招商银行
CHINA MERCHANTS BANK

2023 China Private Wealth Report

China's Private Banking Industry: Striving for Excellence

Content

Acknowledgment

This report is the result of a long-standing collaboration between China Merchants Bank and Bain & Company.

In 2009, China Merchants Bank conceived the ground-breaking idea of creating an in-depth study of China's private wealth market. Over the past fourteen years, China Merchants Bank and Bain & Company have been committed to this topic by following the trends and changes in the market. In 2023, China Merchants Bank and Bain & Company joined hands for the eighth time to further the understanding on the latest developments of China's private wealth market and high net worth individuals (HNWIs).

Since 2009, leveraging China Merchants Bank's deep high net worth client base across the country, Bain & Company has conducted more than 20,000 questionnaires and extensive in-depth interviews with clients and relationship managers, as well as comprehensive analysis of Chinese HNWIs incorporating their extensive industry expertise and multi-dimensional data. Valuable inputs and suggestions on the overall methodology and framework by China Merchants Bank leaders have been instrumental to perfecting this report. We would like to thank President Wang Liang, Executive Assistant President Wang Ying, Chief Economist Ding Anhua, General Manager of Private Banking Department Wang Yanrong, Vice President Xie Lin, Vice President Liu Yuheng, Assistant General Manager Chen Xiaojie, Chief Investment Advisor He Junqian, General Manager of CMB Research Institute Lu Wendong, Director of CMB Macroeconomic Research Group Tan Zhuo, and related leaders and colleagues in the Private Banking Department and Research Institute of China Merchants Bank.

In this report, Bain & Company continued to improve on the methodology and modeling framework, such as refining the market sizing model, and identifying fast-growing asset classes in recent years. They also zoomed in on the extensive surveys and interviews to summarize and substantiate new findings. Bain & Company team conducted extensive interviews with high net worth clients and private banking relationship managers in the Yangtze River Delta, Southeast Coast, Greater Bay Area, Bohai Rim, Midwest and Northeast China to further enrich the supporting data. We would like to thank Phillip Leung (Senior Partner), Scully Cui (Partner), Frankie Leung (Partner), Wenting Zhao (Associate Partner), Lei Zhang (Senior Manager) and Bain & Company team members Sean Zhou, Xuyang Zhai, Matthew Wu and Xingrun Ping.

We would also like to thank each of the HNWIs who were interviewed and participated in the survey, as well as our colleagues at the head office and branches of China Merchants Bank who supported this report. They made active contributions by assisting with data collection, client surveys and interviews, and sharing their extensive industry experience. During the research process, experts and colleagues from Bain & Company also helped in data collection, modeling, methodology and analytic tools, etc., to which we would also like to express our gratitude.

Finally, we would like to express our sincere gratitude to all those who generously offered their valuable time and resources to the report!

Preface

China Merchants Bank (CMB) and Bain & Company (Bain) jointly released the first China Private Wealth Report in 2009. We have been tracking the changes in China's wealth market for over a decade now. During those years, we have experienced the ups and downs of the high net worth individuals (HNWIs) and wealth management institutions, and accompanied them on their journey. Our goal is to share perspectives and provide references to help the HNWIs and wealth management institutions thrive together. We have done so through continuous surveys, interviews, market tracking,data accumulation and analysis. We are committed to implementing the highest research standards and presenting research results with a unique perspective, consistency over time and expertise.

Over the past two years, the mix of HNWIs changed along with the macro environment. As a result, private wealth managers are faced with evolving client needs. Amid China's changing and challenging wealth management market, "uncertainty"and "regaining confidence"have emerged as the key words. COVID-19 compounded with structural economic reform has put a drag on the private wealth market and led to more prudence in risk taking among HNWIs. According to our survey, nearly 90% of respondents maintain a moderate or low risk appetite to weather economic and financial market uncertainty. Looking ahead to the next two years, China's private wealth market is expected to return to double-digit growth as the macro economy shows its resilience amid the turbulence. It is also notable that more HNWIs adopt a prudent attitude, and are expected to be more aggressive in risk taking to capture the investment opportunities emerging from the economic transition.

In this context, CMB and Bain once again joined efforts and released the 2023 China Private Wealth Report, the 8th in its series, subtitled "Striving for Excellence". In this report, we zoomed in on the changes in the investment preferences and behaviors of high net worth individuals with increasingly more investment experience. In addition to the in-depth analysis of 4,000 HNWI surveys, we traveled to Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Nanjing, Wuhan, Chongqing, Xi'an, Qingdao, Shenyang, Xiamen, Hong Kong, Changzhou, Shaoxing, Tangshan, Hohhot and other cities to conduct in-depth interviews with every high-net-worth client who accepted our invitation to better understand the current needs and state of mind of Chinese HNWIs. We found that HNWIs are becoming more sophisticated in wealth management needs, seeking more professional product offerings and asset allocation services, and focusing more on non-financial needs. Meanwhile, based on the "personal/family/business/social needs"analytical framework and customer segmentation from the 2021 survey, we found that customer mix continues to evolve, with widening differences in the overall needs across customer segments, and a growing focus on the engagement model and experience, as well as expectations for a more professional and customized service model from wealth managers. A segment worth special attention are young HNWIs, who are aiming at wealth creation, personal and business development. They tend to have a higher risk appetite, prefer high-risk, high-return assets, and are more open to emerging assets.

Over the past two years, the wealth management market has become increasingly competitive as HNWI needs have diversified. The survey shows that HNWIs have become more sophisticated in selecting private wealth managers, focusing on both professional competency and product offering; private wealth managers are building differentiation based on their unique strengths and resources.

Having been through market turbulence, China's wealth management customers have learned investment lessons the hard way. With the formal launch of the new asset management regulations, China's wealth managers are expected, in strict compliance with regulations, to be more customer-centric and create value by fulfilling customer needs. In the future, following the common philosophy of "striving for excellence", China's wealth management market will go back to basics to deploy professional asset allocation, and provide holistic solutions throughout customer lifecycle using a comprehensive set of customized and differentiated services with the right mix of human and digital interactions.

Chapter 1

Wealth management market rebound expected as the macro economy recovers

- Looking back into 2021 and 2022, China's economy showed strong resilience despite persistent challenges; looking ahead to the next two years, the recovery is going to gain steam and the confidence is likely to be restored. However, economic volatility may become the new normal.

- The wealth market is growing at a slower but steady pace, in line with the macro economy. In 2020, the total size of China's individual investable assets reached RMB 278 trillion, with a compound annual growth rate (CAGR) of 7% from 2020 to 2022; the total size of investable assets is expected to exceed RMB 300 trillion by the end of 2024.

- In 2022, the number of Chinese HNWIs with investable assets of RMB 10 million or more reached 3.16 million, with a CAGR of 10% from 2020 to 2022. Their investable assets totaled RMB 101 trillion, or RMB 31.83 million in average per person. The number of Chinese HNWIs and their investable assets are expected to grow at a CAGR of about 11% and 12% respectively in the next two years.

- In 2021-2022, as needs for risk aversion surged, personal cash and deposits grew at a five-year high, bank wealth management products and life insurance recorded modest growth, while real estate investment continued to cool down and the stock market remained volatile. Looking ahead, the stock market valuations are expected to get back on track as investors regain confidence and precautionary savings are released. Meanwhile, continued concerns over economic volatility is likely to support the lasting boom of life insurance and other low-risk assets. Real estate investments will also stabilize as the economic restructuring deepens.

- Geographically, in 2022, there were 9 provinces/municipalities with over 100,000 HNWIs, 19 provinces/municipalities with over 50,000 HNWIs, and 26 provinces/municipalities with more than 20,000 HNWIs, a slight increase from 2020. Growth continued in the three traditional economic clusters and surged in western provinces such as Chengdu and Chongqing.

Chapter 1 Wealth management market rebound expected as the macro economy recovers

Macro economy: navigating through a challenging and turbulent time

The past two years have seen continuing changes in the global governance system, rampant COVID-19 pandemic, and an evolving economic environment. Facing such complex global changes, China's economy has demonstrated strong resilience in the midst of the turbulence.

In 2021, China's economy showed positive momentum and stable growth. Driven by the demand from major developed economies, global trade was in full swing. China, with its mature manufacturing system and robust pandemic control measures, was able to maintain stability and reliability of its industry and supply chain to grow its exports significantly higher than expected. The annual GDP increased by 8.4% from a modest level in the previous year.

In 2022, China's economy was under the triple pressure of shrinking demand, disrupted supply and weakening expectations, due to the pandemic. This coupled with a declining domestic real estate market and global geopolitical changes, dampened the economic growth. Despite these headwinds, annual GDP grew by 3.0% to over RMB 120 trillion. "COVID-19"and "resilience"became the two key words for China's macro economy in 2022.

So far this year, as China eases pandemic restrictions and implements economic stimulus policies, China's economy has shown signs of recovery. China GDP grew 4.5% year-on-year in the first quarter, up 1.6 percentage points from the fourth quarter of last year, and 6.3% year-on-year in the second quarter, up 1.8 percentage points from the first quarter. In the second half of 2023, a mild economic recovery is expected amid volatility, and the key is to boost demand and upgrade the economic structure.

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Wealth market: growing at a slower but stable pace

China's private wealth market[1] slowed down in 2020-2022 due to multiple factors,including the macro environment.

In 2022, the overall size of China's individual investable assets[2] (hereinafter referred to as "total individual investable assets") reached RMB 278 trillion, with a CAGR of 7% from 2020 to 2022. In 2021, there was double-digit growth at 11%, which slumped to 3% in 2022 due to the pandemic and other factors. Waning consumption and investment confidence has led to excessive household savings, driving a 11% CAGR in cash and deposits from 2020 to 2022. Personal assets shrank due to capital market fluctuations, while real estate investment slowed to a CAGR of 3% due to tightening policy on investment property and weakening confidence in the real estate market. (Figure 1)

Looking ahead over the next two years, China's private wealth market expects to grow steadily from moderate economic recovery, implying a 8-9% CAGR for total individual investable assets to grow to over RMB 300 trillion in 2024. As residents' confidence in investment picks up, capital market products and insurance are expected to achieve CAGRs of 12% and 10% respectively, driving the growth of total asset. Cash and deposits are expected to grow at a slower pace over the next two years, investment real estate is expected to grow modestly at 3%, and overseas investment is also expected to experience slower growth than in previous years.

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[1]This report focuses on mainland China, not including Hong Kong, Macau and Taiwan.

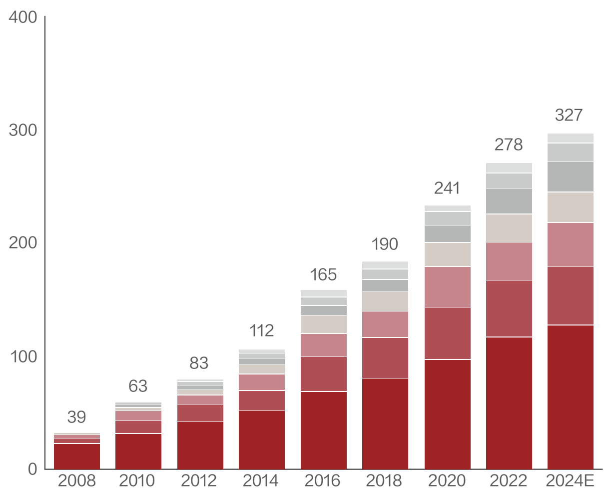
[2]Investable assets: Measurement of total investment assets (assets tradable in the secondary market with a fair level of liquidity). Investable assets include individual financial assets and real estate investment. Financial assets include cash, deposit, stock (tradable and non-tradable stocks of listed companies), debt, fund, insurance(life insurance), bank WM products, overseas investment and other domestic investments (including trust, fund SMA, AM products from securities brokers, PE funds, private securities funds, gold); not including owner-occupied housing, non-public company equity outside PE investment and durable consumables.

Chapter 1

Wealth management market rebound expected as the macro economy recovers

Figure 1: Total size of individual investable assets in China

Individual investable assets in 2008-2024E (T RMB)



	CAGR (08–22)	CAGR (12–14)	CAGR (14–16)	CAGR (16–18)	CAGR (18–20)	CAGR (20–22)	CAGR (22–24E)
	15%	16%	21%	7%	13%	7%	8–9%
Other domestic**	**30%**	48%	35%	0%	−5%	17%	8%
insurance (life)	**15%**	18%	23%	15%	11%	6%	10%
Overseas Investment	**28%**	20%	26%	10%	21%	18%	16%
Bank WMPs	**20%**	40%	29%	6%	9%	9%	4%
Capital market Products*	**16%**	27%	22%	1%	27%	−4%	12%
Investment real-estate	**17%**	8%	30%	8%	14%	3%	3%
Cash &deposits	**12%**	11%	15%	8%	9%	11%	10%

Source: HNWI income-wealth distribution model, Bain & Company

Note: *Capital market products include stocks, public funds, OTCBB and bonds held by individuals

Note: *Other domestic investments include trust, fund SMA, AM products from securities brokers, private securities funds, gold and private equity etc. held by individuals

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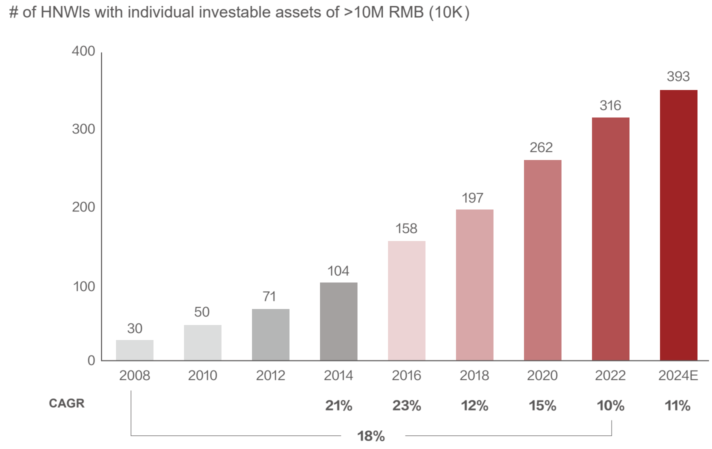
Wealth management market rebound expected as the macro economy recovers

Total number of Chinese HNWIs and their investable assets grew at a slower pace over the past two years.

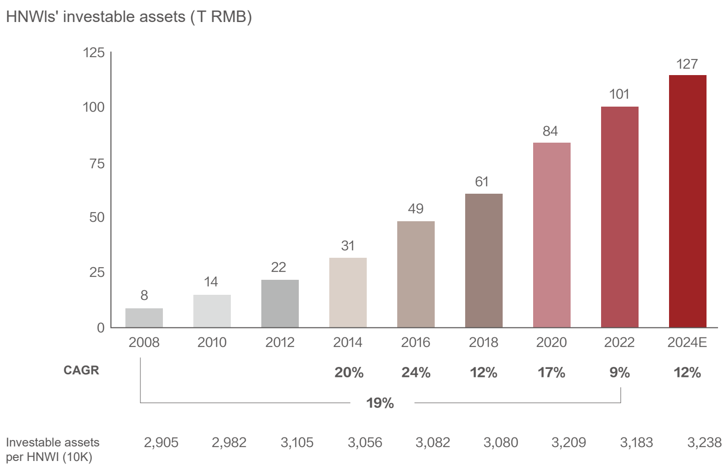
In 2022, the number of Chinese HNWIs reached 3.16 million, an increase of about 540,000 compared to 2020, with a CAGR of 10% in 2020-2022, down from 15% in 2018-2020. In terms of wealth size, Chinese HNWIs held a total of RMB 101 trillion in investable assets in 2022, with a CAGR of 9% in 2020-2022. (Figure 2 and Figure 3)

Figure 2: Number of HNWIs in China



Source: HNWI income-wealth distribution model, Bain & Company

Figure 3: Size of investable assets of Chinese HNWIs



Source: HNWI income-wealth distribution model, Bain & Company

[3] In this report, individuals with investable assets over RMB10 million are collectively referred to as high net worth individuals (HNWIs).

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Wealth management market rebound expected as the macro economy recovers

Based on the survey results, we have summarized the overall performance and outlooks for various asset classes:

Cash and deposits

- **2021-2022 review:** In 2021, PBOC used a mix of monetary policy instruments with cross-cyclical design to maintain adequate liquidity at a reasonable level and strike a balance between supply and demand in the short, medium and long term. In 2021, new RMB loans amounted to RMB 20 trillion, an increase of RMB 315 billion from the previous year; M2 and social financing continued to grow at 9% and 10.3% respectively. In 2022, PBOC ramped up the accommodative monetary policy to promote economic and social development under COVID-19 controls; new RMB loans totaled 21.3 trillion, up 11.1% from 2021; M2 and social financing grew by 11.8% and 9.6% respectively. The survey found that customers tend to be more prudent and more risk-averse, opting for cash or large-denomination certificates of deposit. Among the individual investable assets in 2020-2022, personal cash and deposits recorded 11% CAGR, the highest growth in five years, leading to an upswing in household savings.

- **Outlook:** With the steady recovery of China's macro economy, PBOC is expected to continue to implement an accommodative monetary policy in a targeted and forceful manner, with the aim of maintaining an adequate and reasonable level of liquidity and appropriate M2 and social financing that keeps up with nominal economic growth. Meanwhile, the savings rate is expected to decline, as the economy and consumer confidence recovers and consumption and investment picks up. The overall growth rate of cash and deposits is expected to fall to 9-11%.

Real estate market

- **2021-2022 review:** In 2021, guided by anti-speculation policies, local governments introduced city-level real estate policies including eligibility for mortgages and purchases as well as a pricing cap. Several over-heated cities further intensified their control measures. This coupled with debt defaults by several developers in the second half of the year, led to a cool-down of the real estate market and lower growth of 4.4% in national real estate investment, 2.6 percentage point lower than 2020. In 2022, factors such as Covid-19 flare-ups and construction hiccups led to a 20% decline in commercial real estate, measured in both square meters sales and revenue. Real estate investment also decreased by 10% year on year, showing continuous contraction. The CAGR of investment real estate dropped from 14% during 2018-2020 to 3% during 2020-2022. This survey finds that most customers are cautious about real estate investment, citing property upgrades and wealth preservation as the key drivers for property purchases, rather than wealth appreciation.

- **Outlook:** On the premise of anti-speculation, the government is taking more measures to bolster the real estate market, which means more support for both first-home and home upgrade needs. Meanwhile, given the mounting default risks by real estate developers, top forward-looking priorities will be securing project completion, basic living needs and market stability. Demand is expected to revive with supportive policies, contributing to moderate improvements in real estate development activities. The housing market is projected to remain stable over the next two years, with 3% growth in investment real estate.

