招商银行 CHINA MERCHANTS BANK

BAIN & COMPANY 贝恩公司

2019

China Private Wealth Report

China's Private Banking Industry: Back to Basics

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

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Preface: Back to Basics

A decade has gone by since China Merchants Bank (CMB) first teamed with Bain & Company in 2009 to release the inaugural China Private Wealth Report. Over this period, we have tracked major changes in China's wealth management industry and have gone through several rounds of market fluctuations, along with the country's high-net-worth individuals (HNWIs) and wealth management institutions. Our uninterrupted market tracking, data analysis, surveys and interviews continue to generate unique and proprietary insights into this sector. Over the past two years, the global political and economic landscape has been experiencing significant changes, and international financial markets have been rocked by turbulence. At the same time, China has entered a critical phase in pressing ahead with supply-side structural economic reforms. In light of these internal and external developments, the Chinese economy is experiencing tremendous and unprecedented challenges.

The sixth CMB-Bain China Private Wealth Report, therefore, comes at a crucial time. The report tracks how the investment mentality, behavior and segmentation of HNWIs have changed after the recent market turmoil—and shares insights into how they may evolve in the future.

By visiting and interviewing customers in major Chinese cities, including Beijing, Shanghai, Hangzhou, Shenzhen, Guangzhou, Chongqing and Hong Kong, and analyzing the results of more than 3,000 questionnaires completed by HNWIs, we observed that HNWIs have become much more conservative and risk averse in their investment strategies, demonstrating a stronger desire for capital preservation and long-term wealth accumulation. They have a clearer understanding of various asset classes and their associated risks than they ever did before. They are no longer blindly chasing hot investment products or ideas, and they are making more mature asset-allocation decisions. During the recent market turmoil, HNWIs have also been relying more on private wealth management services offered by banks. Finally, amid the global economic uncertainty, and encouraged by policy initiatives in China, HNWIs have been shifting the focus of their investments back to China.

Over the past two years, tighter regulation following the recent market turmoil has been a source of both substantial threats and strong opportunities for Chinese wealth managers. While the weakest have been forced out of the market, stronger institutions have been able to thrive by taking advantage of those opportunities. Amid the intensifying competition, all wealth managers in China ought to respond by working hard to improve their customer experience through various means, including technological innovation, sophisticated product differentiation, enhanced customer relationship management and a more comprehensive offering of services.

To cope with an increasingly complicated business and investment environment in the future, financial institutions that serve HNWIs will need to leverage their expertise fully and respond to their customers' needs to withstand the test of time.

Acknowledgments

This report has been jointly produced by China Merchants Bank (CMB) and Bain & Company, Inc.

CMB initiated the idea of conducting a groundbreaking, high-level analysis of China's private wealth market in 2009, working with Bain to complete it. In 2011, 2013, 2015 and 2017, the CMB-Bain team continued this research, examining in detail the historical results and emerging trends in the private wealth industry. In 2019, the private banking arm of CMB worked with Bain for the sixth time to conduct in-depth research into China's private wealth market.

Since 2009, CMB has drawn on its internal and external high-end customer resources and worked closely with Bain to coordinate a total of 16,000 customer surveys and more than 700 in-depth interviews with customers and relationship managers, putting great effort into collecting large amounts of high-quality, firsthand customer information. At the same time, CMB has provided substantial industry experience to the Bain team's comprehensive analysis and has helped build a solid foundation for the study and analysis of high-end Chinese customers.

As part of the joint effort, CMB's executives have provided valuable advice on analytical methods and insights into survey findings, which have contributed significantly to this report. We would, therefore, like to thank the following CMB leaders: Huiyu Tian, CEO and president; Jianjun Liu, executive vice president; Jianzhong Wang, executive vice president; Jing Wang, general manager of the private banking department; Chunjiang Wu, vice general manager of the private banking department; Lei Wang and Yanjun Huang, assistant general managers of the private banking department; and many other CMB team members, including those in market planning, strategy and operation analysis; investment advisory; investment research; product management; discretionary portfolio management; and business support, as well as at CMB headquarters' private banking division and members of CMB's overseas team.

While preparing the report, Bain made continuous enhancements to its methodologies and model frameworks and improved the market-sizing model. In addition, Bain conducted detailed and conclusive data analysis, based on the research and survey results. In addition to conducting surveys and interviews with CMB clients and relationship managers, Bain also interviewed many non-CMB clients and relationship managers. We would, therefore, like to extend our gratitude to the Bain team, including partners Jennifer Zeng and John Ott. We also appreciate the efforts of every team member, including Nanxue Ning, Hanyu Shi, Dingning Li, Xincheng Xie and Ci Han.

We would also like to extend our gratitude to each client and relationship manager who participated in our interviews and surveys, as well as employees at CMB's head office and branches who facilitated the interviews and assisted in the report. They were actively involved in data screening, customer surveys and interviews; they shared their knowledge from years of industry experience and spared no effort in assisting market research and providing effective input to the Bain team. During the project, many Bain experts and colleagues also provided great support, including identification of industry experts, data collection, methodologies and improvements to analytical tools. Finally, many thanks to everyone at Bain Greater China, as well as the experts and colleagues of the Wealth Management Practice in the Bain global offices, for their contributions.

We are sincerely grateful to all those who have contributed their valuable time and resources to the successful publication of this report.

Chapter 1: Overview and Trends in China's Private Wealth Market in 2019

- In 2018, the investable assets held by Chinese individuals reached RMB 190 trillion, growing at a compound annual growth rate (CAGR) of 7% from 2016 to 2018; the total investable assets are expected to reach RMB 200 trillion by the end of 2019.

- In 2018, there were 1.97 million HNWIs with investable assets of more than RMB 10 million, growing at a rate of 12% annually from 2016 to 2018; the total number of HNWIs is expected to reach about 2.2 million by the end of 2019.

- In 2018, the average investable assets per capita among HNWIs was about RMB 30.8 million; the total investable assets held by HNWIs reached RMB 61 trillion. The investable assets held by HNWIs are expected to reach around RMB 70 trillion by the end of 2019.

- In 2018, 23 provinces/municipalities had more than 20,000 HNWIs each, reflecting a more balanced geographical distribution than has been noted in prior years. Eleven of these areas (Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong, Sichuan, Hubei, Fujian, Tianjin and Liaoning) had more than 50,000 HNWIs each, and six (Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang and Shandong) had more than 100,000 HNWIs each.

The growth of the private wealth market slowed in 2016–2018[1]

In 2017, China's GDP grew by 6.8%. In 2018, driven by increased uncertainty in the global economic and political environment, as well as the deepening of domestic reforms (such as deleveraging, destocking and reduction of excess capacity), GDP growth slowed to 6.6%. In 2019, the focus of macroeconomic policy shifted to "six stabilities"—namely, stabilizing employment, finance, foreign trade, foreign investment, domestic investment and economic expectations. The annual government work report has set the GDP growth target for 2019 between 6% and 6.5%.

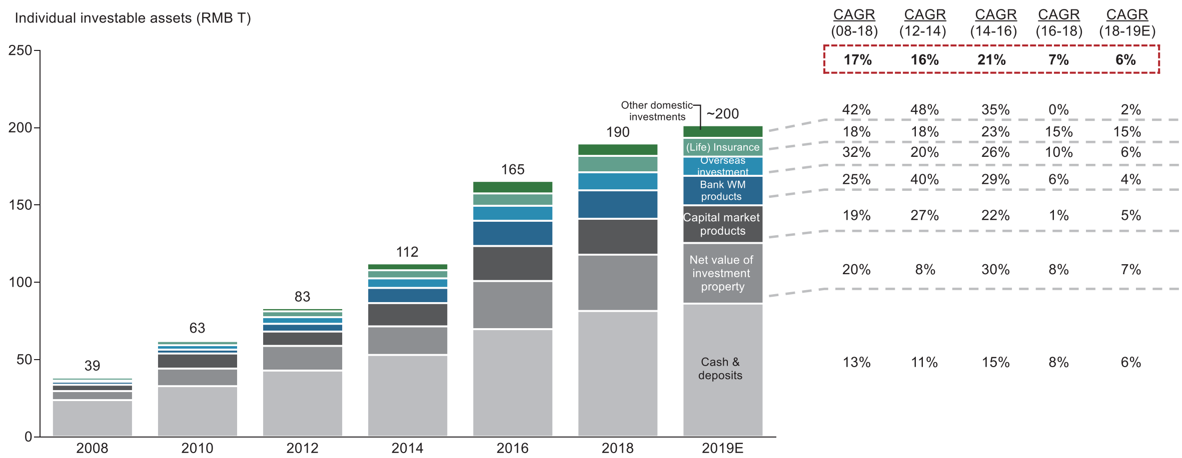
Against this macroeconomic backdrop, growth of the private wealth market in China also slowed. In 2018, the investable assets[2] held by Chinese individuals reached RMB 190 trillion, growing at a CAGR of 7% from 2016 to 2018—the first single-digit growth figure since 2008. Notably, growth of capital market products declined to a CAGR of 1% from 2016 to 2018. Real estate investment also cooled, with the CAGR down to 8%, as the government continued to step up real estate regulations to contain speculation. Meanwhile, new asset management regulations introduced by the government—strengthening oversight of fund management and prohibiting the use of implicit guarantees in fund products—hampered growth of banks' wealth management products and other domestic investments,[3] such as trusts and private equity products (see Figure 1).

[1] The data in this report only covers mainland China, excluding Hong Kong, Macau and Taiwan.

[2] "Investable assets" is a measure of the total investable wealth (assets with relatively good secondary markets and liquidity) of an individual. Investable assets include an individual's financial assets and real estate for investment purposes. Financial assets include cash, deposits, stocks (tradable and nontradable shares of listed companies, hereinafter inclusive), bonds, funds, insurance, bank wealth management products, overseas investments and other domestic investments (trusts, segregated accounts of fund companies, asset management of securities companies, private equity, gold, Internet financial products and so forth), excluding assets such as owner-occupied real estate, nonlisted companies held by nonprivate equity and consumer durables.

[3] In this report, "other domestic investments" refers to trusts, segregated accounts of fund companies, asset management of securities companies, private equity, gold, Internet financial products and so forth held by individuals.

Figure 1: Total investable assets held by Chinese individuals, 2008–2019



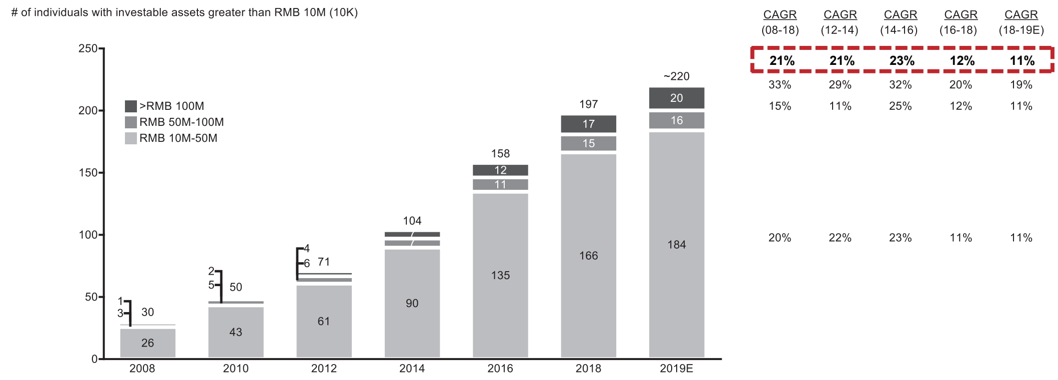
Source: Bain HNWI income-distribution model

Note*: Capital market products include stocks, mutual funds, the National Equities Exchange and Quotations and bonds held by individuals.

Note**: "Other domestic investments" include trusts, segregated accounts of fund companies, asset management of securities companies, private placement stock products, gold, private equity and peer-to-peer products held by individuals.

