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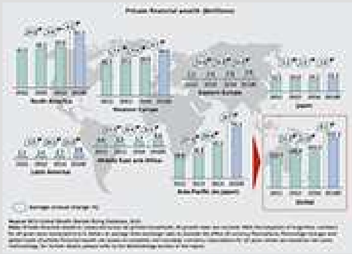
Global Wealth 2015: Winning the Growth Game

EXHIBITS

- 1

Global Wealth Continued to Grow Strongly in 2014



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Existing Assets Drove Nearly Three-Quarters of Wealth Growth in 2014

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Asia-Pacific to Hold One-Third of Global Wealth in 2019

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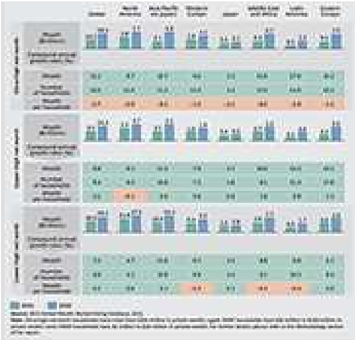
The UHNW Segment Will Be the Fastest-Growing Through 2019



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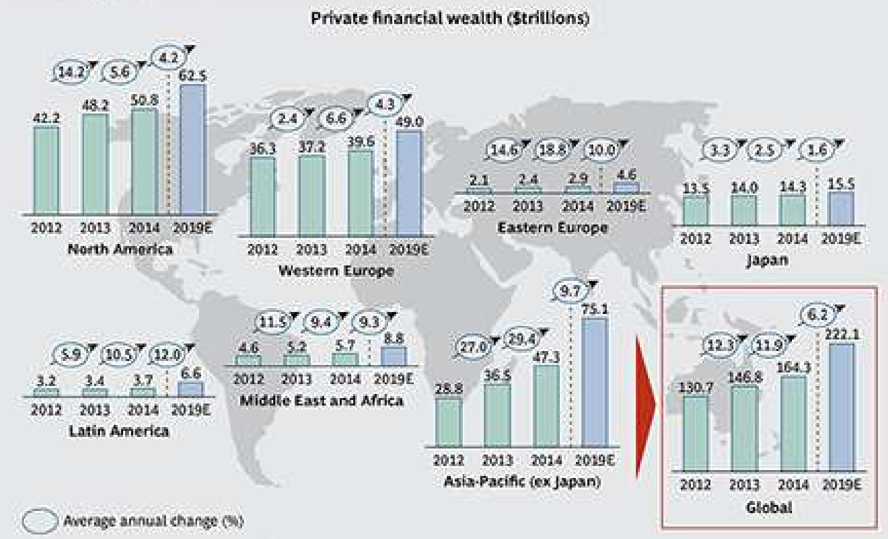
Switzerland Remained the Largest Offshore Center

Global Wealth Markets: The Growth Continues

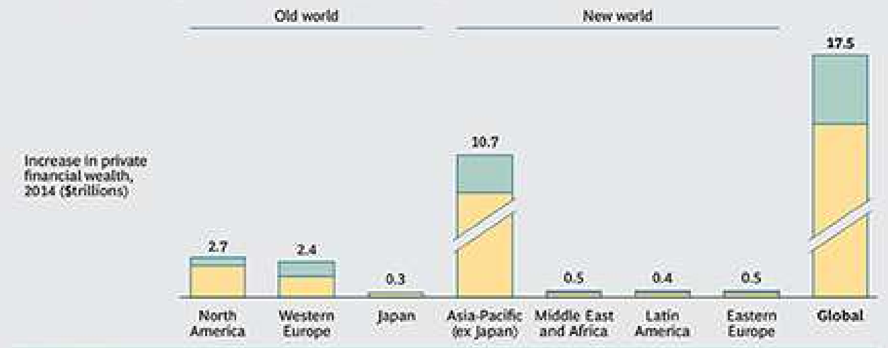
Global private financial wealth grew by nearly 12 percent in 2014 to reach a total of $164 trillion. (See Exhibit 1.) The rise was in line with 2013, when global wealth also grew by just over 12 percent. Market expansion was driven heavily by the performance of existing assets but also by the creation of new wealth. (See Exhibit 2.) Overall, the ongoing economic recovery and accommodating monetary policies resulted in strong stock and bond performance, while rising income and consumption led to strong GDP growth, particularly in RDEs.

