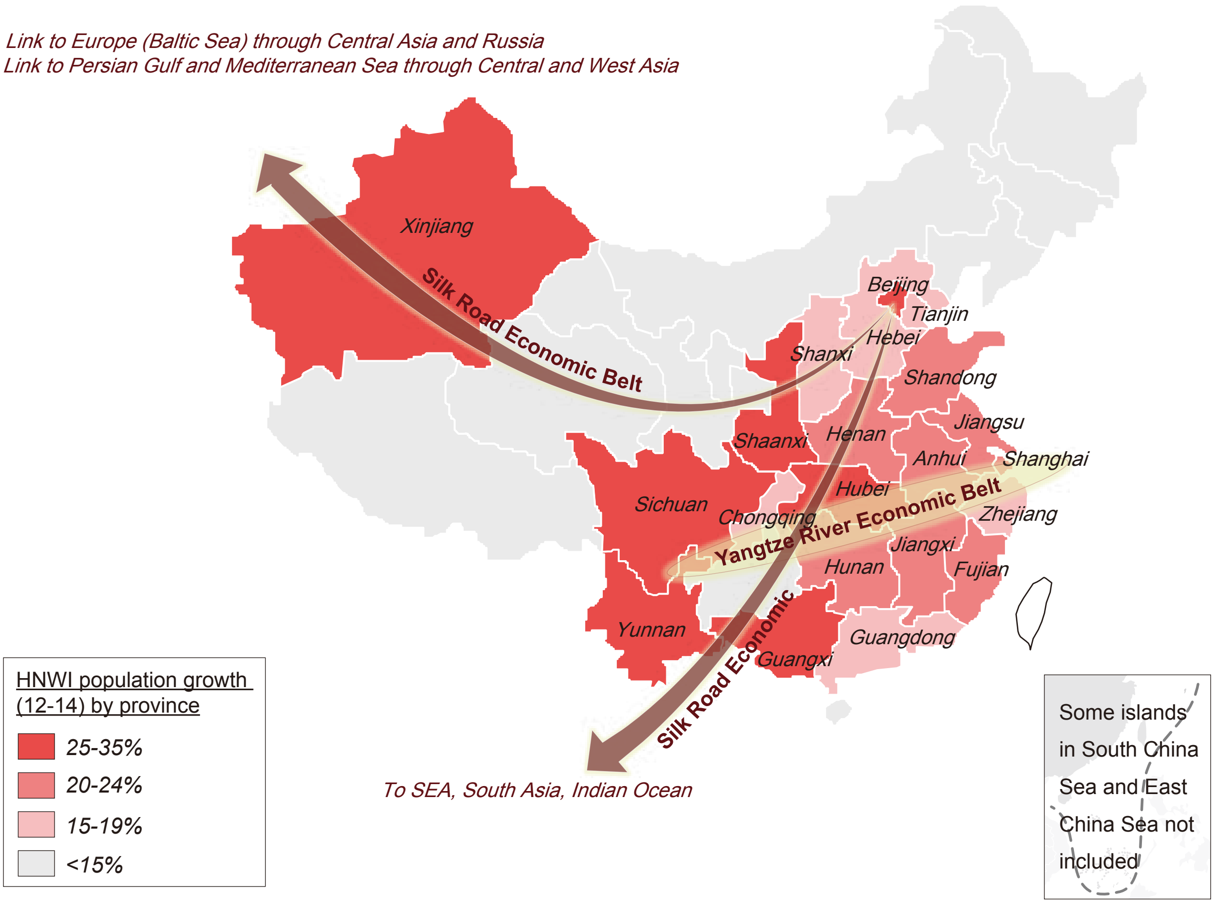
During the years 2012 to 2014, Central and Western China had the largest increase of HNWIs. The region is expected to maintain strong growth momentum thanks to the "One Belt, One Road" initiative and the Yangtze River Economic Belt policies.

Provinces of Central and Western China saw their HNWI population grow by more than 25% CAGR, an increase attributed to the 12th five-year plan of West China and the "Rise of Central China" plan. The HNWI population in Xinjiang, Hubei and Shaanxi provinces increased by more than 30% CAGR, and in Sichuan, Guangxi and Yunnan provinces by more than 25% CAGR. In 2014, Xinjiang, a key province of the resource-rich region in the Western China Development Program, benefited from that program's tax credit policy to register the largest increase in urban per capita disposable income (>11%), as well as in its HNWI population (see Figure 6).

The 2015 Government Work Report identifies main components of regional development: "One Belt, One Road," the Yangtze River Economic Belt, and the collaborative development of Beijing, Tianjin and Hebei provinces. We predict continued growth in those regions. In the northwest region, the "One Belt, One Road" initiative has a number of infrastructure projects planned (e.g., in transportation, power generation and transmission) to boost commerce and the economic development of Xinjiang, China's inland provinces and surrounding countries such as Kazakhstan and Tajikistan. In the southwest, "One Belt, One Road" will expedite the opening and development of the Beibu Gulf Economic Zone and the Zhujiang-Xijiang Economic Belt in Yunnan and Guangxi provinces and, building on the success of those projects, will continue to promote increased economic cooperation throughout the Greater Mekong Subregion. Yangtze River Economic Belt projects will improve infrastructure to facilitate transportation and communication all along the "golden waterway" that will, in turn, encourage the industrial and economic development of Western China.

As part of a national strategy for innovation-driven development, the above-mentioned regions are expected to lead Western China's transformation—in part, by establishing them as regional "innovation hubs" to promote more diversified, dynamic investments and markets that will be fully connected and accessible via the Internet. These regions will see substantial increases in private wealth and continued growth in their HNWI populations.

Figure 6: Comparison of HNWI growth from 2012 to 2014



Source: Bain & Company's HNWIs Income-Wealth Distribution Model

Chapter II: Investment mindsets and behaviors

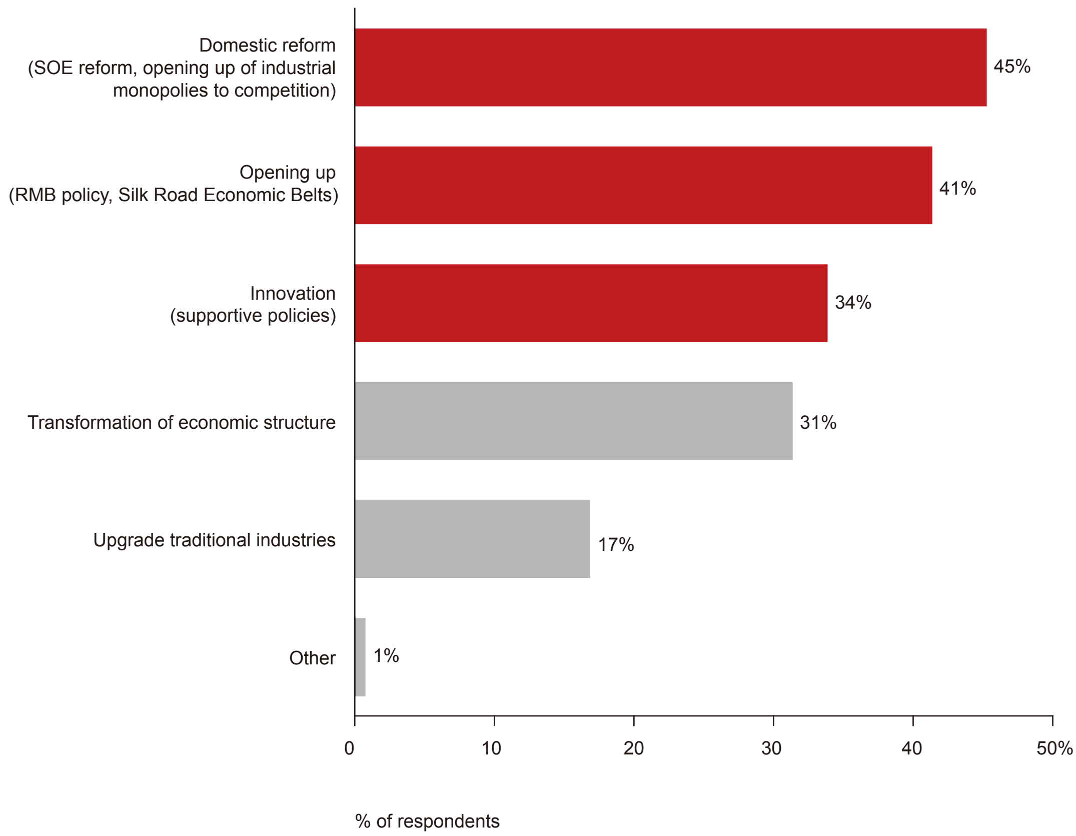
- Chinese HNWIs pay more attention to industrial investment, from a variety of perspectives.
- Wealth inheritance has become a key wealth objective of HNWIs.
- The objective of overseas investments has shifted from spreading the risk to seeking returns on overseas investments.
- Online service channels are increasingly diverse, while offline service channels are more popular among HNWIs.

Chinese HNWIs pay more attention to industrial investment, from a variety of perspectives

HNWIs remain alert to political and economic trends, while keeping a focus on government policies and reforms that encourage innovation

Early in 2014, the “new normal” became the watchword of the new administration, signaling a policy of slowing economic growth and shifting the focus away from traditional investments toward more innovative initiatives. In our 2015 survey, about 45% of HNWI respondents indicated that China’s economic and policy reforms, such as privatization of state-owned enterprises (SOE) and the opening up of industrial monopolies to competition, will have a significant impact on their investment behavior in the coming years. In addition, HNWIs with overseas investments are keeping a close eye on China’s increasingly liberal finance policies, the internationalization of the RMB and major development initiatives such as “One Belt, One Road.” Some respondents called special attention to government support of innovative industries and initiatives related to the Internet, biotechnology, alternative and renewable energy sources, and environmental protection, with the expectation that these policies will promote industries in which some have already invested (see Figure 7).

Figure 7: Major economic topics that concern HNWIs in 2015



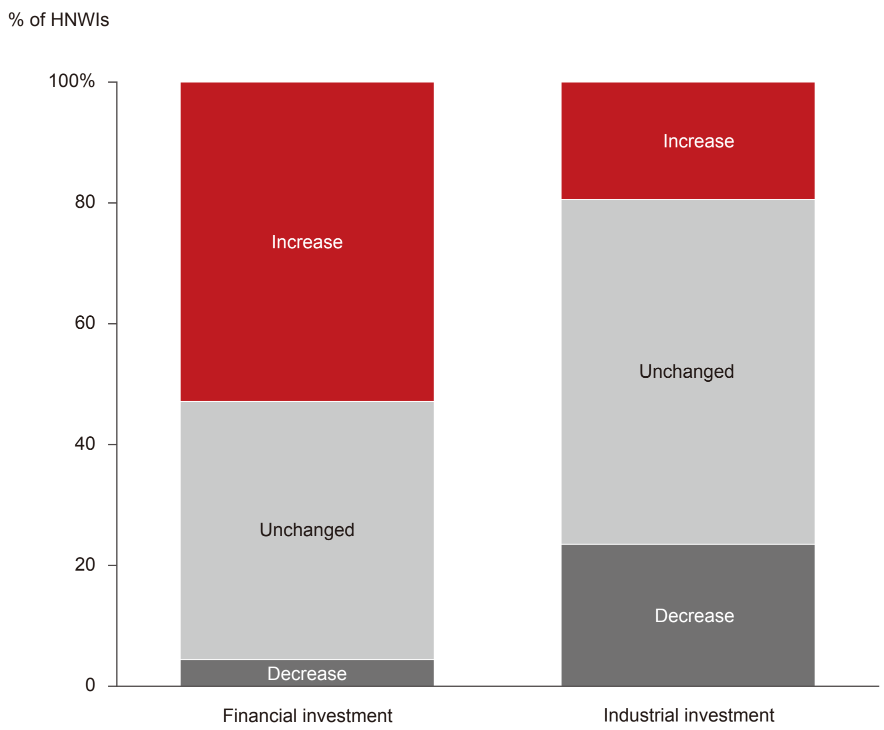
Source: CMB-Bain Chinese HNWI survey

From 2012 to early 2014, the stock market experienced a downturn due to slower macroeconomic growth. The stock market rally in the second half of 2014, however, renewed investors' eagerness for financial products. Given the strength of the domestic market, more than 50% of HNWI respondents said they would consider increasing their financial investments, while another 43% said they would maintain the current level of their investments.

Overall, the HNWIs surveyed expressed varied opinions about industrial investments for the next two years. About 19% of respondents would consider increasing their industrial investments, while 57% would maintain, and 24% reduce, their industrial investments. Some respondents said they were optimistic about industrial investments in the mid- to long-term because the outlook for the financial market was still uncertain. Fewer than 10% indicated that they would increase investments in traditional manufacturing industries, and said that in view of government policies and priorities, they preferred investing in innovative industries, consumer goods and service industries. Many HNWI owner-operators in traditional industries are seeking investment opportunities in Internet start-ups and new materials companies.

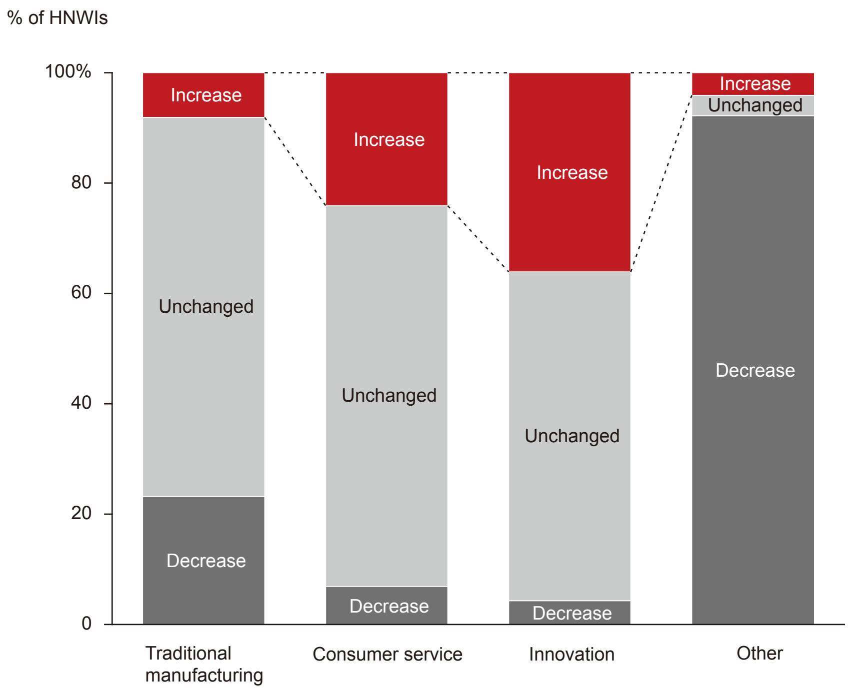
HNWIs are less enthusiastic about investment properties. Nearly 15% of respondents said they would decrease their investment in real estate over the next one to two years. Those who indicated that they would increase their real estate holdings are invested in Tier-1 cities and have extensive knowledge of the types of real estate, locations and appreciation potential (see Figures 8, 9 and 10).