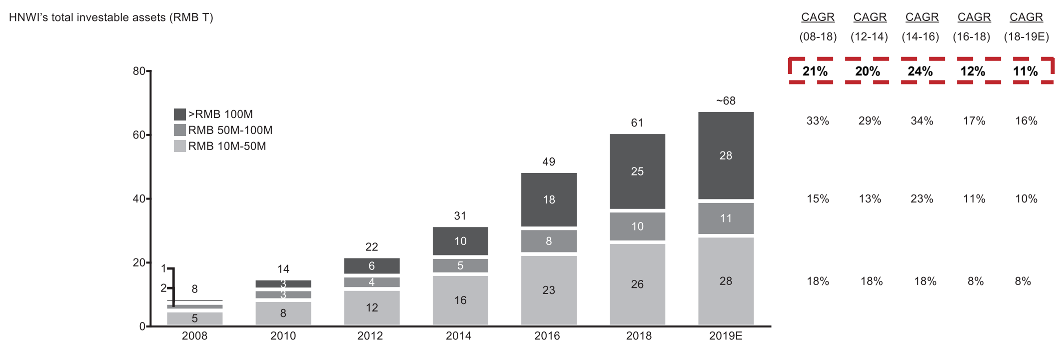
Growth of both the HNWI[4] population in China and their investable assets has slowed. In 2018, the number of HNWIs reached 1.97 million, 400,000 more than in 2016; the CAGR dropped from 23% for the 2014–2016 period to 12% for the 2016–2018 period. Among this group, the number of ultra-high-net-worth individuals (UHNWIs)[5] was about 170,000, whereas the number of HNWIs with investable assets greater than RMB 50 million reached 320,000. In 2018 total investable assets held by HNWIs reached RMB 61 trillion, with a CAGR of 12% from 2016 to 2018; total investable assets held by UHNWIs reached RMB 25 trillion, with a CAGR of 17% from 2016 to 2018. The average investable assets per capita among HNWIs was about RMB 30.8 million in 2018, basically remaining the same as in 2014 and 2016 (see Figures 2 and 3).

Figure 2: The size and segments of HNWIs, 2008–2019



Source: Bain HNWI income-distribution model

Figure 3: The size and composition of HNWIs' investable assets, 2008–2019



Source: Bain HNWI income-distribution model

[4] HNWI is defined as an individual with investable assets over RMB 10 million.
[5] UHNWI is defined as an individual with investable assets over RMB 100 million.

Performance across asset classes in 2018 and outlook for 2019

Macroeconomy

2017 to 2018 review: In 2017, the Chinese economy maintained a steady and upward trend, with a GDP growth rate of 6.8%. In 2018, GDP growth fell to 6.6% as a result of global economic and political challenges, international financial market fluctuations and supply-side structural reform in China.

Outlook for 2019: The 2019 government work report has set the target for GDP growth at between 6% and 6.5%. With the implementation of the "six stabilities," economic indicators that include investment, consumption, infrastructure and import-export figures showed that the economy was gradually picking up in the first quarter of 2019.

Cash and deposits

2017 to 2018 review: In 2017, the People's Bank of China (PBoC) continued to tighten monetary policy to curb financial leverage. In 2018, the bank announced four targeted reserve requirement ratio (RRR) cuts to increase medium- and long-term liquidity moderately, aiming to create a "neutral and moderate" financial environment for supply-side structural reform and high-quality economic development. In 2017 and 2018, broad money supply grew 8.2% and 8.1%, respectively; the balance of cash and deposits increased steadily at a CAGR of 8% from 2016 to 2018.

Outlook for 2019: The financial system is transitioning from a "deleveraging" to a "stable leverage" phase. The PBoC might further reduce the overall cost of financing for the real economy and ease liquidity through interest rate and RRR cuts. However, deposit growth might be held back by improvements in the investment environment and lower deposit yields.

Real estate market

2017 to 2018 review: In 2017-2018, real estate policy continued to tighten, following President Xi Jinping's declaration that "housing is for living in, not speculation" and the establishment of a "long-term mechanism" for real estate regulation. As such, sales volume cooled significantly in Tier 1 and 2 cities. However, driven by the rising number of households receiving financial compensation for urban redevelopment, housing sales remained hot in some Tier 3 and 4 cities. Overall, market growth slowed, and the rate of increase in the volume of properties bought for investment dropped significantly from a 30% CAGR between 2014 and 2016 to an 8% CAGR between 2016 and 2018.

Outlook for 2019: Real estate policy is likely to continue to pursue market stabilization, with some variations between cities. Residential housing sales might be held back by a shift in new urban redevelopment projects from financial compensation to physical resettlement.

Stock market

2017 to 2018 review: In 2017, the Shanghai Stock Exchange Composite Index rose 7%. However, this index fell nearly 25% in 2018, a significant market correction. The overall valuation of A shares fell to a historic low.

Outlook for 2019: Some factors that could influence the stock market include improved economic indicators, increased investment in A shares from overseas funds and easing of factors that led to the stock market decline in 2018. At the same time, capital inflows may be affected by the progress of Chinese Depositary Receipts and the establishment of the Science and Technology Innovation Board.

Mutual funds

2017 to 2018 review: In 2017, the net asset value of mutual funds grew steadily. Money market funds continued to grow, and stock funds expanded, driven by the growth of capital markets. In 2018, overall growth of mutual funds slowed because of the downward capital market trend. Driven by targeted reserve ratio reduction, money market funds saw lower interest rates and slower growth. While the stock market fell, the rising bond market led to significant growth of bond funds. Overall, growth of total net value of mutual funds slowed, with a 2016–2018 CAGR of 20%, down from 44% during 2014–2016.

Bank wealth management products

2017 to 2018 review: In 2017, following government "deleveraging" directives, regulation of bank wealth management products was strengthened, limiting the growth of wealth management products. In 2018, new asset management regulations slowed the issuance of wealth management products, preventing banks from directly selling financial products with guaranteed returns (or using other financial institutions to act as an indirect conduit for the same purpose). As implicit guarantees faded, however, investors with low-risk appetites increased investment in structured deposits. The overall CAGR of bank wealth management products from 2016 to 2018 was 6%.

Outlook for 2019: Factors likely to weigh upon the market in 2019 include strengthened regulations and lower yields.

Insurance

2017 to 2018 review: Following tighter regulation, the insurance industry grew more slowly than during previous periods, with the CAGR from 2016 to 2018 declining to 15%.

Outlook for 2019: Investors are more willing to invest in long-term insurance products. However, long-term interest rate declines are putting pressure on the sector's return on investment.

Other domestic investments

Trusts: In 2017–2018, on the funding side, new asset management regulations placed tight restrictions on fundraising. On the asset side, the overall trust sector slowed because of supply-side “deleveraging,” the economic slowdown and capital market fluctuations. In 2019, real estate investment trusts are having to contend with tighter control of the real estate market. The further implementation of asset management rules is likely to add to pressure on the overall trust sector, although this could be offset by improved economic indicators and a transition from “deleveraging” to “stable leverage” in the financial system.

Private securities investment funds: The popularity of these vehicles, similar in concept to hedge funds, is closely linked to the secondary market. Private securities investment funds shrank significantly in 2018, owing to fluctuations in the A shares market and new asset management regulations that raised the threshold for qualified investors of private securities investments and put limits on leverage ratios. The A shares rebound could influence the private securities investment fund market in 2019.

Private equity investment: In 2017, fundraising through the issuance of private equity products increased significantly. In 2018, private equity investment hit a trough, characterized by difficulties in fundraising, exits resulting from new asset management regulations and more stringent initial public offering (IPO) approvals. In 2019, the private equity market could be boosted by the establishment of the Science and Technology Innovation Board.

Digital financial products: In 2017, legislation governing peer-to-peer lending, crowdfunding and other digital financial products was tightened in China. In 2018, under the influence of a credit crunch and economic pressure, a wave of credit defaults resulted in a drastic decline in both the scale and size of fintech investments. In 2019, weaker companies may continue to exit the market.

Gold investment: In 2017, aversion to political risk fueled strong demand in the gold market. From 2017 to 2018, the gold price dropped because of a strong dollar and US interest rate hikes. In 2019, gold may remain attractive to investors as a hedge against political risk.

Overseas investments

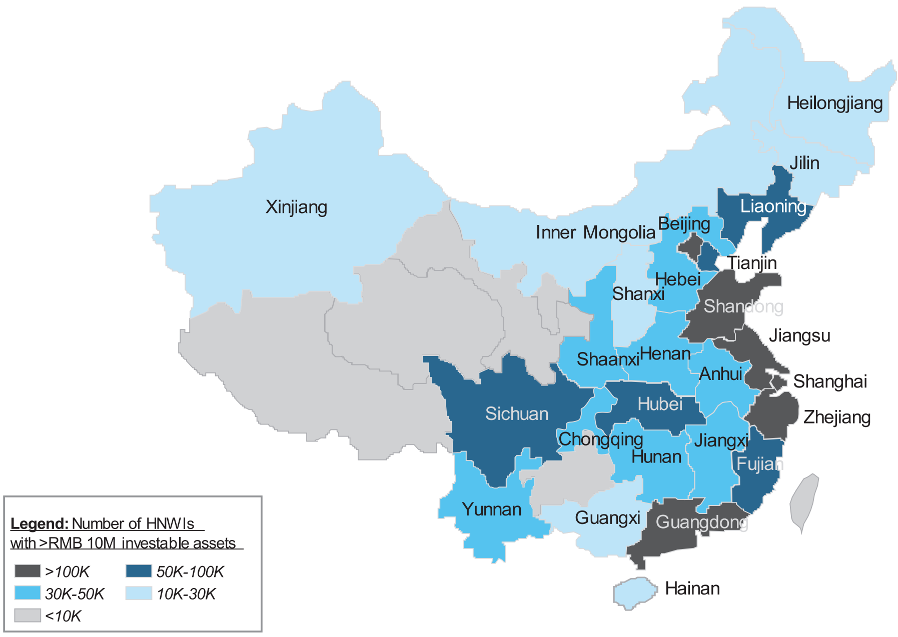
2017 to 2018 review: In 2017, foreign stock market gains exceeded 20% in the US and Hong Kong. Returns began to sour in 2018, but overseas investment by HNWIs still grew at a CAGR of 10% from 2016 to 2018.

Outlook for 2019: The downward pressure on global capital markets continues. That being said, in the first quarter of 2019, the US Federal Reserve and the European Union successively introduced liquidity-easing policies and held interest rates steady, which might improve the overall investment environment.

In 2018, 23 provinces/municipalities had more than 20,000 HNWIs each, reflecting a more balanced regional distribution

By the end of 2018, 23 provinces in China had more than 20,000 HNWIs each, while Shandong exceeded 100,000 HNWIs for the first time and caught up with the five coastal provinces/municipalities (Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang). Another five provinces—Sichuan, Hubei, Fujian, Liaoning and Tianjin—had more than 50,000 HNWIs each (see Figure 4).

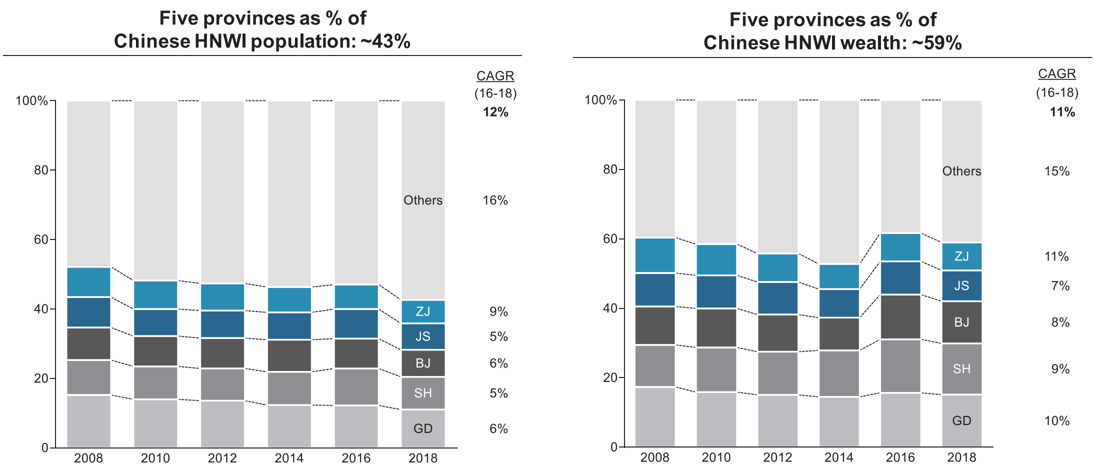
Figure 4: Regional distribution of Chinese HNWIs, 2018



Source: Bain HNWI income-distribution model

The regional distribution of HNWIs continued to be less concentrated and more balanced in 2018 than in 2016. In 2018, the HNWIs in Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang accounted for 43% of total HNWIs in China. Meanwhile, the investable wealth held by HNWIs in these provinces/municipalities was 59% of the national total, down from 62% in 2016 (see Figure 5).