EXHIBIT 1 | Global Wealth Continued to Grow Strongly in 2014



Source: BCG Global Wealth Market-Sizing Database, 2015.
Note: Private financial wealth is measured across all private households. All growth rates are nominal. With the exception of Argentina, numbers for all years were converted to U.S. dollars at average 2014 exchange rates to exclude the effect of currency fluctuations. Percentage changes and global totals of private financial wealth are based on complete (not rounded) numbers. Calculations for all years shown are based on the same methodology. For further details, please refer to the Methodology section of the report.

EXHIBIT 2 | Existing Assets Drove Nearly Three-Quarters of Wealth Growth in 2014



	North America	Western Europe	Japan	Asia-Pacific (ex Japan)	Middle East and Africa	Latin America	Eastern Europe	Global
Proportion from new wealth (%)	22	40	4	24	44	54	34	27
GDP growth (%)	4	2	2	8	11	9	7	5
Savings rate (%)	3	5	0	13	5	4	5	6
Proportion from existing assets (%)	78	60	96	76	56	46	66	73
Equity returns (%)	11	4	9	16	16	12	7	11
Bond returns (%)	4	4	6	4	11	13	16	6
Cash and deposit returns (%)	1	1	2	3	10	14	15	3

Source: BCG Global Wealth Market-Sizing Database, 2015.
Note: All growth rates are nominal. Regional averages for GDP growth and savings rates are weighted by GDP. Regional averages for performance include existing onshore and offshore assets and are weighted across countries by GDP. For further details, please refer to the Methodology section of the report.

Global and Regional Overview

North America, with $51 trillion in private wealth, remained the world’s wealthiest region in 2014. Asia-Pacific (excluding Japan) overtook Europe (Eastern and Western Europe combined) to become the world’s second-wealthiest region with $47 trillion. With a projected $57 trillion in 2016, Asia-Pacific (excluding Japan) is expected to surpass North America (a projected $56 trillion) as the wealthiest region in the world, and will thus be the largest pool for client acquisition. The region is also projected to hold 34 percent of global wealth in 2019. (See Exhibit 3.)

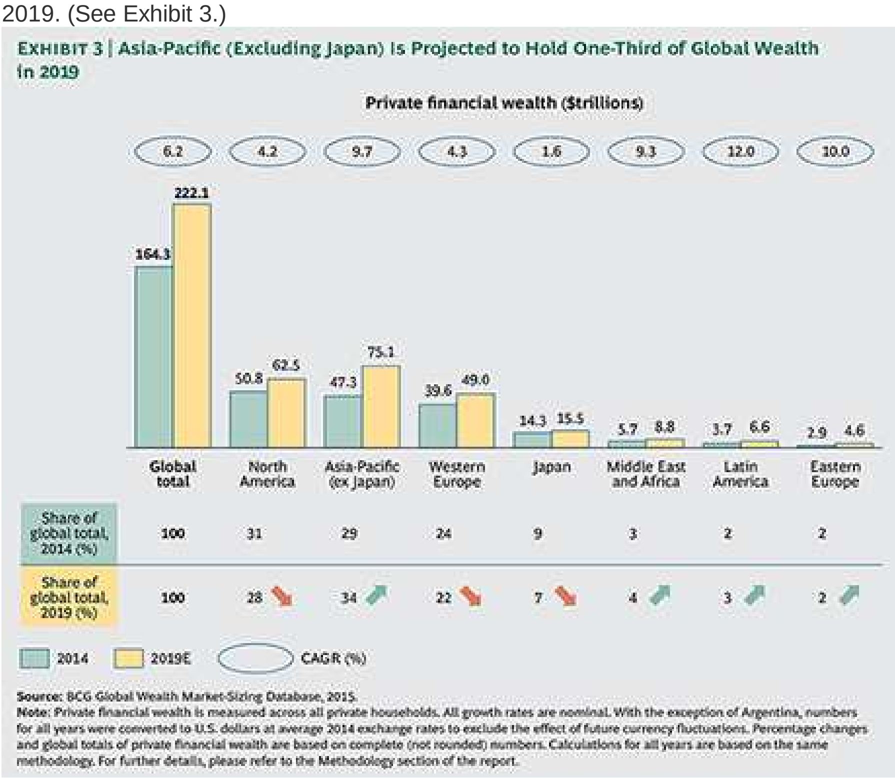


EXHIBIT 3 | Asia-Pacific (Excluding Japan) Is Projected to Hold One-Third of Global Wealth in 2019