Figure 8: Trends in HNWI financial and industrial investments in 2015



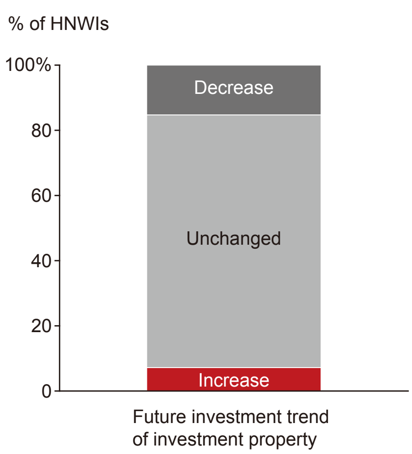
Source: CMB-Bain Chinese HNWI survey

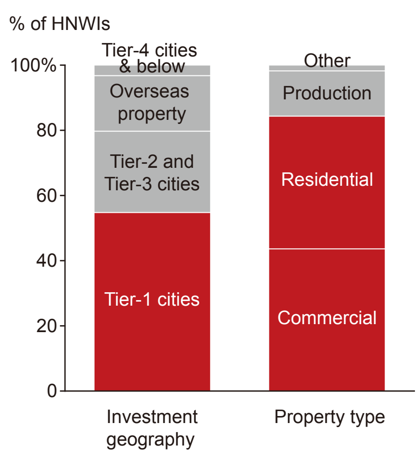
Figure 9: The trends of industrial investments by HNWIs in 2015 (by sector)



Source: CMB-Bain Chinese HNWI survey

Figure 10: Trends in HNWI property investments in 2015





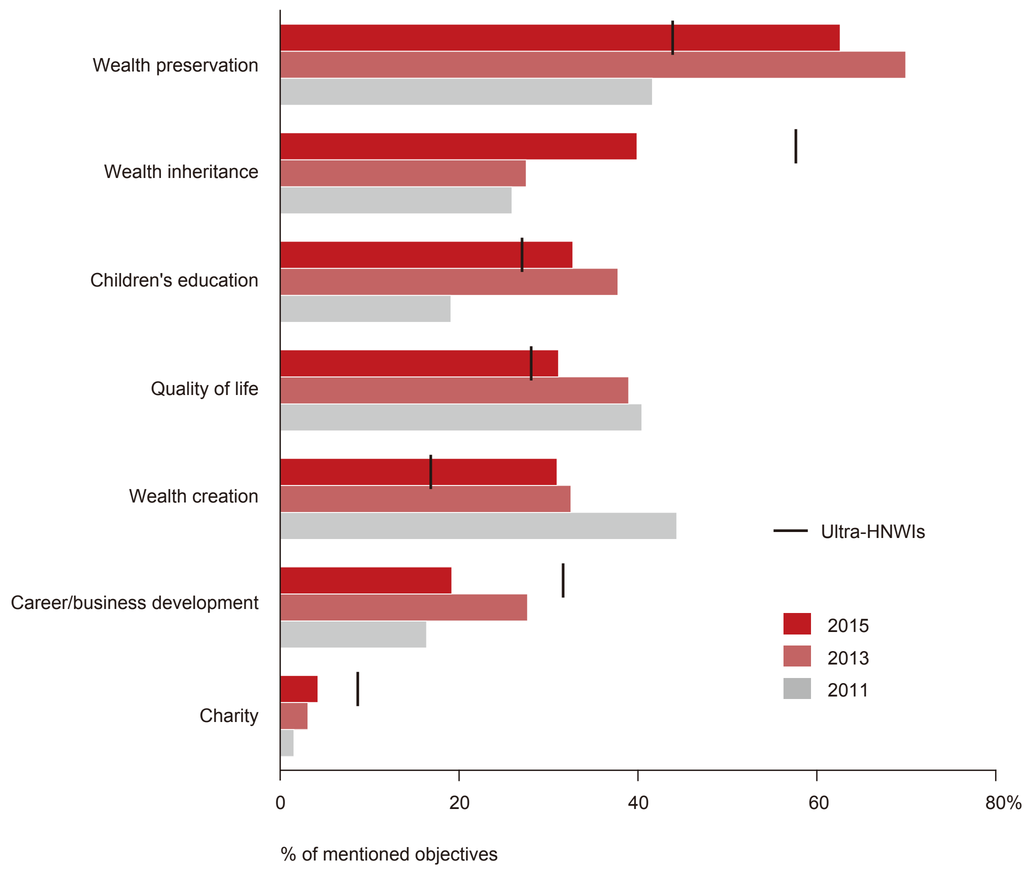
Source: CMB-Bain Chinese HNWI survey

Wealth inheritance has become a key HNWI objective

According to our 2013 survey, the top wealth objective of Chinese HNWIs shifted from wealth creation to wealth preservation. This year's survey indicated that wealth preservation remains at the top, with 63% of respondents citing it as their primary wealth objective. Wealth inheritance rose to second place from its fifth place spot in 2013, with 40% of HNWIs and 45% of ultra-HNWIs surveyed citing it as their primary wealth objective. Meanwhile, 31% cited wealth creation as their top priority—down from 33% in 2013—and 19% said career development was a priority—down from 28% in 2013..

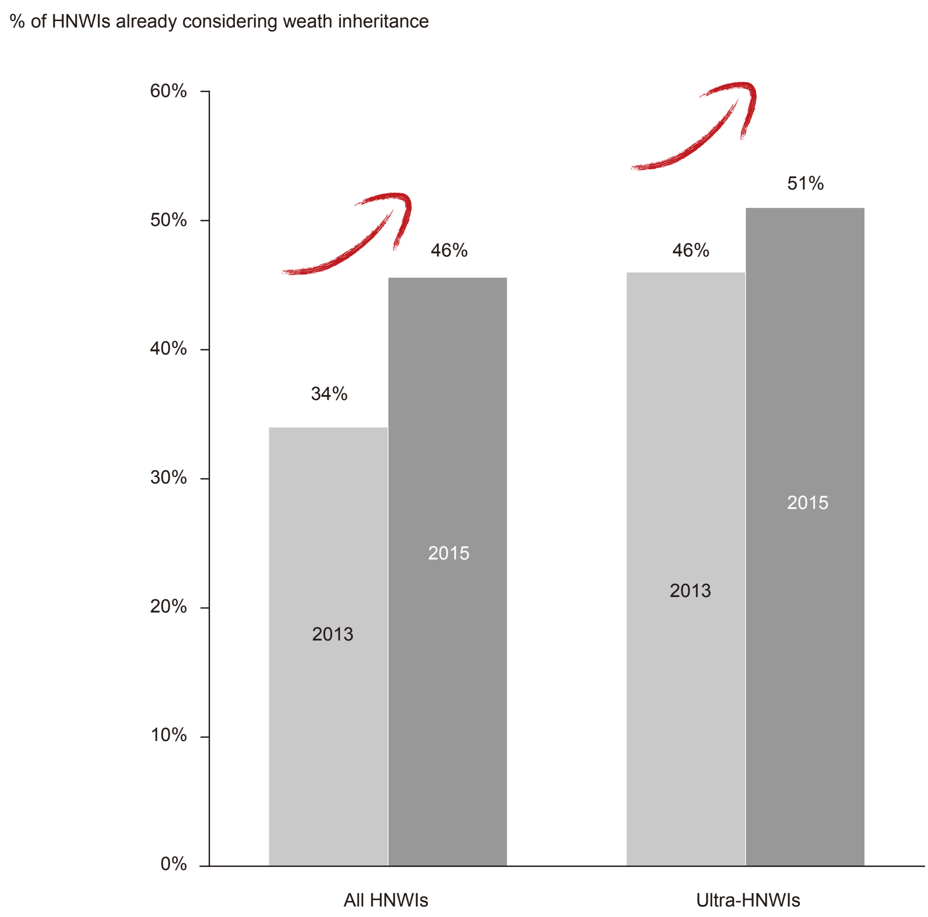
The rethinking of wealth objectives reflects a shift in focus on the part of HNWIs—particularly among ultra-HNWIs—who recognize the need for long-term inheritance planning as they seek to secure their family's wealth and their children's future while, at the same time, maintaining a high-quality lifestyle. As a result, the top HNWI wealth objectives for 2015 are 1) wealth preservation—realizing a steady increase in wealth while preserving existing wealth and 2) wealth inheritance—passing wealth on to the next generation in an effective and beneficial way (see Figures 11 and 12).

Figure 11: Chinese HNWIs' wealth objectives in 2011, 2013 and 2015



Source: CMB-Bain Chinese HNWI survey

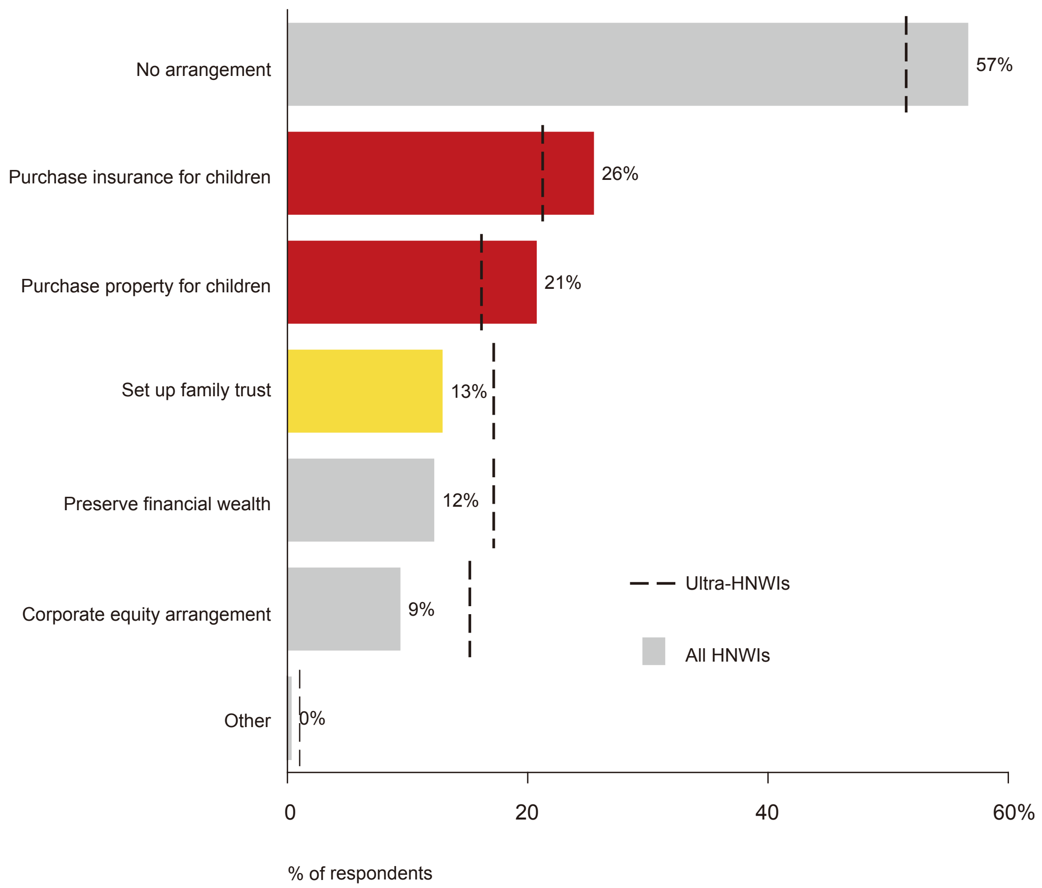
Figure 12: The proportion of HNWIs concerned about wealth inheritance : 2015 vs. 2013



Source: CMB-Bain Chinese HNWI survey

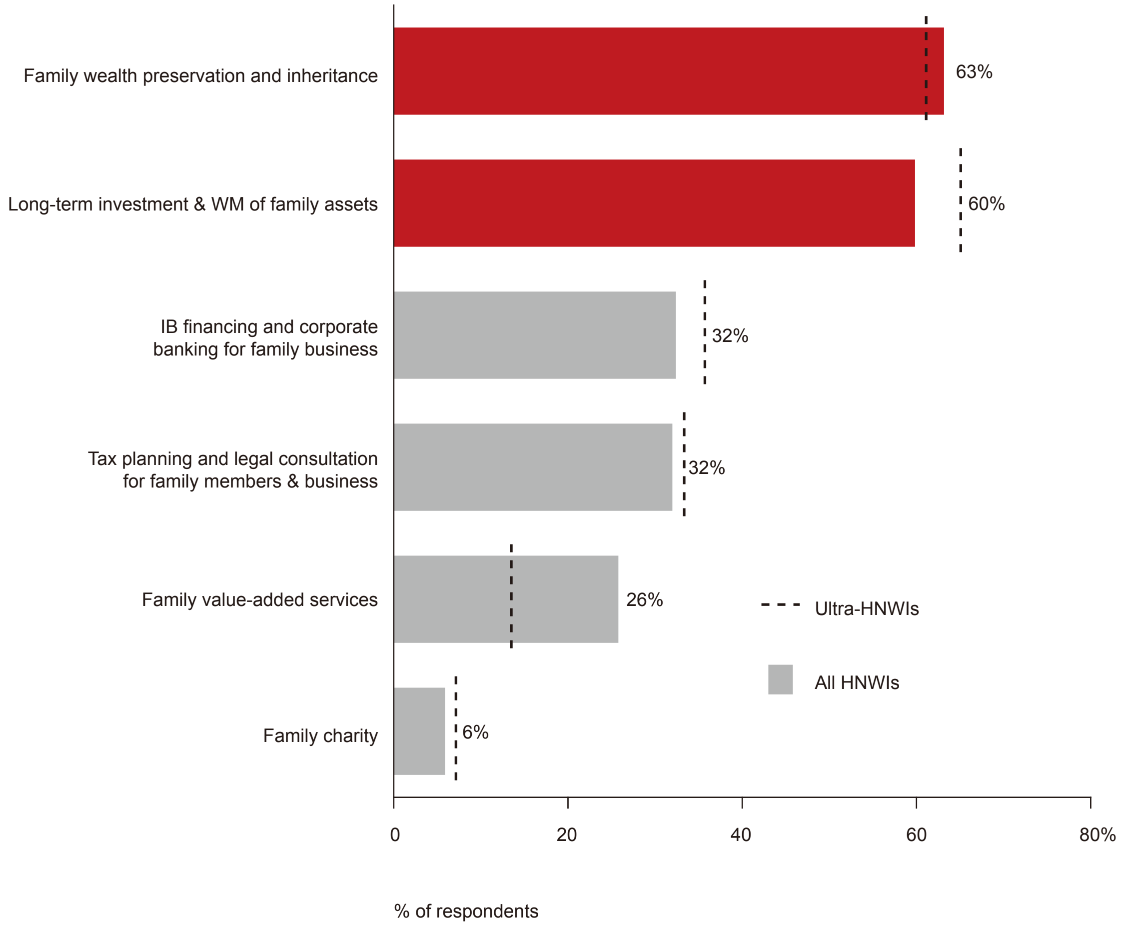
Because wealth inheritance has become a priority, a number of HNWIs have begun planning for the future. Survey data shows that 26% of respondents purchased insurance for their children, 21% bought property for their children and 13% set up family trusts using family office services. Among those without plans, many express an interest in having family offices manage their long-term investments, wealth preservation and inheritance needs. Also, 27% of respondents mentioned the need for value-added services, including health care and customized travel and migration seminars (see Figures 13 and 14).

Figure 13: HNWIs' wealth inheritance plans in 2015



Source: CMB-Bain Chinese HNWI survey

Figure 14: Major HNWI needs for family office services in 2015



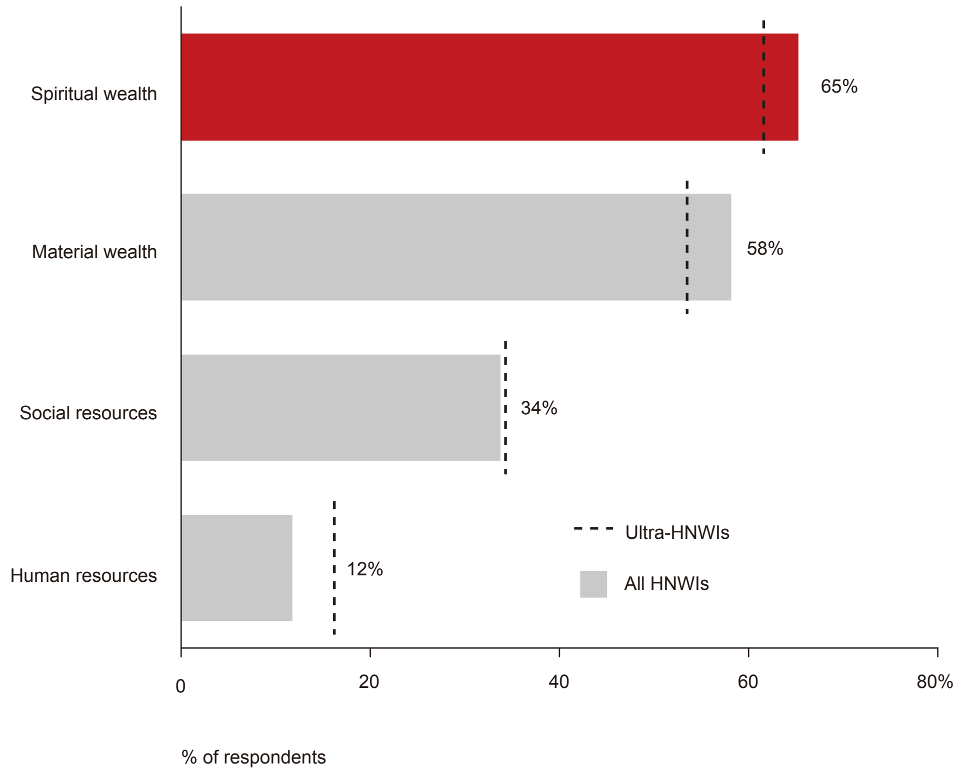
Source: CMB-Bain Chinese HNWI survey

Spotlight II. For HNWIs inheritance planning pertains not only to material wealth, but also to their legacy of family values

Wealth inheritance has acquired a significance beyond merely leaving money and property to one's heirs. Among survey respondents, 65% of HNWIs, especially first-generation entrepreneurs, cited the instilling of family values as important a part of their legacy to their children as their heritable financial wealth (see Figure 15).

Many HNWIs are concerned that great material wealth, inherited prematurely or without sufficient guidance, might negatively impact their children, compromising their independence and productivity. In keeping with the Chinese proverb "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime," they wish to pass on values and expectations that give their heirs sufficient self-reliance and the understanding and capabilities to manage family wealth in a productive and positive way.