Figure 5: Chinese HNWI population and wealth across Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang at the end of 2018



Source: Bain HNWI income-distribution model

The HNWI population has been growing fast in Tier 3 and 4 cities, benefiting from urban redevelopment and the Belt and Road Initiative (BRI). Property values have soared in these cities, aided by financial compensation attached to urban redevelopment and an acceleration in the pace of urbanization. Shandong province has ranked number one for urban redevelopment for the past four years, with 130 million square meters of residential property sold and a total sales value of more than RMB 1 trillion.

Central and western provinces experienced an economic boom. Shaanxi, Chongqing and Yunnan are actively involved in BRI construction; infrastructure development projects, such as the Sino-Euro Railway; Sino-Myanmar oil and gas pipelines; and new trade centers. Jiangxi and Guangxi launched regional industrial policies to boost IPOs, among other goals.

HNWIs in the top-five provinces of Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang are more influenced by market fluctuations than are those living in other areas, as HNWIs in these provinces have allocated a higher share of assets to capital markets. Furthermore, housing prices and sales volumes dropped significantly in coastal Tier 1 cities because of tightened regulatory control over the property market. As a result, growth of the HNWI population in the top-five provinces slowed significantly.

Chapter 2: The Investment Mentality, Behavior and Segmentation of HNWIs in China

- A new HNWI segment has emerged in recent years, driven by the new economy: Middle managers, senior executives and professionals have become an increasingly significant group of wealthy individuals. These HNWIs often have a strong educational background and experience in business and finance. As a result, they demand higher standards of service from wealth management institutions.

- The need to respond to market turmoil has generated higher demand for professional services provided by wealth management institutions: While wealth preservation and inheritance continue to be important goals for HNWIs in China, the desire to create more wealth became prominent over the past two years. HNWIs sought out greater expertise from wealth managers in product selection, asset allocation and risk control, as well as a high level of professionalism when it comes to customer service.

- More HNWIs are putting wealth succession planning into action: For the first time in the past 10 years, the number of UHNWIs who have prepared for wealth inheritance exceeded the number of those who have not yet started an inheritance plan. Family trusts are growing fast as a means of wealth succession planning, and HNWIs have higher expectations for family offices than before.

- Overseas investment has been refocused on opportunities in China: HNWIs have shifted their investment focus from overseas back to China, while they are still likely to diversify their risk with some overseas asset allocation in 2019. In recent years, Hong Kong has become more competitive compared with other overseas markets, aided by favorable capital market policies and broad opportunities for wealth creation.

Emergence of a new HNWI segment driven by the new economy

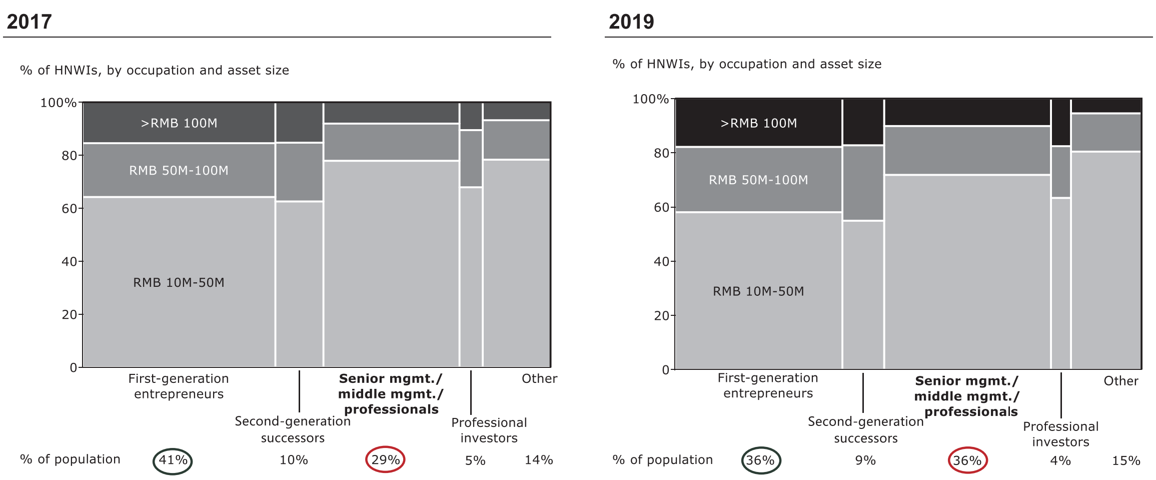
- Middle managers, senior executives and professionals have become an increasingly significant group of wealthy individuals

Forty years after China opened to the world, the country's economic and social development has entered a "new normal" phase. Traditional industries are transforming at a faster pace, assisted by digital technologies. Emerging and new industries, including those centered on the Internet, Big Data, cloud computing, biomedicine and new forms of energy, are scaling up. Regulators have been trying to speed the IPO process to support new business growth and capital needs. These trends have been an important driver of wealth for HNWIs in China.

Enterprises in the new economy put more emphasis on "team entrepreneurship" and use equity incentives to attract talent. That is starting to propel employees into the ranks of the wealthy. About 30% of senior executive respondents in our survey—and up to 40% of those from new industries—identified the appreciation of listed company equity and options as the major sources of their wealth.

According to this year's survey, senior/middle management and professionals accounted for 36% of the total HNWI population in 2019, up from 29% in the 2017 report (see Figure 6), making them equivalent in number to first-generation entrepreneurs for the first time.

Figure 6: Percentage of HNWIs, by occupation and asset size, 2017–2019



Source: CMB-Bain HNWI survey

- These new HNWIs often have a strong educational background and experience in business and finance; as a result, they demand higher standards of service from wealth management institutions

Within the HNWI segment of senior/middle management and professionals, senior executives have experienced especially rapid growth in recent years and now account for 14% of the total HNWI population. These wealthy senior executives focus on risk control—less than 5% of them tend to pursue high-yield and high-risk wealth goals—but they are also actively exploring opportunities for wealth creation. Like most professional investors, a good portion of their investable assets—about 40%—is allocated to medium-risk capital market products, such as stocks, bonds and funds.

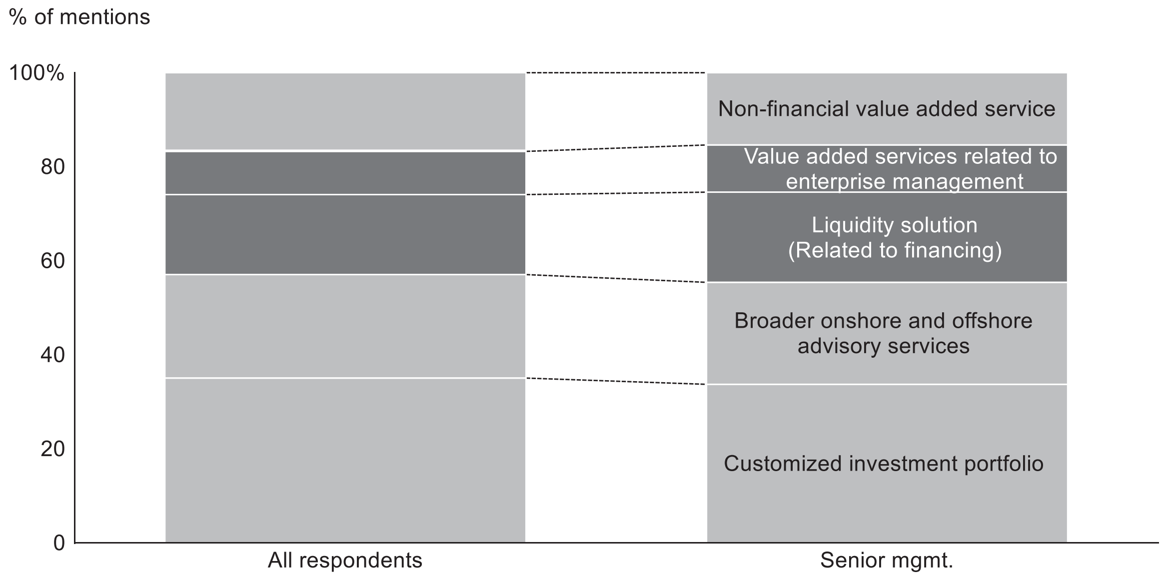
Nearly 90% of senior executive respondents have a graduate or postgraduate degree. Approximately 30% of them are business leaders from new industries, such as IT, biomedicine, high-end equipment manufacturing and new materials, new energy, energy conservation and environmental protection, while 18% are from the manufacturing sector and 10% are from finance. Their educational backgrounds and industry experience mean that they have a better understanding of macroeconomic trends, industry developments and financial markets than average HNWIs. Consequently, they have higher expectations for expertise among wealth management professionals. When asked about the criteria for selecting domestic wealth managers, 60% of senior executives mentioned expertise.

For wealth management institutions, serving this new segment is challenging. Wealth managers will need to demonstrate stronger expertise in financial products and asset allocation. But there is an upside: This HNWI segment has more knowledge of wealth management, which enables them to understand asset-allocation concepts better. As a result, they tend to remain open to new allocation ideas and other wealth management services suggested by asset managers.

Senior executive clients in China seek corporate service support, in addition to personal wealth management, from wealth management institutions. They have more complex business-related needs, including corporate financing, corporate advisory services and investor relations management.

Moreover, senior executives also have higher requirements for liquidity management: 20% mentioned that they demand liquidity (the highest figure among all HNWI segments). Many explained that they needed liquidity to take advantage of investment opportunities whenever they arose (see Figure 7).