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Stock market

- **2021-2022 Review:** In 2021, the official launch of the Beijing Stock Exchange marked a new phase in the development of China's multi-tiered capital market, driving a surge in market size and activity. The SSE Composite Index, the SZSE Component Index and the Growth Enterprise Index rose by 4.8%, 2.7% and 12% respectively. Northbound funds increased their holdings of A-shares by RMB 432.2 billion, setting a new record since the launch of the Shanghai-Hong Kong Stock Connect program. Amidst a complex and challenging domestic and international environment in 2022, the A-share market experienced significant changes. The SSE Composite Index saw an annual decline of 15.1%, while the SZSE Component Index and the Growth Enterprise Index fell by 25.9% and 29.4% respectively over the year.

- **Outlook:** As pandemic eases and economic recovery gains momentum, A-share companies' revenue and profits are expected to enter an upward cycle. The implementation of a registration-based mechanism and the successful listing of the first batch of companies under the main board registration system by the Shanghai and Shenzhen Stock Exchanges in 2023 shows steady progress in capital market reform. As a result, a more vibrant capital market and higher investor confidence is likely to prop up valuations.

Public funds

- **2021-2022 review:** There were over 9,000 public funds in 2021, with assets under management surpassing RMB 25 trillion and net asset value of funds growing at an impressive 28%. With growing size and innovation in public REIT products, the public fund sector has become a cornerstone of the capital market. However, faced with headwinds in the capital market and volatile valuation, public funds grew at a much slower pace in 2022 compared to the previous two years, gaining only single-digit growth in total size. Given the macroeconomic downturn and large market fluctuations, individual investors owned a slightly lower share in total asset volume and value compared to the end of 2021.

- **Outlook:** With the economy rebounding and policy effects unfolding, confidence in investment is likely to bounce back and residents are expected to increase their investment in equities. As the overall capital market warms up, the net asset values of equity fund products are also expected to grow. These will all be positive tailwinds for the growth of public funds.

Wealth management market rebound expected as the macro economy recovers

Bank wealth management products (WMPs)

- **2021-2022 review:** As the transitional period for the new asset management regulation came to an end in 2021, the overall bank wealth management industry managed to achieve steady growth, with better structure, quality and productivity as a result of the reform. The market size of bank WMPs reached RMB 29 trillion, marking a 12% year-on-year growth and generating nearly 1 trillion yuan in return for investors. Bank WMPs reached a record high of RMB 30 trillion in September 2022. However, due to the decline in equity and bond prices, the total value of WMPs shrank to RMB 27.7 trillion by the end of 2022, among which net-asset-value (NAV) products gained a larger share of 95.5%, while expected -yield products were reduced to a minimum. Notably, the launch of pilot programs for pension WMPs was well received in the market. The size of pension WMPs exceeded RMB 100 billion at the end of 2022.

- **Outlook:** With the formal implementation of the new asset management regulations, bank wealth management subsidiaries have been introducing new standard products, which is likely to drive the equity market recovery and reignite the growth of non-principal-protected wealth management products. Structured deposits will grow in a healthy and orderly manner and remain stable in size. Expansion of the pilot for pension wealth management products will fuel their growth. However, challenges persist despite the opportunities. Investors have not fully embraced the changes in the bank wealth management market, as risk-return trade-offs remain a challenge for NAV WMPs. Looking ahead to this new stage of development, the overall growth rate of bank WMPs is expected to decline to 3-5%.

Insurance

- **2021-2022 review:** In 2021, the GWP (Gross Written Premium) of life insurance reached RMB 3.3 trillion, a slight decrease of 0.3% year-on-year, indicating downward pressure on growth. The figure increased to RMB 3.4 trillion in 2022 with a year-on-year growth of 3.1%, showing signs of recovery. Over the past two years, looking through the lens of channel, the shrinking pool of insurance agents, fewer offline marketing activities and other factors slowed the industry' s growth. Insurance companies have doubled down on the bancassurance channel to alleviate the pressure on agents. In terms of products, as the insurance industry goes back to basics, there has been a notable decline in policyholder investments and new premiums for unit-linked investment plans. Meanwhile, the low risk appetite is driving up the premiums for new annuity and incremental whole life insurance policies. Among the individual investable assets in 2020-2022, the CAGR of the insurance market declined from 11% in 2018-2020 to 6%.

- **Outlook:** The insurance industry has been recovering since 2023. The GWP of life insurance from January to May amounted to RMB 2.1 trillion, or a growth of 11% year-on-year. In terms of distribution channels, the return of offline social activities drove a rebound in revenue from agents. Bancassurance will continue its strong momentum driven by the continued investment by insurers. This survey shows that from a product perspective, as WMPs cancel guaranteed principal & return, the demand for long-term fixed-rate insurance products, such as incremental whole life insurance, will continue to grow. Meanwhile, the private pension pilot introduced half a year ago has deepened public understanding of insurance, and introduced more product options to the market, creating more opportunities for the insurance sector. The life insurance market is expected to return to higher growth of 9%-11% in the next two years.

Other domestic investments

- **Trust:** After years of business transformation, trust companies saw some initial progress in 2021-2022. The size of trust assets stabilized as a result of the reform on controlling trust channeling business,non-compliant financing business, financial institution channeling business and risk asset disposal. In 2023, the trust industry will further return to its original role of being a trustee, following the regulatory guideline of going back to basics. The new regulations for trust businesses, released in March, charts out the three types of trust businesses:asset service trust, asset management trust, and charitable trust. The asset service trust business requires a key license that differentiates trust companies from other asset managers. As the most promising segment in asset service trust, wealth management service trust benefits from its independent nature and 3rd party beneficiary to serve the unique needs of relevant groups. For instance, "family service trust", introduced by the new regulations, is expected to drive industry growth by targeting a broader customer base. Meanwhile, charitable trust presents unique opportunities in the drive for common prosperity. However, the trust industry still faces challenges in building and enhancing service capabilities. The overall scale of the trust industry is expected to remain stable over the next two years.

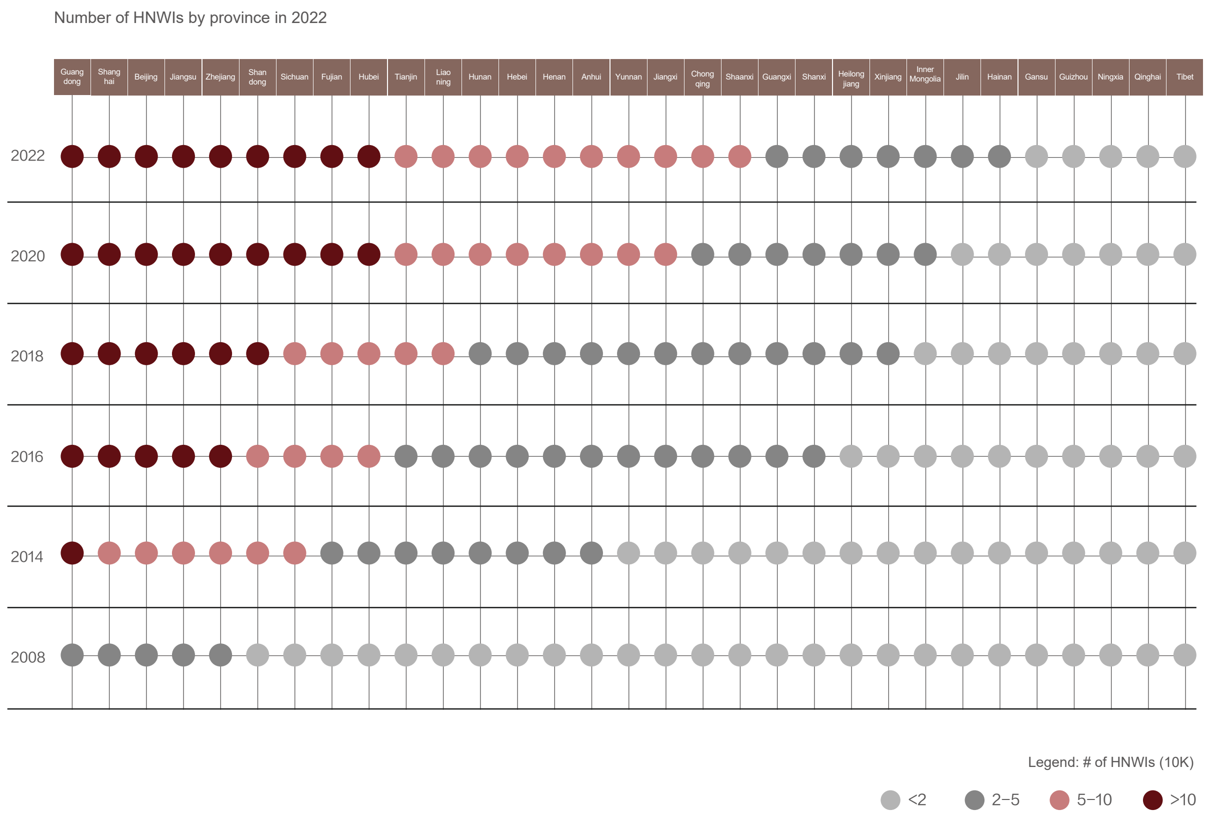
- **Private equity investment:** In 2021, China's deal value reached a 10-year high, with surging deal valuation multiples. The total fundraising value of Greater China (GC)-focused funds increased by 10% compared to 2020. Semiconductors, software/SaaS, artificial intelligence,pharmaceuticals and biotechnology were the most vibrant sectors. In 2022, both the number and average size of PE deals dropped; deals between PE funds and strategic buyers stagnated; the fundraising value of GC-focused funds fell to a new low in 2022. Semiconductors,automobile and mobility, pharmaceuticals and biotechnology emerged as the most sought-after sectors. Looking ahead, with the recovery of the Chinese economy, the private equity market is expected to move in parallel. However, most investors will remain cautiously optimistic given the continued macro uncertainties home and abroad.

- **Gold investment:** Easy monetary policies and inflation expectations were the investment thesis in 2021. However, the price of gold has been on a rollercoaster, driven by strengthening US dollar, global fund rush to dollar-denominated assets, and quantitative easing expectations. With the Russia-Ukraine conflict fueling risk averse sentiment, the global gold market started with a strong rally in 2022 but fell back due to unexpected hawkish interest rate hikes by the Fed. In the domestic gold market, the price showed an upward trajectory due to RMB depreciation. In the future, against the backdrop of global stagflation and a weakening US dollar, gold will increasingly be perceived as a safe asset, taking up bigger share in portfolio and growing in scale.

Regional distribution: sustained momentum in the three traditional economic clusters and surged in Chengdu and Chongqing

As of the end of 2022, 26 provinces and municipalities in China boasted over 20,000 HNWIs. Compared to 2020, Jilin and Hainan provinces surpassed 20,000 for the first time. Nine provinces and municipalities (Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong, Sichuan, Fujian, Hubei) had over 100,000 HNWIs. Additionally, ten provinces and municipalities(Tianjin, Liaoning, Hunan, Hebei, Henan, Anhui, Yunnan, Jiangxi, Chongqing, and Shaanxi)had more than 50,000 HNWIs, with Chongqing and Shaanxi making their debut in this group. (Figure 4)

Figure 4: Regional distribution of Chinese HNWIs

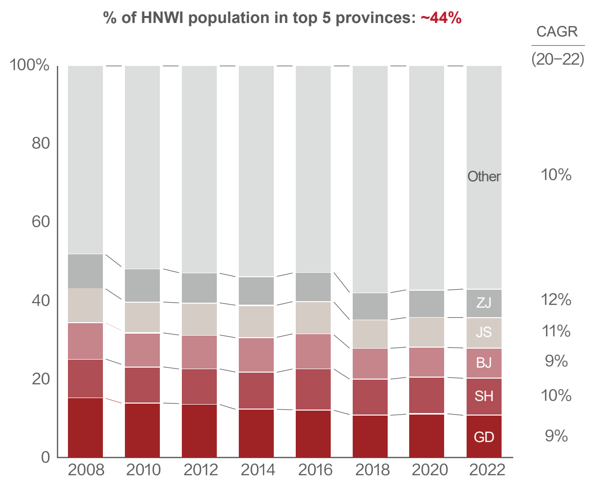


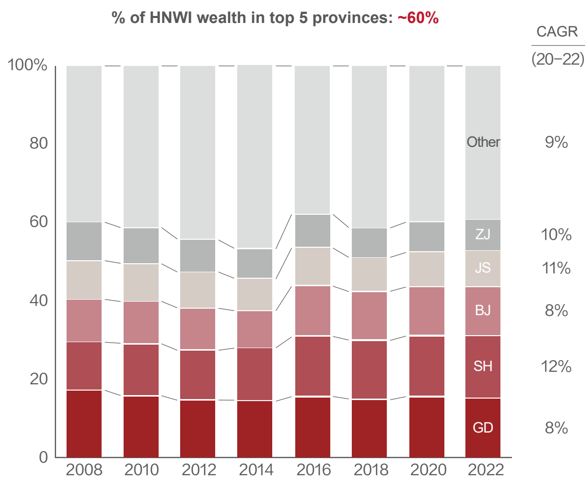
Source: HNWI income-wealth distribution model, Bain & Company

The number of HNWIs in the three major economic clusters of Beijing-Tianjin-Hebei, Yangtze River Delta, and Pearl River Delta continued to grow, which spilt over and drove growth in the surrounding provinces such as Shanxi, Inner Mongolia, Anhui, and Guangxi. Furthermore, the western regions represented by Chongqing, Shaanxi, Qinghai, Guizhou, and Ningxia have witnessed a significant increase in HNWIs.

The concentration of the HNWI population and HNWI wealth remained flat from 2020 to 2022. In 2022, the HNWIs in Guangdong, Shanghai, Beijing, Jiangsu, and Zhejiang accounted for approximately 44% of the total, taking up around 60% of total assets. Looking back to 2018-2020, influenced by capital market rally and varied performance across local housing markets, the number of HNWIs and their share of wealth rose slightly in the five regions of Guangdong, Shanghai, Beijing, Jiangsu, and Zhejiang. However, from 2020 to 2022, as capital markets weakened and the housing market cooled down, the trend shifted from general increases in tier 1 and 2 cities to structural and local investment opportunities. The performance of capital market and housing market impacted the number of HNWIs and their total investable assets in direct and indirect ways. As a result, the concentration of HNWI population and wealth distribution in the aforementioned five provinces and cities remained unchanged. (Figure 5)

Figure 5: HNWI population and wealth distribution across Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang





Source: HNWI income-wealth distribution model, Bain & Company

In the past two years, industries such as robotics, IoT, AI, and biotechnology have seen accelerated growth. These industry clusters, along with their upstream and downstream sectors, are mainly concentrated in the Beijing-Tianjin-Hebei, Yangtze River Delta, and Pearl River Delta regions, where affluent population continues to expand and boom. Sectors such as AI, healthcare, new materials, high-end equipment manufacturing, energy conservation, environmental protection, and modern services, and industries such as basic components, parts, software and technologies, are showing strong growth momentum. New affluent populations are emerging at the back of the capital markets. Looking ahead, the number of HNWIs and their share of wealth in the core cities within the top regions will see continued growth.

Chapter 2 Progressive wealth goals and evolving needs of HNWIs

- **Risk appetite:** In 2023, the number of HNWIs citing "wealth protection", "personal/business development"and "charity and social responsibility"as their major wealth goals has increased significantly, while the mentions of "wealth creation"have decreased. Meanwhile, nearly 90% of HNWIs maintained a medium to low risk appetite, suggesting a more conservative investment approach as they need time to regain confidence in investing after the pandemic. Looking ahead over the next two years, HNWIs tend to take a more progressive approach-more open to high-return, high-risk investments, as their risk appetite is gradually restored. Today, HNWIs are taking a more conservative approach to asset allocation, with cash and fixed income products accounting for nearly 60% of their investment portfolios. Over the next two years, more HNWIs are expected to increase insurance products holding as a means of wealth preservation, invest in alternatives (e.g., gold), increase investment in private equity funds while reducing real estate investment.

- **Demographics:** In 2023, respondents from the new economy have taken up a smaller share compared to 2021 due to fluctuations in the market capitalization in the internet and other industries, while the proportion of professionals has increased, and the proportion of young HNWIs has continued to grow. Going forward, the demographics of Chinese HNWIs will continue to evolve, and the rapid development of SRDI (specialized, refinement, differential, innovation) industries is expected to take new economy populations back on track.

- **Personal needs:** The financial needs of Chinese HNWIs is mainly focused on stability. Access to safe, stable products is the top cited personal need, followed by access to customized offerings and a wide variety of products. For non-financial needs, the focus is more on health and social networking resources.

- **Family needs:** The 2021 survey reveals two dominating themes in the family needs of Chinese HNWIs: "asset allocation"and "inheritance". According to this year's survey, more than 70% of Chinese HNWIs have already started wealth inheritance planning. Meanwhile, their inheritance needs have expanded to include business succession and children's education.

- **Business needs:** In the midst of a fluctuating economy, the business needs of Chinese HNWIs are biased towards corporate financing, such as loans.

- **Social needs:** The needs of Chinese HNWIs continue to expand in the social space. They are looking for better charitable and philanthropic platforms/programs, as well as charitable entity design for charitable foundations, charitable trusts, etc.

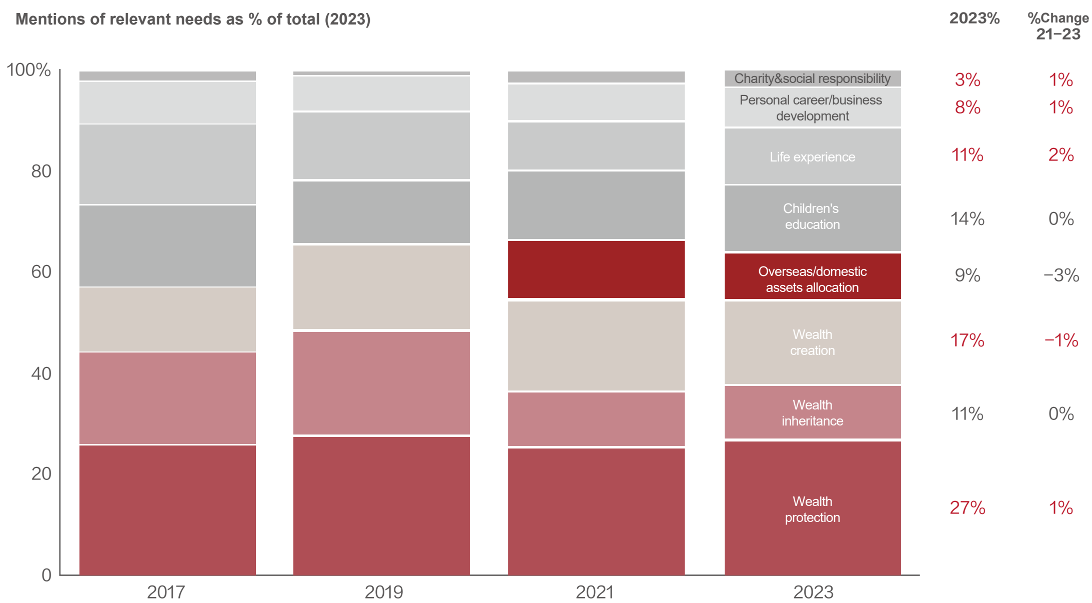
Risk appetite: from prudent to progressive

This survey reveals that, in the face of multiple uncertainties such as global economic slowdown and geopolitical disruptions, HNWIs are increasingly focused on wealth protection, personal/business development, charity and social responsibility. However, their attention to wealth creation and overseas/domestic asset allocation has been declining.