Figure 15: The components of family wealth that HNWIs find most important in 2015

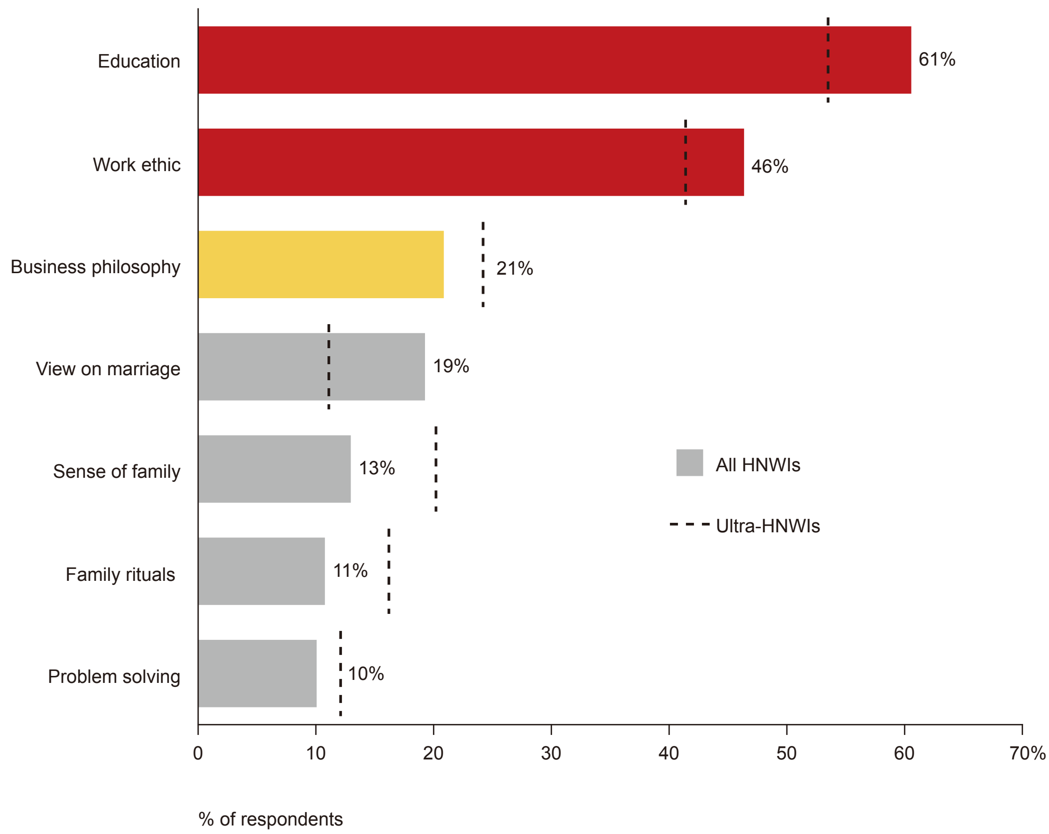


Source: CMB-Bain Chinese HNWI survey

Family values are rich and varied in their content and expression. They include all the values, capabilities, virtues and culture, related to education, marriage, family, career and business choices that families hand down through generations. According to our interviews, most HNWIs consider education the key to their children's future success—the determining factor shaping their children's career choices, work ethic, business philosophy and success in life. Close to half of survey respondents consider family values as something they wish to pass on to their children, along with their wealth inheritance, and almost half of respondents wish to instill a strong work ethic.

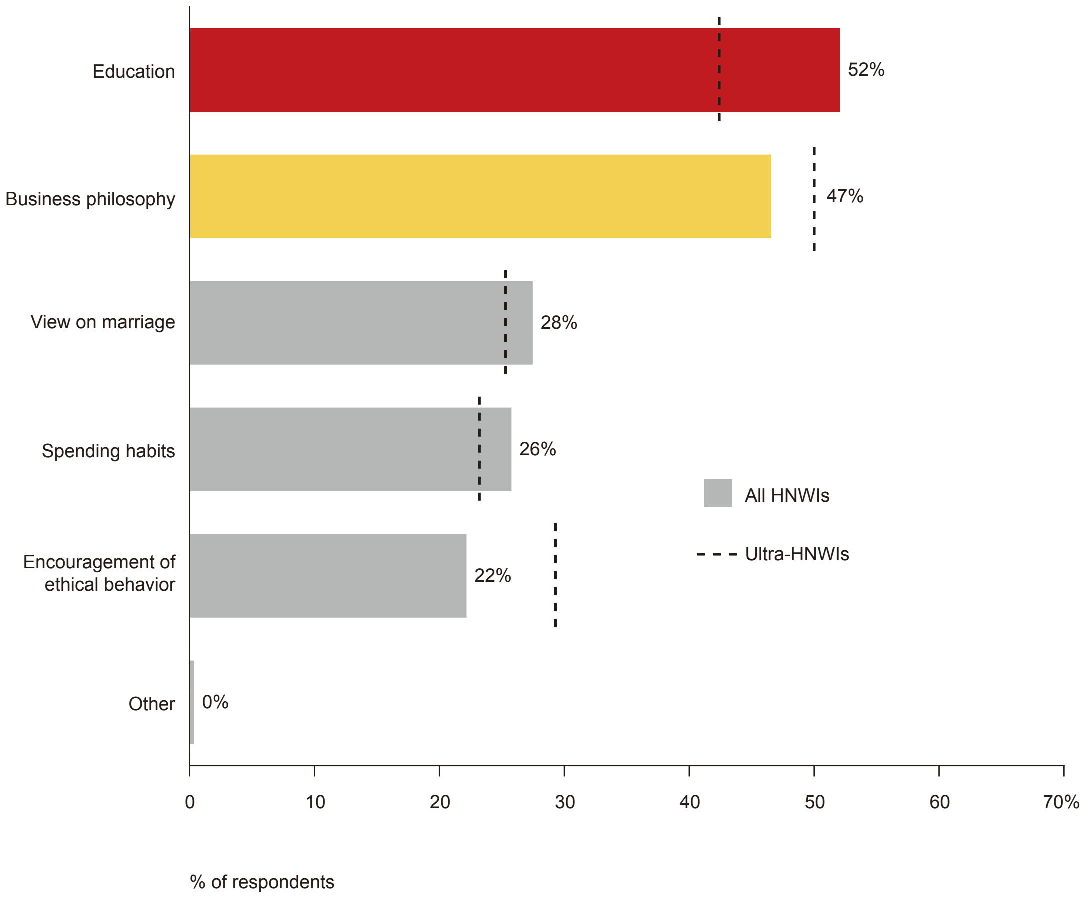
According to the survey, ultra-HNWIs were more concerned than other HNWIs about instilling a "business philosophy" in their children. About 25% of ultra-HNWIs expressed their desire to pass on their business philosophy along with family values, while 50% hoped to instill this value as part of their family's wealth inheritance planning. Some ultra-HNWIs preferred to have private banks provide legal and tax consulting services, as well as help their heirs acquire better business skills and an understanding of successful wealth management and inheritance planning (see Figures 16 and 17).

Figure 16: Attributes that HNWIs want to pass on as family values in 2015



Source: CMB-Bain Chinese HNWI survey

Figure 17: Family values that HNWIs hope to instill as part of their inheritance planning in 2015



Source: CMB-Bain Chinese HNWI survey

According to our interviews, HNWIs, in general, are more interested in instilling family values (i.e., a work ethos and business philosophy) in their children than in having them join the family business. One reason for this is that technological advances have brought about changes in the more traditional industries in which many HNWIs earned their wealth, making those businesses seem less attractive or outdated. Another reason is that HNWIs are more open-minded and prefer to respect their children's career choices rather than pressure them to join the family business. Currently, HNWIs tend to be more concerned about imparting a business philosophy, work ethos and other family values while allowing their children to make their own choices, whether or not they join the family business.

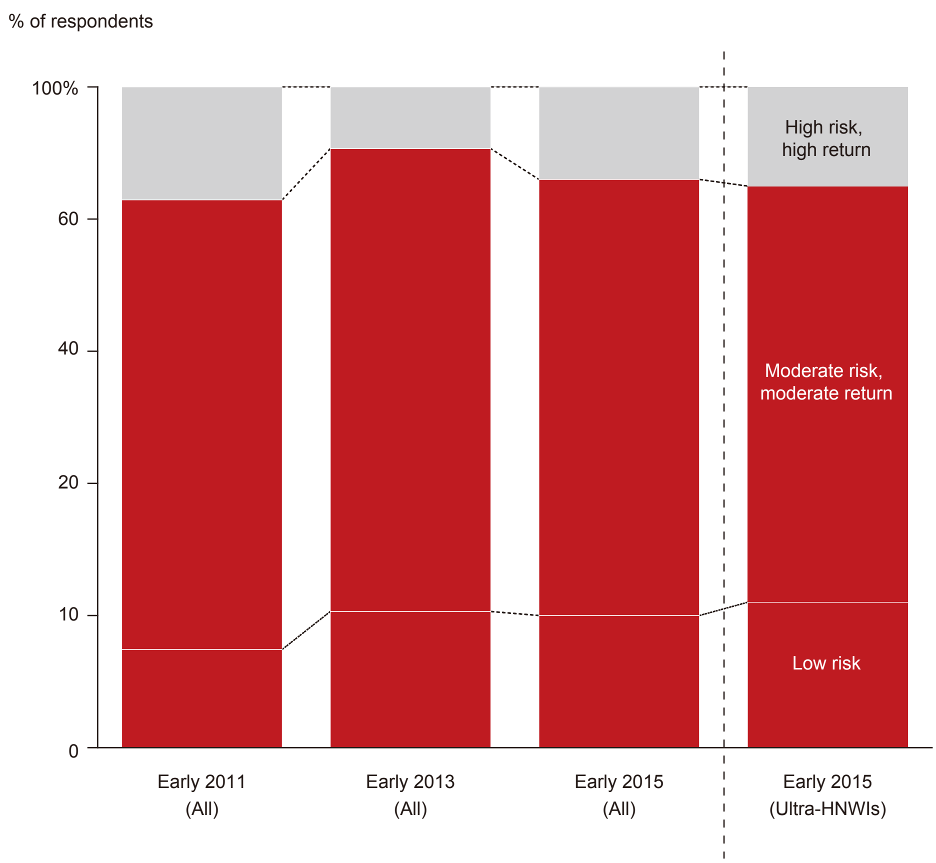
Respondents most consistently mentioned traditional Chinese values—common sense, diligence, hard work, integrity and thrift—as the qualities they hoped to pass on as part of their legacy. They also mentioned the importance of more contemporary traits, such as independence and creativity for achieving success in business and in life.

The objective of overseas investments has shifted from spreading risk to seeking returns on investments

From 2012 to early 2014, as they experienced the ups and downs of the stock market, HNWIs sought moderate returns and steady growth. The stock market rally that started in 2014H2, however, has revived the capital market and, today, an increasing number of HNWIs are keen on finding greater market opportunities.

According to our risk-preference findings, the preference for high-risk, high-return investments increased dramatically, from less than 10% in early 2013 to 15% in early 2015. The preference for moderate-risk, moderate-return investments declined from 70% in early 2013 to 65% in early 2015. The preference for low-risk investments, meanwhile, has remained stable at around 20% for the past five years (see Figure 18).

Figure 18: Chinese HNWIs' changing risk preferences from 2011 to 2015



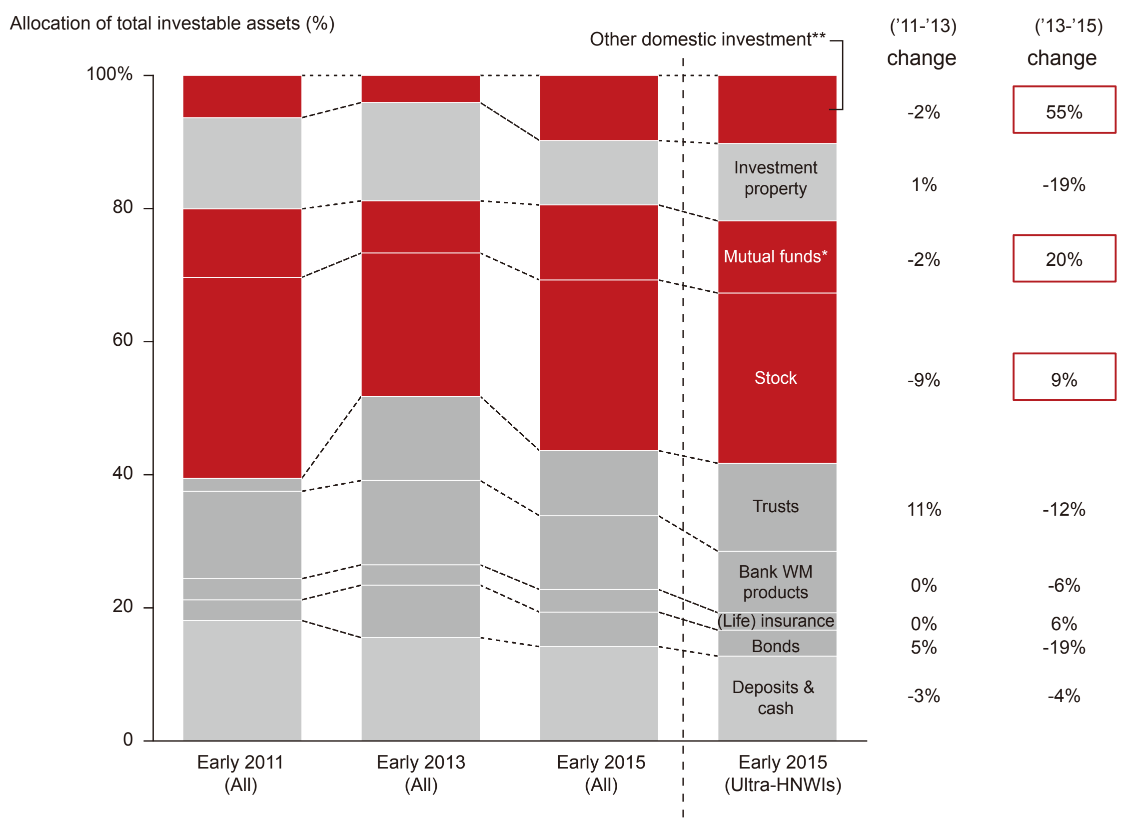
Source: CMB-Bain Chinese HNWI survey

Investors are more enthusiastic about equity investments with a lower percentage of fixed-income products, such as stock and mutual funds

Thanks to the stock market rebound that started in 2014H2, many investors have heightened expectations on investment returns. Fixed-income investments, including bonds, life insurance, financing trust products and bank wealth management products, saw a significant decline as a percentage of total assets compared with two years ago. Equity investments, like stock and equity funds, have been "investment magnets." The proportion of other domestic investments (excluding financing trust products), such as private equity and segregated accounts of fund companies, grew considerably.

Survey findings show that HNWIs allocated 30% of their domestic assets to fixed-income investments in 2015, dropping from 37% in 2013. The percentage of investment property declined to 10% in 2015, down from 15% in 2013, due to decreasing enthusiasm. The proportion of stocks increased by four percentage points to 26%, driven by equity and money market fund products. Mutual funds (including money market, bonds and equity funds) commanded a higher share, increasing from 8% in 2013 to 11% in 2015. Other domestic investments, especially private placement stock products and segregated accounts of fund companies, are popular among HNWIs by virtue of their greater variety and higher yields, with their percentage surging from 4% in 2013 to 10% in 2015 (see Figure 19).