Figure 7: Domestic private banking services were of great importance to senior executives in 2019



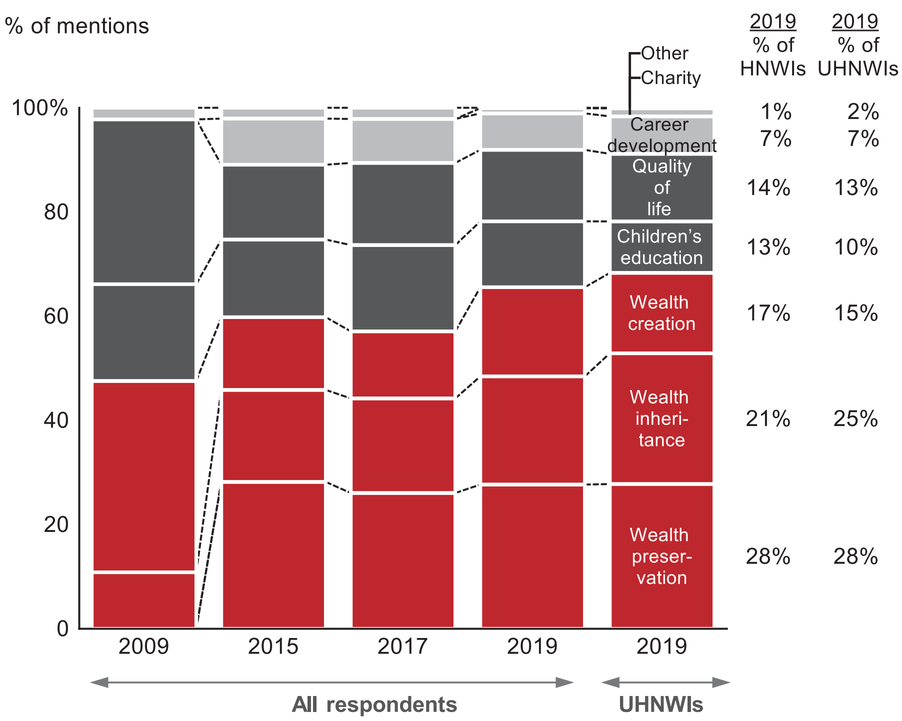
Source: CMB-Bain HNWI survey

The need to respond to market turmoil has generated a higher demand for professional services provided by wealth management institutions

- While wealth preservation and inheritance continue to be important goals for HNWIs in China, the desire to accumulate wealth over the long term became prominent over the past two years

Following the recent market volatility, HNWIs now have a deeper understanding of market uncertainties and are more conservative in their investment strategies. Wealth preservation and inheritance continue to be their top objectives, with more respondents selecting them as goals than in the 2017 report. Meanwhile, the desire to accumulate wealth over the long term became prominent this year. According to the HNWIs surveyed, they deeply understand the potential risks of different asset classes after experiencing losses because of market turmoil. The era of earning high returns by investing in a single asset class has passed, and HNWIs realize the necessity of professional asset allocation to achieve the goal of long-term wealth accumulation (see Figure 8) .

Figure 8: Wealth objectives of HNWIs, 2009–2019

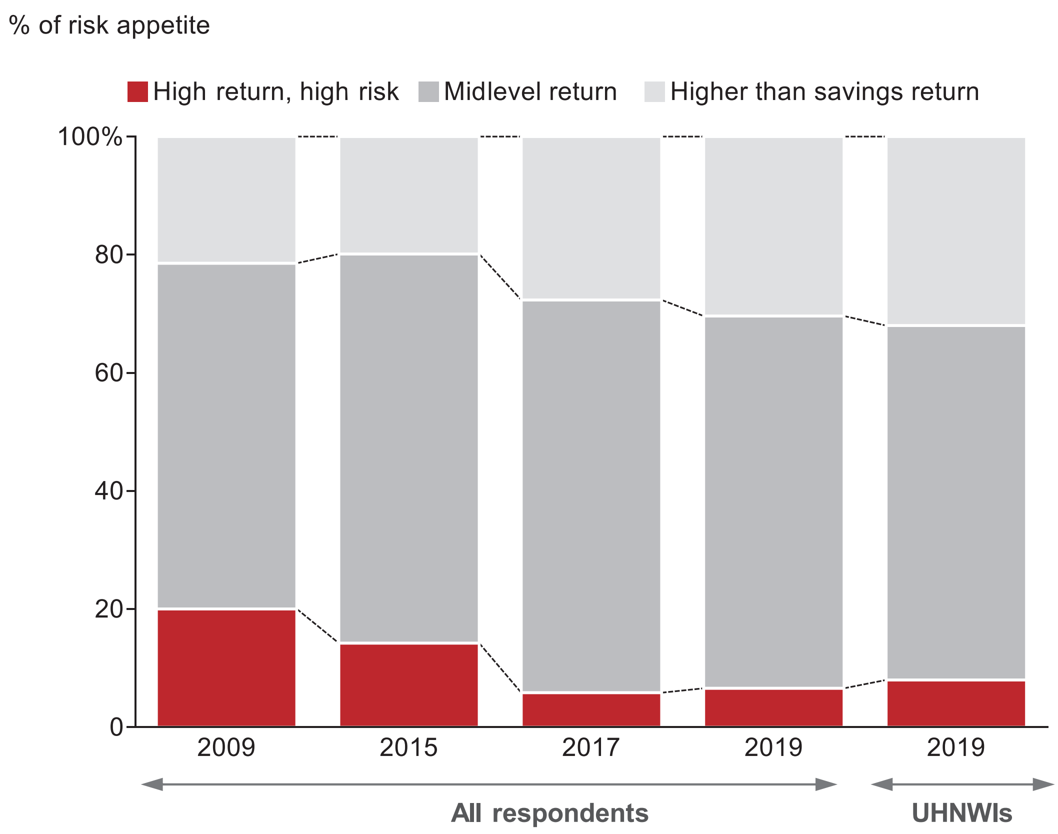


Source: CMB-Bain HNWI survey

- HNWIs sought out greater expertise from wealth managers in areas such as product selection, asset allocation and risk control

HNWIs are aware that it has become increasingly difficult to maintain returns as high as those in previous years and thus have lowered their expectations. The portion of respondents targeting only a “higher than savings return” has increased to 30%—the highest figure recorded over the past decade. About 65% of respondents are still aiming for a “midlevel return” (see Figure 9). Many surveyed HNWIs indicated that they are more tolerant of fluctuating returns in individual asset classes.

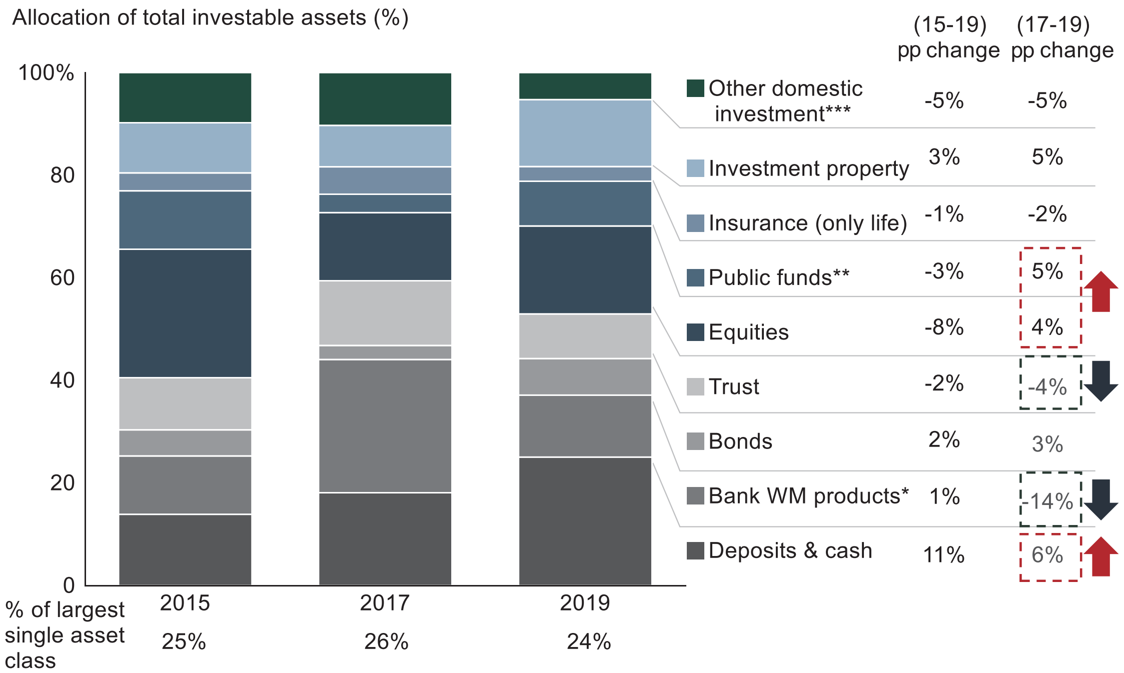
Figure 9: Risk appetites of Chinese HNWIs, 2009–2019



Source: CMB-Bain HNWI survey

HNWIs have reduced their reliance on investment in single assets or narrow asset groups. In the 2015 report, their wealth tended to be concentrated in stocks and mutual funds; in the 2017 report, it was bank wealth management products, trusts and stocks; in the 2019 report, investments were more evenly diversified (see Figure 10).

Figure 10: Allocation of the investable assets of Chinese HNWIs, 2015–2019



Note*: Bank wealth management products include net-asset-value wealth management products (floating return) and non-net-asset-value wealth management products (stable/expected return, including structured deposits).
Note**: Mutual funds include money market funds, debt funds and equity funds.
Note***: Other domestic investments include private security funds and private equity funds, hedge funds, gold and collections.
Source: CMB-Bain HNWI survey

- Cash and deposits now form a larger portion of HNWI portfolios—growing from 18% in the 2017 report to 24% in the 2019 report—mainly because of risk aversion caused by market volatility. After some types of assets (e.g., nonstandard trust products) became more strictly regulated, HNWIs now tend to hold more cash and deposits to ensure liquidity so that they can more readily seize fresh investment opportunities.

- Stocks and equity funds also accounted for a greater proportion of portfolios than in previous years, reflecting the recovery of the stock market in 2019 and a desire for balanced allocation.

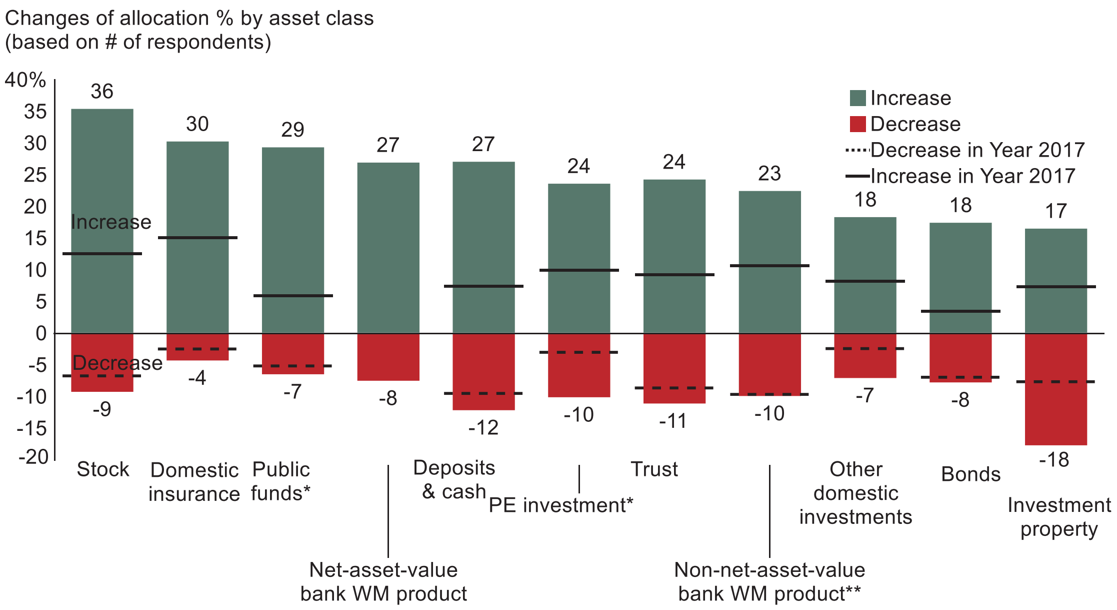
- HNWIs' investment in bank wealth management and trust products has decreased: Because of new asset management regulations, the supply of bank wealth management products and nonstandard trust products was significantly restricted in 2018. Bank wealth management products and trust products only accounted for 12% and 9% of HNWIs' assets, respectively, in the 2019 report, down from 26% and 13% in the 2017 report.

- Domestic insurance has remained fairly stable, dropping slightly to 3% of HNWI portfolios (from 5% in the 2017 report), following restrictions on products available in the market. However, insurance has also become popular among HNWIs as a primary means of inheritance.

- Against a backdrop of increased risk aversion among HNWIs, asset allocation to other domestic investments, including alternative assets, such as private equity funds, dropped significantly in recent years from 8.7% in the 2017 report to 3.6% in the 2019 report.

Overall, the 2019 report indicates that HNWIs are aiming at a more balanced investment portfolio than in prior years, increasing their allocations to products with a higher risk-return profile (such as stocks and mutual funds) and those with a lower risk-return profile (insurance, deposits and cash) (see Figure 11).