Source: BCG Global Wealth Market-Sizing Database, 2015.
Note: Private financial wealth is measured across all private households. All growth rates are nominal. With the exception of Argentina, numbers for all years were converted to U.S. dollars at average 2014 exchange rates to exclude the effect of future currency fluctuations. Percentage changes and global totals of private financial wealth are based on complete (not rounded) numbers. Calculations for all years are based on the same methodology. For further details, please refer to the Methodology section of the report.

Over the next five years, total private wealth globally is projected to post a compound annual growth rate (CAGR) of 6 percent to reach an estimated $222 trillion in 2019.

From a regional perspective, the growth of private wealth continued in most markets in 2014, but at significantly different rates. A strong “old world versus new world” dynamic was observed, with the so-called new world growing at a far faster pace. As in both 2012 and 2013, Asia-Pacific (excluding Japan) remained the fastest-growing region in 2014, with private wealth expanding by 29 percent. Other regions of the new world, such as Eastern Europe and Latin America, also grew by double digits, while the Middle East and Africa (MEA) region grew in the high single digits. By contrast, growth rates in all “old world” regions remained in the single digits, led by Western Europe and North America, and with Japan lagging somewhat behind.

North America. Private wealth in North America grew by roughly 6 percent to $51 trillion in 2014, with the U.S. ($46 trillion) accounting for the bulk and representing 28 percent of the global total. The U.S. remained the wealthiest individual country, ahead of both China and Japan. Canada ($5 trillion) was also in the top ten countries (ranked eighth). With a projected CAGR of 4 percent, private wealth in North America will expand to an estimated $63 trillion in 2019.

Western Europe. Western Europe’s 7 percent growth rate brought private wealth to nearly $40 trillion in 2014. Many countries posted double-digit growth, among them Sweden (13 percent), the U.K. (11 percent), the

Netherlands (11 percent), and Denmark (10 percent). With a projected CAGR of 4 percent, Western European private wealth will reach an estimated $49 trillion in 2019.

Eastern Europe. Private wealth in Eastern Europe grew by 19 percent to $3 trillion in 2014, driven mainly by Russia's 25 percent growth to $2 trillion (representing 71 percent of the region's private wealth). Increases in other countries, such as the Czech Republic (8 percent), Hungary (8 percent), Slovakia (6 percent), and Poland (5 percent), remained in the single digits. With a projected CAGR of 10 percent, private wealth in Eastern Europe will be close to $5 trillion in 2019.

Asia-Pacific (excluding Japan). Private wealth in Asia-Pacific (excluding Japan) expanded by a steep 29 percent in 2014 (compared with 27 percent the previous year) to reach $47 trillion. This powerful performance enabled the region to surpass Eastern and Western Europe combined as the second-largest regional pool for private wealth. With a projected CAGR of almost 10 percent, private wealth in Asia-Pacific (excluding Japan) will rise to an estimated $75 trillion in 2019. At such a pace, the region is expected to overtake North America as the world's richest region in 2016, with $57 trillion in private wealth.

Japan. Japan's private wealth achieved comparatively low growth of about 2 percent in 2014 to reach $14 trillion. With a projected CAGR of under 2 percent, the lowest of all regions, private wealth in Japan will reach only an estimated $16 trillion in 2019.

Latin America. Private wealth in Latin America achieved double-digit growth in 2014, rising by more than 10 percent to nearly $4 trillion. Strong growth was observed in Mexico (15 percent) and Colombia (10 percent). Brazil, the region's largest market for private wealth, also grew by 10 percent, to $1 trillion. With a projected CAGR of 12 percent (the highest of any region), Latin America's private wealth will reach an estimated $7 trillion in 2019, bringing the region closer to the Middle East and Africa. While Latin America represents only about 2 percent of global private wealth, its share of total offshore wealth is more significant—11 percent in 2014, expected to grow to 14 percent in 2019.