The primary wealth goal for HNWIs is wealth protection, which was mentioned more frequently compared to the 2021 survey. Meanwhile, mentions of wealth creation have decreased compared to 2021. Furthermore, the wealth goals of Chinese HNWIs have become more diverse, with more mentions of personal/business development. Compared to 2021, HNWIs are placing greater emphasis on charity and social responsibility. Several respondents indicated that they tend to be conservative in asset allocation now, while securing enough liquidity to take quick actions in face of clear market opportunities, business development opportunities, or crises. (Figure 6)

Figure 6: Different needs of Chinese HNWIs in 2023

What needs do you have?



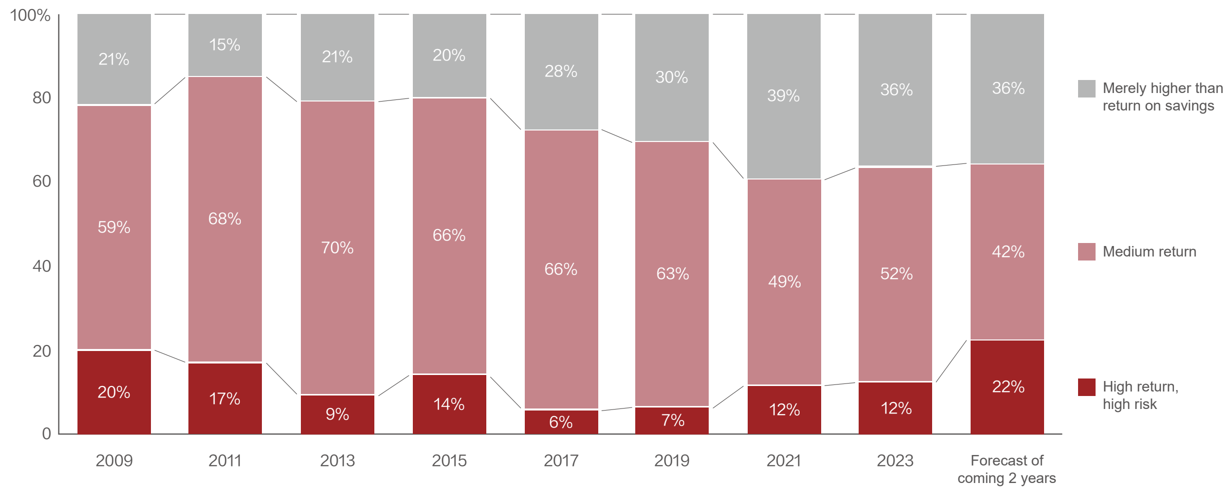
Source: CMB-Bain HNWI survey & analysis

HNWIs exhibit a prudent risk appetite, with approximately 90% of respondents maintaining a moderate or low risk preference (namely respondents choosing "medium return"or "merely higher than return on savings"). This trend is largely in line with the risk appetite observed in 2021. Over the next two years, more HNWIs will take a progressive approach and gradually restore their risk appetite. Notably, the proportion of respondents who are willing to explore high-return, high-risk investments over the next two years rose by 10 percentage points to 22%, the largest increase and highest level among all surveys. (Figure 7)

In terms of city tiering, 65% of the HNWIs in Tier 1 cities (Beijing, Shanghai, Guangzhou, Shenzhen) bear a medium to high risk preference, higher than the 62% in lower tier cities.

Figure 7: Risk-return preference[4] of Chinese HNWIs in 2023

What is your preferred risk-return strategy for your investments?



Source: CMB-Bain HNWI survey & analysis

[4]In the survey, "merely higher than return on savings"indicates a preference for return rates higher than savings, primarily aimed at preserving and increasing value while keeping risks at a relatively low level; "medium return"means moderate returns through partial high-yield investments with moderate risk; "high return, high risk"indicates investments that offer high returns but come with high risks; same below (deep dives by customer groups and regions later).

Take an asset allocation perspective, over half of HNWIs'domestic investable assets are allocated to relatively low-risk options, including cash products (28%) and fixed income products (27%), generally in line with the 2021 level (34% cash and 22% fixed income products) and echoing the continuation in risk appetite from 2021 to 2023. Looking ahead into the next two years, HNWIs expect to stay focused on predictable returns, retain the same asset allocation, and prudent risk preference. Meanwhile, some HNWIs intend to seize investment opportunities in emerging sector securities during the economic recovery. Specifically, a growing number of respondents plan to increase the share of insurance products in their asset allocation, particularly long-term insurance such as incremental whole-life insurance and annuities. They also expect to increase allocations to safe-haven assets such as gold. More HNWIs are cautious about the appreciation potential of investment properties and expect to reduce allocations in this area. As market confidence gradually restores, HNWIs may shift their focus towards growth opportunities in specific industries and sectors. A growing number of HNW clients are considering increasing their investments in private securities for potentially higher returns (Figure 8). Nearly 70% of respondents say they will increase their allocations to emerging markets over the next two years. Notable emerging market asset categories that appeal to HNWIs include emerging market equities (e.g., STAR Market, BSE), real estate investment trusts (REITs), and digital asset trading (e.g., NFT art) etc.

Figure 8: Allocation of domestic investable assets of Chinese HNWIs in 2023 and future expectations

Q: How do you allocate your domestic investable assets across the following asset classes?
Q: How do you expect your domestic investable asset allocation to change in the next 1-2 years?

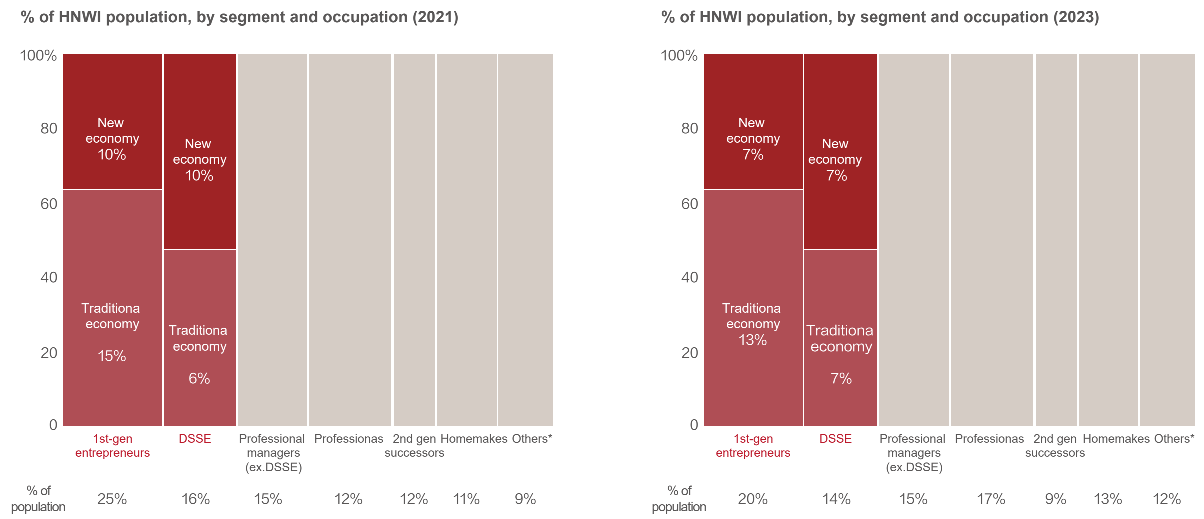
Source: CMB-Bain HNWI survey & analysis

This survey further delves into the purposes and attitudes of Chinese HNWIs towards real estate investment. About 20% of the respondents show a prudent attitude towards real estate investment. Nearly 40% of HNWIs state that their primary purpose for real estate investment is wealth preservation, while about 20% indicate property upgrade as their main purpose. Only around 20% of respondents still expect to increase their wealth through real estate investments. Although the motives for real estate investment vary among HNWIs, high-end residential estates (including large flats) are the preferred investment targets, cited by 40% of respondents, followed by school district properties and luxury/villa residences, each with about 20% of all mentions. Comparatively, popular property types such as smaller units (non-school district), apartments, commercial spaces, and scenic view homes got fewer mentions.

Demographics: ever-changing and increasingly diversified

The proportion of respondents from the new economy has decreased compared to 2021 due to fluctuations in the market value of industries such as the Internet. Among them, the proportion of 1st-gen entrepreneurs as well as directors, supervisors and senior executives (DSSEs) from the new economy fell from 10% to 7% of the total sample. In the future, the rapid development of the SRDI and biopharmaceutical industries is expected to pivot the new economy group back in the upward trajectory. The combined percentage of 1st-gen entrepreneurs and DSSEs has decreased from 41% in 2021 to 34% in 2023. Conversely, other groups, such as professionals and homemakers, have taken a more prominent role, contributing to a more diverse customer structure. We also find that many 2nd-gen successors prefer to work in professional services such as investment to accumulate work experience after graduation, rather than immediately plunging into family business. After recent economic turbulence, a certain number of 1st-gen entrepreneurs and DSSEs have pivoted back to their families to manage existing wealth. (Figure 9)

Figure 9: Occupation mix[5] of China's HNWI population surveyed in 2021 and 2023



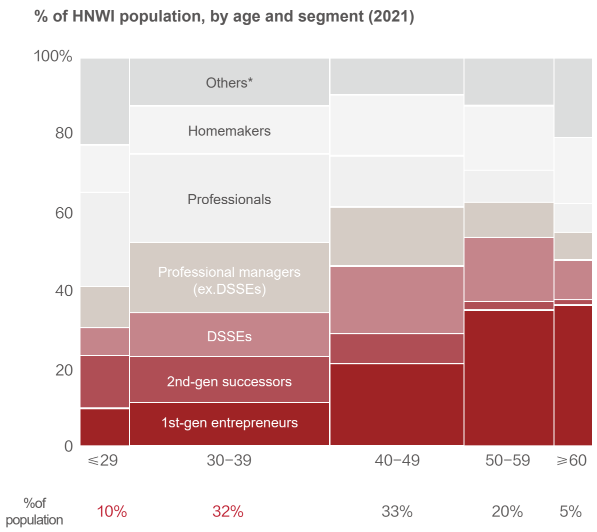
Source: CMB-Bain HNWI survey & analysis

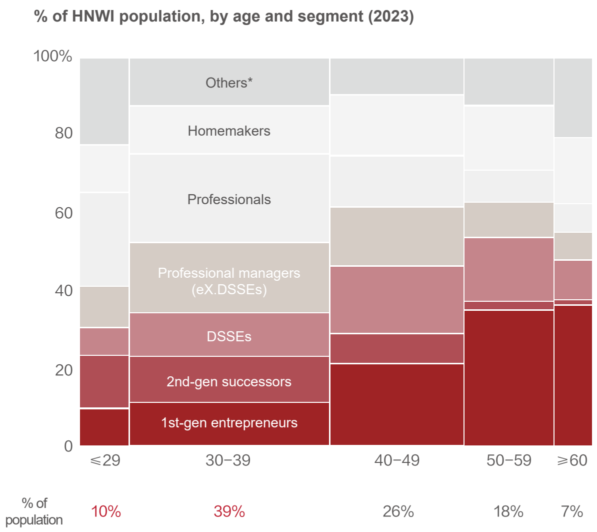
[5]Note: New economy industries include:

(1) information technology and advanced manufacturing (eg., solar, SRDI mini giants, NEVs, biopharma etc.); (2) Internet and software; (3) entertainment and sports; (4) research, medical and professional services (financial, legal, accounting, consulting etc.); (5) new retail and new media (live-streaming, internet celebrity, gaming).

In terms of age mix, HNWIs are getting younger. In this survey, respondents under the age of 40 represent 49% of the total, up by 7 percentage points from 42% in 2021. (Figure 10)

Figure 10: Age and occupation mix of China's HNWI population surveyed in 2021 and 2023





Source: CMB-Bain HNWI survey & analysis

2021 China Private Wealth Report first brought up that financial institutions should build an integrated financial and non-financial service ecosystem to meet personal, professional and social needs. This report adopts the same analytical framework as the 2021 report, revealing how HNWIs' needs have changed in the new economic environment. Chapter Three will further elaborate on the distinctive needs of different segments.

Overall, the comprehensive needs of China's HNWIs have extended beyond personal needs to encompass family, business, and philanthropic/charitable needs. In this survey, the proportion of HNWIs mentioning family needs has increased to 62%, up from 58% in 2021. Moreover, mentions of business and philanthropic/charitable needs have reached 26% and 25%, respectively.

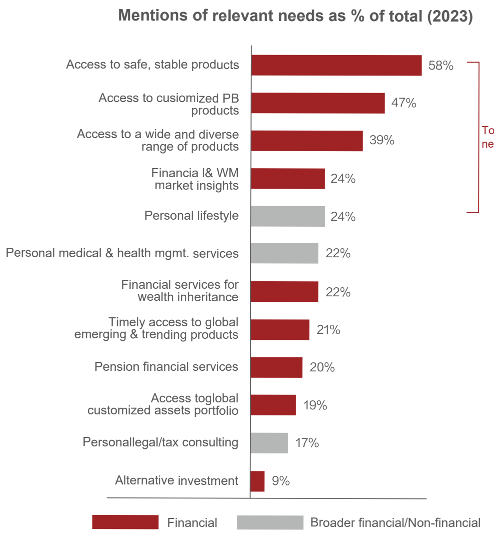
Personal needs: seeking stability and addressing fundamentals

In this survey, "stability"has been a key word in HWNIs' personal financial needs, emphasizing steady returns on investment. Influenced by macroeconomic factors, nearly 60% of HNWIs express a need for safe and stable products, ranking it among their top asks. This demand has reached a new high compared to 50% two years ago. Meanwhile, due to geopolitical fluctuations and other factors, mentions of "access to global emerging and trending products"have slumped from 40% in 2021 to 20%.

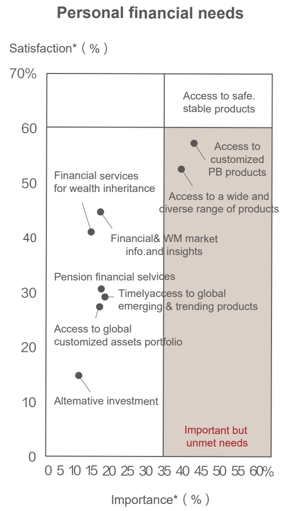
To be more specific, the most frequently mentioned personal financial needs of HNWIs in 2023 are: access to safe, stable products (58%), access to customized private banking products (47%), access to a wide and diverse range of products (39%), and financial and wealth management market insights (24%). Through the survey, we identify different customer needs that private wealth managers should pay special attention to– "important and underserved", by investigating how important different personal needs are to HNWIs and how well are these needs met. For example, in terms of financial needs, HNWIs expect more competitive, customized and diverse offering; as for non-financial needs, satisfaction of personal lifestyle and personal medical & health management services still has room for improvement (Figure 11). In addition, when it comes to non-financial needs, HNWIs expect private wealth managers to organize sharing events among people with similar profiles. For instance, private wealth managers can provide platforms for 2nd-gen successors to share experiences and lessons learned in business operations and management when taking over family businesses, and inspire potential collaboration opportunities.

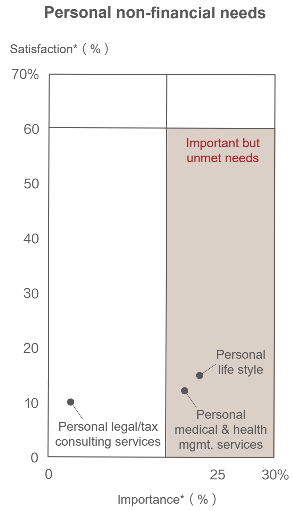
Figure 11: Personal needs[6] of Chinese HNWIs in 2023

Q: What are your major personal needs?



Q: How important are they? Which of them has been met by your primary private bank?





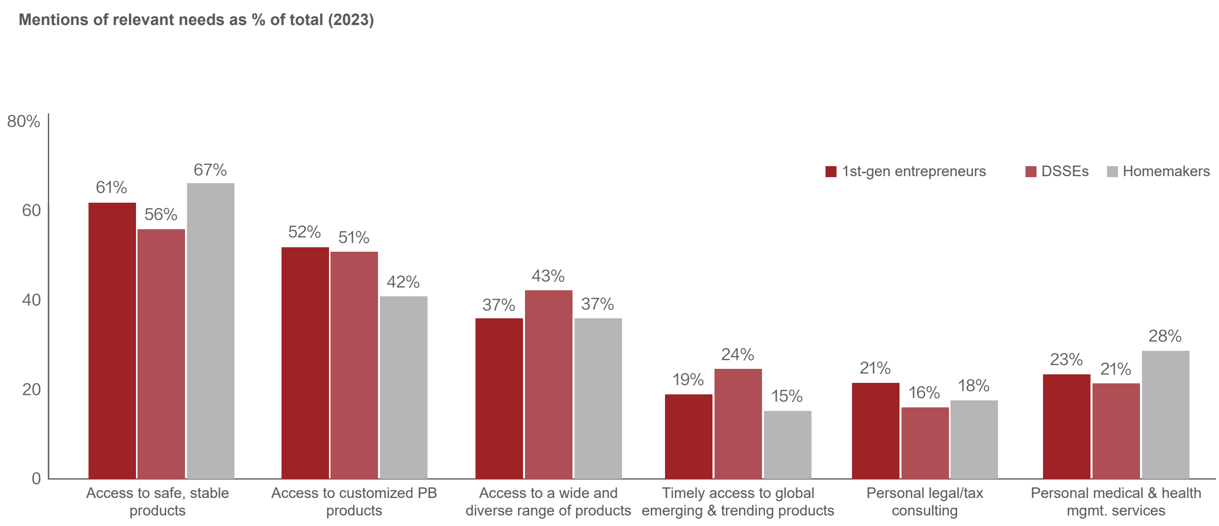
Source: CMB–Bain HNWI survey & analysis

[6]Note: Importance (%) = # respondents selecting the need as top 3 important needs/total # of respondents selecting the need; satisfaction (%) = # of respondents considering the need fulfilled by PB/total # of respondents selecting the option, same for family, business and social needs.