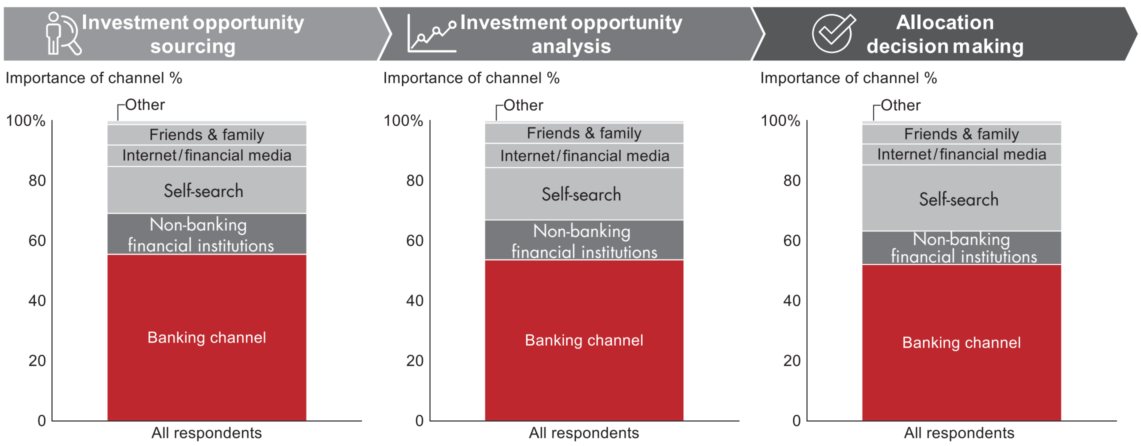
Figure 11: Changes in HNWIs' domestic asset allocation by asset class in the coming one to two years



Note*：Change in private equity investment vs. 2017 is the weighted value of private securities investment and private equity investment.
Note**: Non-net-asset-value wealth management products in 2017 were actually overall wealth management products; given their significant percentage, they were used to compare with non-net-asset-value wealth management products in 2019.
Source: CMB-Bain HNWI survey

In the wake of market volatility, HNWIs are viewing banks as highly influential in the process of sourcing and analyzing their domestic investment opportunities and then making asset-allocation decisions: More than 50% of the respondents view banks as an important channel for their domestic investment decisions (see Figure 12).

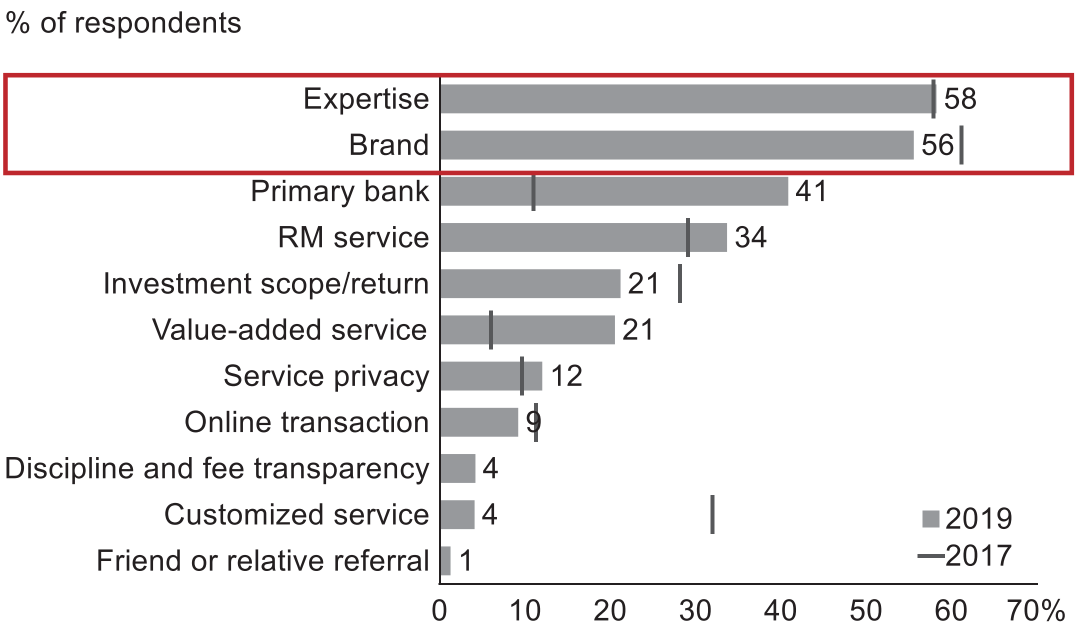
Figure 12: Major channels used by HNWIs in investment decisions, 2019



Source: CMB-Bain HNWI survey

Moreover, HNWIs have become more sophisticated and have higher expectations when it comes to the expertise of wealth managers. For domestic institution selection, "expertise" has surpassed "brand name" to become the most important selection criterion for the first time. With fewer brand differences among leading wealth managers, more HNWIs have realized that expertise largely determines success in investment, and they are paying more attention to the professional capability of institutions (see Figure 13).

Figure 13: HNWIs' criteria for selecting domestic private banking service provider/wealth managers, 2017–2019



Source: CMB-Bain HNWI survey

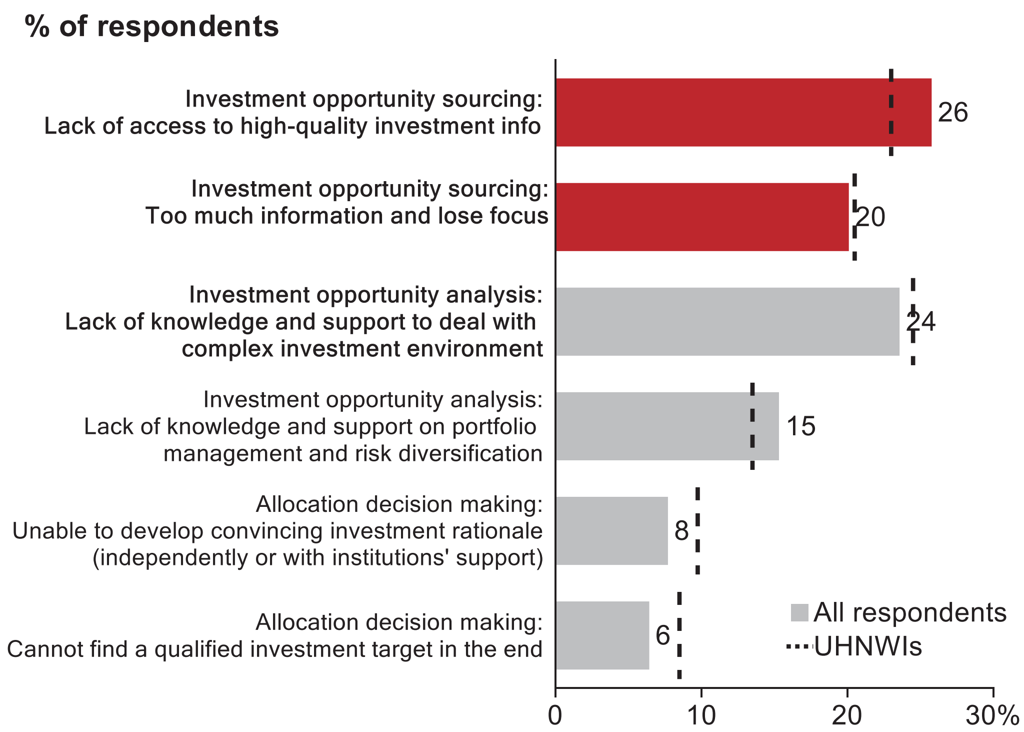
Note*: Some options are not shown here, as they were not included in the 2017 survey.

Specifically, HNWIs will demand high levels of expertise and professionalism in four areas: product selection, asset allocation, risk control and digitally enabled customer service.

1. Product selection

In recent years, with increased market volatility and higher investment risks, identifying high-quality investment opportunities has become more and more difficult. Most respondents reported a strong demand for professional support in information sourcing and opportunity screening (see Figure 14). HNWIs are focusing on wealth managers' ability to evaluate and select fund managers, understand underlying risks and provide professional advice based on solid and expert analysis.

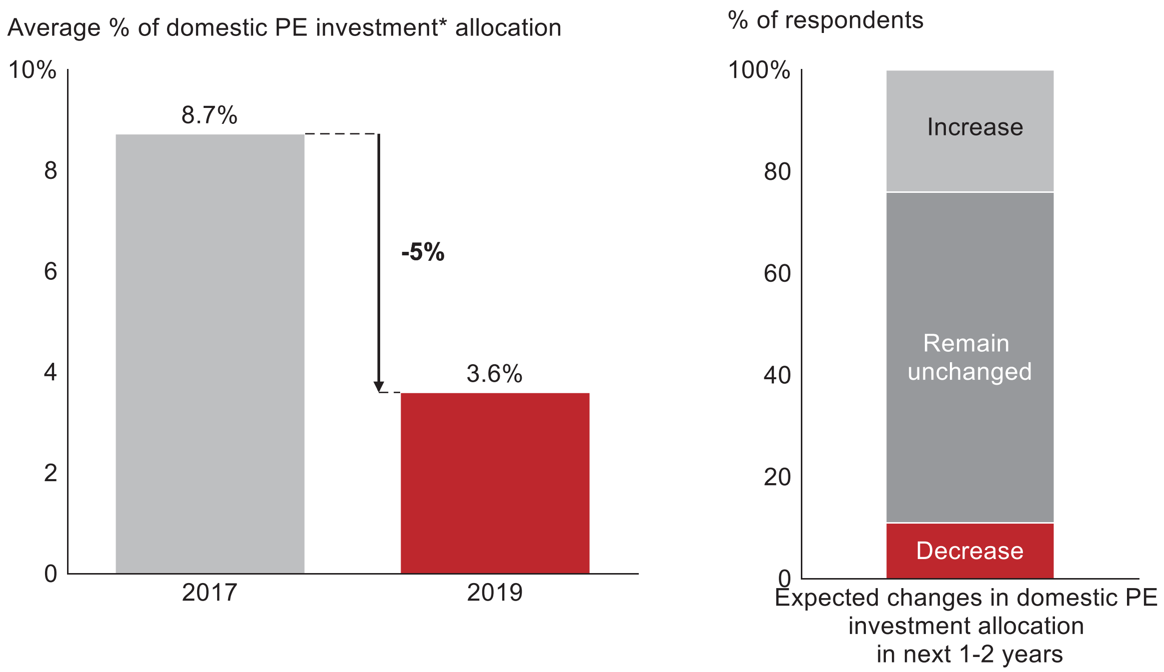
Figure 14: Top concerns for HNWIs and UHNWIs when making wealth management investment decisions, 2019



Source: CMB-Bain HNWI survey

Private equity investment illustrates how current caution can mask a willingness to commit to more complex investments, given the right professional support. HNWIs have allocated less of their wealth to private equity in recent years as returns from that asset class struggled. However, about 25% of survey respondents indicated that they would increase allocation to private equity products, whereas only 10% of respondents intend to reduce such allocations (see Figure 15). The surveyed HNWIs expressed greater caution in private equity product selection and a preference for high-quality products recommended or selected by outstanding wealth managers. To win the trust of HNWI investors, wealth management institutions should make a comprehensive evaluation of their products, including assessing fund manager qualifications, historical performance, fund size, liquidity and so on.