Figure 19: Domestic asset allocation of Chinese HNWIs from 2011 to 2015



* Mutual funds include monetary fund, bond fund, equity fund

** Other domestic investments include PE, PE invested in secondary market, gold, separately managed account, hedge fund and collections

Source: CMB-Bain Chinese HNWI survey

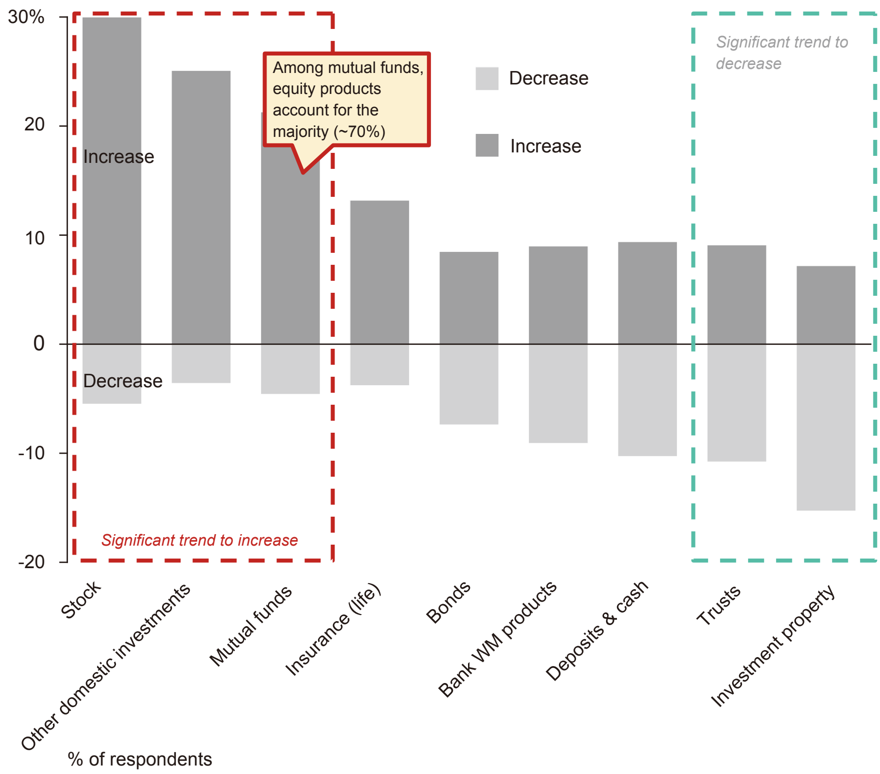
A breakdown of each asset class reveals several key trends:

- Cash and deposits as a percentage of total assets have continued to fall—from 18% in 2011, 16% in 2013 to 14% in 2015. As the deposit interest rate continues to drop, HNWI respondents are seeking other higher-yield substitutes while maintaining a lower share of cash and deposits to ensure liquidity.
- Bonds make up 5% of HNWIs' portfolios in 2015, a drop from 8% in 2013. According to our interviews, despite China's bond market expanding with a wider variety of products, a recovering stock market has driven down the attractiveness of medium- and low-return fixed-income products to HNWIs.
- Bank wealth management products account for 11% of HNWIs' assets in 2015, decreasing from 13% in 2013. By virtue of their lower risks and moderate returns and because they are easy to subscribe to, these products are still attractive to HNWIs, especially those who prefer low-risk products. In 2015, however, the combination of the capital market pick-up and a decreasing risk-free interest rate has led to a decline in fund inflows from HNWIs to this category.
- Financing trust products represent 10% of HNWIs' portfolios in 2015, down three percentage points from 2013. When the China Banking Regulatory Commission issued the Administrative Rules on Security Fund of the Trust Industry at the end of 2014, it made trust financing more difficult, giving rise to higher channel costs and increasing redemption risks in credit investments. In fact, investors are concerned about guaranteed redemptions, given the variety of redemption troubles in 2014. HNWIs surveyed indicated that they would be more cautious about financing trust products.
- Stock as a percentage of HNWIs' portfolios increased by four percentage points to 26% in early 2015, up from 22% in early 2013. Since 2014H2, rising expectations that a new round of reforms will ignite the economy, combined with loose monetary policies to cut the reserve requirement ratio and interest rates, have led to a bull market. Many HNWIs indicated that they were willing to increase investments, despite concerns about the stock market bubble in the long term.
- Mutual funds made up 11% of HNWIs' assets in 2015, increasing by three percentage points from 8% in 2013 and benefiting from equity funds and money market funds. Because the stock market is booming, HNWI investors have allocated more assets to stock-related products. Money market funds have diverted funds from cash and deposits on the strength of their liquidity and higher yields over the deposit interest rate and boosted by an emerging Internet finance sector (such as Alibaba's Yu'ebao).
- A set of purchase and loan limitation policies led to a downward real estate market in 2014. Now most investors are cautious about the investment property market, with only a small proportion considering an increase in such investments. Investment property has seen the biggest decline as a percentage of HNWIs' domestic portfolios, decreasing by five percentage points to 10% in 2015, from 15% in 2013. But given the owner-occupied housing needs in Tier-1 cities and a raft of government policies to spur the residential housing market, some HNWIs have shown cautious interest in owner-occupied residential housing in prime locations of Tier-1 cities. For the mid- and long-term, real estate investment will remain a big asset class of HNWIs' domestic portfolios, and the proportion will be "dictated" by policies and the market.
- Other domestic investments have seen the biggest increase in HNWIs' enthusiasm, rising by six percentage points to 10%. The bull market from 2014 has pushed investors to focus more on segregated accounts of fund companies. From 2014 to 2015, as a new channel for project finance and asset securitization, segregated accounts of fund subsidiaries grew fast. These segregated accounts have attracted many HNWIs because of their higher business flexibility, lower threshold and slightly higher expected yields over like-for-like financing trust products. Some HNWIs have expressed interest in innovative Internet financial products, such as private placement bonds and private placement plans. But for now they seem to be just testing the waters, having allocated a limited percentage of their assets to these products.

Equity investments and overseas investments will become investment "magnets" over the next two years, while financing trust products and investment properties will decline

HNWIs are eager to increase their allocation in equity investments and overseas investments. Stock, equity mutual funds and other overseas investments (especially private equity, private placement stock products and hedge funds) are the most likely categories that HNWIs will want to add to their portfolios. Expectations of a surging capital market have raised HNWIs' desire for higher expected return investment products. As wealth preservation remains the top wealth objective, demand for insurance is also rising. HNWIs are less interested in investment property as the real estate market is increasingly impacted by regulatory measures. Financing trust products are less attractive to investors, in view of the dual challenges from potential redemption risks and high-return products, e.g.: segregated accounts of fund companies (see Figure 20).

Figure 20: 2015 investment trends by asset class



Notes: "Mutual funds" include money market funds, bond funds and equity funds; "other domestic investments" include private equity, private placement stock products, gold, segregated accounts of fund companies, hedge funds and collection (excluding financing trust products)

Source: CMB-Bain Chinese HNWI survey

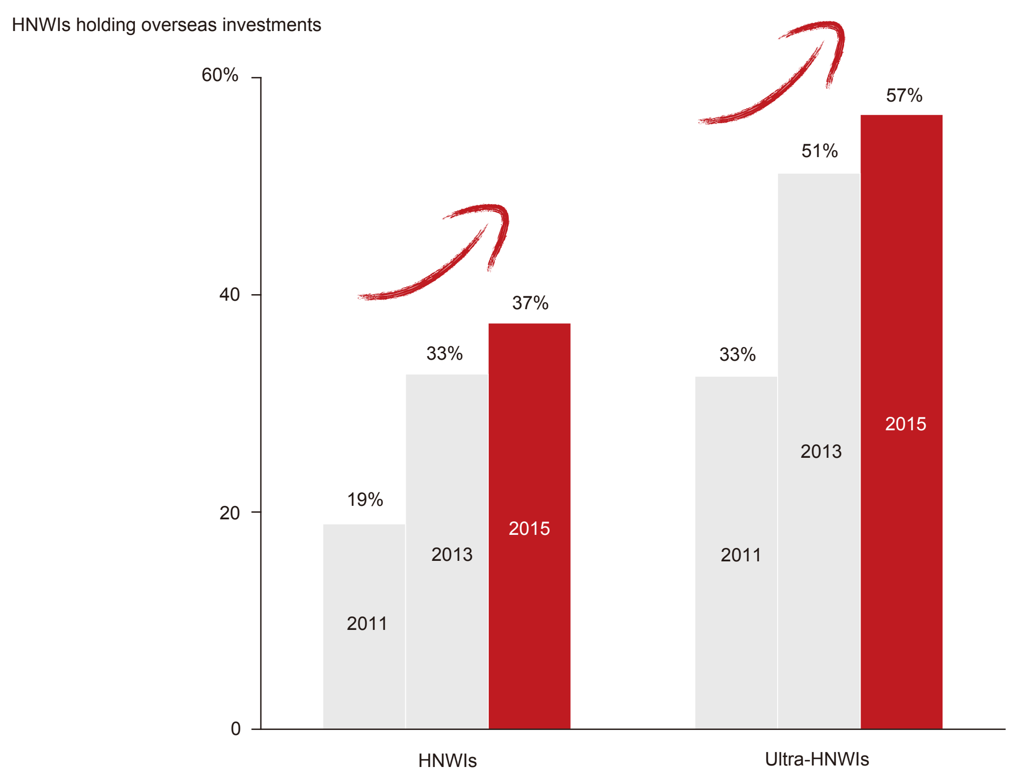
Spotlight III. HNWIs are more interested in increasing and diversifying their overseas investments

With the greater integration of the global economy, capital globalization has become irresistibly attractive. For the past two years, while China's capital market was recovering and the domestic economy continued to grow (and thanks to HNWIs' more sophisticated understanding of investing), domestic banks have expanded their overseas operations.

An increasing number of Chinese HNWIs are looking to the overseas market to build up cross-regional, multi-currency and multi-format portfolios. According to our research, the number of HNWIs with overseas investments rose to 37% from 33% in 2013. In terms of future investment planning, more than half of these HNWIs will increase their overseas investments, while another 40% will maintain their existing overseas investments and less than 10% are thinking of reducing such investments. Ultra-HNWIs are more enthusiastic about overseas investments because they have more assets and more complex investment objectives. When surveyed, 57% of ultra-HNWIs reported having overseas investments and being optimistic about future growth.

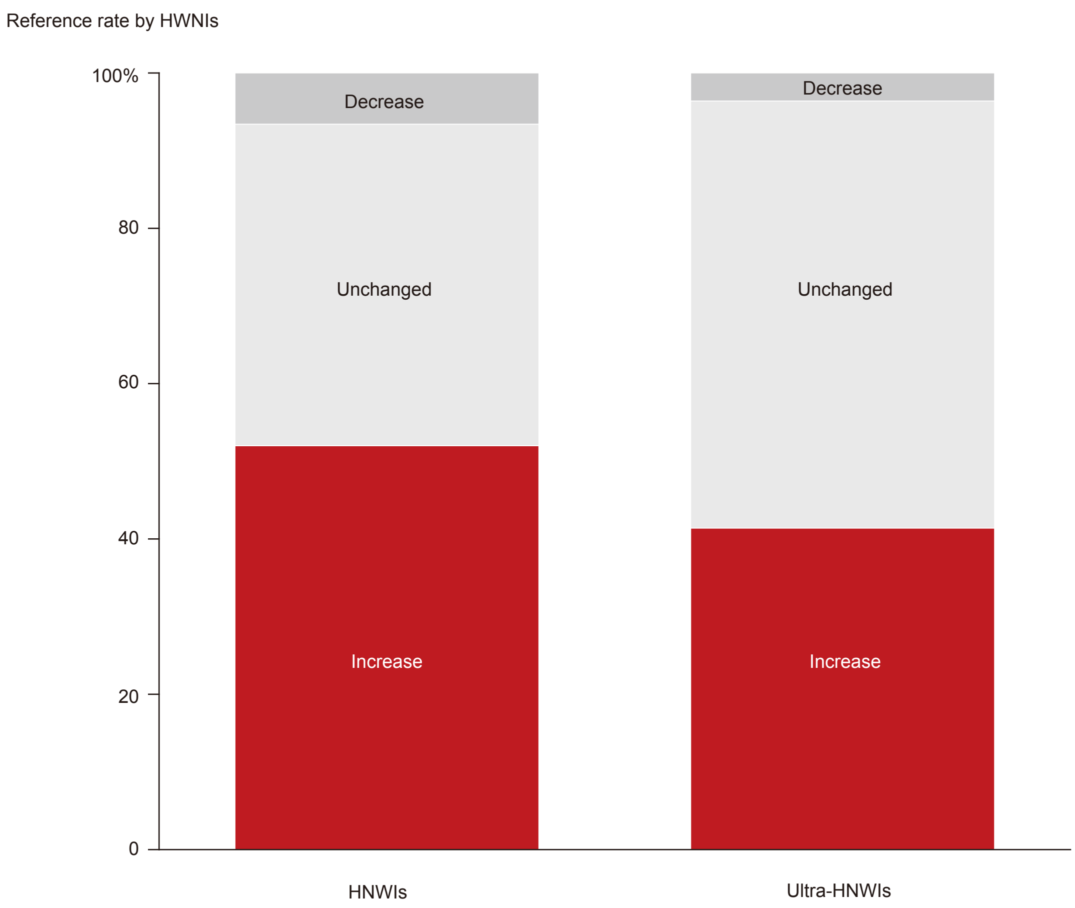
In terms of regional distribution, the penetration of overseas investments in coastal developed provinces and Tier-1 cities is higher than in northern and inland provinces. Because investors in Beijing and Shanghai and in Guangdong, Jiangsu and Zhejiang provinces are more experienced and knowledgeable about overseas investments, and because the economy in these areas is more developed, the proportion of HNWIs who own or will increase overseas investments is much higher there than in inland provinces such as Inner Mongolia, Shanxi, Hunan and Yunnan. According to our interviews, HNWIs in coastal developed areas prefer a diversified portfolio for overseas investments and are more open to high-risk, high-return products (see Figures 21, 22 and 23).

Figure 21: Chinese HNIWs with overseas assets in 2011, 2013 and 2015



Source: CMB-Bain Chinese HNWI survey

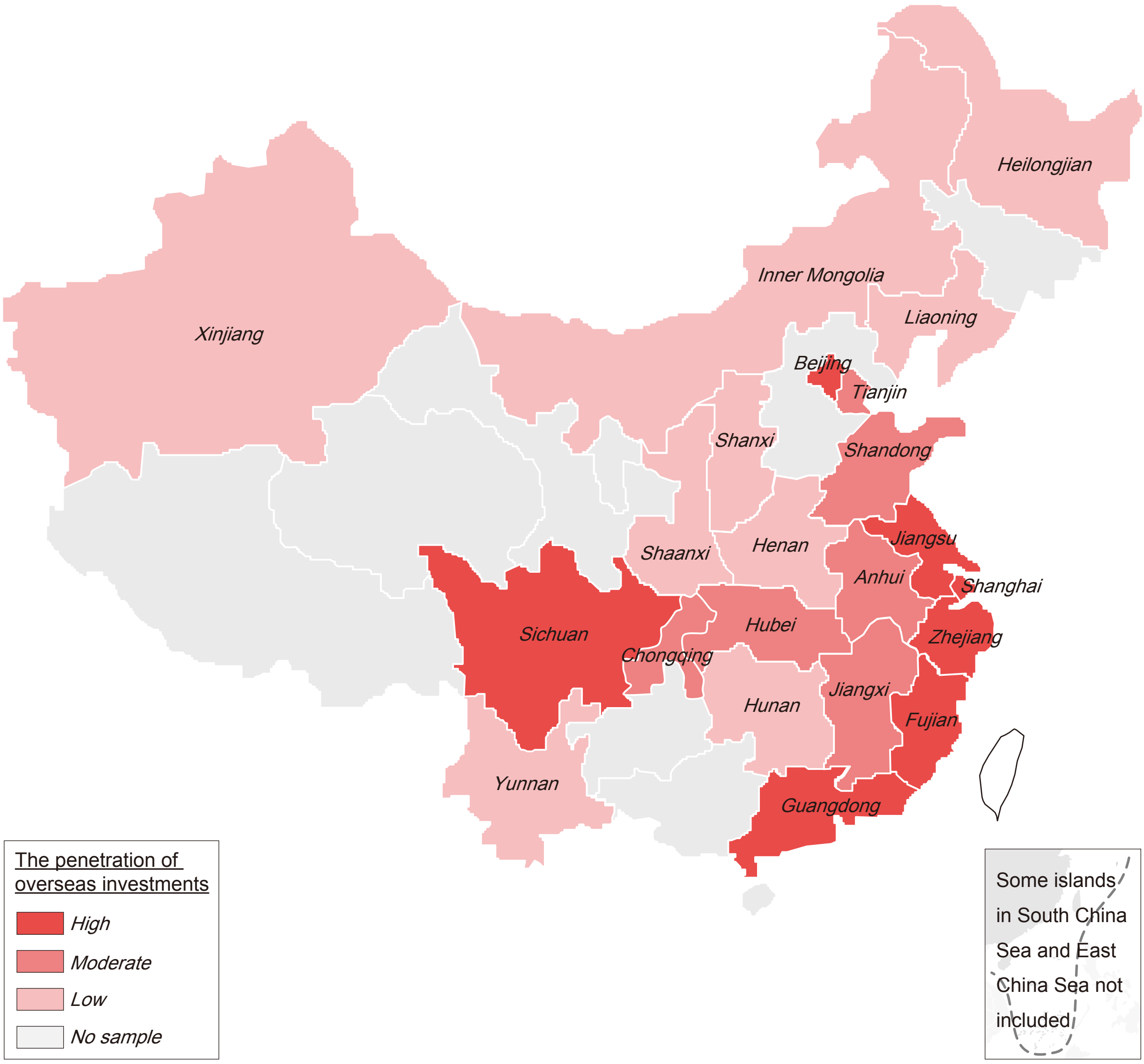
Figure 22: The trend of overseas investments by Chinese HNWIs in 2015



Note: Respondents are HNWIs who have overseas portfolios

Source: CMB-Bain Chinese HNWI survey

Figure 23: The penetration of overseas investments by province/municipality in 2015



Note: The penetration is measured by three key metrics: the proportion of individuals who own overseas investments, the average proportion of overseas assets and the percentage of individuals who plan to add overseas investments