Middle East and Africa (MEA). Private wealth in the MEA region increased by more than 9 percent to reach nearly $6 trillion in 2014. With a projected CAGR of 9 percent, the region's private wealth will rise to an estimated $9 trillion in 2019, with Saudi Arabia ($2 trillion), Israel ($1 trillion), Iran ($1 trillion), and the United Arab Emirates ($1 trillion) as the largest markets.

Principal Drivers of Wealth Growth

Globally, some three-quarters ($13 trillion, or 73 percent) of private wealth growth in 2014 was generated by the market performance of existing assets, with the balance ($5 trillion, or 27 percent) generated by newly created wealth.

While 2014 continued to see strong double-digit equity performance in some regions, such as MEA, Latin America, Asia-Pacific (excluding Japan), and North America, the year was also positive for onshore bonds, with double-digit performance in Eastern Europe, Latin America, and MEA. Private wealth in China and India also showed solid market gains, driven mainly by investments in local equities. China's equity market rose by 38 percent and India's by 23 percent.

As has generally been the case in recent years, Western Europe lagged significantly behind the new world in terms of macroeconomic performance. GDP growth in Western European countries was low—with Ireland's growth rate the highest at 6 percent—as questions surrounding the future of Greece lingered and signs of economic recovery in countries such as Italy and Spain remained rather weak. By contrast, Eastern European countries and other new world nations posted strong upper-single-digit or double-digit GDP growth. China (8 percent GDP growth and a savings rate of 17 percent of GDP) and India (15 percent GDP growth and a savings rate of 18 percent) stood out.

In the years ahead, solid market performance across all regions—combined with robust GDP growth and high savings rates in the new world, especially in Asia-Pacific (excluding Japan)—will continue to drive the expansion of global wealth. A more detailed regional review follows.

North America. Driven by solid equity-market performance, the growth of existing North American private wealth was substantial, accounting for 78 percent of the region's overall growth in 2014. The remaining 22 percent can be attributed to the region's moderate GDP growth (4 percent), which helped to create new wealth. In the U.S., growth came more from equities (which rose by 9 percent) than from bonds (3 percent). By comparison, the increase in Canadian private wealth was driven by strong gains in both equities (12 percent) and bonds (11 percent).

Western Europe. The expansion in Western European private wealth was supported mainly by modest gains in bonds, driven in part by the European Central Bank's revised monetary policy. Macroeconomic performance was generally low, although countries outside the euro zone showed moderate rises in GDP, including the U.K. (5 percent), Norway (3 percent), and Switzerland (2 percent). Within the euro zone, GDP growth was slower. Most countries in Western Europe saw appreciable equity-market performance, such as Italy (15 percent). Countries that had been in substantial difficulties in 2013, such as Spain and Portugal, saw private wealth rebound with growth of 4 percent, driven largely by a rising bond market (up 12 percent in Spain and 9 percent in Portugal). Growth in private wealth was highest in countries with a relatively high share of bonds, such as Denmark (wealth growth of 10 percent, bond share of 45 percent) and Italy (wealth growth of 6 percent, bond share of 48 percent).

Eastern Europe. Growth in Eastern Europe was driven mainly by Russia, which holds more than two-thirds of the region's private wealth. Institutional and business reforms, GDP growth of 8 percent, equity returns of 8 percent, and bond returns of 31 percent all contributed to Russia's 25 percent increase in private wealth. Across all Eastern European countries, as in Western Europe, wealth held in bonds grew more robustly (25 percent) than that held in equities (13 percent) or in cash and deposits (20 percent).

Asia-Pacific (excluding Japan). Growth in wealth in this region was driven heavily by the continued economic expansion of its two largest economies, China and India. Overall, strong market performance across the entire region—thanks to solid domestic demand—significantly increased the value of existing assets, which accounted for 76 percent of the region's growth in private wealth, compared with the increase stemming from newly created wealth. Private wealth held in equities rose the most (48 percent) followed by wealth held in bonds (39 percent) and in cash and deposits (16 percent).