Different segments show different personal needs. For example, 1st-gen entrepreneurs and DSSEs have higher demand for access To customized private banking products than homemakers. Homemakers have a more conservative and prudent risk preference. As a result, they place greater emphasis on access to safe and stable products, with 70% of homemakers citing this option, 10% more than 1st-gen entrepreneurs and DSSEs. In addition, DSSEs are more willing to try emerging and trending products, leading to a higher demand for access to a wide and diverse range of products. 1st-gen entrepreneurs show greater needs for personal tax/legal consulting, while homemakers are more concerned with medical and health management services. (Figure 12)

Figure 12: Personal needs of Chinese HNWIs in 2023, by segment

Q: What are your major personal needs?



Source: CMB-Bain HNWI survey & analysis

This survey has observed a high level of acceptance for asset allocation services. However, asset allocation, risk management and customer communication amid fluctuations remains a challenge for private wealth institutions. Over 80% of respondents have used asset allocation services provided by private wealth managers, but many are unsatisfied with post-investment monitoring and adjusting, as well as risk identification and control. This requires private wealth managers to sharpen their expertise and empower relationship managers to optimize customer experience in portfolio tracking and adjusting.

First, on the customer side, private wealth managers should offer tools that allow HNWIs to monitor their current asset allocation and updated returns, as well as post-investment suggestions. For example, private wealth managers can offer investment insights tailored to customers' risk appetites, investment recommendations based on expected returns, asset allocation optimization, online communication channels with relationship managers, etc.

Second, on the relationship manager side, private wealth managers should support relationship managers in developing customized investment recommendations that take into account customers' real-time risk appetites and expected returns, as well as asset adjustment plans under different scenarios. In case of extraordinary events, such as major deviation from expected returns, private wealth managers should notify relationship managers to arrange communications with customers. For major wealth events, such as end of stock lock-up, relationship managers should be reminded to renew customer communication plans.

To achieve the above goals, private wealth managers should create a robust closed-loop system that can provide end-to-end services, including house views, allocation strategies, product selection, and customer communication, with stronger digital capabilities to further improve efficiency.

A leading international private bank, for example, provides strategic asset allocation guidance by sharing CIO views across the bank and its customers. CIO views are accessible to both customers and relationship managers as key references for asset allocation, portfolio management, and post-investment management. In this example, building a closed-loop system for CIO views with robust communication and implementation is the top priority.

Digital serves as a key lever to facilitate the sharing and implementation of CIO views. The bank embeds CIO views in its asset allocation and CRM system, enabling real-time monitoring of relationship managers' implementation of CIO views. Meanwhile, the bank monitors customers' portfolios and risks through digital tools that can send automated alerts and suggested adjustments in case of major deviation from CIO views. Relationship managers can then arrange communications with customers accordingly. As a result, the productivity of relationship managers and compliance with CIO views is improved. Customers with direct access to insightful CIO views are able to make informed investment decisions.

Chapter 2 Progressive wealth goals and evolving needs of HNWIs

Family needs: Focusing on both asset allocation and inheritance

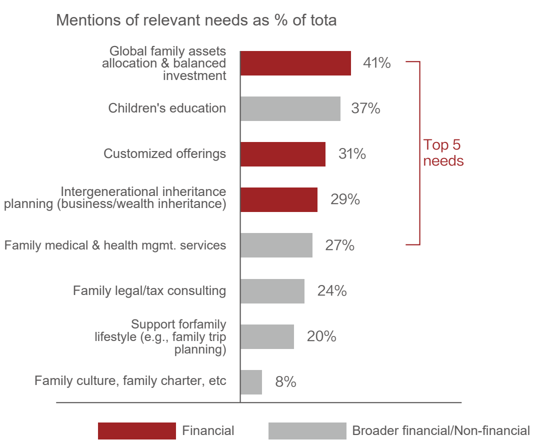
According to the 2021 China Private Wealth Report, “asset allocation”and “inheritance”mark the two dominating themes in the family needs of Chinese HNWIs. This survey shows that HNWIs prioritize customized offerings in asset allocation. And when it comes to inheritance, they not only value wealth and family business inheritance, but they also put their children's education/capability building before many family financial needs.

In 2023, the top 5 family needs of HNWIs are: family asset allocation (41%), children' s education (37%), customized offerings (31%), intergenerational inheritance planning including business and wealth inheritance (29%), and medical and health management services (27%). Children' s education ranked second among all needs, ahead of customized offerings and financial needs such as intergenerational inheritance.

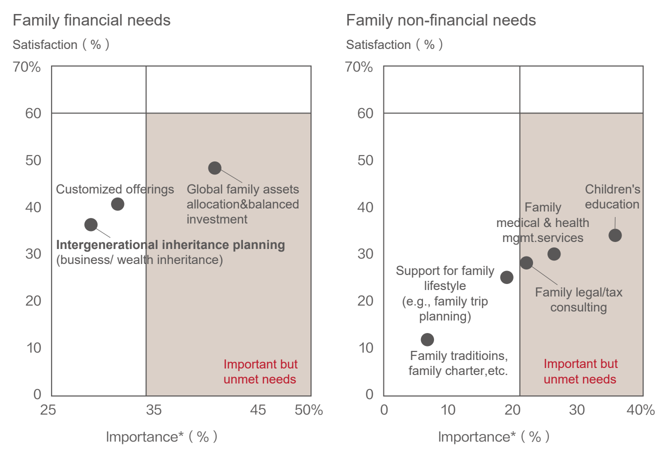
In terms of financial needs, more than 40% of HNWIs surveyed have a need for family asset allocation, and among them 50% believe that the services currently offered by private banks still need to be improved. As for non-financial needs, their important yet unmet needs mainly include children's education, medical and health management services, and family tax and legal consulting. (Figure 13)

Figure 13: Family needs[7] of Chinese HNWIs in 2023

What are your major family needs?



How important are they? Which of them has been met by your primary private bank?

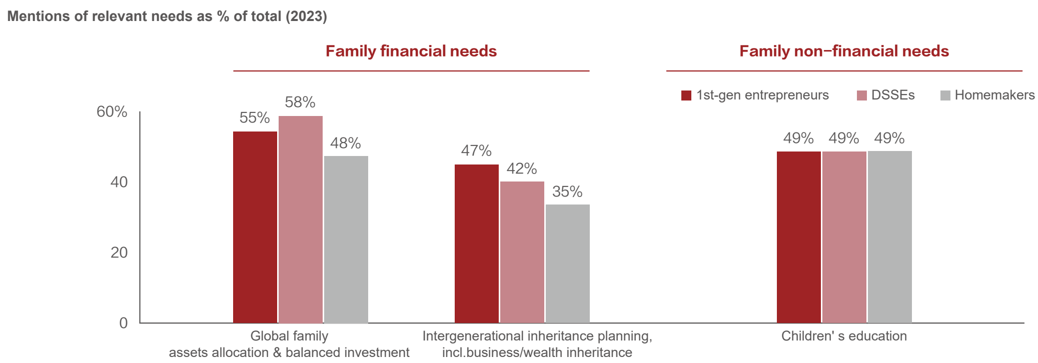


Source: CMB-Bain HNWI survey & analysis

[7]Unless otherwise noted, the survey results in this section counts respondents who answered "yes"to the question- "Do you have family needs?"and 62% of respondents answered "yes" in this survey.

This survey also shows that different segments have different family needs. For example, family asset allocation (balancing investment and wealth preservation)and children's education are common family needs among 1st-gen entrepreneurs, DSSEs and homemakers. However, they are mentioned much more often by DSSEs than by homemakers. 1st-gen entrepreneurs are most focused on intergenerational inheritance planning. They expect private wealth managers to provide professional support including business and wealth inheritance. (Figure 14)

Figure 14: Family needs of Chinese HNWIs in 2023, by segment

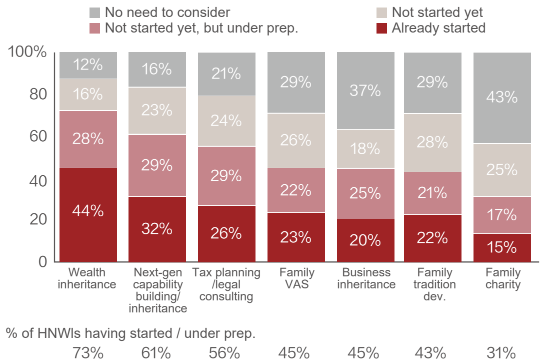


Source: CMB-Bain HNWI survey & analysis

More than 70% of HNWIs surveyed have started preparing for wealth inheritance, mainly by purchasing insurance and property: The survey shows that 73% of HNWIs have already kicked off or started preparation for wealth inheritance. Meanwhile, 61% of respondents have already kicked off or started preparation for their children's education and inheritance. In terms of intergenerational inheritance, HNWIs' preferred approaches are: purchasing insurance for children (63%) and purchasing property for children (54%). And the approaches they would consider in future mainly include family trusts (34%) and company shares (30%). (Figure 15)

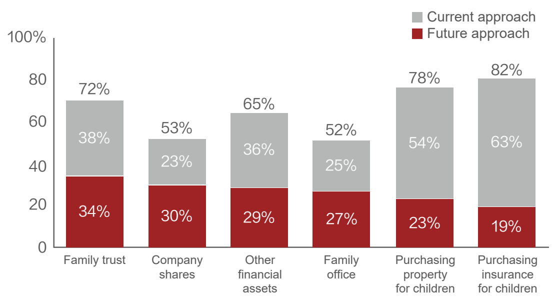
Figure 15: Plans and means of intergenerational inheritance among Chinese HNWIs

What are your plans for intergenerational inheritance?



Source: CMB-Bain HNWI survey & analysis

What is your current approach to wealth inheritance? What approaches would you consider in future?



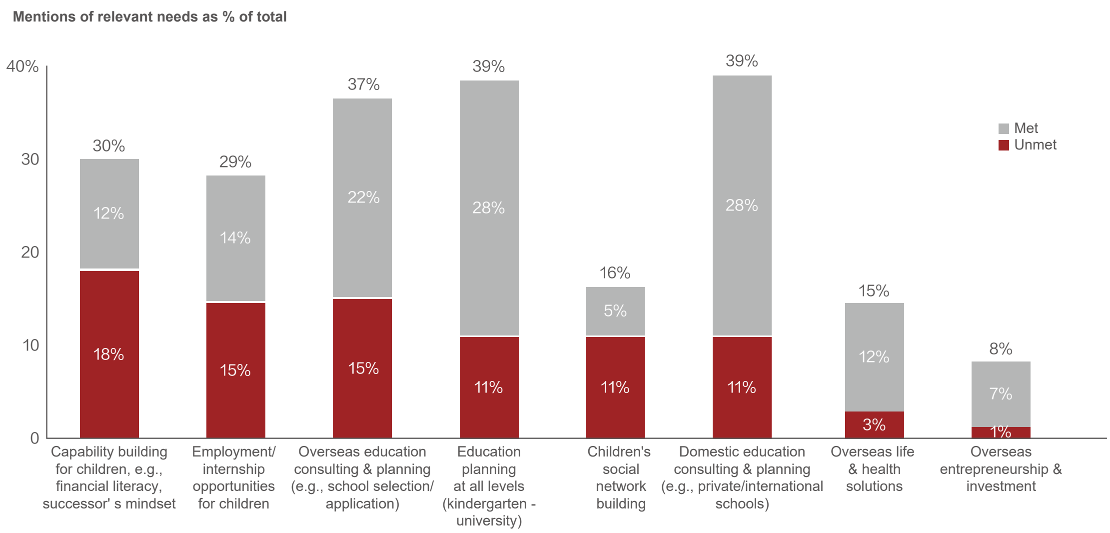
Nearly 50% of Chinese HNWIs are considering using family trusts: Among the respondents with family needs (62%), more than 20% of them say that they have already used family trust services, while 40% to 50% of the respondents say that they have never used but are considering. In addition, more than 20% of the HNWIs say that they do not know how to compare and select institutions to get such services.

To further understand HNWIs' preferences for family trust service models, we look into those who have used or are considering using family trusts. Nearly 40% of HNWIs hope that institutions can help them draft personalized terms according to their needs, while about 15% hope that institutions can provide standard term options from which they can choose. More than 60% of HNWIs prefer a more conservative investment strategy for money held in a family trust than in their personal account. More than 60% of HNWIs prefer to make their own investment decisions for the trust funds after receiving advice from the institution.

The need for children's education is mainly related to education planning, with potential expansion into capability building and employment/internship opportunities: Our survey shows that HNWIs' needs are mainly focused on domestic education consulting and planning (39%), education planning at all levels (38%), and overseas education consulting and planning (37%). Among these, the top unmet needs are capacity building for children (18%), employment/internship opportunities for children (15%), and overseas education consulting and planning (15%). (Figure 16)

Figure 16: Children's education needs of Chinese HNWIs in 2023

What children's education services would you need most from private bank? Which are already met? (Multiple choice, up to 3 options)



Source: CMB-Bain HNWI survey & analysis

Business needs: Prioritizing loans while seeking professional support

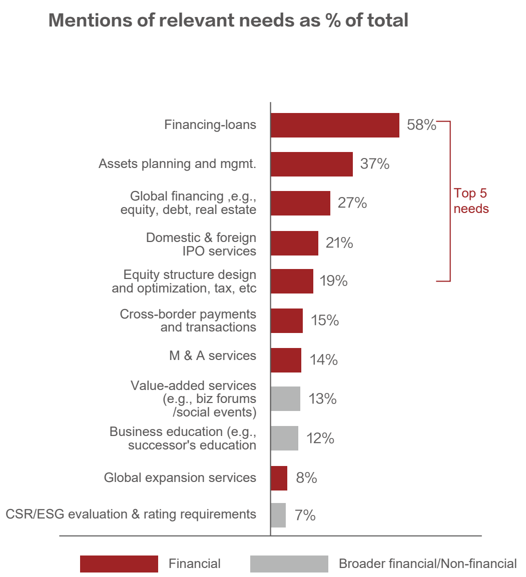
In a volatile market environment, financial needs such as corporate loans have become a top priority for Chinese HNWIs. Meanwhile, corporate financing, asset planning and management, global equity/debt/real estate financing, domestic and overseas IPO services, and professional business support (e.g., shareholding structure design and optimization, and tax services) have also been mentioned. In addition, value-added services (e.g., business forums, networking, etc.) and business education (e.g., successor's education) are cited as the most important non-financial needs of HNWIs.

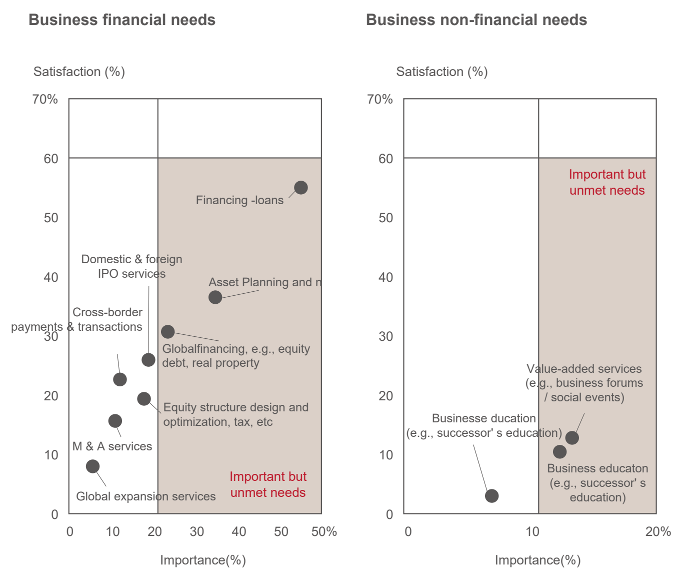
The survey finds that there is room for further improvement for private wealth managers in addressing both the basic and complex business financial needs of HNWIs. HNWIs' overall satisfaction with the most valued financial services, such as asset planning and management, global equity/debt/real estate financing, is less than 40%. On the other hand, HNWIs' key non-financial needs, such as value-added business services and business education, are not well met. During the interviews with HNW clients, a number of respondents have mentioned that, with the implementation of the Golden Tax System (Phase IV), they look for 1-on-1 consulting services from tax experts to improve their tax compliance system of their own businesses. Others have mentioned that they hope to see more networking activities, such as local business forums, to learn from industry experts, exchange industry insights and explore cooperation opportunities. (Figure 17)

Figure 17: Business needs[8] of Chinese HNWIs in 2023

What are your major business needs?

How important are they? Which of them has been met by your primary private bank?





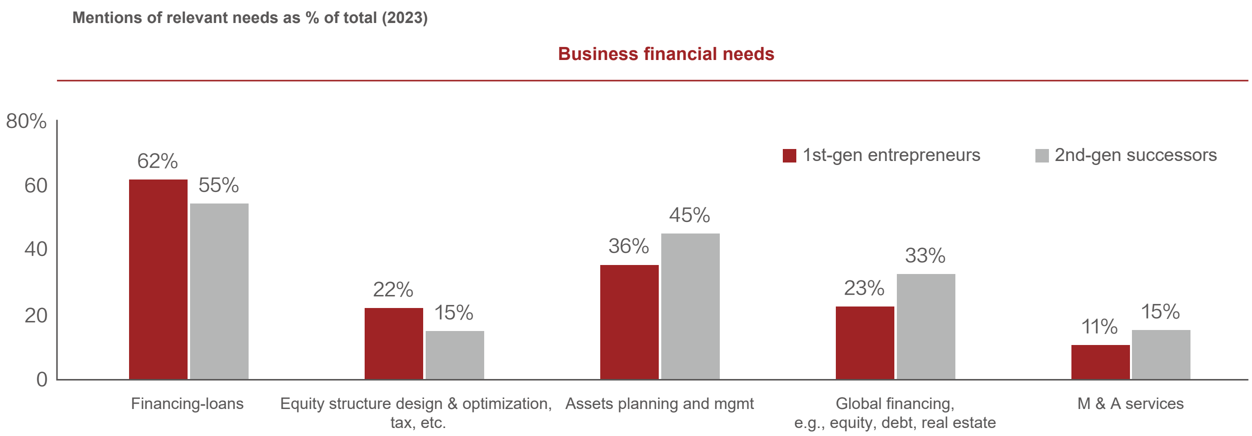
Source: CMB-Bain HNWI survey & analysis

[8]Unless otherwise stated, the survey results in this section count respondents who answered "yes"to the question– "Do you have busi–ness needs? ", which represents 26% of all respondents.