Figure 15: Changes and trends in HNWI asset allocation to private equity products, 2017–2019

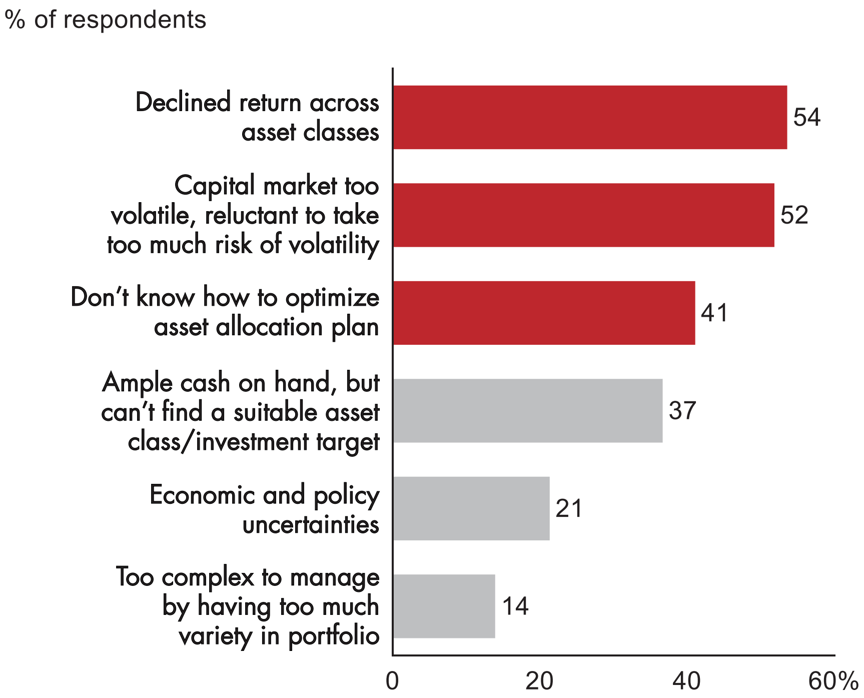


Note*: Domestic private equity investments include private securities investment funds (including bonds and equity funds) and private equity funds.
Source: CMB-Bain HNWI survey

2. Asset allocation

As returns for different asset classes declined and the market became increasingly volatile, domestic and overseas asset allocation increased in complexity. More than 40% of respondents said that their biggest concerns for investment in 2019 were how to improve the overall return of their portfolios and how to reduce risk through diversification and by optimizing asset allocation (see Figure 16). HNWIs reported a greater demand for private banks' support in asset allocation, including seeking explanation of portfolio operation, conducting performance analysis of various asset classes in the portfolio and making dynamic portfolio adjustments through analysis of the driving forces in the market and use of various financial instruments. Surveyed HNWIs hope that wealth managers can provide customized asset-allocation solutions that follow and anticipate market changes in real time.

Figure 16: Top concerns for HNWIs in domestic asset allocation in 2019



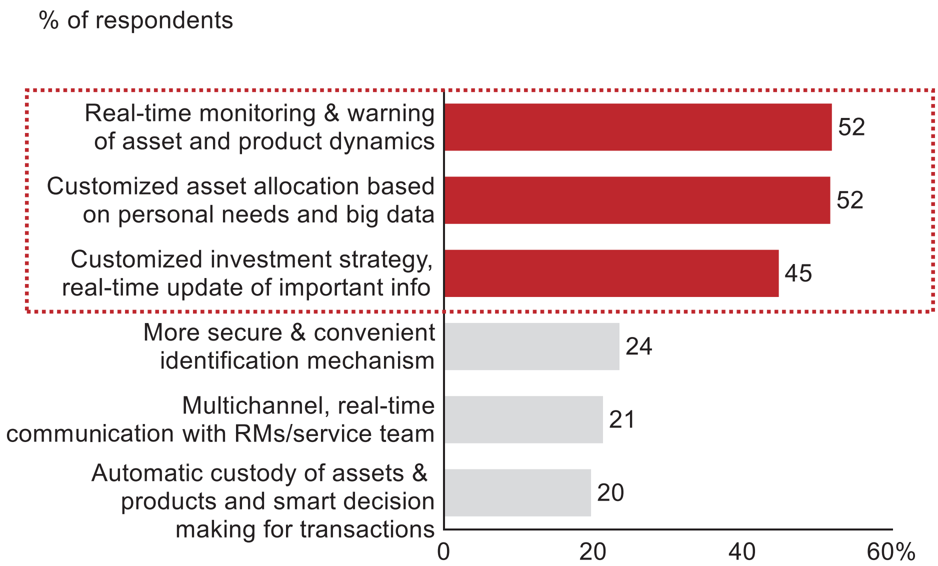
Source: CMB-Bain HNWI survey

3. Risk control: Technology-enabled, real-time monitoring and early warning capabilities

The implementation of new asset management regulations has increased HNWIs' interest in wealth managers' abilities to control risk. Rather than simply allocating assets to multiple asset classes in the hope of controlling risk through diversification, HNWIs today require wealth managers to exercise and realize risk control by understanding and using the investment functions and characteristics of different asset classes. Moreover, many survey respondents mentioned that they prefer wealth management institutions with stronger risk-control capabilities. For banks, strengthening risk-control capabilities related to customer investments may be one of the means to further differentiate themselves from other types of wealth managers.

Survey respondents also said they would look to fintech to help control risk by issuing real-time alerts or warning signals for investments. More than 50% of HNWIs expected their wealth managers to use fintech for real-time product monitoring and warning (see Figure 17).

Figure 17: HNWIs' expectations for fintech experience for 2019 and beyond

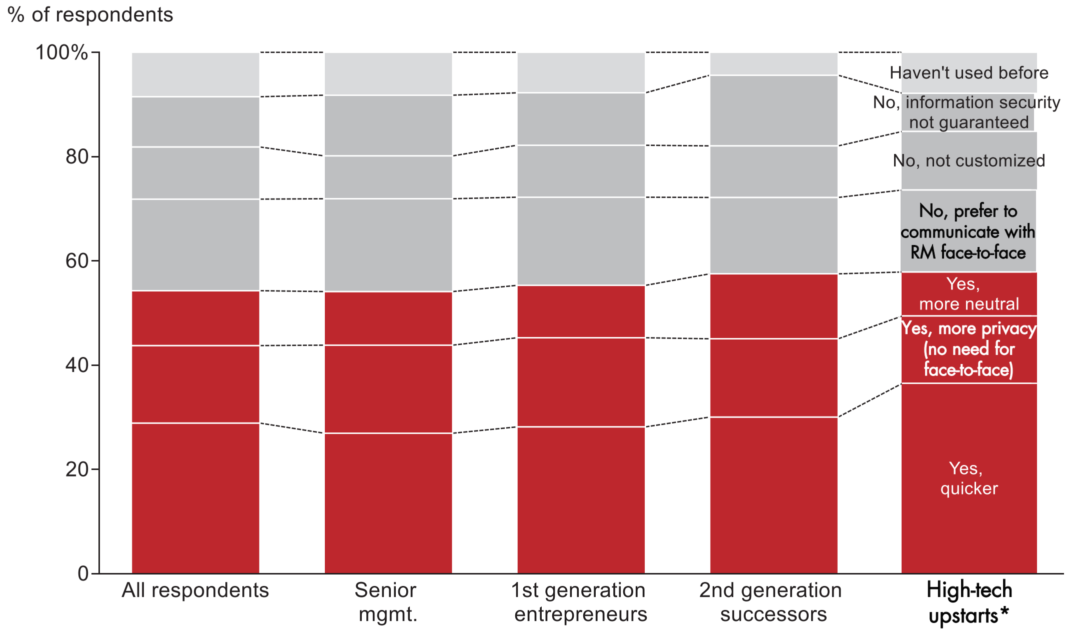


Source: CMB-Bain HNWI survey

4. Customer service: Technology-enabled convenience and intelligent experience

With technology-enabled social network services, such as WeChat, payment services, lifestyle mobility and so on, HNWIs have increasingly high expectations and requirements for technology-enabled wealth management services. About 60% of surveyed HNWIs find fintech attractive, especially because of perceived convenience and privacy protection (see Figure 18). Some respondents reported that they value privacy in asset management and transactions and that migrating some service operations to intelligent tools might better protect their personal information.

Figure 18: Chinese HNWIs' views on fintech services in 2019

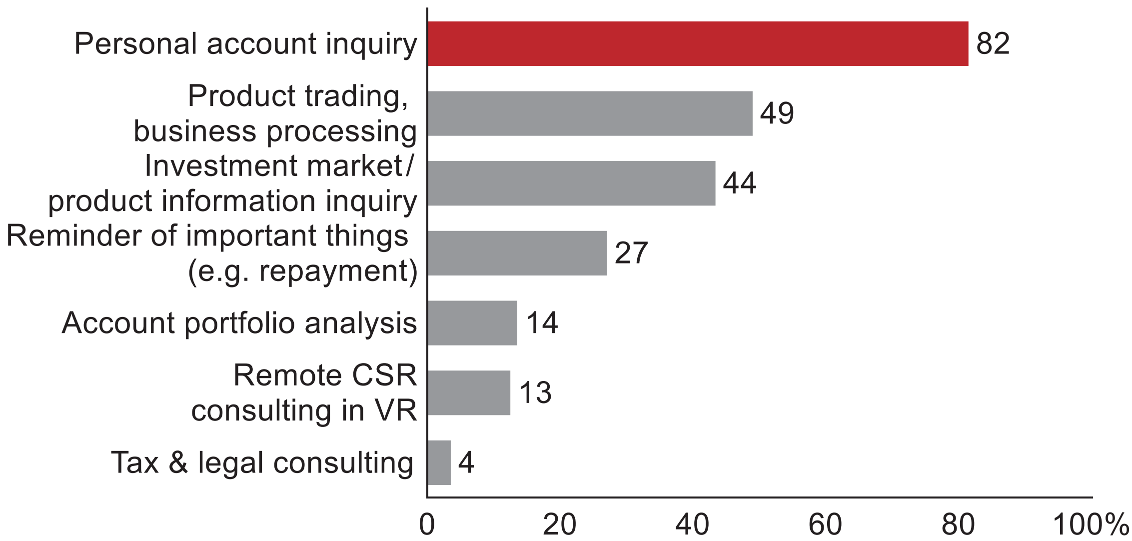


Note*: High-tech upstarts are defined as first-generation entrepreneurs, second-generation successors and senior management in the high-tech industry.
Source: CMB-Bain HNWI survey

HNWIs primarily use fintech to complete simple tasks. For example, survey respondents reported that they use chatbot services for personal account inquiries, product trading and transaction processing, as well as market/product information-gathering. Chatbots were less frequently used in complex functions, such as account portfolio analysis and tax/legal advice (see Figure 19). Similarly, far more HNWIs use robo-advisors to receive information and product recommendations than to make direct asset allocations (see Figure 20). Many interviewed HNWIs expressed a desire for customized fintech services, hoping to receive product information tailored to their real needs. Among the respondents, high-tech upstarts have, unsurprisingly, a deeper understanding of fintech. This group's understanding of information security makes it more open and receptive to fintech services, but upstarts also know the limitations of fintech in terms of artificial intelligence and personalization. Interviewed HNWIs mentioned that fintech's use in smart asset allocation still has a long way to go. They are optimistic about its long-term development but more cautious about its application in the short term.