Japan. Given the weakening yen (down 8 percent in 2014 against the U.S. dollar, following a decline of 18 percent in 2013), growth in private wealth in dollar terms was lower than in previous years. That said, the weaker yen continued to support the Japanese export sector, leading to an increase in GDP growth to 2 percent in 2014 (up from 1 percent in both 2012 and 2013). Japanese stock markets were in positive territory (up 9 percent in 2014), while the bond market grew by 6 percent. With only 4 percent of wealth growth originating from newly created wealth, Japan is relying far more on the market performance of existing assets than are most other countries.

Latin America. Growth dynamics in Latin America’s economies were divergent, with varying impacts from lower oil and commodity prices depending on importing versus exporting behavior. Private wealth in Mexico and Brazil, the region’s largest economies, showed strong growth in 2014, while wealth developed more moderately in smaller markets. Mexico’s double-digit growth was driven especially by the growth in wealth held in bonds (17 percent) and in equities (14 percent), as well as in part by higher GDP growth (6 percent). Brazil’s private-wealth expansion was driven mainly by improved performance in bonds (up 12 percent) in a country in which 46 percent of private wealth was held in bonds. The overall region’s wealth held in bonds grew by 13 percent, while wealth held in equities, as well as that held in cash and deposits, grew by 9 percent. Latin America was the region with the highest proportion of newly created wealth (54 percent) in 2014, compared with 27 percent globally.

Middle East and Africa. The MEA region had the second-highest proportion of newly created wealth (44 percent), with the balance of the increase in wealth attributable to the market performance of existing assets. Solid savings rates and continued GDP rises in oil-rich countries such as Saudi Arabia (GDP growth of 11 percent), Kuwait (11 percent), and the United Arab Emirates (11 percent) contributed to the newly created wealth, while existing asset performance was solid despite the region’s political instability.

Overall, across all regions, the drivers of wealth growth will have significant implications for wealth managers in the years ahead. For example, to capture newly created wealth that is driven mainly by GDP growth and savings rates, wealth managers must strengthen their asset-gathering and client acquisition capabilities through differentiated offerings, tailoring them to specific regions and client segments. To maximize the performance of existing assets, the focus will be on more creative investment strategies and product offerings, also customized by region and client segment. Moreover, following the high currency fluctuations witnessed in 2014, currency exposure will be a key consideration for future investment strategies.

Wealth Distribution

Private wealth held by ultra-high-net-worth (UHNW) households (those with above $100 million) grew by a strong 11 percent in 2014. This resulted in higher wealth for households already in the segment, with substantial increases also coming from households rising up from lower wealth bands.

UHNW households held $10 trillion or 6 percent of global private wealth in 2014, in line with 2013. (See Exhibit 4.) At a projected CAGR of 12 percent over the next five years, private wealth held by the UHNW segment will grow to an estimated $18 trillion in 2019. This top segment is expected to be the fastest growing, in both the number of households and total wealth. The number of households in this segment is projected to grow at a CAGR of 19 percent over the next five years. With such a large number of households entering this segment, the average wealth per household is projected to decline at a CAGR of 6 percent.