1st-gen entrepreneurs and 2nd-gen successors have different needs. For example, 2nd-generation successors have more diversified needs, seeking expansion through multi-channel investment and financing as well as inorganic growth. They have greater needs for asset planning and management, global equity/debt/real estate financing and M & A services. Whereas 1st-gen entrepreneurs have a higher demand for optimizing business operations, such as shareholding structure design and optimization, and tax review .(Figure 18)

Figure 18: Business needs of Chinese HNWIs in 2023, by segment

What are your major business needs?

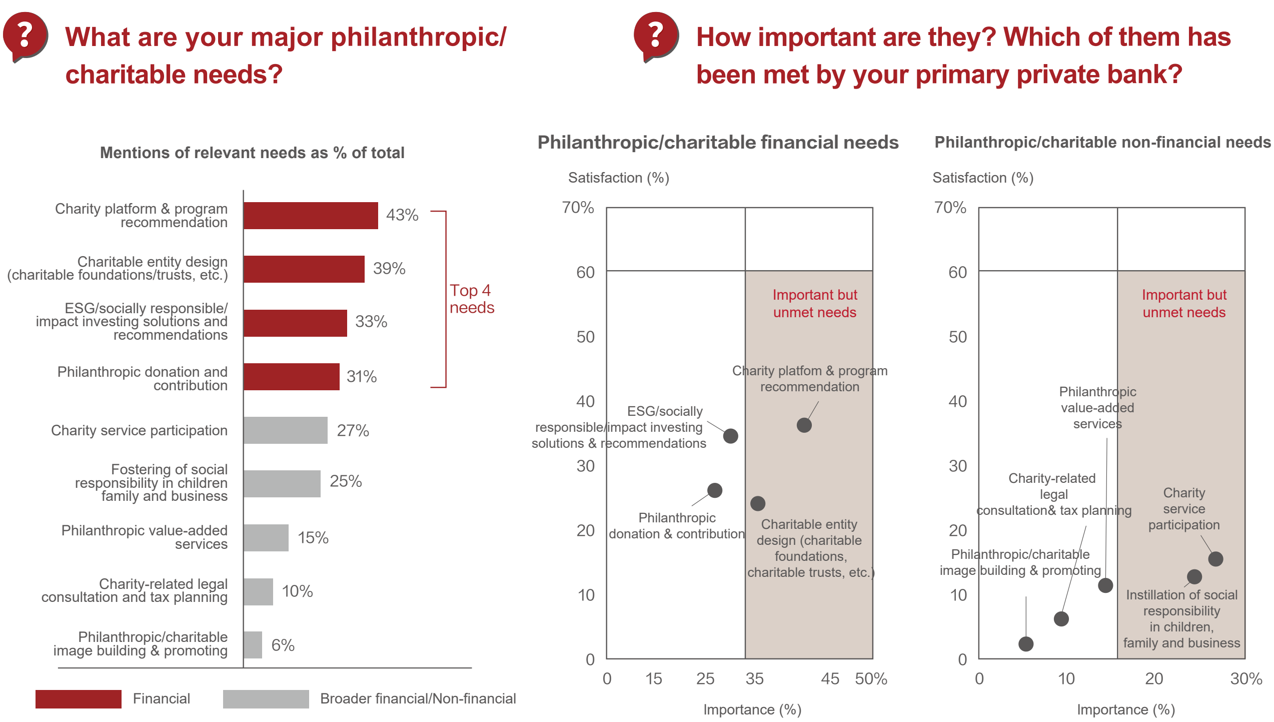


Source: CMB-Bain HNWI survey & analysis

Social needs: Supporting tertiary distribution with charitable arrangements

The survey finds that HNWIs, as early beneficiaries of rapid economic growth, are actively responding to the call for the common good through philanthropic practices to give back to the society. Their needs have expanded from personal, family and business needs to include social responsibility, philanthropy and charity, which raises new requirements for private wealth managers. According to the 2023 China HNWI Philanthropy Report, jointly published by China Merchants Bank and China Philanthropy Research Institute of Beijing Normal University, the philanthropy/charity needs of Chinese HNWIs are focused on high-quality program recommendation and charitable entity design. Our survey confirms this conclusion: Approximately 40% of the respondents interested in philanthropy/charity have cited charitable/philanthropic donation platform and program recommendation (43%), charitable entity design (e.g., for charitable foundations and charitable trusts) (39%) as their major needs. In addition, approximately 30% of HNWIs have mentioned the need for ESG/socially responsible/impact investing solutions and recommendations (33%), charitable donations for disaster relief (31%), charity service participation (27%), and instillation of social responsibility in children, family and business (25%). Regarding the satisfaction level, there is still much room for Chinese private wealth managers to improve their performance in meeting the social/charitable needs of HNWIs. (Figure 19)

Figure 19: Philanthropic/charitable needs[9] of Chinese HNWIs in 2023



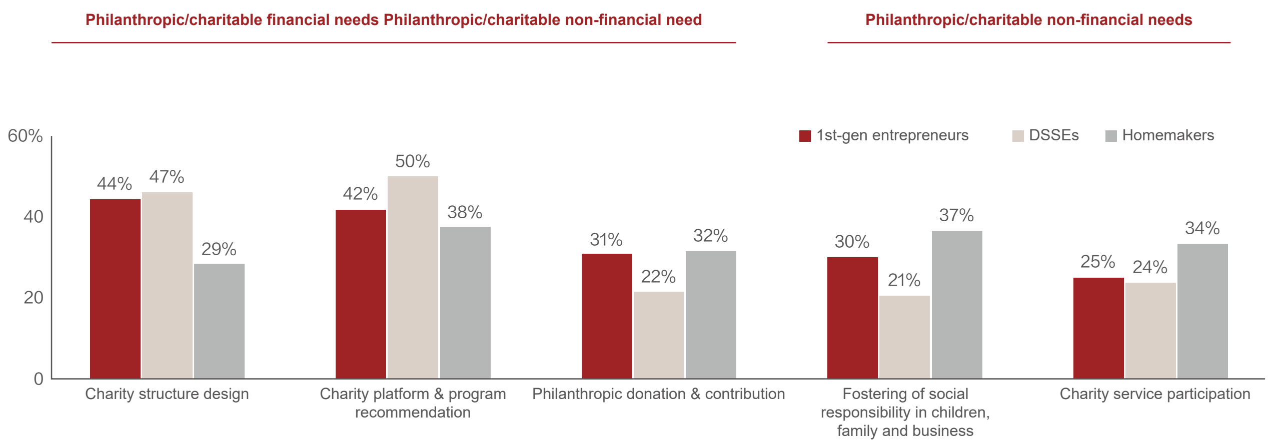
Source: CMB-Bain HNWI survey & analysis

[9]Unless otherwise stated, the survey results in this section count respondents who answered "yes"to the question– "Do you have social needs? ", which represents 25% of all respondents.

There are also significant differences among different segments in the desired way to participate in philanthropy and charity. 1st-gen entrepreneurs and DSSEs have shown a greater willingness to participate in philanthropic and charitable activities through charity entities (including setting up philanthropic/charitable foundations and charitable trusts). They also want to strengthen corporate social responsibility in their companies. On the other hand, DSSEs are more interested in the recommendation of charitable donation platforms and charity programs. According to our interviews, several DSSEs say that they regularly donate through online philanthropic platforms, because they are busy at work and know few channels for philanthropic and charitable donation. They expect to see more credible charity platforms in the future to help them screen and validate charity projects. Homemakers tend to give back to the society in a more diverse way. In addition to charitable donations, they expect to have the opportunity to participate in charitable activities and to foster social responsibility in their children and family members. (Figure 20)

Figure 20: Philanthropic/charitable needs of Chinese HNWIs in 2023, by segment

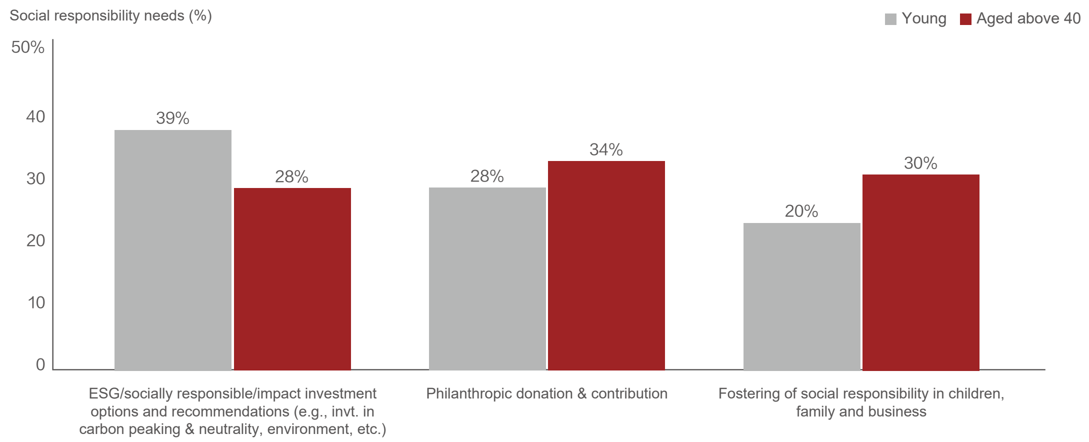
What are your major philanthropic/charitable needs?



Source: CMB-Bain HNWI survey & analysis

This survey also shows that young HNWIs under 40 have a greater need for ESG/socially responsibile/impact investment solutions and recommendations, including carbon neutral, carbon peaking and environmental investments (39%), while HNWIs over 40 are more willing to directly participate in charitable donations (34%), and also pay more attention to developing and nurturing social responsibility in children, family and business (30%). (Figure 21)

Figure 21: Social responsibility needs of young HNWIs vs. HNWIs aged above 40



Source: CMB-Bain HNWI survey & analysis

This survey looks into the types of charity programs that most appeal to HNWIs, including scholarships or bursaries to promote educational equality (53%), poverty alleviation and eradication (43%), senior and orphan care (41%), and medical assistance (eg., treatment for rare diseases) (37%). It is worth noting that different groups appear to have different priorities. For example, 1st-gen entrepreneurs give higher priority to poverty alleviation and eradication (49%), while the professionals focus more on medical assistance (eg., treatment for rare diseases) (42%). And homemakers and professional investors put more emphasis on disaster and emergency relief and rescue, etc.

Moreover, despite the high willingness to participate in charity, HNWIs also have pain points such as limited knowledge, poor access to information, lack of professional support, and difficulty in building awareness among children. In response to HNWIs' needs and pain points in philanthropy and charity, private wealth managers should play to their strengths and offer differentiated solutions. Private banks should respond efficiently to the charitable needs of HNWIs, focusing on providing professional services. For example, they can leverage their strength of resource integration to provide professional, customized charitable and philanthropic advice and services to help HNWIs make better and more effective philanthropic investments that maximizes their wealth and social value. Private banks can also start with wealth planning to provide HNWI clients with customized, integrated philanthropic and charitable solutions, including charitable entity design, charity-related legal and tax consulting, and integration of charitable goals into family values. This will help address the challenge in sustainability and impact in family philanthropy and drive deeper participation in philanthropic efforts by HNWIs.

Charitable entity design mainly includes the establishment of philanthropic and charitable foundations and charitable trusts. Though a separate legal entity has a greater degree of autonomy, it also involves higher qualification requirements and operational costs. Private banks can provide entity structure and tax advice, as well as fund custody and investment services.

A charitable trust, on the other hand, refers to the activity in which a principal lawfully entrusts his or her assets to a trustee for charitable purposes, so that the trustee may act on behalf of the principal in line with his or her wishes to manage and dispose of the assets and conduct charitable activities. In July 2017, the China Banking Regulatory Commission and the Ministry of Civil Affairs jointly issued the Measures for the Administration of Charitable Trusts. One of its main purposes is to gradually make charitable trusts an important channel for philanthropy in China.

Compared to traditional operating models such as foundations, charitable trusts are an emerging way to run a charity that has a lower requirement for establishment, a simpler structure, and a more flexible investment and management approach. This helps to lower operating costs and secure investment returns, thus ensuring sustainable funding to charity. With a more independent structure, a charitable trust can better deliver on the donor's charitable intentions. According to the 2023 China HNWI Philanthropy Report, jointly published by China Merchants Bank and the China Philanthropy Research Institute of Beijing Normal University, 33% of the respondents say that they already have some knowlege of charitable trusts. In addition to greater independence (58%), wealth preservation and creation (45%) and greater flexibility (40%), lower capital requirements and management costs than foundations (39%) are among the most valued advantages among respondents.

Therefore, private banks can consider doubling down on capability building as well as communication of "charitable trusts"to raise awareness of charitable trusts among HNWIs, and help HNWIs transfer wealth and values across generations. Moreover, charitable trusts and family trusts can go hand-in-hand: Family trusts pass wealth onto the younger generation, while charitable trusts can transfer spiritual legacy and carry on family values of commitment to social responsibility.

We hope for more supporting policies for charitable trusts to encourage more participation from HNWIs in philanthropy and charity, to promote tertiary distribution and create value beyond wealth.

In summary, HNWIs with a variety of personal, family, business and social needs, are now looking for more professional products and portfolio solutions to meet their key financial needs and place greater emphasis on their non-financial needs. Serving the core financial needs of different HNWI groups should be the top priority for private wealth managers. Therefore, on the one hand, wealth managers should strengthen their product selection capabilities, especially prudent product choice and risk management capabilities in a volatile market. On the other hand, they should continue to enhance their asset allocation capabilities, implement investment and research strategies in a timely and effective manner, better identify and control risks based on client risk appetite, provide post-investment monitoring,timely rebalancing advice and effectively communicate with clients during periods of market volatility. Meanwhile, wealth managers should also provide comprehensive solutions to address HNWIs' personal, family, business and social needs. For example, in terms of inheritance, 1st-gen entrepreneurs have increasingly considered business and wealth transfer to the next generation, an urgent imperative. In this context, wealth managers need to offer a wider range of more professional solutions to business and wealth inheritance, such as setting up family trusts. They also need to maintain close collaboration with investment & corporate banking departments, legal and tax experts to meet the needs of 2nd-gen successors for investment and financing, asset planning,professional consulting, etc.after business takeover, and to help build capability for business succession.

Chapter 3

Precise segmentation and customer insights based on diverging needs of segments

- HNWIs from different segments and age groups have shown significant differences in risk appetite, wealth goals, and personal, family, business and social needs based on their life stage, source of wealth, expertise and desired experience.

- Among the HNWI segments, 1st-gen entrepreneurs are most aware of wealth protection and intergenerational succession; 2nd-gen successors are concerned about customized wealth inheritance and asset allocation plans; DSSEs focus on comprehensive family asset allocation and look for more diversified product offerings; professional managers are keen on rapid growth in wealth and children's education; professionals have a higher risk appetite and are willing to try alternative investment, ESG investment, etc. ; homemakers value low-risk products, while taking into consideration the needs of their family, e.g., children's education, elderly care, healthcare, etc.

- To achieve precise segmentation, wealth managers need to consider customer identity, life stage and their preferred engagement and experience with institutions on top of the traditional asset lens, which then allows for more personalized, differentiated wealth solutions based on accurate customer profiles and deep customer insights.

- Compared with the older generation, HNWIs under 40 years old have a higher risk appetite in general, express a stronger need for wealth creation, and are more interested in new products. In terms of engagement, young HNWIs are more open to digital engagement. As a result private banks should make full use of digital channels to complement face-to-face engagement. Among 2nd-gen successors under 40 years old, 60% express the need for wealth inheritance. Whether they are going to inherit family businesses or not, 2nd-gen successors all expect private banks to provide long-term investment and wealth management services for inherited assets.

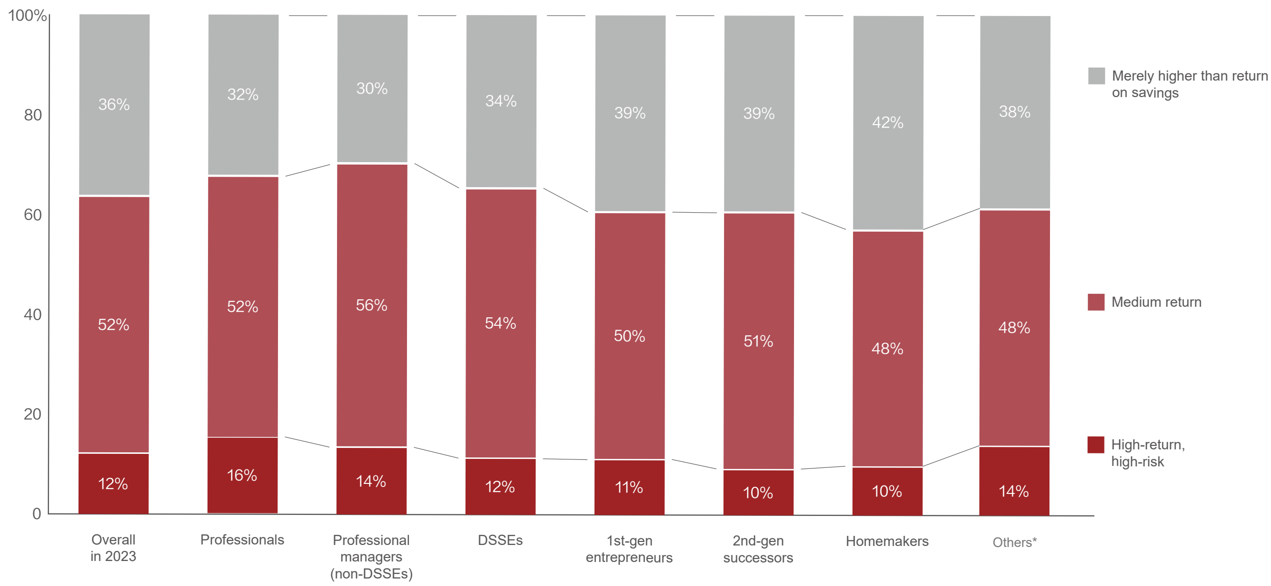
Customer segmentation: accurate identification for better insights

In the 2021 China Private Wealth Report, we first pointed out that wealth management institutions should also consider the age, profession, industry, life and family stage of HNWIs besides investable assets when defining customer segments and providing multi-tiered services. In addition, they need to understand the differentiated needs of each segment in products and services to provide comprehensive solutions tailored to key segments. Using the same method as our 2021 study, this survey looks at how the needs of each segment have evolved over the past two years and notices that the differences in risk appetite and comprehensive needs are becoming increasingly visible.

Specifically, Chinese HNWIs in general prefer safe and prudent investments, but this survey unveils that risk appetite varies greatly across different segments:professionals and non-DSSE managers have a higher risk appetite, with 16% of professionals saying they prefer high-return, high-risk investments; 70% of professional managers favor high-return, high-risk investments, or seek a medium return profile under controlled risk. Meanwhile, over 40% of homemakers are happy with any rates of return higher than savings and wish to stay with a minimal risk level. (Figure 22)

Figure 22: Risk-return preferences of different HNWI segments in China in 2023

What is your risk and return preference for your investments?