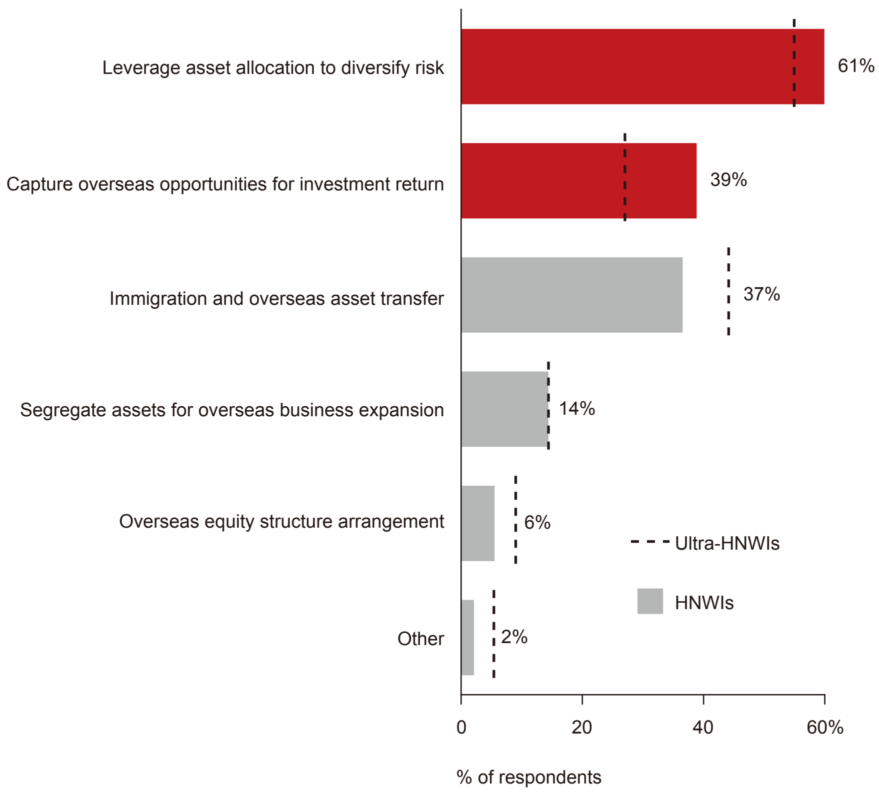
Source: CMB-Bain Chinese HNWI survey

HNWIs seek to diversify their overseas portfolios as incentives for overseas investments continue to expand

Until now, Chinese HNWIs had relatively modest wealth objectives; they sought moderate returns and spread their risks by investing in real estate and fixed-income products. Their knowledge of the overseas market was informed mostly by migration and the needs of family members who lived abroad. Today the reasons for overseas investments have become more diverse. With the growing interdependence of domestic and overseas markets and with Chinese investment institutions expanding their operations abroad, HNWIs have a greater understanding of the overseas market. Interviews indicate that many HNWIs, attracted by their diversity, have started to seek investment opportunities and returns from overseas investment products and markets.

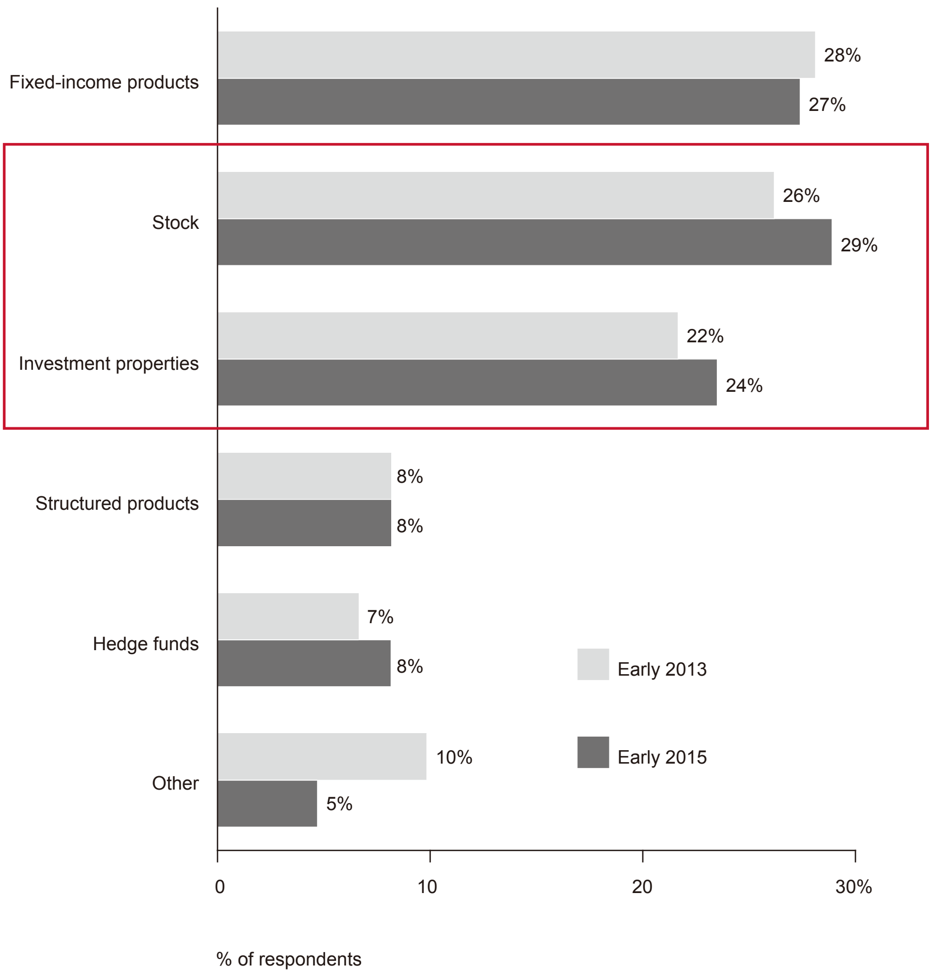
The new trend in overseas portfolios reflects the change in HNWIs' attitudes. Of HNWIs surveyed, 61% made overseas investments with the aim of global asset allocation and spreading risks, while the remaining 39% mentioned seizing overseas market opportunities and seeking a return on investment. A portfolio breakdown reveals that fixed-income products, real estate and stock remain the mainstream asset classes for Chinese HNWIs. In particular, fixed-income products characterized by lower risks and moderate returns meet HNWIs' needs to preserve and grow their wealth. The 2015 survey results show that fixed-income products, stock and investment property are still the key asset classes of overseas investments. But equity products (e.g., stock) as a percentage of overseas assets increased from two years ago (see Figures 24 and 25).

Figure 24: Reasons for overseas investments by Chinese HNWIs in 2015



Source: CMB-Bain Chinese HNWI survey

Figure 25: Key asset classes of overseas investments in 2013 vs. 2015



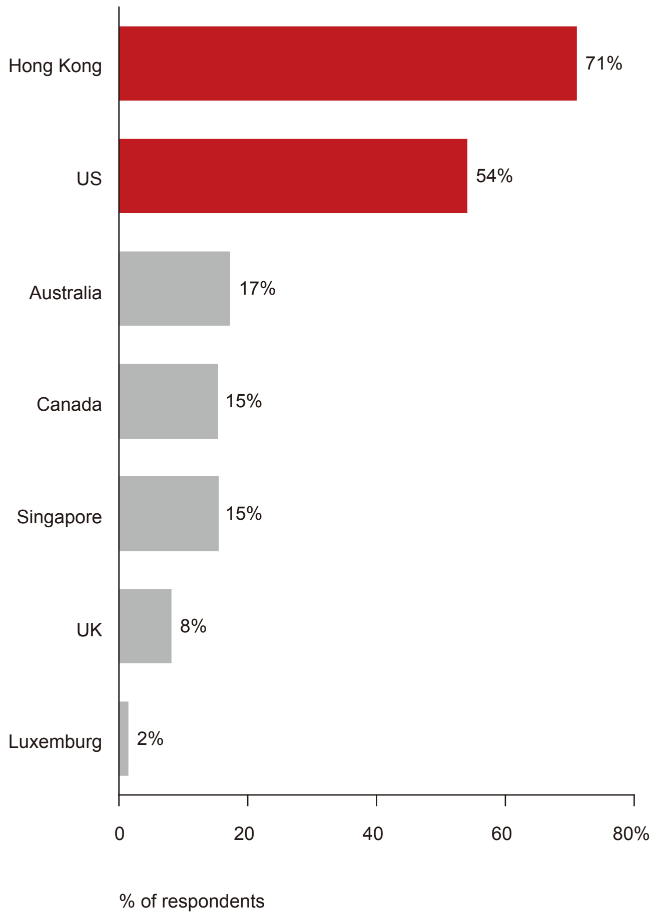
Source: CMB-Bain Chinese HNWI survey

Hong Kong remains the primary destination for overseas investments in financial products, such as stocks and funds, while the US, Canada and Australia offer the best real estate opportunities

Among Chinese HNWIs, 70% of respondents cited Hong Kong as their primary destination for overseas investments in financial products such as stocks and funds, thanks to its tax policy, geographical location and open economic environment. A number of Chinese banks have set up branches in Hong Kong to provide HNWIs with convenient and comprehensive financial services.

Based on our interviews, HNWIs who selected the US, Australia, Canada and Singapore as their destinations are more interested and experienced in real estate and industrial investments, while many are also investment migrants (see Figure 26).

Figure 26: Chinese HNWIs' preference for overseas investments destinations in 2015



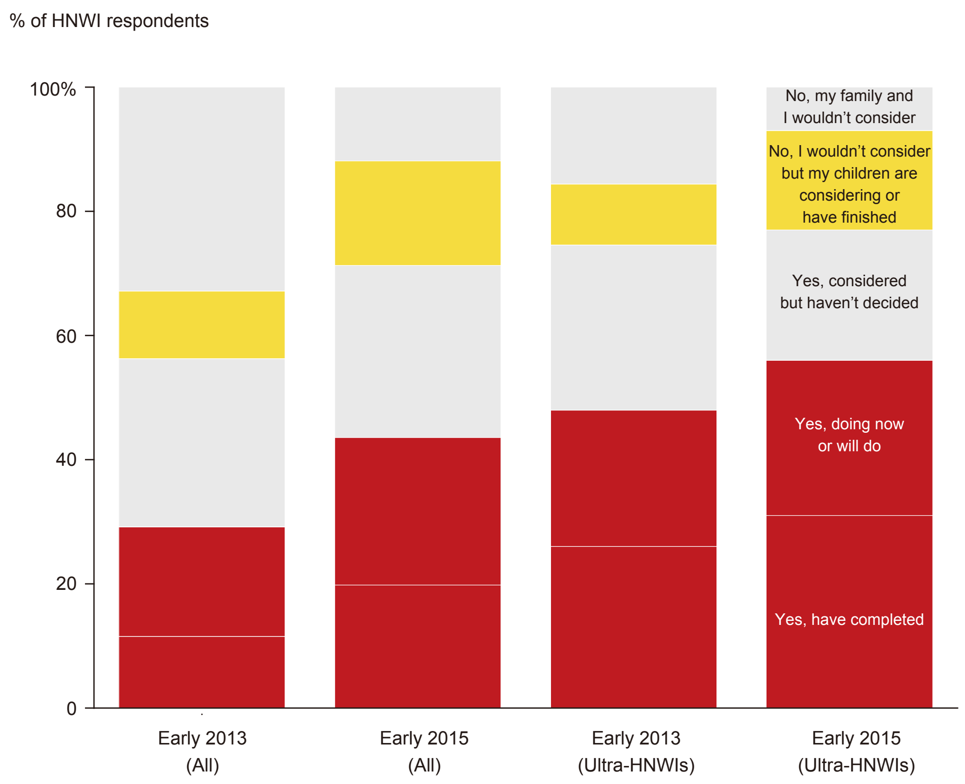
Source: CMB-Bain Chinese HNWI survey

The growing investment migration is generating increasing demand for overseas financial services

According to this year's survey, 37% of respondents made overseas investments for investment migration. HNWIs who have completed or decided on investment migration represent 44% of total respondents, increasing by 15 percentage points from 2013. Even those HNWIs who plan to stay in China have started planning to send their children abroad to study and to live. The HNWIs who selected "I don't want to migrate, but my children are considering or have finished migration" make up 17% of total respondents, up from 10% in 2013. Ultra-HNWIs show more interest in investment migration, with over half of ultra-HNWIs surveyed having completed or having decided on migration (see Figure 27).

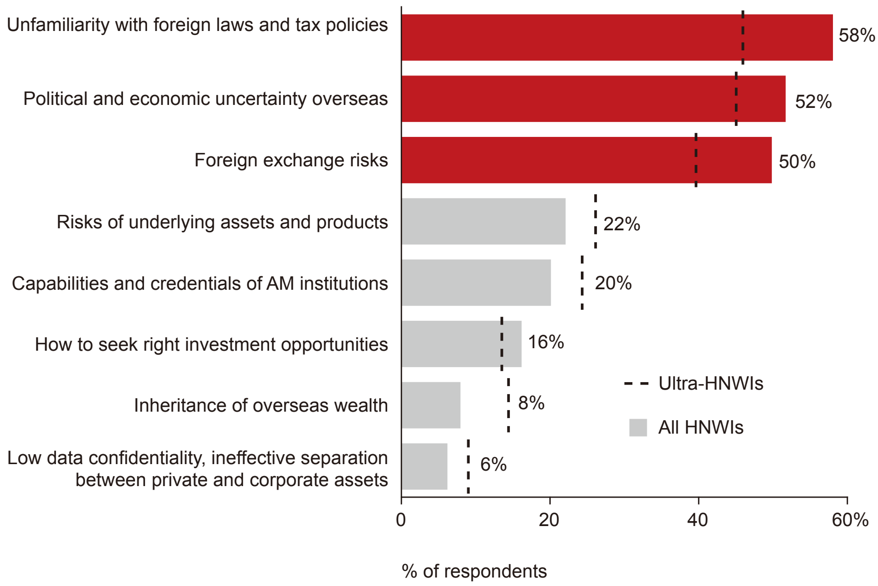
Many respondents expressed concerns about political and economic uncertainty overseas, and about foreign exchange risks and their unfamiliarity with foreign laws and tax policies. These concerns have led to increasing demands for wealth management institutions to help HNWIs manage their overseas assets. More than 30% of respondents said they wanted banks or other wealth management institutions to provide value-added services, such as migration finance, high-end healthcare, children's education and overseas property purchases, to better meet their need for suitable living conditions and business expansion overseas (see Figures 28 and 29).

Figure 27: Chinese HNWIs' preference for investment migration in 2015



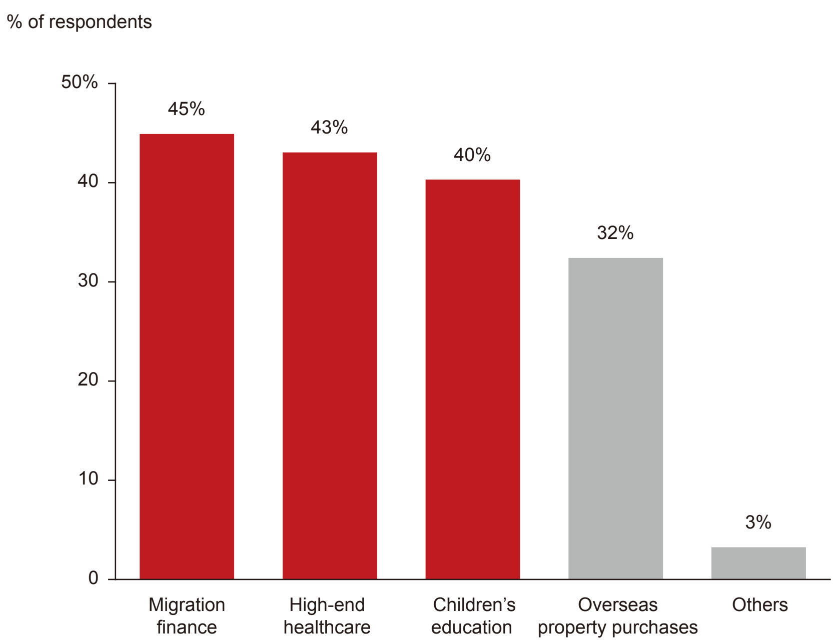
Source: CMB-Bain Chinese HNWI survey

Figure 28: Chinese HNWIs' concerns related to overseas investments in 2015



Source: CMB-Bain Chinese HNWI survey

Figure 29: The overseas value-added services relevant to Chinese HNWIs in 2015



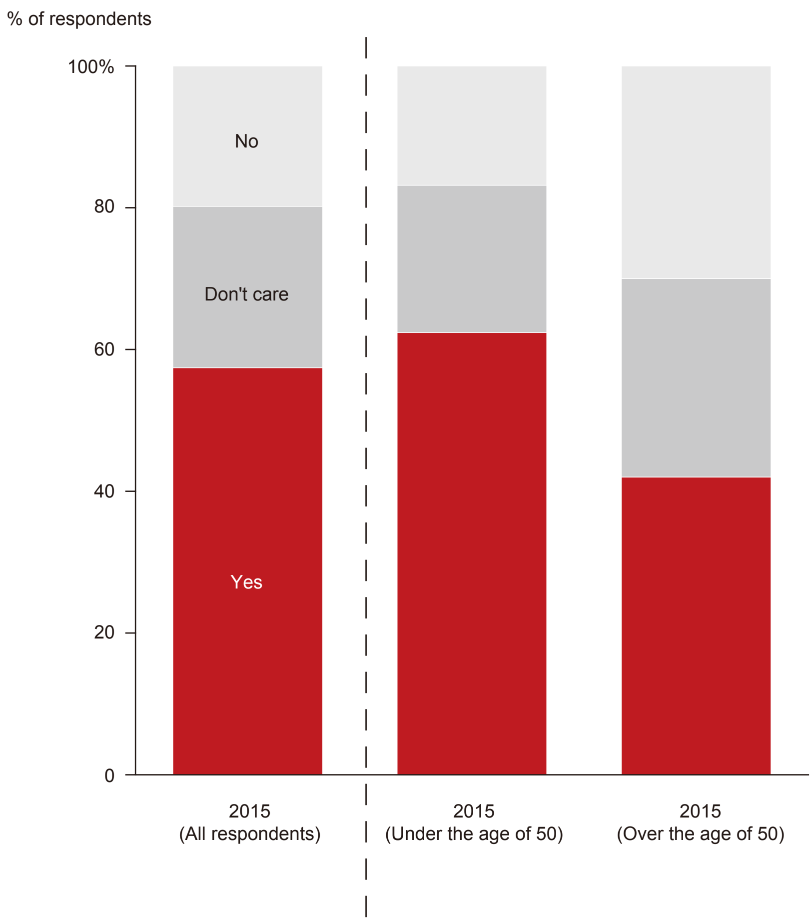
Source: CMB-Bain Chinese HNWI survey

Online service channels are increasingly diverse, while offline service channels are more popular among HNWIs

With the proliferation of mobile intelligent devices and application service providers (ASP), mobile Internet has penetrated every aspect of people's lives. The rapid expansion of mobile Internet services presents many new opportunities and challenges. The survey shows that most HNWIs prefer offline service channels, with traditional, face-to-face, personalized private banking service leading the way. However, most HNWIs are willing to accept private banks' mobile Internet service . They consider online service channels as an effective supplement to offline channels, and expect accurate information and easy-to-use mobile functionality.