Figure 19: Chinese HNWIs' use of chatbots in 2019

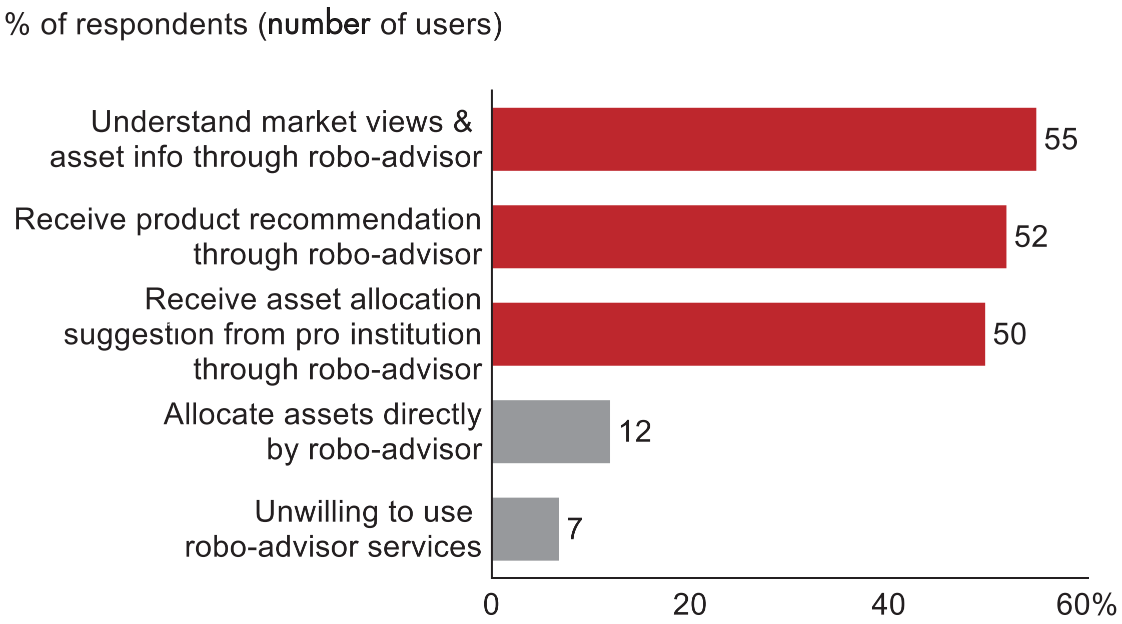
% of respondents (number of users)



Source: CMB-Bain HNWI survey

Overall, wealth managers should focus first on improving the customer experience in information acquisition and interaction—the most commonly used fintech functions—and then on gradually improving HNWIs' acceptance of more sophisticated functions, such as smart asset allocations and recommendations. In the short term, fintech is unlikely to disrupt the existing customer-centric business model of private wealth management or the importance of relationship managers. Rather, fintech will upgrade the wealth management process by breaking down channel barriers, improving information transparency and optimizing information use. To enhance the customer experience for HNWIs, wealth managers should then actively embrace fintech with an open mind and optimize technology-enabled wealth management processes.

Figure 20: Chinese HNWIs' use of robo-advisors in 2019

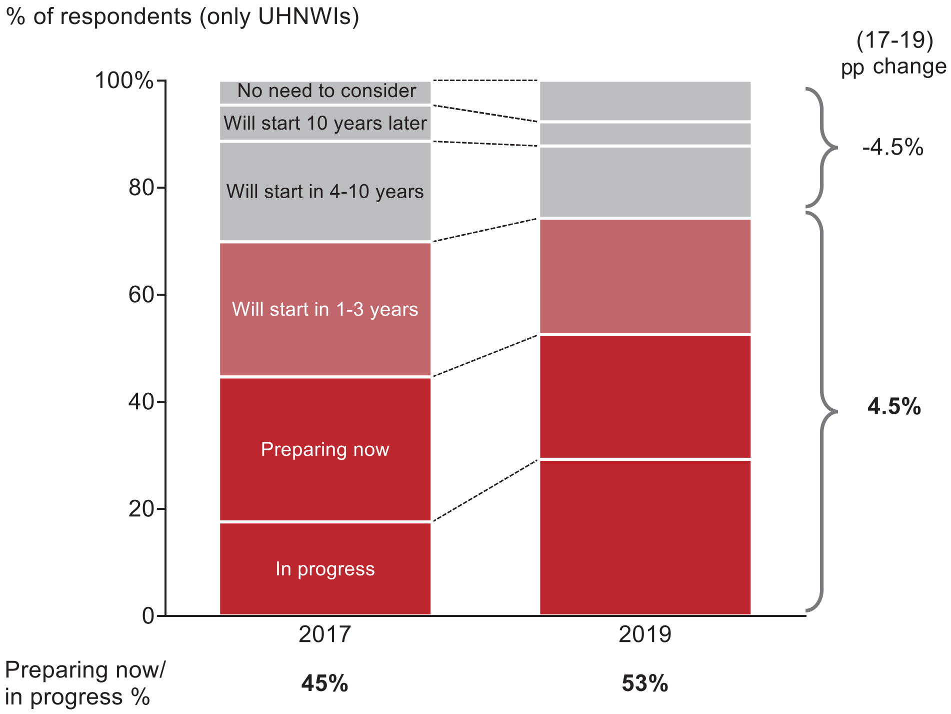


Source: CMB-Bain HNWI survey

More HNWIs are putting wealth inheritance planning into action

Driven by increased uncertainties in economic and financial markets as well as continuous education from wealth managers, more HNWIs have realized the importance of, and urgent need for, wealth inheritance. In the 2019 report, more than 50% of surveyed HNWIs said they have prepared or are preparing for wealth inheritance, exceeding for the first time in the past decade those who have not yet started such planning. HNWIs are no longer simply thinking about wealth inheritance but are putting those thoughts into action. Moreover, UHNWIs are preparing for wealth inheritance at a younger age. Early planning has become a new trend: Of UHNWIs already preparing for wealth inheritance, 33% are under age 40, which is 10% higher than in the 2017 report (see Figure 21).

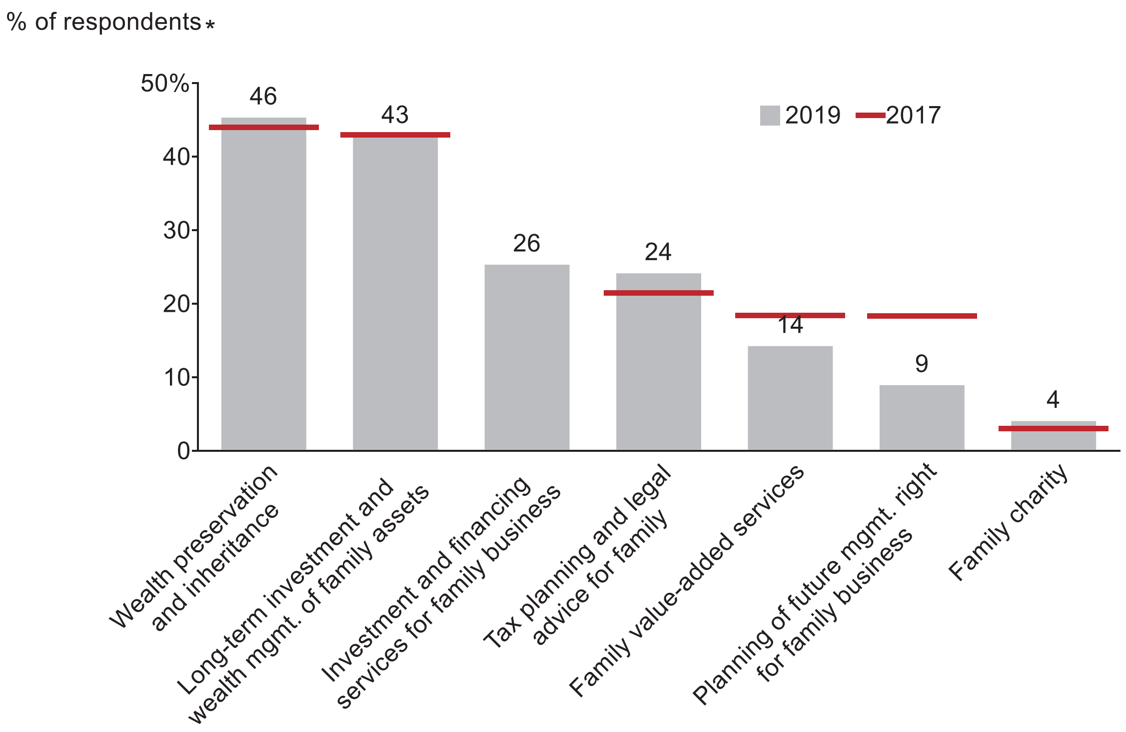
Figure 21: Preparation for wealth inheritance among HNWIs, 2017–2019



Source: CMB-Bain HNWI survey

HNWIs have become increasingly sophisticated and complex in their demands for inheritance planning, compared with previous years. Besides wealth preservation and wealth management, they also have strong interests in corporate investment and financing, family tax and legal advice and family charity services (see Figure 22).

Figure 22: Needs of HNWIs for private banking services, 2017–2019

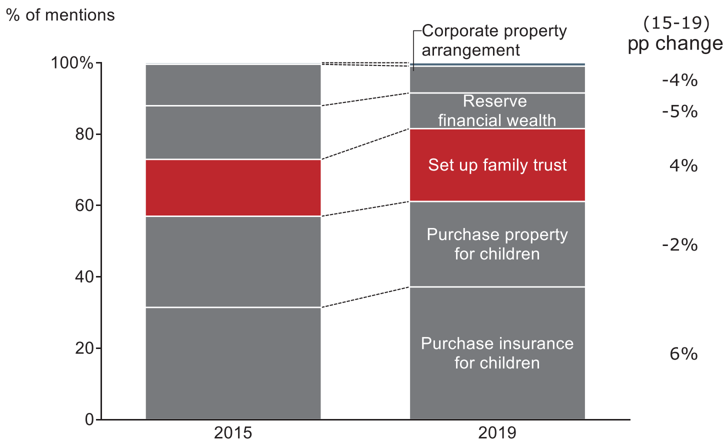


Note*: Some options are not shown here, as they were not included in the 2017 survey.
Source: CMB-Bain HNWI survey

- Family trusts grow quickly as a means of wealth inheritance, and HNWIs favor domestic family trusts

Among the surveyed HNWIs, the most commonly used tools for inheritance arrangement include insurance, property and family trusts. In recent years, the family trust category has grown the fastest, with the percentage of respondents reporting its use increasing from 16% in the 2015 report to 20% in the 2019 report. This increase was primarily driven by three factors. First, wealth managers have provided HNWIs with ongoing education and guidance about the importance of wealth inheritance. Second, a family trust neutralizes many of the inadequacies of insurance and property as tools in wealth inheritance and enhances their flexibility for wealth inheritance planning. Some surveyed HNWIs mentioned that their children with overseas study experience had different expectations of wealth inheritance. For these HNWIs, family trusts can do more than protect their children's future. They can also create an inheritance plan that is tailored to their children's own individual needs and set up in a way that helps them gradually learn to manage and build upon their wealth. Third, as the number of successful cases increases, HNWIs are gradually increasing their confidence in family trusts and starting to take action for family trust arrangements (see Figure 23).

Figure 23: Wealth inheritance arrangements among HNWIs, 2015–2019



Source: CMB-Bain HNWI survey

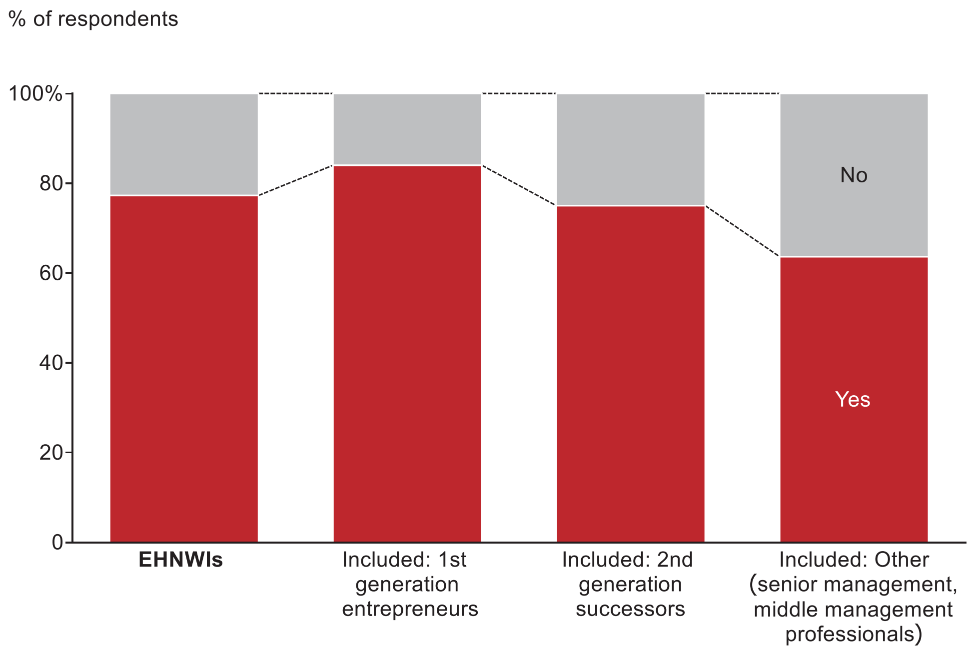
Among respondents, twice as many HNWIs set up domestic family trusts as set up overseas family trusts. Many HNWIs have ongoing demands for domestic family trust services because their wealth and businesses are primarily in China. As domestic family trust services continue to improve, entrusted assets once dominated by cash have gradually shifted to diversified assets composed of insurance, equity, real estate and works of art. Domestic trusts today are further integrated with legal, tax, corporate structure and other comprehensive services, leading to HNWIs' increasing confidence in domestic family trust services.