Source: CMB-Bain HNWI survey & analysis

Chapter 3

Precise segmentation and customer insights based on diverging needs of segments

HNWIs from different segments and age groups have shown significant differences in comprehensive needs based on the life stage, source of wealth, expertise and experience requirements. The findings from this HNWI survey are summarized as follows:

1st-Gen entrepreneurs: Over 70% of HNWIs in this segment are aged above 40. Their main source of wealth is mostly business income, and more than 60% set up businesses in the realm of traditional industries. They are conservative with their investments and place the greatest importance on wealth preservation among all segments (mentioned by 77% of respondents). More and more 1st-gen entrepreneurs start to seriously plan for succession and retirement compared with two years ago due to ageing, COVID and industry turmoil. Nearly half of them have started to work on intergenerational businesses and wealth succession, resulting in the highest demand for personal and family tax and legal advisory services. In terms of business needs, since business operations are still under huge external pressure, they focus more on financial needs such as corporate loans. As more entrepreneurs expect the economy to get restructured compared with 2021, they are more interested in investment opportunities in the new economy. When it comes to social needs, responding to COVID impact and the call of "common prosperity", they have shown great enthusiasm for social and charity work. They take social responsibility most seriously among all segments and are more willing to contribute to social and public welfare by creating charitable funds or seeking charity platform and program recommendations.

2nd-gen successors: 92% of HNWIs in this segment have a Bachelor's degree and above, better educated than 1st-gen entrepreneurs (75%). They are more financially literate and value customized products and asset allocation strategies the most, which is in line with our 2021 study. In terms of family needs, they pay close attention to their children's education and are willing to try different ways of family asset allocation. With family succession on their agenda, 2nd-gen successors are much keener on sharpening industry insights and building business operations and management capabilities than 1st-gen entrepreneurs, resulting in tremendous demand for value-added services like business operations support and tax advisory. Meanwhile, as 2nd-gen successors take up bigger roles in respective industries and businesses, they would like to build their own community and platform for networking and information exchange.

DSSEs: Over 60% of HNWIs in this segment are aged above 40, and nearly 90% have a Bachelor's degree and above. They can accept medium level of investment risk and place the greatest importance on product diversification among all segments. After COVID and valuation corrections on the new economy, DSSEs value comprehensive allocation of family assets more than two years ago and look for balanced investment and wealth preservation. They are also deeply concerned about intergenerational succession, though not as much as 1st-gen entrepreneurs and 2nd-gen successors. When it comes to social needs, they are most willing to contribute to public welfare through charity platform or program recommendations and try out charitable trusts.

Professional managers (non-DSSE): Nearly 60% of HNWIs in this segment are under 40 years old, and over 90% have a Bachelor's degree and above. They are keen on rapid growth in wealth as well as more diversified and customized product offering, while looking for the latest financial and wealth management news and insights. In terms of family needs, professional managers place the most emphasis on children's education, followed by comprehensive family asset allocation and other family financial needs. Professional managers are more interested in social and public welfare and ESG compared with 2021. They prefer donating to social welfare programs and are deeply concerned about ESG, socially responsible and impact investing.

Professionals: Over 60% of HNWIs in this segment are under 40 years old, and 97% have a Bachelor's degree and above, the highest among all segments. They are more knowledgeable, and have stable income and a higher risk appetite. They value wealth creation the most and are less concerned with wealth preservation compared with other segments. They need both customized and diversified offerings and are more open to alternative investment and retirement planning. Children's education stays at the center of their family needs. In terms of social needs, they are more willing to get involved in charity work than any other segment except 1st-gen entrepreneurs, with various ESG, socially responsible and impact investing requirements.

Homemakers: Homemakers have a low risk appetite and are mostly women (over 80%). Similar to our findings in 2021, homemakers have the highest demand for deposits, fixed income plus and other low-risk products, while their demand for customized and diversified products is relatively limited. Meanwhile, they consistently take into consideration the comprehensive needs of their parents, spouses, children and themselves, and thus pay the closest attention to children's education, retirement, healthcare and health management consulting and services. In terms of social needs,particular emphasis is placed on instilling the concept of social responsibility in children and family.

On top of AUM and identity/role, private wealth management institutions should also consider engagement and experience preferences when defining customer segments, and deliver exceptional customer experience to different segments through diversified engagement models and products based on their investment style, risk appetite and interaction and experience preferences. For example, wealth management institutions can provide professional digital tools for customers who prefer digital engagement and are capable of making investment decisions on their own, and can involve relationship managers and experts in communications when needed.

In summary, we believe that in this new era of wealth management, winners would be those who can precisely identify the differentiated needs and experience requirements of each customer segment and offer targeted solutions.

Take a global leading private bank as an example. The bank identifies and delivers differentiated, comprehensive services to five strategic segments, "Business Owners", "Women", "the Rising Generation", "Athletes & Entertainers"and "Multicultural Investors". For instance, the bank has created customized investment solutions for women investors, adding access to education, clean energy, healthcare and other sectors related to social welfare while including art as an alternative investment asset. It has also facilitated Women Series dialogues and provided communities and programs that are exclusive to professional women to build a value proposition of "women taking control of their finances". In addition, the bank takes into consideration the preferred engagement and service models of its customers, and delivers customized products and services to women investors based on their engagement channel and frequency preferences and advisor dependency to continuously optimize customer experience.

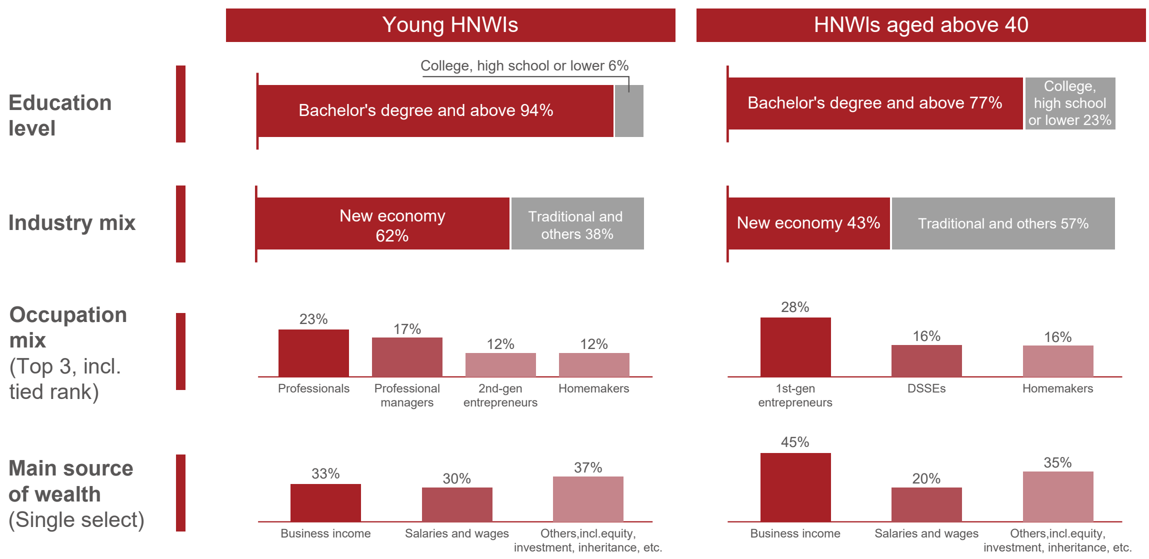
Finally, wealth management institutions should realize that HNWIs are constantly evolving their comprehensive needs, risk appetite, etc., especially given the current market conditions. As a result, wealth management institutions need to capture these changes in real time and offer differentiated financial+non-financial solutions tailored to each HNWI segment.

Young HNWIs: Preference for emerging assets and digital channels in pursuit of wealth growth

Young HNWIs aged under 40 are a fast-growing customer group that makes up an integral part of the HNWI population and potential engine for future wealth management growth. This survey investigates the needs of young HNWIs, including the differentiated needs of each segment.

Young HNWIs are significantly different from HNWIs aged above 40. For example, they are well-educated, mostly work in the new economy industries, have a particular expertise, and are more financially literate. In terms of education, 94% of young HNWIs in this survey have a Bachelor's degree and above, much higher than HNWIs aged above 40 (77%). Regarding the industry mix, 62% of young HNWIs are working in the new economy industries vs. 43% among HNWIs aged above 40. Young HNWIs are mostly professionals, professional managers, 2nd-gen successors and homemakers, whereas HNWIs aged above 40 are mostly 1st-gen entrepreneurs, DSSEs and homemakers. When it comes to source of wealth, 33%/30% of young HNWIs mention their main source of wealth is business income/salaries and wages as professional managers and professionals, while the ratio among HNWIs aged above 40 is 45%/20%. (Figure 23)

Figure 23: Demographics of young HNWIs vs. HNWIs aged above 40



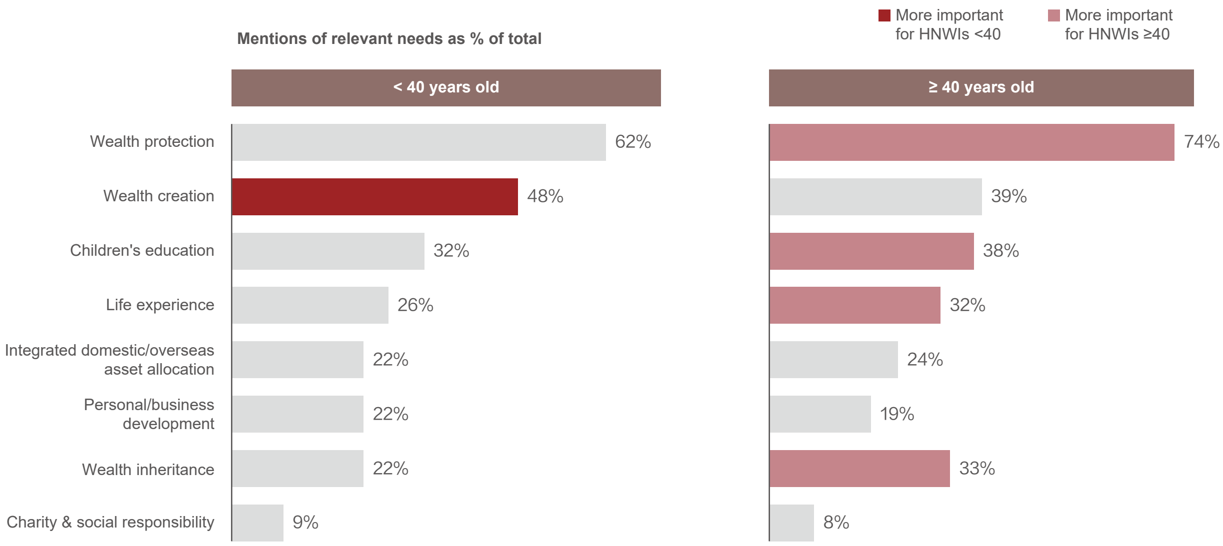
Source: CMB-Bain HNWI survey & analysis

Young HNWIs in general have a higher risk appetite and are deeply concerned with wealth creation. Regarding product selection, they are more willing to invest in high-risk assets such as stocks and alternative investment, and are more open to emerging assets, e.g., derivatives, STAR Market, etc. Over the next two years, they are more likely to invest more in stocks and alternative assets and less in cash and real estate. In terms of engagement preferences, young HNWIs are more comfortable with digital services. As to family inheritance, among the 60% of 2nd-gen successors with wealth inheritance needs, 80% mention they are going to inherit family businesses. Whether they are going to inherit family businesses or not, 2nd-gen successors all expect private banks to provide long-term investment and wealth management services for inherited assets. Meanwhile, young HNWIs also mention the needs for career planning and support in personal/business development, e.g., support for family inheritance, business management, networking, etc.

When it comes to wealth goals, young HNWIs value wealth creation more than HNWIs aged above 40 (48% vs. 39%) and are less concerned with wealth protection (62% vs. 74%), while HNWIs aged above 40 place more emphasis on wealth inheritance and children' s education. (Figure 24)

Figure 24: Wealth goals of young Chinese HNWIs in 2023

What are your major needs?



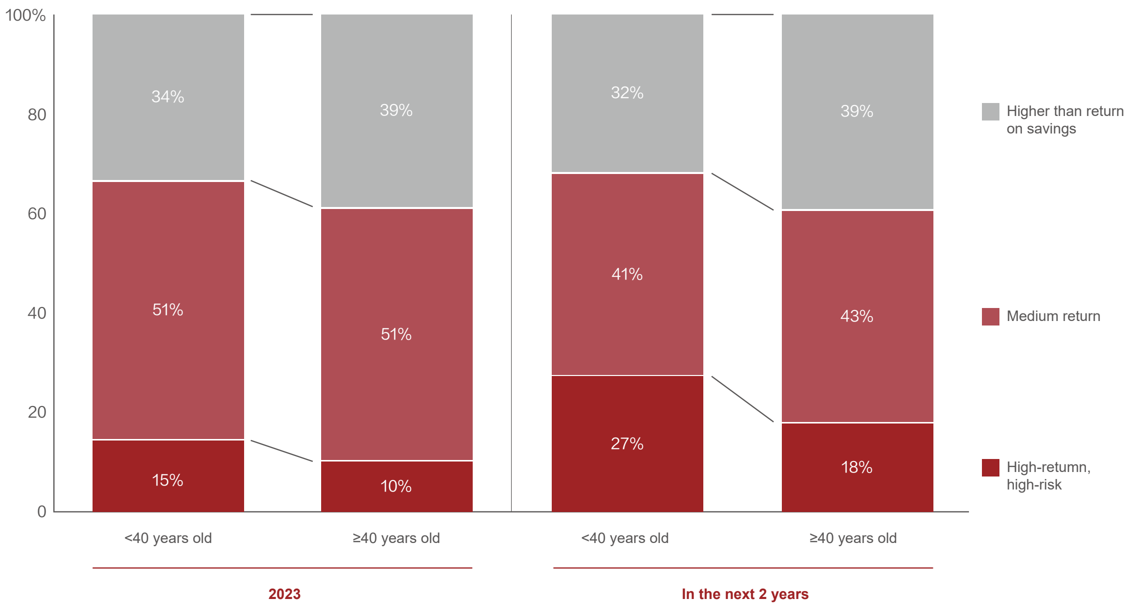
Source: CMB-Bain HNWI survey & analysis

In terms of risk-return preferences, young HNWIs are more likely to consider high-return, high-risk investments than HNWIs aged above 40. In this survey, 15% of young HNWIs prefer high-return, high-risk investments (vs.10%), while 34% are happy with any rates of return higher than savings (vs.39%).

Looking ahead, the risk appetite of young HNWIs is expected to recover faster due to greater confidence in future investment opportunities as well as their own wealth creation capabilities. This survey expects that over the next 2 years, the percentage of young HNWIs who prefer high-return, high-risk investments will increase to 27%, compared with only 18% among HNWIs aged above 40. (Figure 25)

Figure 25: Risk-return preferences of young Chinese HNWIs in 2023

What is your risk and return preference for your investments?



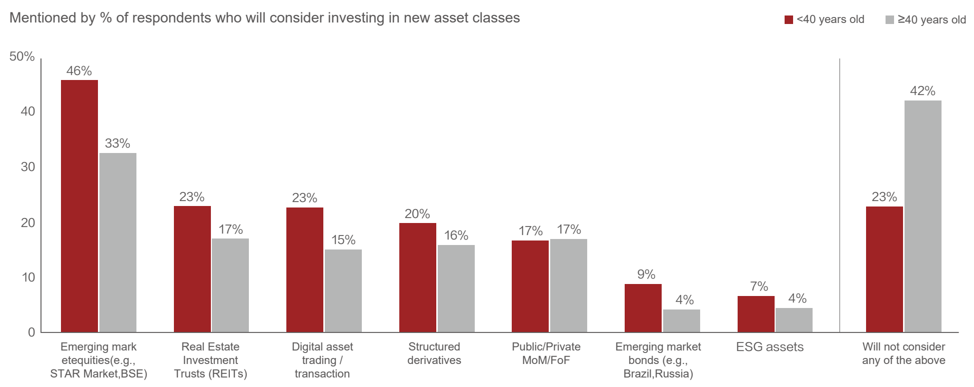
Source: CMB-Bain HNWI survey & analysis

Young HNWIs have a higher risk appetite and a keen pursuit for wealth creation. Specifically, they are more eager to invest in global emerging/trending products (25% vs.18%) and less interested in low-risk products (54% vs.62%)

This survey finds that young HNWIs mainly consider investing in the following emerging asset classes[10]: emerging market equities, e.g., STAR Market, BSE (46%), real estate investment trusts (REITs, 23%), digital asset trading, e.g., NFT art (23%), and structured derivatives (20%). Young HNWIs are much more open to the four emerging asset classes above than HNWIs aged above 40. (Figure 26)

Figure 26: Acceptance of new products among young Chinese HNWIs in 2023

Will you consider investing in the following emerging asset classes in the next 2 years? (Multiple choice)



Source: CMB-Bain HNWI survey & analysis

Young HNWIs are much more open to digital services and interactions, and expect private banks to provide more digital-led or hybrid (digital+human) services and interactions. For early episodes like account opening and PB offering understanding, 40-50% of young HNWIs prefer digital-led interactions, e.g., mobile APP, chatbot, etc. Even for more complicated episodes like needs communication and asset allocation & investment advice, 20-30% of young HNWIs still prefer digital-led interactions, while less than 40% choose human-led interactions.

Among the young HNWI segments, we notice that the size of wealth as well as typical profiles and needs of 2nd-gen successors are different from professionals, professional managers, etc., which is worth further research. Meanwhile, regarding the "inheritance"issue that stands out among 2nd-gen successors, this survey finds that about 45% of respondents mention they are going to inherit family businesses, whereas 13% of respondents say they have needs for family wealth inheritance but will not consider inheriting family businesses.