Based on the survey findings, nearly 60% of HNWIs are willing to accept mobile service provided by private banks, while 20% are not willing. Younger HNWIs are more willing to accept private mobile service. Among HNWI respondents under the age of 50, 64% are willing to accept these services, while 17% are unwilling. Only 40% of HNWIs over 50 are keen to accept mobile private service, while 30% are disinclined to accept such service (see Figure 30).

Figure 30: The acceptance of mobile and online private banking service by HNWIs in 2015



Source: CMB-Bain Chinese HNWI survey

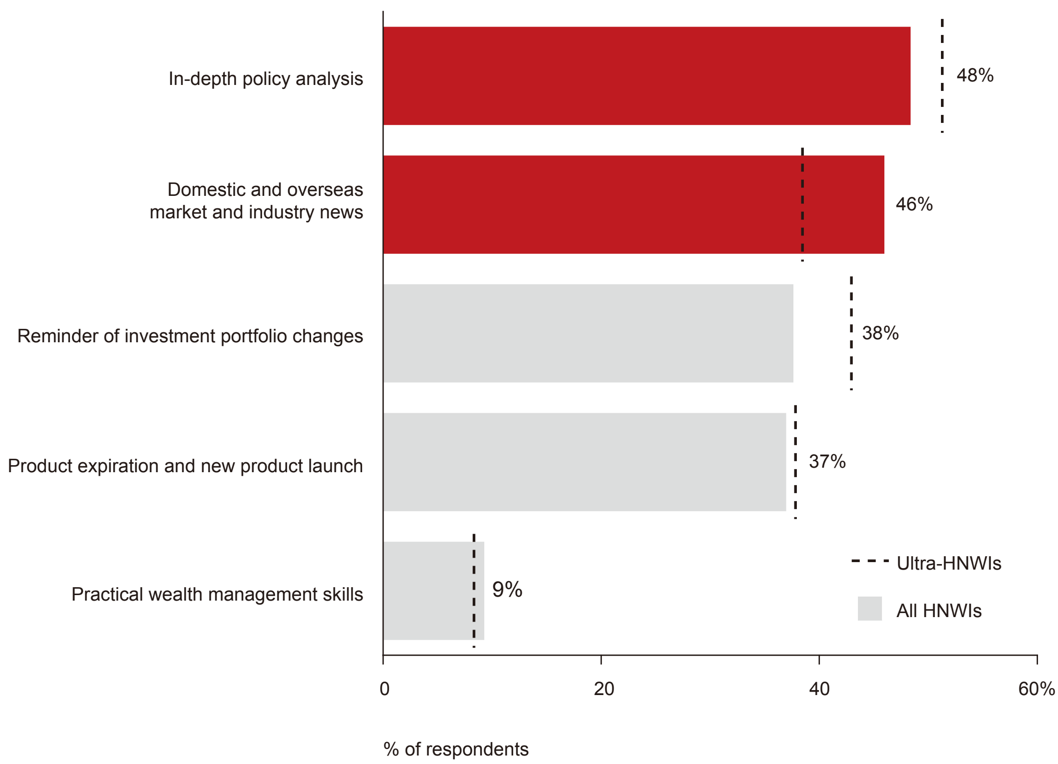
HNWIs want access to in-depth policy interpretation and market and industrial information via mobile channels, but for privacy protection and other considerations, only a few are willing to forward this information. Value-added services are popular among HNWIs, including portfolio evaluation, wealth management product inquiry and order placement

HNWIs require information to make commercial and investment decisions. With the massive data proliferation of the Internet era, HNWIs have raised the bar in their demand for a wider variety of high-quality information from private banks' mobile devices. Based on our interviews, HNWIs are mostly focused on the in-depth interpretation of critical policies and crucial information about markets and industries at home and abroad, and expect exclusive, high-quality briefings. Approximately 40% of HNWIs want to obtain portfolio-change warnings, product-maturity reminders, new-product alerts and other relevant information (see Figure 31).

Also of note is that the HNWIs surveyed remain conservative and prudent about forwarding the information via their mobile phone. Most HNWIs prefer closed-loop mobile and Internet interactions. They want to be recipients of information rather than conduits for communicating messages. This is because HNWIs are more aware of investment privacy protection and do not wish to spread misinformation or cause harm to others. Ultra-HNWIs have the strongest desire to protect investment privacy and to not forward related information (see Figure 32).

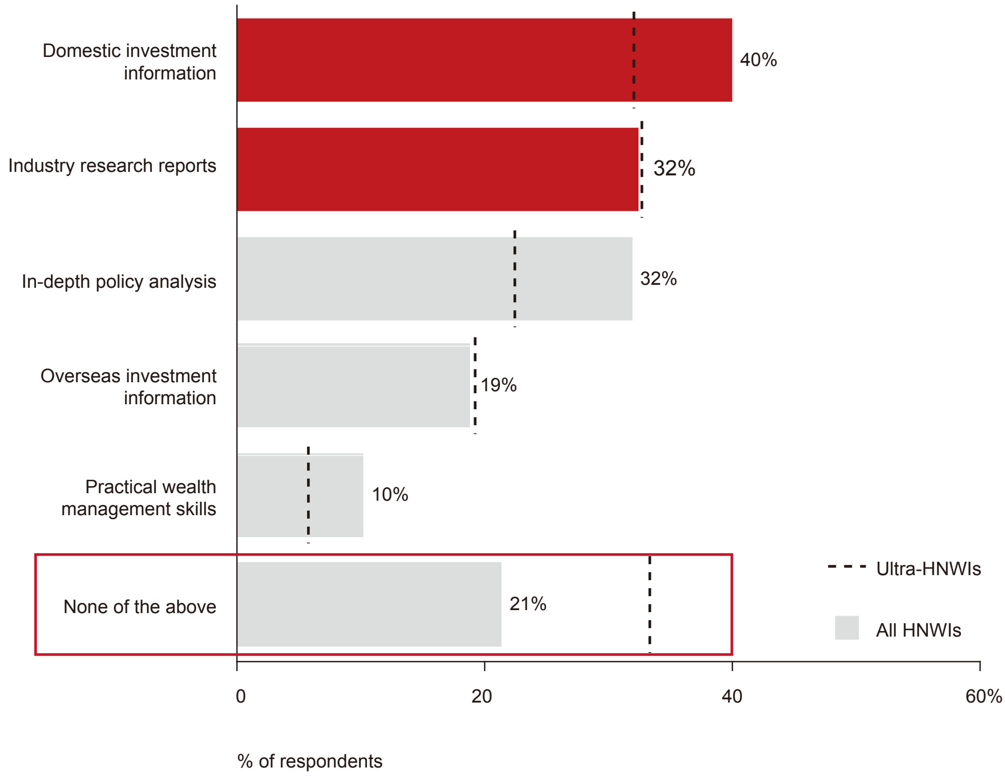
In addition, more than 40% of HNWIs expect to have access to services pertaining to portfolio evaluation, wealth management product inquiry and online order placement, but prefer offline channels to communicate with relationship managers (see Figure 33).

Figure 31: The most relevant financial information from mobile and Internet in 2015



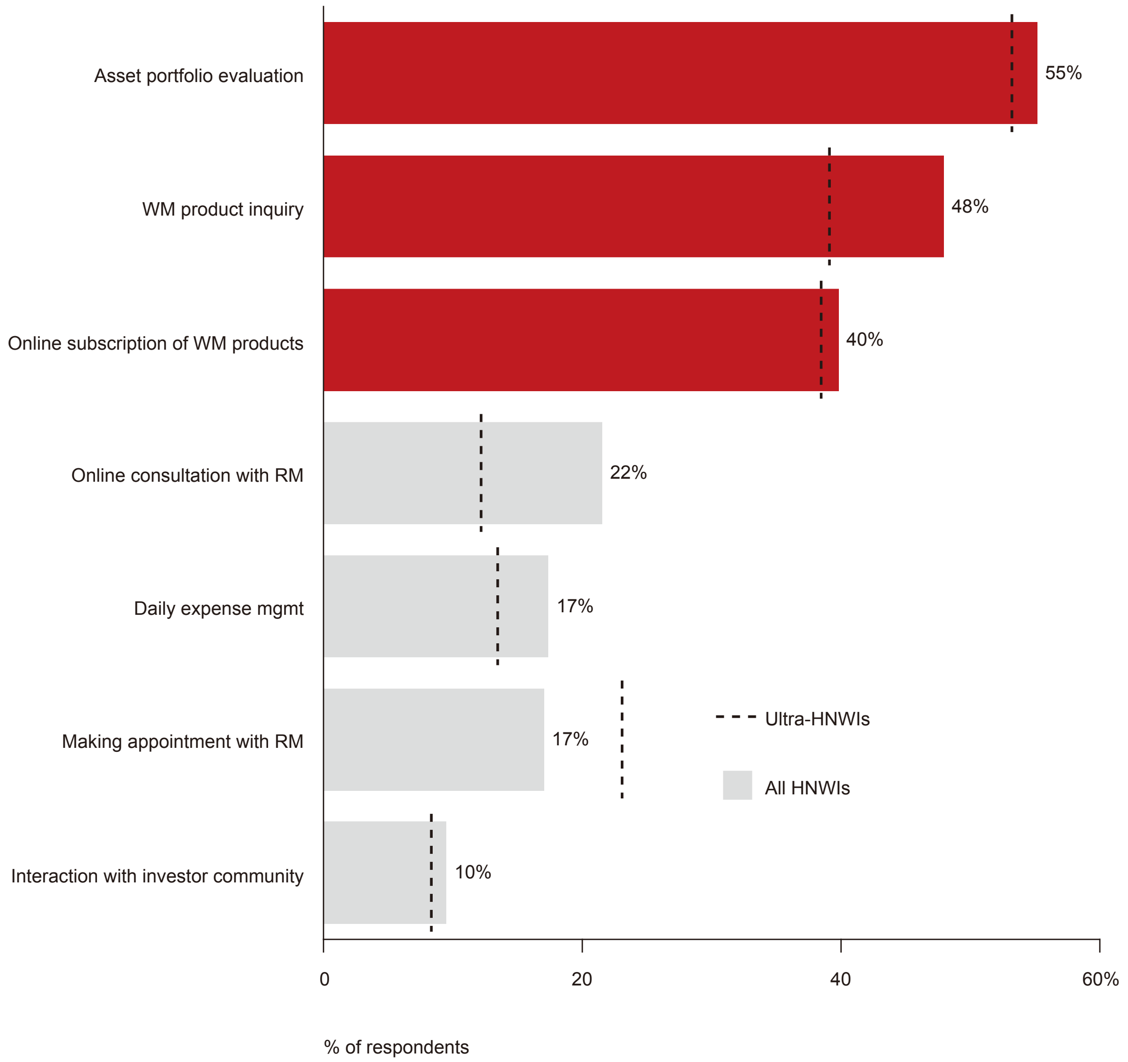
Source: CMB-Bain Chinese HNWI survey

Figure 32: The financial information most often forwarded by HNWIs via mobile phones in 2015



Source: CMB-Bain Chinese HNWI survey

Figure 33: The services that HNWIs want most from mobile and Internet in 2015

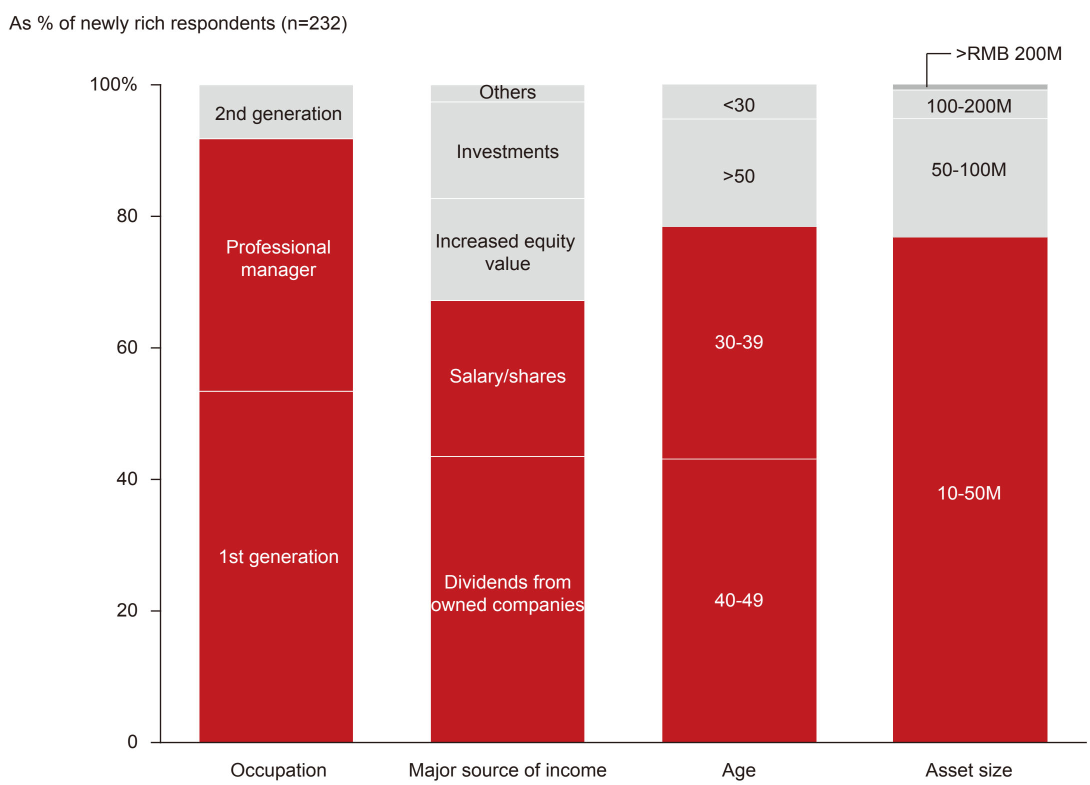


Source: CMB-Bain Chinese HNWI survey

The government has unveiled a series of policies to promote innovation, generating a wide range of Web- and platform-based models for new wealth creation. As a result, a variety of Internet-related start-ups have emerged. A number of shareholders have also benefited from investing in IPOs of well-known, fast-growing Internet companies. In addition to the Internet industry, technological advancements and breakthroughs have fueled the rapid development of innovative industries in the fields of biotechnology, alternative and renewable energy and environmental protection, helping to create new businesses and giving rise to newly wealthy entrepreneurs.

According to the survey, the newly rich, newcomers to the ranks of HNWIs, derived their wealth, for the most part, from innovative industries such as IT, biomedicine, energy conservation, environmental protection and high-end manufacturing. Regardless of industry, the newly rich share certain characteristics that set them apart from other HNWIs in terms of professional training, age, source of income and asset size. Nearly 80% of the newly rich are between 30 and 50 years old, and most work as first-generation entrepreneurs or professional managers and derive their income from business earnings or corporate stocks. And 75% of the newly rich have investable assets between RMB 10 million and RMB 50 million (see Figure 34).