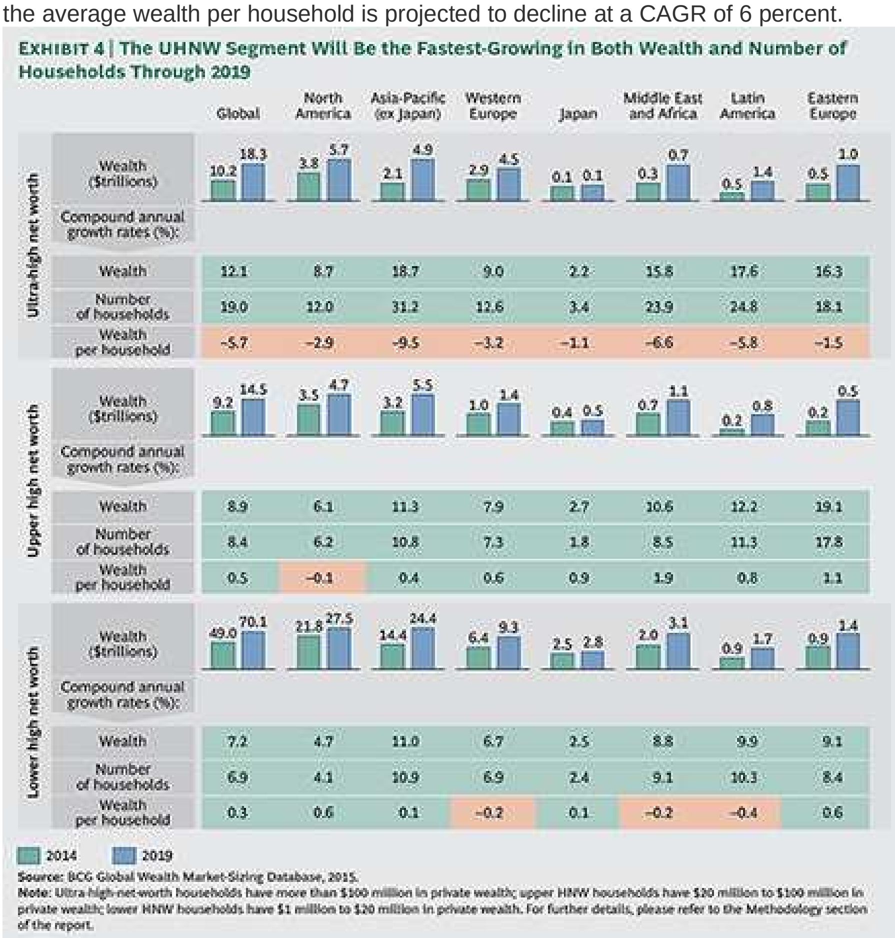


EXHIBIT 4 | The UHNW Segment Will Be the Fastest-Growing in Both Wealth and Number of Households Through 2019

Source: BCG Global Wealth Market-Sizing Database, 2015.
Note: Ultra-high-net-worth households have more than $100 million in private wealth; upper HNW households have $20 million to $100 million in private wealth; lower HNW households have $1 million to $20 million in private wealth. For further details, please refer to the Methodology section of the report.

Private wealth held by the upper high-net-worth (HNW) segment (those with between $20 million and $100 million) rose by a healthy 34 percent in 2014 to $9 trillion. With a projected CAGR of 9 percent over the next five years, this segment is expected to top $14 trillion in 2019. This growth will be triggered by both a large number of new households entering the segment (a projected CAGR of 8 percent) and growth in average wealth per household (a CAGR of 0.5 percent).

Private wealth held by the lower HNW segment (those with between $1 million and $20 million) is expected to grow at a slightly lower rate (7 percent) over the next five years. Like the upper HNW segment, however, average wealth per household is expected to post modest increases.

Globally, the total number of millionaire households (those with more than $1 million in private wealth) reached 17 million in 2014, up strongly from 15 million in 2013. The increase was driven primarily by the solid market performance of existing assets, in both the new and old worlds. Millionaire households held 41 percent of global private wealth in 2014, up from 40 percent a year earlier, and are projected to hold 46 percent of global private wealth in 2019.

From a regional perspective, the U.S. still had the highest number of millionaire households in 2014 (7 million), followed by China (4 million), which showed the highest number of new millionaires (1 million). Japan was third, with 1 million millionaire households, down from previous years due to the fall of the yen versus the U.S. dollar (with fewer households reaching the $1 million mark in dollar terms).

The highest density of millionaires was in Switzerland, where 135 out of every 1,000 households had private wealth greater than $1 million, followed by Bahrain (123), Qatar (116), Singapore (107), Kuwait (99), and Hong Kong (94). The U.S. remained the country with the largest number of UHNW households at 5,201, followed by China (1,037), the U.K. (1,019), India (928), and Germany (679). The highest density of UHNW households was found in Hong Kong (15.3 per 100,000 households), followed by Singapore (14.3 per 100,000), Austria (12.0), Switzerland (9.0), and Qatar (8.6).

In the old world, the UHNW segment (and especially billionaires) is expected to witness the highest growth in number of households by 2019—an estimated 13 percent annually in Western Europe and 12 percent in North America (about twice as fast as the upper HNW segment in those regions). The picture remains similar in most parts of the new world, with the exception of Eastern Europe, where the upper HNW segment is expected to grow just as strongly (18 percent annually) as the UHNW segment. The projected growth of these segments presents a significant opportunity for wealth managers globally.