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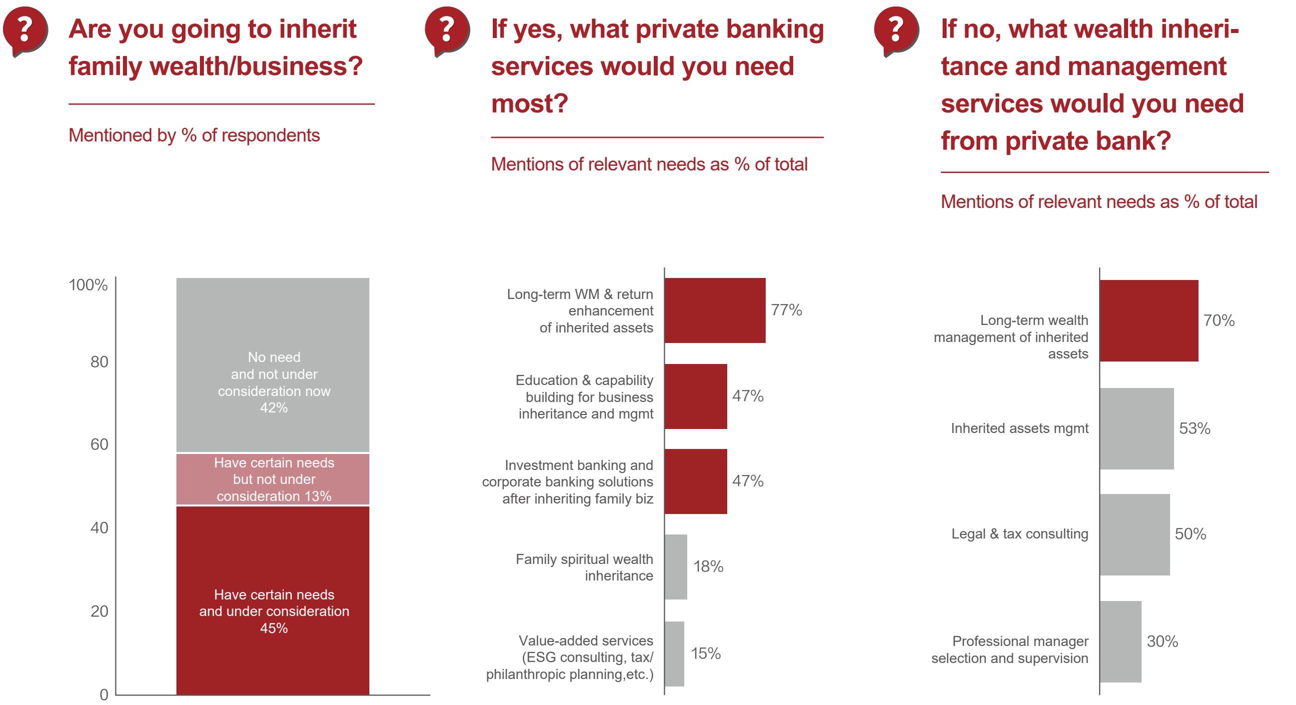
[10]Note: Emerging asset classes include structured derivatives (e.g., snowball structured certificates containing put options), emerging market bonds (bonds issued by companies in emerging markets like Brazil, Russia and Turkey), public/private MoM (Manager of Man-gers, an investment strategy whereby a MOM fund manager chooses managers for an investment program and regularly monitors their performance), public/private FoF (Fund of Funds, portfolio funds that invest in different markets and with different strategies through multiple asset allocation), and ESG assets (asset classes that are aligned with the ESG rating system, which measures sustainable development performance of companies and organizations as well as a company's long-term value, including environment, social, and governance impact)

For young HNWIs who have already inherited or plan to inherit family businesses, they expect private banks to provide more comprehensive and diversified services.Specifically, around 77% of respondents expect private banks to help them with long-term wealth management and return enhancement of inherited assets, which is also their most important ask for wealth inheritance. In addition, around 50% of respondents expect private banks to offer education and capability building programs for business inheritance and management as well as investment banking and corporate banking solutions after they inherit family businesses. Another 15-20% of respondents have needs related to family cultural wealth inheritance and value-added services (corporate ESG consulting and philanthropic planning).

Among young HNWIs who have the needs for family wealth inheritance but will not consider inheriting family businesses, 70% think of long-term wealth management of inherited assets as their most needed wealth inheritance service. Around 50% of respondents mention the need for inherited asset management and legal/tax consulting services. Another 30% of respondents expect private banks to help them with professional manager selection and supervision to ensure the continuity of family business. (Figure 27)

Figure 27: Attitudes and needs of young Chinese HNWIs regarding wealth inheritance/family business succession in 2023



In summary, to better address the needs of young HNWIs, wealth management institutions should identify their unique features vs. the older generation (e.g., greater popularity of emerging products and digital tools) and define customer segments in a more precise way (e.g., 2nd-gen successors, young professionals, etc.) so as to come up with customized solutions tailored to their customer profiles. For example, institutions can provide 2nd-gen successors with stronger wealth management support for family and business operations.

Chapter 4

Full lifecycle support for better customer journey experience

- In this survey, "customer experience"is frequently mentioned by respondents. For wealth management institutions, delivering an excellent customer experience requires optimizing the end-to-end customer journey as well as improving efficiency and service quality through a digitally-enabled approach. The concept of end-to-end refers to key episodes from marketing outreach to opening an account, understanding the offer, communicating needs, designing solutions, providing advice, executing transactions, tracking & adjusting portfolios and resolving problems.

- As competition in the private wealth management market intensifies, institutions need to reach and convert customers more accurately and efficiently. Private wealth management institutions should strengthen cross-BU coordination and cooperation to reach target customers referred by their branches through joint marketing, while giving full play to their own strengths and making good use of word-of-mouth marketing to diversify customer acquisition channels.

- After reaching and converting customers, private wealth management institutions should further improve the key episodes of customer journey. According to the episode classification, institutions should define the "red line"when it comes to detractor creating drivers, identify customers' pain points and ensure flawless services; as for promoter creating drivers, they need to fully understand customer needs and enhance their ability to provide differentiated services in order to engage customers throughout their lifecycle.

- Private wealth management institutions should continue to promote digitalization along the customer journey to optimize customer experience and empower relationship managers. In a "human+digital"era, private wealth management institutions should embrace emerging trends and technologies, integrate cutting-edge technologies, such as large language models, into a digital roadmap to further improve service quality and efficiency.

Chapter 4 Full lifecycle support for better customer journey experience

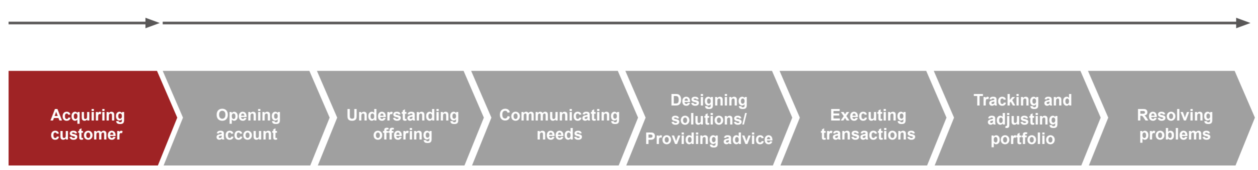
In this survey, "customer experience"was frequently mentioned. In the past, customer experience was confined to service quality. However, with market volatility, increased customer knowledge and fiercer competition, customers have now shown higher expectations for experience, including more professional E2E engagement, targeted and timely communication, etc. For example, in a time of market fluctuations, timely and efficient communication with their customers can greatly influence customer experience.

On the topic of customer lifecycle engagement, this survey introduces the concept of "customer journey"for the first time, dividing private banking services into eight episodes, namely acquiring customer, opening account,understanding offer, communicating needs, designing solution (including providing focused asset allocation and investment advice), executing transactions, tracking & adjusting portfolio and resolving problems. (Figure 28)

This research begins with the "customer acquisition"channels, followed by a detailed analysis of seven key customer journey episodes (i.e. grey blocks in the figure)where customers can receive services from private wealth management institutions, from "opening account"to "resolving problems".

For example, a leading international private bank offers customers differentiated solutions based on the deep understanding of its customers. In addition, the bank places a high value on the experience of product and service delivery and introduces the globally recognized Net Promoter Score (NPS) as a quantitative measure of customer experience, with the strategic goal of being No.1 NPS player in the industry. It listens to the voice of customers by monitoring every episode along the customer journey, which is then embedded into business operations to improve business performance. Meanwhile, a formalized NPS monitoring and assessment system enables the bank to continuously identify and solve its problems to deliver extraordinary customer experience.

Figure 28: Episodes along the wealth management customer journey



- 1. Acquiring customer: Customers get to know the brand of a private wealth management institution and become its clients.

- 2. Opening account: This refers to the process by which customers open an account with a private wealth management institution. The key steps include personal information submission, review and approval,completion of account opening and start using banking services, etc.

- 3. Understanding offer: This refers to the process by which customers obtain information and understand private wealth management. The main information dimensions include PB products, services and fee models, as well as track record, brand awareness etc.

- 4. Communicating needs: This refers to the process of communication between customers and private wealth institutions on financial and non-financial needs from personal, family, business and social aspects.

- 5. Designing solutions and providing advice: This refers to the process by which private wealth management institutions provide customized asset allocation and investment advice based on customers' wealth goals, needs, asset status and other factors.

- 6. Executing transactions: This refers to the process of investment transaction for customers online and offline, where private wealth management institutions should strictly ensure product suitability to investors and fully protect customers' rights.

- 7. Tracking & adjusting portfolio: This refers to the process of performance tracking, portfolio assessment, regular reporting, rebalancing suggestions etc. by relationship managers or digital tools.

- 8. Resolving problems: This refers to the process in which relationship managers and customer service representatives respond to customer inquiries and solve their complaints.

Efficient customer acquisition: precise targeting and conversion of potential customers

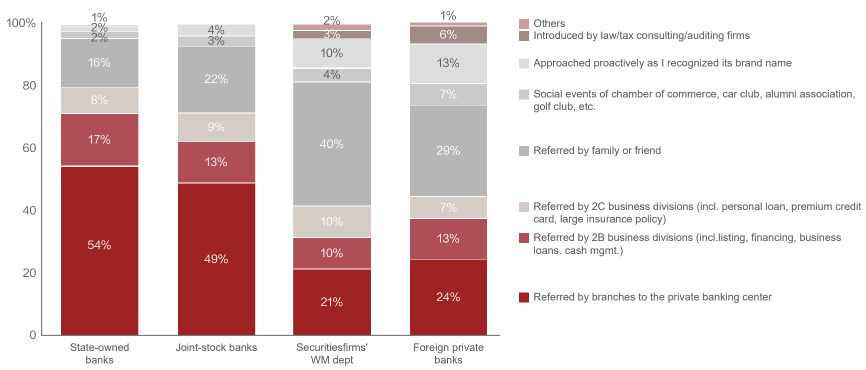
As competition intensifies, customers are faced with the challenge of how to better understand private banking and choose the right wealth management institution. Therefore, how to pinpoint and convert potential customers in an effective manner is a challenge for private wealth management institutions. In this survey, we analyze the channels through which customers choose wealth management institutions. The survey shows that different private wealth management institutions have different spikes in resources, as well as different ways of acquiring customers.

State-owned and joint-stock banks acquire customers mainly through branch referrals, benefiting from their wide coverage and large number of offline branches. According to the survey, about half of the private banking customers are referred by branches, and 20%-30% of private banking customers come from referrals by corporate banking and retail banking (e.g. personal loans, credit cards) divisions. It is worth mentioning that joint-stock banks have an advantage over state-owned banks in terms of referrals; joint-stock banks acquire almost 22% of private banking customers via referrals (including existing customers who increase their asset allocation in the bank and upgrade to become private banking customers), which is 6 percentage points higher than state-owned banks.

Foreign banks rely more on their reputation, with 13% of their customers approaching the bank directly, much higher than that of their peers. Family or friend referrals contribute 30% of private banking customers, while social events of business associations, and third-party institutions such as law firms contribute over 10%. Moreover, referrals from branches account for 24% of customers, and those from corporate and personal banking divisions account for 20%. (Figure 29)

Figure 29: Customer acquisition channels of different types of private wealth managers

Through which of the following channels did you become a private banking client?



Source: CMB-Bain HNWI survey & analysis

In summary, private wealth management institutions need to strengthen cross-BU coordination and collabration to reach target customers through joint marketing, while providing differentiated solutions by understanding customer needs to increase customer's conversion rate. On the other hand, wealth management institutions should give full play to their strengths to diversify customer acquisition channels, for instance, by organizing community events with regional characteristics or targeting specific customer groups, including entrepreneur forums for local industry clusters, young investors/lawyers forums, etc. ; cooperating with third-party institutions such as law firms, tax consulting firms; using targeted brand marketing to reach and convert potential HNWIs of certain groups or with specific needs. At the same time, private wealth management institutions should focus on word-of-mouth marketing, encouraging existing customers to recommend the bank to their family or friends.

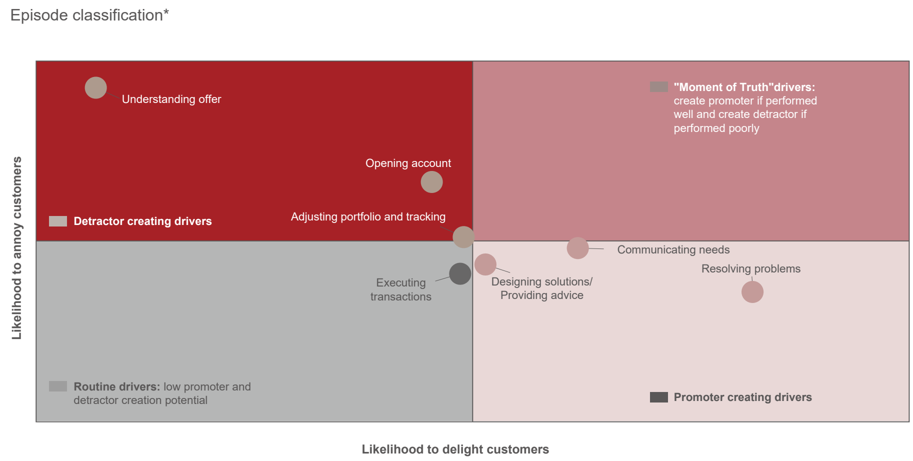
Professional services: sharpening edge in seven key episodes of customer journey

In this survey, we categorized seven key episodes of customer journey along two dimensions: "likelihood to delight customers"and "likelihood to annoy customers"[11]. As Figure 30 shows, the episodes can be divided into four categories:

- **Detractor creating drivers: higher likelihood to annoy but lower likelihood to delight customers;**
- **Promoter creating drivers: the opposite of detractor creating drivers;**
- **"Moment of Truth"drivers: they create promoters if done well and create detractors if not done well;**
- **Routine drivers: low promoter and detractor creating potential.**

Survey results show that episodes of opening account, understanding offer and tracking & adjusting portfolio fall into the category of detractor creating drivers; episodes of communicating needs, designing solutions/providing advice and resolving problems belong to promoter creating drivers; routine drivers include executing transactions. Private wealth management institutions should prioritize "Moment of Truth", detractor creating and promoter creating drivers, with professional services to enhance customer experience.

Figure 30: Importance of customer journey episodes



Source: CMB-Bain HNWI survey & analysis

[11]Note: Episode classification based on the score customers gave to the question for each episode, "To what extend did your experience with the episode increase or decrease your likelihood to recommend the private banking services to a friend or family member?"; Customers rate on a scale of -5 to 5, where 5 indicates significant increase in likelihood and-5 significant decrease. Episodes with higher % of 4-5 points are of higher likelihood to delight, while those with higher % of -5-1 points are of higher likelihood to annoy; Based on likelihood to delight and annoy, episodes are classified into four categories: detractor creating drivers with higher likelihood to annoy but lower likelihood to delight, promoter creating drivers the other way around, "Moment of Truth"that creates promoter experience if done well and detractor if not done well, and routine drivers with low promoter and detractor creating potential

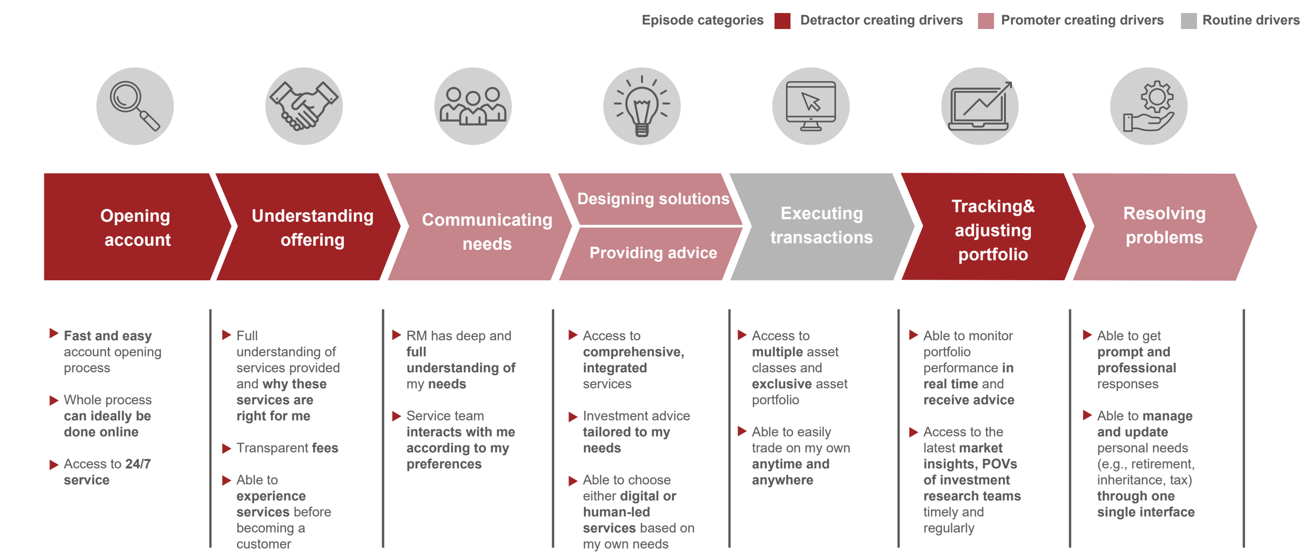
To be more specific, opening account, understanding offer and tracking & adjusting portfolio belong to detractor creating drivers, where customers are more likely to be annoyed but less likely to be delighted. For example, in the current market environment, proactive post-investment services from private banks are taken for granted; if private banks fail to do so, they can easily annoy their customers, leading to customer complaints even customer churn. Accordingly, private wealth management institutions should consider those as "red line", identify customers' pain points and ensure perfect execution of basic services to avoid annoying customers.

Promoter creating drivers include three episodes: communicating needs, designing solutions/providing advice and resolving problems. These three episodes are more likely to create promoters and less likely to annoy customers or trigger customer complaints. They are also key elements in enhancing brand awareness and reputation. For example, the survey shows that most private wealth management institutions are not doing well in the episode of communicating needs. Therefore, customers are motivated to praise and promote institutions that can customize communication plans and content by identifying customers' needs based on their life stage and milestone events. Therefore, private wealth management institutions need to improve their service capability in the above three episodes to create more promoters.

Compared with other drivers, routine drivers have less impact on customer experience. They are less likely to delight or annoy customers, which is the opposite of "Moment of Truth"drivers. According to the survey, executing transactions is a routine driver for most customers who are familiar with digital-led services.