Figure 34: Characteristics of the newly rich (2015)

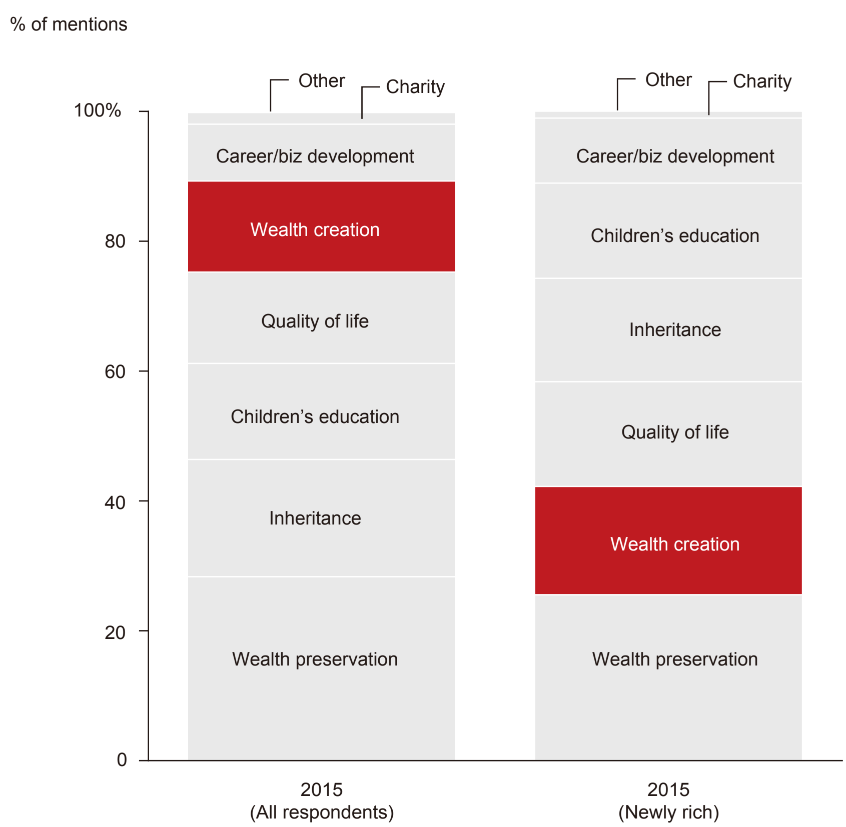


Note: Newly rich is defined mainly by industries (innovative, high-tech industry) and the duration of holding more than 10M assets

Source: CMB-Bain Chinese HNWI survey

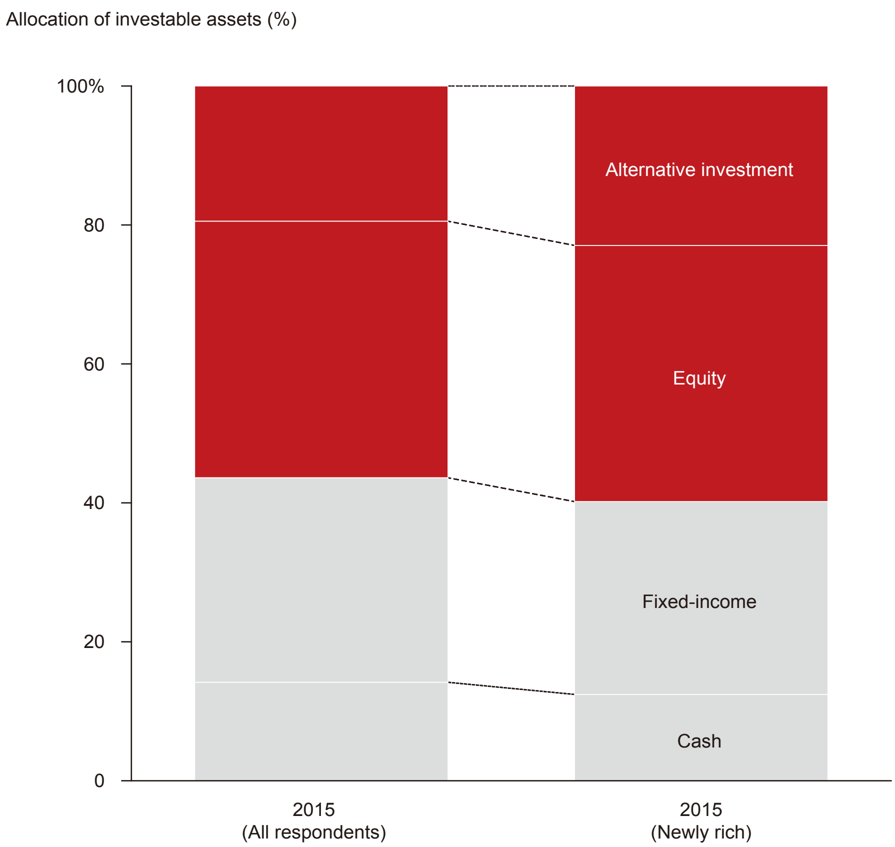
The newly rich are at the forefront of technological and industrial innovation and development. They are mostly young and middle-aged individuals with an open, active mindset that influences their investment attitudes and behaviors. The survey results show that while wealth creation ranks fifth among wealth objectives of HNWIs, in general, it ranks second among the newly rich, just after wealth preservation. The focus on wealth creation is reflected in the preference of the newly rich for high-risk, high-return products, and in their openness to private placement and venture investments, and even to exploring more complex financial derivatives (see Figures 35 and 36). According to our interviews, many newly rich have extensive experience in the financial industry and with individual investments. Newly rich portfolios contain a markedly higher percentage of equity investments (including stock and mutual funds) and alternative investments (including other domestic investments and investment property) than do the portfolios of HNWIs.

Figure 35: The primary wealth objectives of all HWNIs vs. the newly rich in 2015



Source: CMB-Bain Chinese HNWI survey

Figure 36: The domestic portfolios of all HNWIs vs. the newly rich in 2015

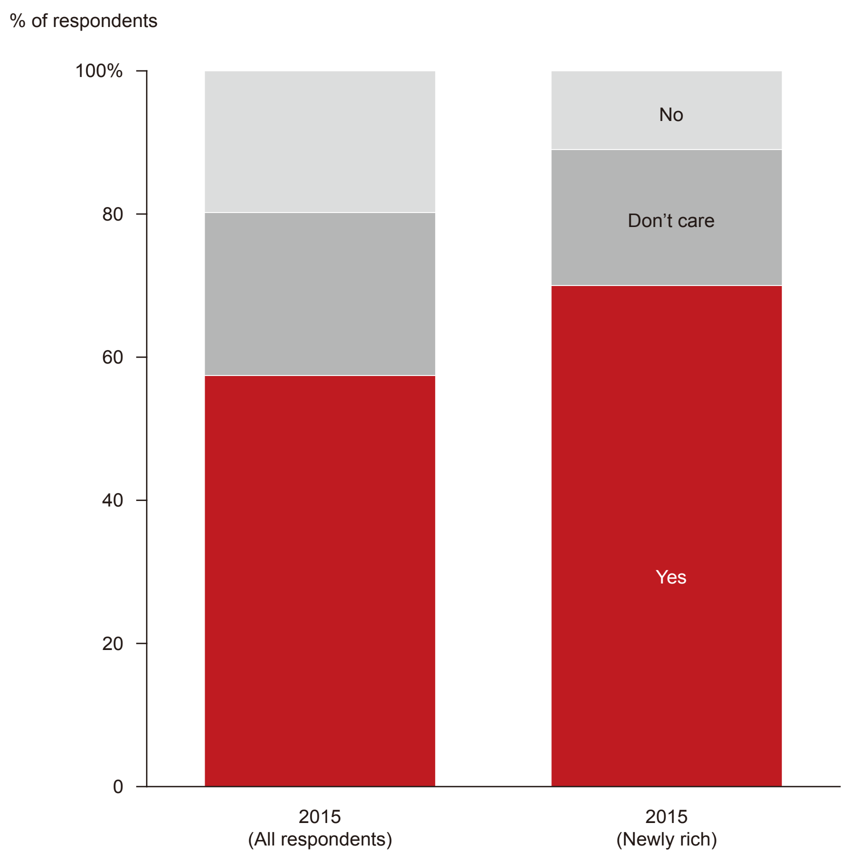


Notes: "Cash" includes cash and deposits and money market funds; "fixed-income products" include bonds, bank wealth management products, insurance and financing trust products; "equity products" include equity funds and stock; "alternative products" include investment property and other domestic investments (including private equity, private placement stock products, gold, segregated accounts of fund companies, hedge funds and collection)

Source: CMB-Bain Chinese HNWI survey

The newly rich are more open to the Internet than other HNWIs and they participate in and benefit more from innovative industries. Based on our survey, 70% of the newly rich are willing to receive mobile private banking service, compared with less than 60% among HNWIs. Many newly rich use computers or cell phones frequently, and expect private banks to provide differentiated, up-to-date mobile service. Many also indicated that their businesses are in the early stages of development and they therefore have strong financing needs. They are hopeful that private and corporate banking services will be linked in the near future to provide more professional, comprehensive services, including business finance and IPO offerings (see Figure 37).

Figure 37: The acceptance of mobile private banking service by all HNWIs vs. the newly rich in 2015



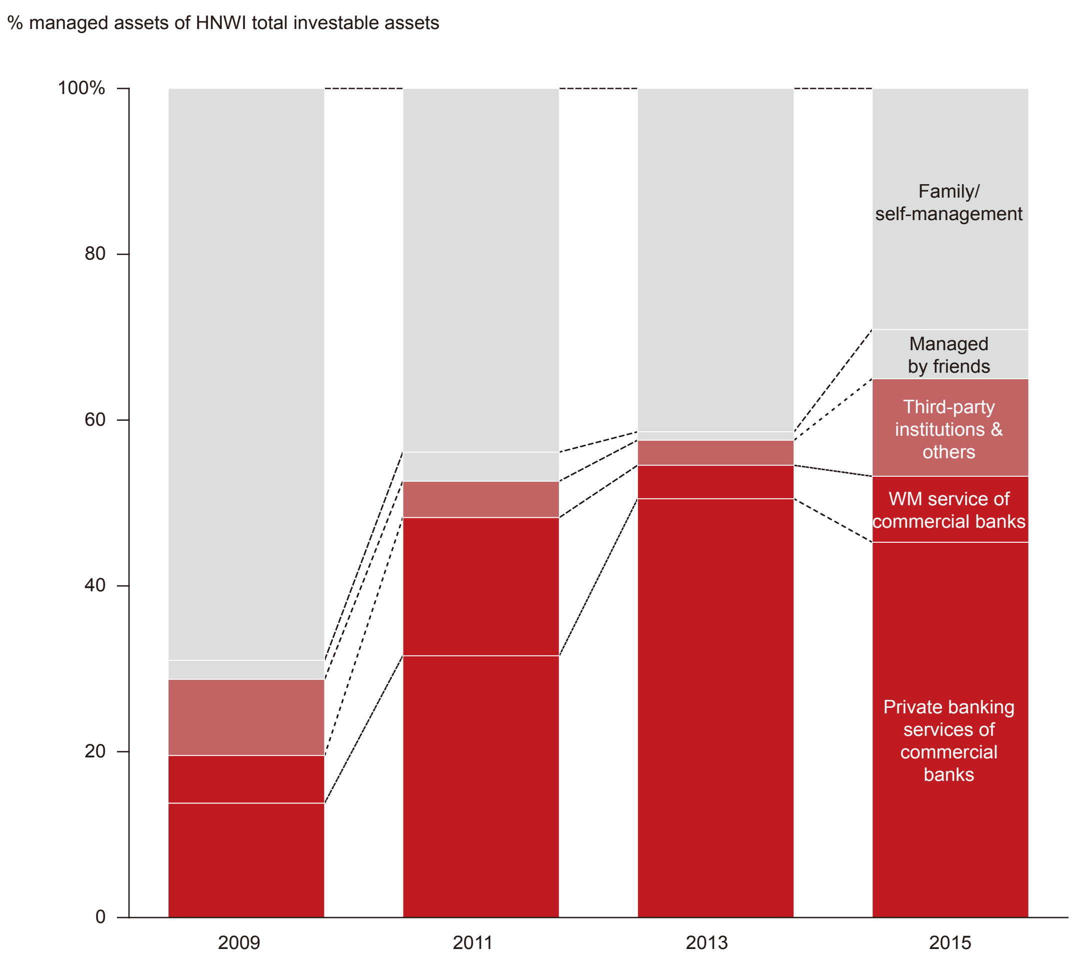
Source: CMB-Bain Chinese HNWI survey

Chapter III: Private banking: The competitive landscape

- In China's domestic market, Chinese private banks are strengthening customer relationships and exploring innovative service models.
- In the overseas market, Chinese banks are investing in building comprehensive financial service platforms linking domestic and overseas services.
- The outlook for China's private banking industry.

China's wealth management market has experienced rapid development in the last few years, and with private wealth on the rise, the Chinese are becoming increasingly aware of the need for wealth management. Players in the wealth management market are increasingly diversifying and offering more innovative products. As a result, the penetration of wealth management businesses among HNWIs has increased to 65%—more than double the less-than-30% in 2009—suggesting that HNWIs are now relying on professional wealth management institutions to manage most of their wealth and have built partnerships with these institutions. As comprehensive wealth management platforms, commercial banks have been the primary investment and wealth management channel for HNWIs, managing more than 50% of individual assets of HNWIs surveyed (see Figure 38).

Figure 38: The changing trend for investment channels among Chinese HNWIs from 2009 to 2015



Source: CMB-Bain Chinese HNWI survey

In China’s domestic market, private banks are strengthening customer relationships and exploring innovative service models

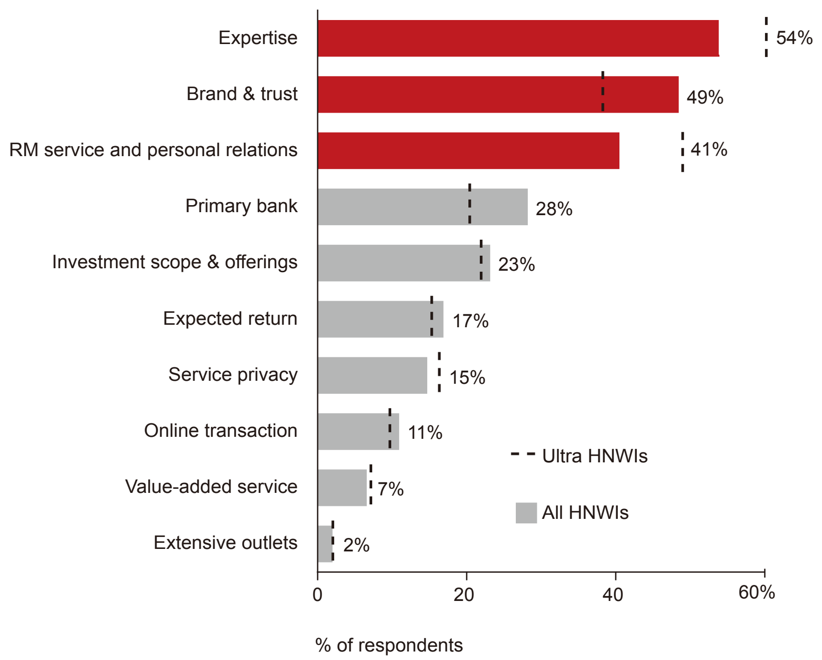
China’s first private bank was founded in 2007. Since then, private banks have expanded their product offerings and improved their wealth management services. They have also improved their professional asset allocation capabilities, accumulated complex wealth management experience and benefited from family office services, and built long-term partnerships with their customers. The private banking businesses of foreign banks, in contrast, face restrictions and obstacles presented by RMB and a limited number of service outlets. Overall, Chinese banks have been the first choice of HNWIs when it comes to domestic wealth management, giving them a significant competitive advantage.

Compared with the private banking services of commercial banks, alternative wealth management institutions, such as trust, securities, funds and third-party wealth management providers are able to use their product and channel advantages to generate more wealth management businesses in an “asset management era.” These institutions are sharpening their active asset management capabilities to attract HNWIs, resulting in their rapid growth in recent years.

Some private banks explore the innovative private banking service model by launching discretionary investment management service

According to the survey, Chinese private banks compete primarily on professional expertise, brand recognition and relationship manager services. For HNWIs, professional investment advice has become the top criterion in selecting wealth management services, up six percentage points from two years ago. More than 60% of ultra-HNWIs surveyed cited professional investment advice as their primary selection criterion.