The Asset Allocation Perspective

The trend in recent years has been a rising share of private wealth held in equities: from 31 percent in 2009 to 39 percent in 2014 (and an estimated 42 percent in 2019). This trend has been driven both by strong equity returns and by increasing asset allocations in equities. From a segment viewpoint, however, there are significant differences.

While both the UHNW and lower HNW segments held an average of 41 percent of their private wealth in equities in 2014, the upper HNW segment held just 29 percent, having a higher proportion of cash and deposits (55 percent versus an average of 42 percent for the two other segments). This segment may therefore represent an opportunity for more intensive wealth-management activities.

From a regional viewpoint, the share of private wealth held in equities was highest in North America (49 percent in 2014), followed by Asia-Pacific (38 percent), Japan (34 percent), and Western Europe (33 percent). MEA (27 percent), Eastern Europe (24 percent), and Latin America (13 percent) had lower equity allocations.

The share of private wealth held in bonds was highest in Latin America (37 percent), followed by Western Europe (27 percent), MEA (21 percent), North America (19 percent), Asia-Pacific (14 percent, excluding Japan), Eastern Europe (13 percent), and Japan (7 percent).

Looking ahead, our projections do not show any major shifts in private-wealth asset allocation, except for a small increase in the weight of assets held in equities through 2019.

The Offshore Perspective

Globally, private wealth booked in offshore centers grew by 7 percent in 2014 (compared with 12 percent for onshore wealth) to reach some $10 trillion. The overall $0.6 trillion rise was driven mainly by asset flows originating in Asia-Pacific ($0.3 trillion, excluding Japan), Eastern Europe ($0.2 trillion), and Latin America ($0.1 trillion). The 2014 growth rate for offshore wealth was in line with the 7 percent rise posted in 2013, but with increased amounts of offshore wealth flowing back onshore, particularly in the old world. As a result, the global share of offshore wealth declined slightly from 6.1 percent in 2013 to 5.8 percent in 2014.

Looking ahead, offshore wealth is projected to grow at a CAGR of 5 percent through 2019 to reach an estimated $12 trillion, compared with a projected CAGR for onshore wealth of 6 percent.

From an old world versus new world standpoint, significant differences were observed in the share of regional wealth held offshore. In the new world, the largest shares of offshore wealth were in the MEA region (31 percent), Latin America (28 percent), and Eastern Europe (19 percent). Asia-Pacific (excluding Japan) has a high onshore bias, with just 5 percent of regional wealth held offshore. In the old world, shares of wealth held offshore were generally low, such as in Western Europe (7 percent), North America (2 percent), and Japan (1 percent). Japan has long had a local and conservative bias, with limited assets flowing offshore owing to both a preference for local banks and a high percentage of cash as an asset class. Overall, old-world wealth held offshore is expected to grow by 1 percent annually through 2019, with the new world projected to have an 8 percent annual increase.

The Flow of Wealth Offshore. Current political and economic tensions, such as those in the Middle East and Latin America, continue to drive the demand for offshore domiciles that offer high levels of stability. In some countries, a shortage of developed and professional onshore-management skills also encourages the flow of wealth to destinations abroad.

In 2014, the Caribbean and Panama remained the preferred destinations for wealth originating in North America, with 54 percent of offshore wealth placed there. The U.K. (15 percent) and the Channel Islands and Dublin (15 percent) were also common destinations.