Considering the importance of the aforementioned customer journey episodes, priority should be given to optimizing "Moment of Truth", detractor creating and promoter creating drivers. Let's take a look at the practice of a leading international private bank (Figure 31), which illustrates how customized solutions can be developed by improving the process of communication needs and tracking & adjusting portfolio based on the segment profile.

Figure 31: Customer journey best practice example (customer lens)



Take Mr.Wang, a 1st-generation entrepreneur, as an example. In the episode of **"communicating needs"** (a promoter creating driver), a private wealth management institution will consider two dimensions:

- **Holistic understanding of Mr.Wang's needs:** First, the private wealth management institution develops a comprehensive understanding of Mr.Wang's basic information (social information, life/family stage, wealth status, etc.), investment preference (risk appetite, product preference, wealth goal, etc.), general service needs (business growth stage, social responsibilities, networking, etc.). Building on the understanding of Mr.Wang, the institution identifies and communicates with him about his key life/wealth events from personal (e.g.wealth preservation), family (e.g. wealth inheritance) and business (e.g. equity incentive plan) perspectives. Within Mr.Wang's wealth planning needs, the institution identified key events, and a professional team (e.g. investment advisors, law/investment banking experts) is assigned to design a communication plan.

- **Customized communication based on Mr.Wang's needs:** Based on a holistic understanding of Mr.Wang's diverse needs, the institution then customizes communication themes and messages. For example, considering Mr.Wang's wealth preservation needs, the institution offers a prudent asset allocation strategy, and delivers market insights and portfolio adjustment advice in a digital way. Regular and on-demand in-person visits are planned to interpret market views and an investment advisor is engaged to develop a rebalancing plan. To meet Mr.Wang's demand for wealth inheritance, the institution also introduces a family trust structure, provides access to resources for family business succession after college graduation and engagement with legal experts on family trusts.

In the episode of **"tracking & adjusting portfolio"**(a detractor creating driver), the private wealth manager should provide timely suggestions on portfolio rebalancing and communicate with the customer as the market changes. Digital tools can provide timely and convenient portfolio performance tracking. In the case of market changes or wealth events(e.g. significant fluctuations in the bond market,end of stock lock-up period), the relationship manager should immediately contact Mr.Wang with advice on portfolio adjustments (e.g. reducing debt-based assets, providing asset allocation plan for funds from stock sales) to create a closed-loop customer journey.

Digital enablement: Digital support throughout customer lifecycle

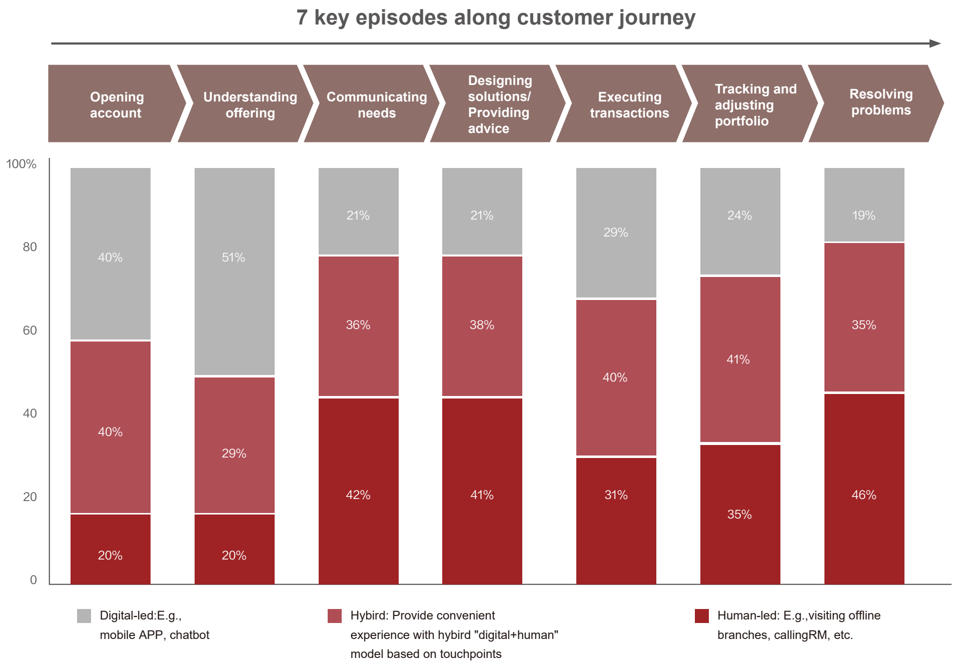
According to the 2021 China Private Wealth Report, "customer-centric and digitally-enabled"model is an important service model for HNWIs. In the past two years, the Covid-19 pandemic and the rising young generation has made digitalization an increasingly important topic. Digitalization can not only help private wealth managers reshape the customer journey with more efficient customer interactions, but also enable relationship managers to be more efficient and professional when it comes to customer analysis, insight generation, communication,advisory services, and problem resolution.

This survey analyzes HNWIs' preferences on services and interactions in seven key episodes along the customer journey. The survey shows that HNWIs have a relatively high level of acceptance of digitalization. They prefer a digital-led or a "digital+human"service and engagement model throughout the customer journey. However, many respondents still expect a human-led service model for complex and critical episodes.

Specifically, 40%-50% of HNWIs prefer digital-led interactions (eg., mobile apps and chatbots) for episodes like opening account and understanding offer. 40%-50% of HNWIs expect human-led services for complex or critical episodes, such as communicating needs, designing solutions/providing advice, and resolving problems, etc. (Figure 32)

Figure 32: Ways of interaction along customer journey

What is your most preferred way of human/digital interactions for the key episodes along customer journey?



Source: CMB-Bain HNWI survey & analysis

Chapter 4

Full lifecycle support for better customer journey experience

Winning at digital capabilities means that private wealth managers should optimize the customer experience along the customer journey, while empowering relationship managers.

For customers: During "opening account"and "understanding offering"episodes, private wealth managers should input KYC (Know Your Customer) information, research and market insights into the system, allowing it to deliver customized product and service solutions based on segment needs. When it comes to designing solutions/providing advice, the system can automatically generate suggestions on investment strategy according to customers' investment preferences, and push portfolio rebalancing plans and advice to customers based on market dynamics and the latest views of investment research team.

For relationship managers: The digital system can automatically create customer profiles and identify potential customers. Additionally, it can generate customized communication plans for relationship managers before they engage with customers, encompassing asset allocation advice, personalized products and services, rights and benefits, communication topics and relevant market insights. In the follow-up process, the system can automatically analyze portfolio returns and risks, and generate adjustment plans and communication advice for relationship managers based on the specific needs of customers.

Private wealth managers should embrace emerging trends and technologies and integrating cutting-edge technologies, such as large language models (LLM,e.g. ChatGPT developed by OpenAI), into the digitalization roadmap. LLMs can provide private wealth management with core capabilities including chatbots, copywriting and knowledge management. These capabilities can assist relationship managers in business development at key episodes along the customer journey, streamline paperwork and enhance their work efficiency while optimizing the customer experience.

For instance, in the episode of designing solutions/providing advice, LLMs can combine internal asset allocation models with extensive internal and external information based on customer needs and preferences. This enables LLMs to offer customized investment recommendations and investment proposals incorporating the latest research reports and market news, to facilitate communication between relationship managers and customers. In the episodes of tracking and updating investments and resolving problems, LLMs not only summarize and analyze customer inquiries and draft communication points, but also suggest the right way of communication for relationship managers through semantic analysis to discern customers' emotions, thus optimizing customer experience.

In conclusion, as HNWIs place higher value on customer experience, this survey introduces the concept of "customer journey"for the first time to assess the influence of key episodes, such as asset allocation, post-investment tracking, on customer experience. Private wealth managers should prioritize detractor creating drivers (i. e.opening account, understanding offer and tracking&adjusting portfolio) and promoter creating drivers (i.e.communicating needs, designing solutions/providing advice and resolving problems) to improve customer experience through professional services along the E2E journey. Additionally, private wealth managers should leverage emerging technologies to empower customers and relationship managers to increase customer interaction efficiency, help relationship managers deepen customer insights, and improve work efficiency and professionalism.

Chapter 5

Differentiation to echo the need for professionalism and products

When choosing or adding private wealth managers, HNWIs put professionalism and products as the top factors. Professionalism refers to the expertise of investment advisors and the responsiveness of relationship managers to market changes, while products include the stability of returns, variety/range of offerings, and uniqueness/innovation. This indicates HNWIs get more sophisticated when selecting private wealth managers, paying equal attention to comprehensive professional services and differentiated products.

With the formal implementation of new asset management regulations, China's wealth management market has become more mature. Meanwhile, market competition has been intensifying as client needs diversify. Private wealth managers in China are embracing these changes to further sharpen their differentiated positioning.

Private wealth managers have developed differentiated value propositions based on their own expertise. Domestic banks, under well controlled operations, have positive customer relationships, strong brands and excellent reputation. Securities brokers have strong investment research capabilities that enable them to build differentiated advantages in securities, funds and other equity investments and meet the demand for capital market investments. Insurance companies focus on a long-term value proposition, which aims to address the retirement and inheritance needs of HNWIs.

Dual criteria: equal attention to professionalism and product capabilities

As various participants enter the Chinese private wealth management market, this survey delves into HNWIs' criteria for selecting or adding private wealth managers. The result shows professionalism and product capabilities are the two top mentions.

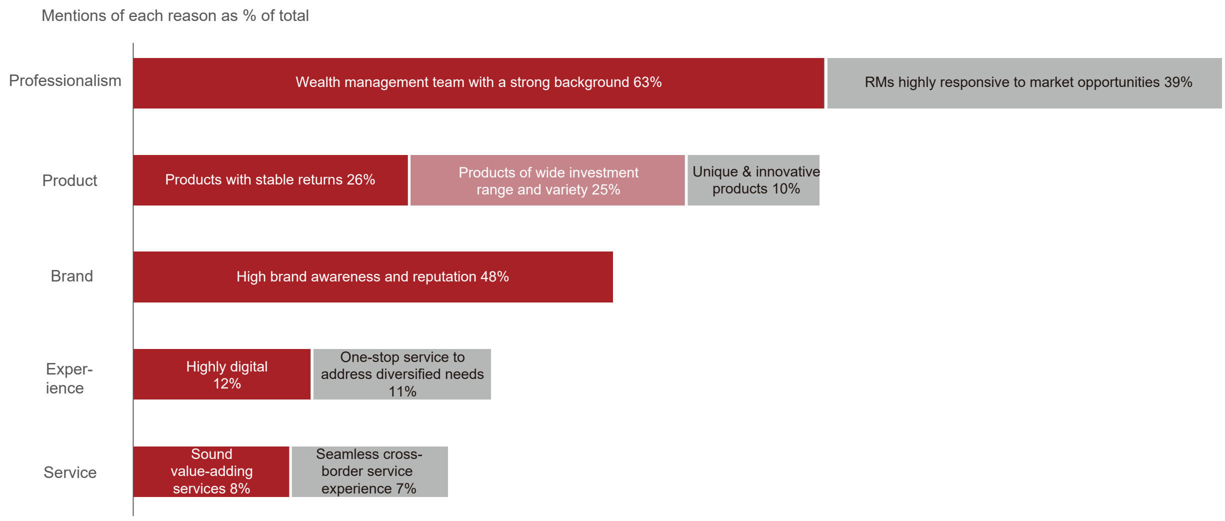
Specifically, over 60% of respondents believe that the expertise of the investment research team will play a crucial role in their decision-making; nearly 40% of respondents consider RM responsiveness to market opportunities a key factor.

HNWIs will assess product capabilities of private wealth managers in terms of product returns, variety and innovation. About 20% to 30%of respondents cite stable returns of products, a wide range and variety of products as their key considerations, while 10%of respondents place greater emphasis on the uniqueness and innovation of products.

Meanwhile, almost half of the respondents believe that high brand awareness and reputation are the key differentiating factors. In addition, high level of digitalization, one-stop services to address diverse needs, sound value-add services and seamless cross-border service experience are mentioned by about 10%of respondents respectively. (Figure 33)

Figure 33: Key criteria of Chinese HNWIs in choosing private wealth managers

What are the top and most important reasons for you to select or add a private wealth management service provider? (Select up to 3 options)



Source: CMB-Bain HNWI survey & analysis

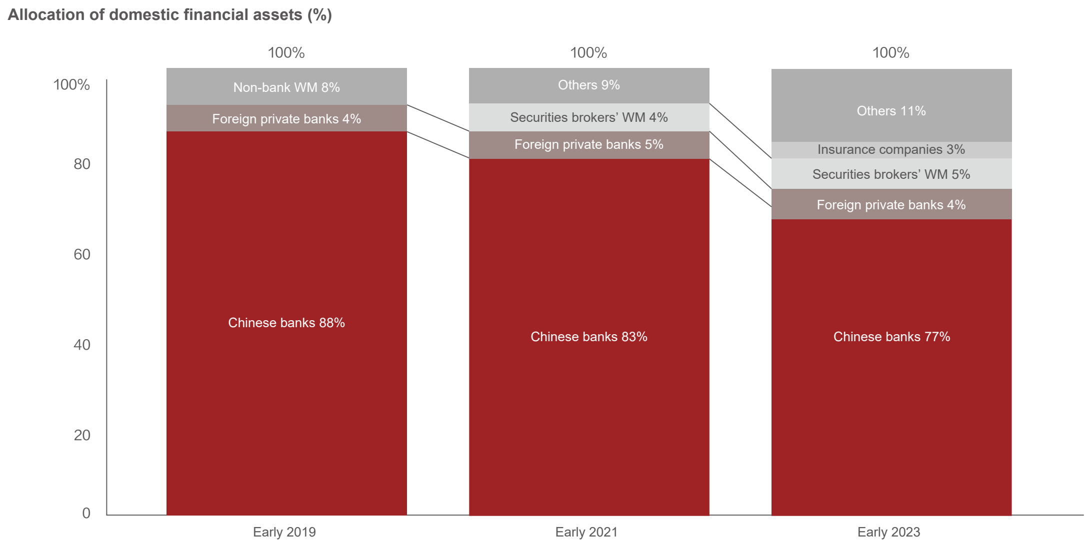
Distinct plays: banks remain top choice among differentiated players

In 2022, the new asset management regulations came into force, disavowing guaranteed principal & return of wealth management products and catalyzing the maturation of the Chinese wealth management market. Concurrently, market competition has intensified with diverging customer needs. Private wealth managers have embraced these changes, leveraging their own resources and professional strength to deepen their unique positioning.

According to the survey, domestic banks have maintained their leadership in market share thanks to their stability, strong customer relationships, reputable brands, and positive word-of-mouth. Securities brokers have capitalized on their robust capital market research capabilities to develop differentiated advantages in securities,funds,and other equity investments. They have also expanded into capital market businesses for HNWIs, such as lift of stock lock-up, while addressing integrated equity/bond investment and financing needs. This has led to an increase in market share to 5% of HNWI financial asset allocation. Insurance companies, driven by their long-standing value proposition and protection nature, aim to address HNWIs' retirement and inheritance needs by offering products like incremental whole life insurance and annuities. HNWIs have allocated 3% of their financial assets to insurance companies. (Figure 34)

Figure 34: Asset allocation of Chinese HNWIs among wealth managers in 2023

Which private wealth managers are you using and how do you allocate your assets? Please select the wealth managers and % of assets they handle.



Source: CMB-Bain HNWI survey & analysis

In summary, as HNWIs become increasingly sophisticated in choosing private wealth managers,focusing on both professionalism and product capabilities, wealth managers are propelled to further adapt their positioning and value propositions, strengthen relevant expertise,and develop differentiated strengths on top of the license requirements.

Appendix: Research Methodology

The 2023 China Private Wealth Report looks into the characteristics of the private wealth market of China and its key regions, including the number of HNWIs, the size of their private wealth, wealth goals and comprehensive needs. It also covers the customer journey and the competitive landscape of the private wealth management industry, as well as implications for China's private banking industry.

When estimating the wealth of high net worth individuals (HNWIs) and their demographics in China as a whole and in its provinces and cities, we continue to utilize the "HNWI income-wealth distribution model"of Bain & Company from the previous reports. On top of a refined methodology of the 2009-2021 wealth distribution model, we have adhered to the highest standard possible and conducted thorough and in-depth research on the major market issues in the last few years. We have managed to provide a high-level calculation of the number of the above-mentioned HNWIs and the market value of their investable assets, and further enriched our 14-year-strong proprietary database. Considering the problem of under-sampling in the bottom-up method, we believe that the number of HNWIs measured through the top-down approach is more accurate, and the results are more reliable, comprehensive and a better reference going forward. The 2023 China Private Wealth Report uses rigorous statistical methods to derive the mathematical relationship between the Lorenz Curve of wealth and income distribution of the HNWIs. In order to derive the Lorenz Curve of the wealth of the HNWIs in China as a whole and its individual provinces, we have applied this mathematical relationship to the income distribution data from the same areas, with reference to the latest data of the Lorenz Curve of HNWIs wealth distribution from the UK, US, Japan and Korea, and the client asset distribution data by region from China Merchants Bank.

Since the first issue of this report in 2009, we have been conducting thorough and in-depth analysis of the investment mentality and behaviors of the HNWIs by collecting a large amount of first-hand information from high-end clients. In 2009, we conducted our first research and completed nearly 700 questionnaires and more than 100 face-to-face interviews. In 2011, we completed about 2,600 questionnaires and more than 100 in-depth interviews. In 2013, we further expanded our sample size, completed about 3,300 questionnaires and more than 100 in-depth interviews. In 2015, we completed about 2,800 questionnaires and more than 100 in-depth interviews; In 2017, we completed about 3,300 questionnaires and more than 100 in-depth interviews. In 2019, the number of in-depth interviews reached 200. In 2021, we received 4,000 valid questionnaires. The accumulation over the years has laid a solid foundation for the research and analysis of high net worth clients in China. This year, during the data collection process of the 2023 China Private Wealth Report, we once again conducted a series of large-scale in-depth researches. The HNWIs surveyed for this report are from 92 major cities across China, covering all important economic regions including the Yangtze River Delta, the Pearl River Delta, North China, Northeast China, and Central-Western China, to ensure the adequacy and representativeness of the data sample. We visited nearly 20 cities to have deep face-to-face conversations with HNWIs and private banking relationship managers. All clients interviewed were HNWIs with investable assets of RMB 10 million or more, including first and second-generation entrepreneurs from both new economy and traditional sectors, directors, supervisors & senior executives (DSSEs), professional managers (excluding DSSE), professionals, and homemakers.

When analyzing the customer survey data, we focused on comparing the data from 2009 to 2021. This year's report places special emphasis on the changes in the risk appetite of HNWIs in recent years and their expectations for the next two years to form its core insights.