Figure 39: Major criteria used to select domestic private banks and wealth management institutions



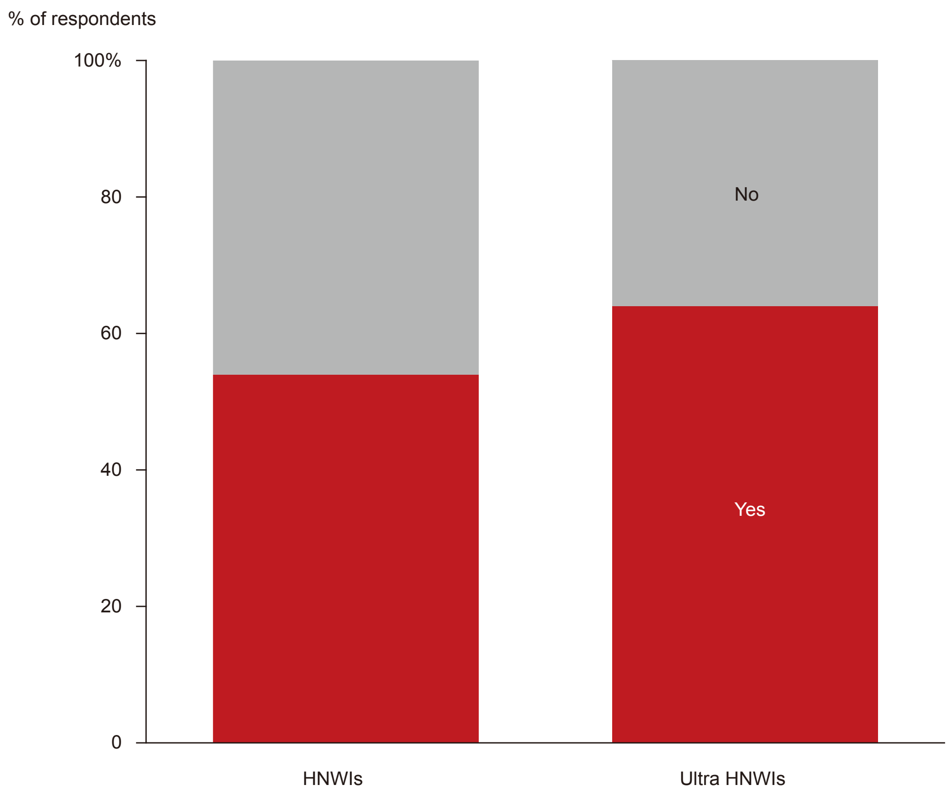
Source: CMB-Bain Chinese HNWI survey

The competitive focus has shifted away from the variety of value-added services toward private banking essentials; that is, building professional brands and providing customers with professional advice on asset allocation. A number of respondents indicated that the basic mission of their private banking service is to help them preserve and grow their assets. For them, key selection criteria are investment and R&D capability, sound investment strategies and the professional expertise of the investment team. In addition, many respondents said they value the personal service provided by relationship managers. Service managers' ability to put themselves in customers' shoes is among the critical criteria that determine HNWIs' choice of private banks (see Figure 39).

Some domestic private banks are exploring an innovative model of discretionary investment management, which has received positive market feedback. Discretionary investment management is a form of investment management in which customers delegate the day-to-day management of their assets to a private bank. Customers trust banks to make investment decisions at their discretion—based on aligned returns on investment, maturity, scope, tactics and liquidity—without customers' prior approval of transactions.

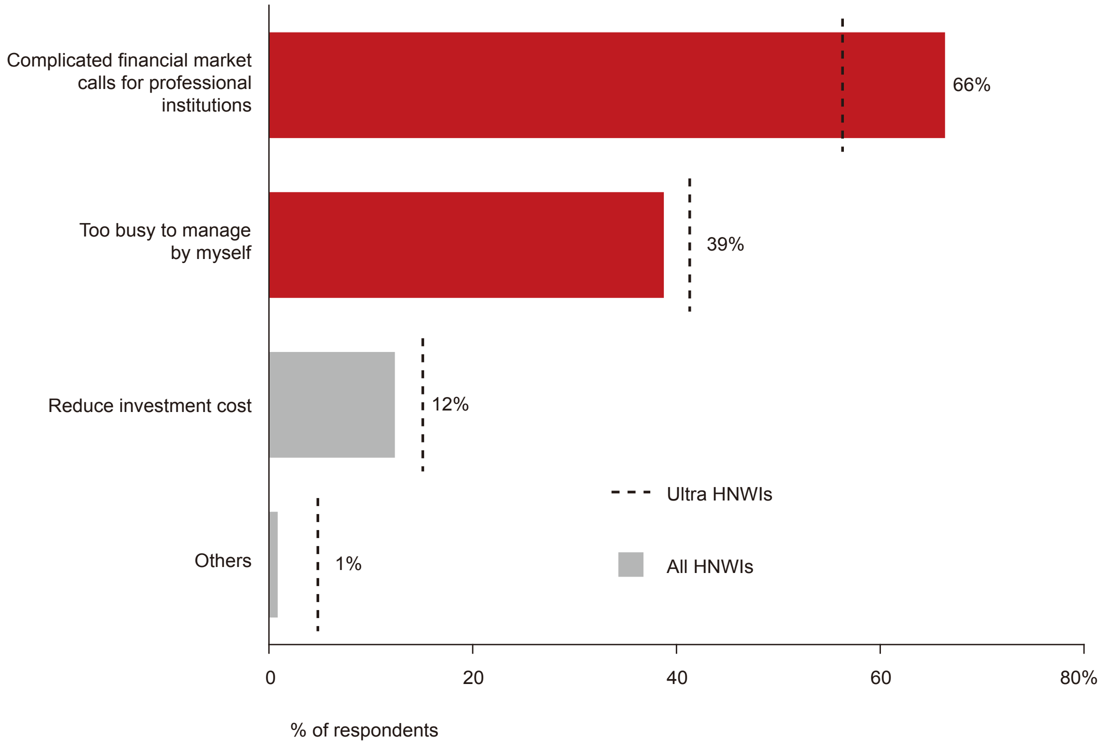
According to survey findings, more than half of HNWIs surveyed would like to try discretionary investment management services, as long as private banks have sufficient asset management expertise and can save customers time and effort. Some respondents are willing to use the discretionary investment management service of professional institutions to help manage only part of their assets, as they have little experience and knowledge of financial markets, and are willing to invest only a limited amount. Discretionary investment management is still in the early stages, and customers are advised to select private banking services that most closely conform to their own investment preferences. No matter which asset allocation or discretionary investment management service they choose, customers should have sufficient knowledge of investment market risks to weigh the advantages and resources of professional wealth management institutions that best suit their needs (see Figures 40 and 41).

Figure 40: The acceptance of discretionary investment management by HNWIs



Source: CMB-Bain Chinese HNWI survey

Figure 41: The key reasons for HNWIs to consider discretionary investment management



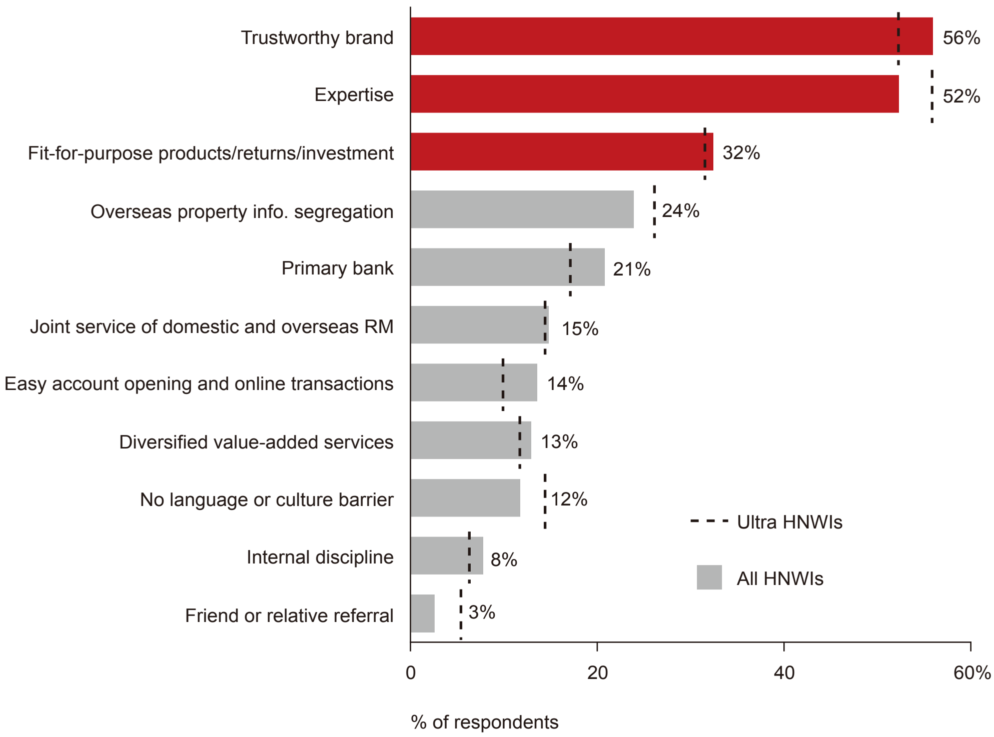
Source: CMB-Bain Chinese HNWI survey

In the overseas market, Chinese banks are investing in building comprehensive financial service platforms linking domestic and overseas services

Given the overall increase in investment migration and overseas investments, HNWIs' overseas investments have also increased proportionately in the last two years. The interview findings show that brand, expertise and product offerings are the most important criteria for Chinese HNWIs when choosing their overseas wealth management institution; ultra-HNWIs value expertise the most. Because most HNWIs live in China and have limited overseas investment experience, they need private banks to provide professional and independent overseas investment and asset management services.

Some HNWIs who cited investment migration and spreading risks as primary wealth objectives also expect wealth management institutions to provide the convenience of overseas services to minimize the need for customers to travel abroad to monitor their investments. In addition, they expect these institutions to have sufficient Chinese language proficiency and familiarity with Chinese culture, to be able to communicate well and fully understand the wealth needs and risk appetite of Chinese customers in order to expand the scope of their overseas investment services (see Figure 42).

Figure 42: Major criteria used to select foreign private banks and wealth management institutions



Source: CMB-Bain Chinese HNWI survey

Chinese private banks are expanding their overseas footprint by forging partnerships and building their own networks while providing services via Chinese-speaking relationship managers who are familiar with Chinese culture, in order to attract Chinese HWNIs seeking to increase their overseas investments.

Chinese banks and institutions that have established overseas service networks with overseas branches include Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), Bank of China (BOC), Bank of Communications (BOCOM), CITIC Bank and CMB. According to 2014 annual reports, ICBC is building a global private banking service network; CCB has set up overseas private banks in Australia and other countries to offer global services; and BOC has successfully developed an offshore customer base in Southeast Asia, Europe, the Middle East and India. CITIC Bank established a private banking center under China CITIC Bank International Limited in 2011. In August 2014, CMB set up its overseas private banking center in Hong Kong through Wing Lung Bank, and it continues to expand its overseas operations.

Banks partnering with foreign institutions to build cross-border service platforms include Agricultural Bank of China (ABC), Ping An Bank and Industrial Bank. In 2011, ABC worked with Bank of Montreal to launch cross-border private bank financial services. In February 2014, Ping An Bank signed contracts with Schroeder and Legg Mason to become their first partner to offer customized global investment products. Industrial Bank signed a private banking strategic partnership agreement with Lombard Odier in March 2014.

Chinese private banks are investing in overseas partnerships and networks to improve and expand services and capabilities to provide HNWIs with the comprehensive financial management services their overseas investments require.

The outlook for China’s private banking industry

After years of steady growth, China’s private wealth market has become increasingly mature. Having shouldered the ups and downs of the financial market for years, HNWIs now rely more and more on professional wealth management services for personal asset management. Meanwhile, HNWIs have acquired a greater familiarity and deeper understanding of the scope and potential of private banking services. The ties between HNWIs and private banks are expected to grow stronger, and private banks will continue to be HNWIs’ preferred channel for wealth preservation and inheritance.

Domestic wealth management institutions have seized on opportunities presented by the rapid growth of the private wealth market to expand their wealth management services. Chinese private banks remain HNWIs’ first choice for their domestic investments and wealth management. Domestic private banks have recently gotten some competition from professional asset allocation services. A number of banks have launched innovative private banking services, such as discretionary investment management, to positive market feedback. In the future, domestic private banks will have to invest more resources into improving the professional expertise of their investment team to create an ever more innovative, comprehensive and competitive private banking service model.

In the overseas wealth management market, HNWIs will continue to demand more diversified asset allocation. Chinese private banks have seized on this market trend to expand their overseas footprint. When investing in foreign expertise, systems, products and services, Chinese private banks should capitalize on their strong customer base, Chinese language proficiency and Chinese cultural familiarity—advantages their foreign counterparts lack—and, in partnership with corporate and investment banking businesses, offer the kinds of personalized, comprehensive, innovative and diversified investment products and services their Chinese HNWI overseas investors demand.

Appendix: Research methodology

The *2015 China Private Wealth Report* primarily analyzes the wealth market patterns of China and some key regions. The study analyzes the growing number of HNWIs and their respective private wealth and investment behaviors. It also examines the competitive private banking landscape and the mid- and long-term development trends and implications for the industry.

To estimate the overall HNWI market in China, as well as the distribution of HNWIs and their investable assets by province, we relied on Bain & Company's HNWI Income-Wealth Distribution Model as our basis, just as we did previously in the 2009, 2011 and 2013 China wealth reports. We also expanded our research into major market trends over the past two years. For example, the *2015 China Private Wealth Report* estimates the number of HNWIs and the market value of their investable assets at the macro level. In addition, we applied a top-down methodology to estimate the number of HNWIs, which helps avoid potential undersampling errors that often occur when employing a bottom-up methodology. This ensures that the findings are more comprehensive, reliable and predictive.

The model initially estimated the overall value of investable assets held by residents, on a province-by-province basis. Individual investable assets include cash and deposits, tradable stocks, untradable stocks of listed companies, mutual funds, bonds, investment property, insurance, bank wealth management products, overseas investments and other domestic investments. Investable assets exclude the following items: owner-occupied property, non-listed companies held by non-private equity and durable consumer goods. By using the same methodology as in 2009 and 2011, we were able to perform a detailed analysis and estimate of overseas investments and other domestic investments. Overseas investments include individually held overseas deposits, overseas stocks, overseas investment property, overseas insurance, Qualified Domestic Institutional Investor and other overseas assets. Other domestic investments include trusts, segregated accounts of fund companies, asset management plans of securities companies, private equity, Internet finance, gold and futures. Data sources include the People's Bank of China, National Bureau of Statistics, National Development and Reform Commission, China Insurance Regulatory Commission, China Banking Regulatory Commission, Shanghai Stock Exchange and the Shenzhen Stock Exchange.

The major output from this model is the calculation of the HNWI Wealth and Income Lorenz Curve, using a statistical methodology. Based on the latest income distribution, inheritance tax and family-owned asset data from the United Nations, tax authorities and central banks of different countries, we calculated the HNWI Lorenz Curves for more than 10 developed and developing countries in Asia and Europe, and included the US. We discovered a high correlation between the curve and a country's Gini coefficient, GDP, population and other macroeconomic indexes.

By applying this mathematical correlation to China and individual provinces, and by comparing the recent HNWI Lorenz Curves for the United Kingdom, US, Japan and South Korea with CMB clients' asset distribution data, we derived the overall domestic HNWI Lorenz Curve and respective curves by province.

Finally, we used the HNWI Lorenz Curve to allocate the investable assets owned by HNWIs by province and calculated the number of HNWIs by asset level—both at the national and provincial levels—and then calculated the value of investable assets owned by each.

Since the report was first published in 2009, we have collected firsthand data of high-end customers to foster a holistic and in-depth analysis of HNWIs' investment attitudes and behaviors. In 2009, the first year of our survey, we used data from approximately 700 research samples and 100 face-to-face interviews. In 2013, we expanded the sample size to nearly 3,300 research samples and conducted more than 100 face-to-face interviews. The research data laid a solid foundation for our study on Chinese high-end customers.

To collect data for the *2015 China Private Wealth Report*, we conducted a thorough survey of 36 major cities, with approximately 2,800 research samples and more than 100 face-to-face interviews. In order to achieve the best representation, we surveyed all of the major economic regions: the Yangtze River Delta, Pearl River Delta, Northern China, Northeastern China, and Central and Western China. Our interviewees included industry experts as well as relationship managers from private banks and other financial institutions, private banks' HNWI clients and other HNWIs. All clients interviewed met our criteria for HNWIs with at least RMB 10 million in investable assets.

Following the same CMB-Bain HNWIs research analysis methodology employed in 2009, 2011 and 2013, we used a statistical approach to further test other new segmentation dimensions. By comparing the data with the 2009, 2011 and 2013 results, we analyzed changes in HNWIs' investment attitudes and behaviors.

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Bain was the first strategic consulting firm to set up an office in Beijing in 1993. Since then Bain has worked for both multinationals and local clients from more than 30 industries. We have served clients in more than 40 cities in China. There are now three offices in the Greater China region, covering Beijing, Shanghai and Hong Kong. Bain has 150 consultants currently working in Greater China, with extensive local and global experience.

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