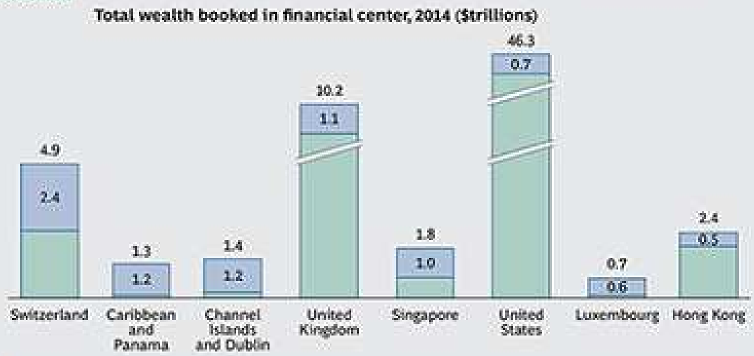
Proximity remained a key driver for offshore wealth originating in Western Europe, with most offshore assets booked in Switzerland (35 percent on average), the Channel Islands and Dublin (21 percent), Luxembourg (14 percent), and the U.K. (5 percent). A similar dynamic was observed in Eastern Europe, with offshore wealth booked in Switzerland (34 percent), the U.K. (17 percent), the Channel Islands and Dublin (16 percent), and Luxembourg (11 percent). The Caribbean and Panama were also common destinations (7 percent combined).

As for offshore wealth originating in Asia-Pacific (excluding Japan), Singapore (31 percent) and Hong Kong (15 percent) remained the top destinations. In addition, wealth originating in Singapore, Hong Kong, India, and Pakistan was also inclined to be booked farther away, such as in the U.K. (15 percent) and Switzerland (22 percent).

Latin American wealth booked offshore tended to go to the U.S. (29 percent) and the Caribbean (29 percent) owing to cultural and historical ties, as well as to Switzerland (27 percent). For MEA wealth booked offshore, Switzerland (37 percent) was the destination of choice, followed by the U.K. (22 percent) and Dubai (12 percent).

Outlook for Offshore Booking Centers. Switzerland remained the leading offshore booking center in 2014, with $2.4 trillion in wealth from abroad. (See Exhibit 5.) Switzerland accounts for 25 percent of total offshore assets globally. The country remains under intense pressure, however, from both European and U.S. tax authorities seeking to crack down on tax evasion.

EXHIBIT 5 | Switzerland Remained the Largest Offshore Center but Hong Kong Is Poised for the Strongest Growth



	Switzerland	Caribbean and Panama	Channel Islands and Dublin	United Kingdom	Singapore	United States	Luxembourg	Hong Kong
Offshore share of wealth booked in center (%)	50	92	86	11	58	2	86	21
Origin of largest share of offshore wealth in center	Western Europe (40%)	North America (38%)	Western Europe (47%)	Middle East and Africa (36%)	Asia-Pacific (80%)	Latin America (41%)	Western Europe (64%)	Asia-Pacific (80%)
Five-year projected annual growth in offshore wealth (%)	4.5	5.3	3.8	5.7	8.8	6.7	3.4	9.3

Onshore Offshore

Source: BCG Global Wealth Market-Sizing Database, 2015.
Note: Offshore wealth is defined as private financial wealth booked in a country where the household is not resident. For further details, please refer to the Methodology section of the report.

Looking ahead, Switzerland will need to reinvent itself to resist the threat from fast-developing Asian booking centers as preferred locations for offshore wealth. Currently, offshore hubs in Hong Kong and Singapore represent the most significant challenge to Switzerland's position. These two locations, accounting for 16 percent of global offshore assets in 2014, are expected to grow in prominence, with projected annual growth of 9 percent in offshore bookings in both centers over the next five years. They are projected to hold 19 percent of global offshore assets in 2019, owing mainly to the creation of new wealth in the Asia-Pacific region. They are also expected to be the fastest-growing offshore centers, along with Dubai, which is projected to have 8 percent annual growth (albeit from a smaller base).

The U.K., owing to its accessibility and reputation for security, continued to thrive as a preferred booking center in 2014, with $1.1 trillion (11 percent) of total offshore money. The Caribbean and Panama, with $1.2 trillion (12 percent), also remained an important booking center, especially for North American and Latin American clients. The U.S. will continue to grow at a steady 7 percent—owing mainly to the creation of new wealth in Latin America—and is expected to hold 8 percent of global offshore assets in 2019.

Luxembourg is expected to remain stable, with its share of global offshore assets projected to remain at 6 percent in 2019. The Channel Islands, known historically for expertise on trusts, are expected to decline a bit in prominence, with their 2014 share of total global offshore assets (13 percent) projected to fall to 12 percent by 2019. A key factor is the decline in global trust business, driven by increasing tax pressure in old world countries.