- Extremely high-net-worth individuals (EHNWIs)[6] are more open to family offices, with high expectations of planned/proposed arrangements for family businesses

More than 75% of EHNWIs are willing to try family office services, with a higher-than-average demand among first-generation entrepreneurs and second-generation successors. Chinese EHNWIs have developed a better understanding of family offices, but under the current domestic economic slowdown and structural reforms, first-generation entrepreneurs and second-generation successors face particular challenges ranging from business transformation to increased complexity of wealth inheritance. As a result, they report an increased demand for more comprehensive inheritance services.

Currently, EHNWIs use a variety of family office services and have a solid understanding of the different types of services and solutions. The most widely used services include tax planning and legal advice, family asset-allocation management and family wealth preservation and inheritance (see Figure 24).

Figure 24: Acceptance of family offices among Chinese EHNWIs in 2019

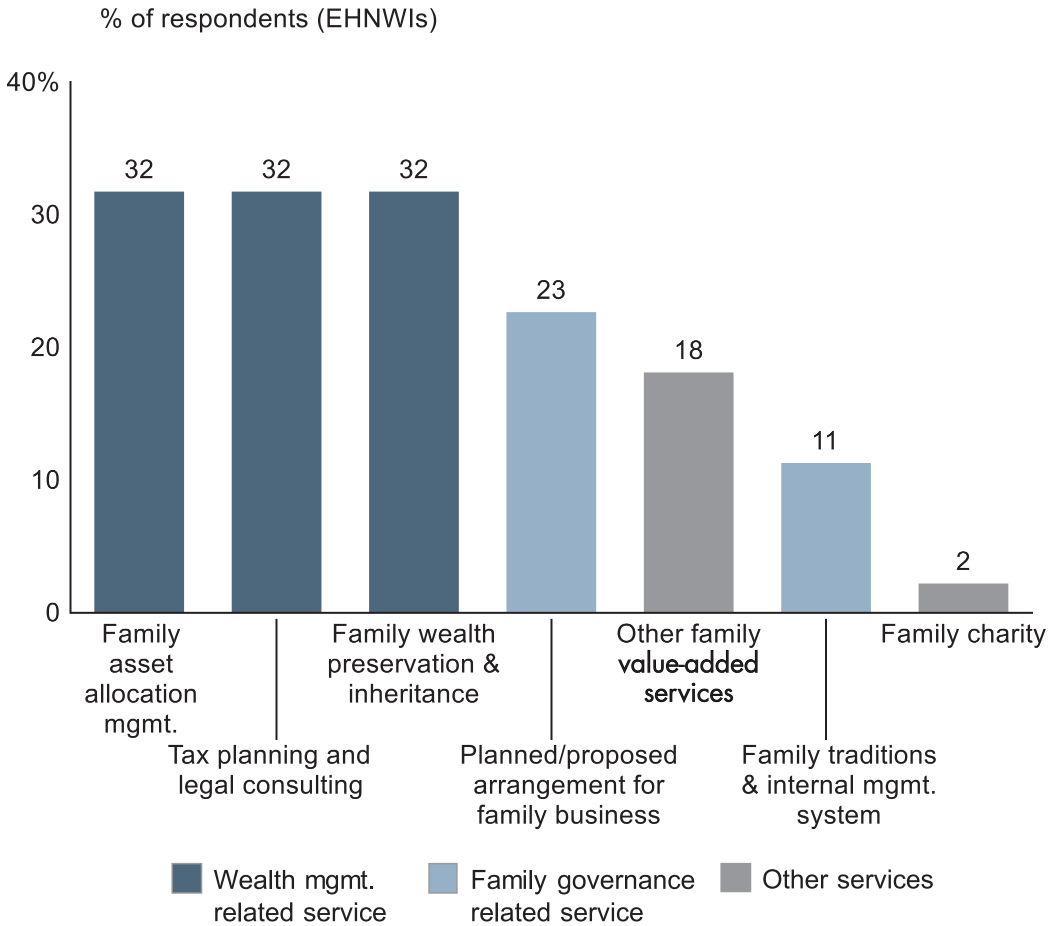


Source: CMB-Bain HNWI survey

[6] In this report, EHNWIs refer to individuals with total investable assets >RMB 500 million.

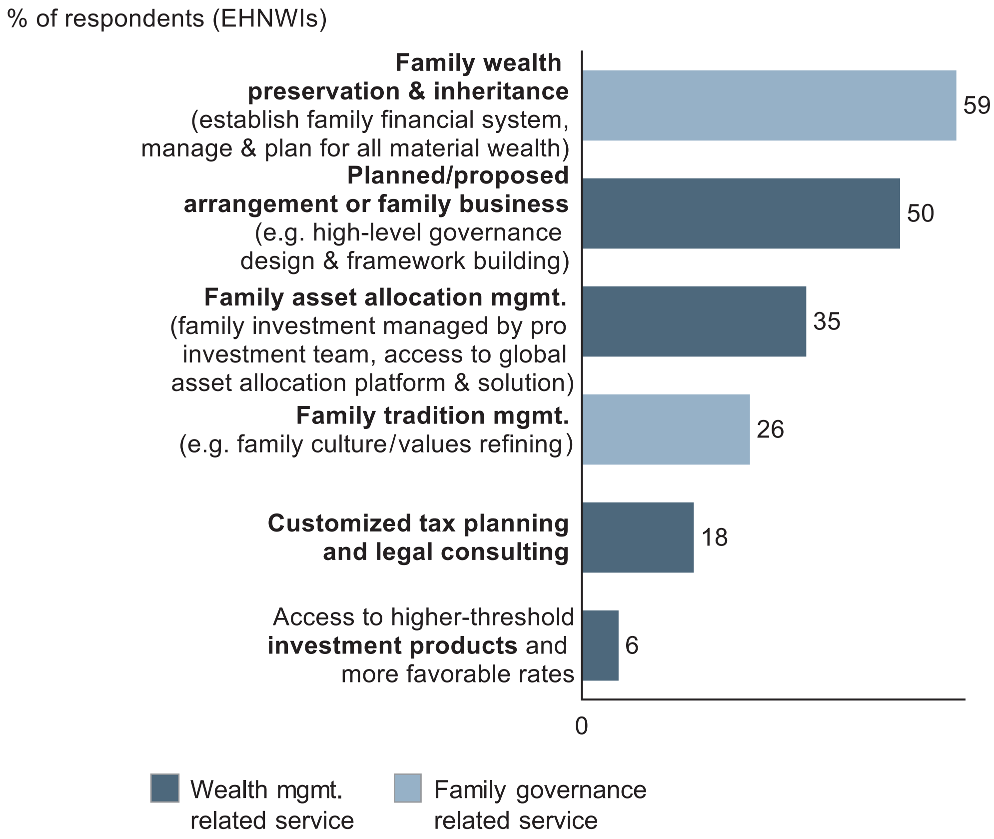
Since 2018, more family businesses face pressure for operational and structural changes because of increasingly complex financial and organizational structures. EHNWI entrepreneurs have encountered unprecedented challenges related to corporate succession, business transformation and investor relationship management. Survey responses show that in terms of family office services, EHNWIs have the highest demand and expectations for planned/proposed arrangements for family businesses (see Figures 25 and 26).

Figure 25: Use of family offices among Chinese EHNWIs, 2019



Source: CMB-Bain HNWI survey

Figure 26: EHNWI expectations for family office services, 2019



Source: CMB-Bain HNWI survey

Investment opportunities in China regained momentum amid reduced appetite for overseas investment

- HNWIs have shifted their investment focus back to China while maintaining their overseas portfolio to spread risk

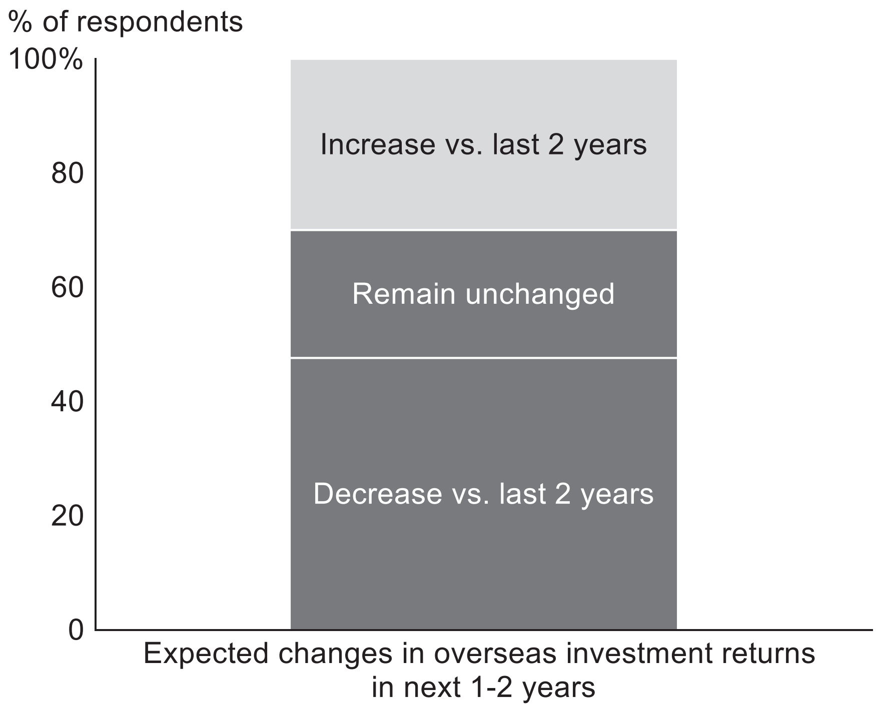
Driven by the BRI, the accelerated opening up of domestic capital markets and opportunities emerging from the new economy, China managed to maintain its stable economic growth with only a slight slowdown in GDP in 2018. On the contrary, overseas investment returns fell short of investor expectations because of growing economic pressure and upheaval. As a result, HNWIs have shifted their focus back to mainland China.

Since its introduction in 2013, the BRI has secured cooperation from 125 countries and continues to create opportunities for economic development and wealth generation. Through cross-border interconnections, the BRI facilitates international collaborations on industrial capacity and promotes Chinese products and technologies to overseas markets. It also encourages the development of western China, driving the movement and restructuring of labor-intensive industries, deepening industrial upgrades and transformation and rebalancing regional economies. In 2019, the BRI is expected to cover more countries and regions, and the rapid development of the "Digital Silk Road" should enable an accelerated expansion overseas by Chinese telecom and Internet companies.

Chinese financial markets have continued to open up to foreign investors, and the government decided to double the Qualified Foreign Institutional Investor quota in January 2019. In February 2019, MSCI announced an increase in the weighting of Chinese A shares in its global benchmark indexes to 20%. Analysts project that foreign capital inflows will increase by hundreds of billions of dollars as a result. Given favorable factors, such as the recovery in market values of A shares and the establishment of the Science and Technology Innovation Board, a growing number of HNWIs have shifted their investment focus back to the domestic market and are, therefore, paying close attention to the ways through which good investment performance could be achieved.

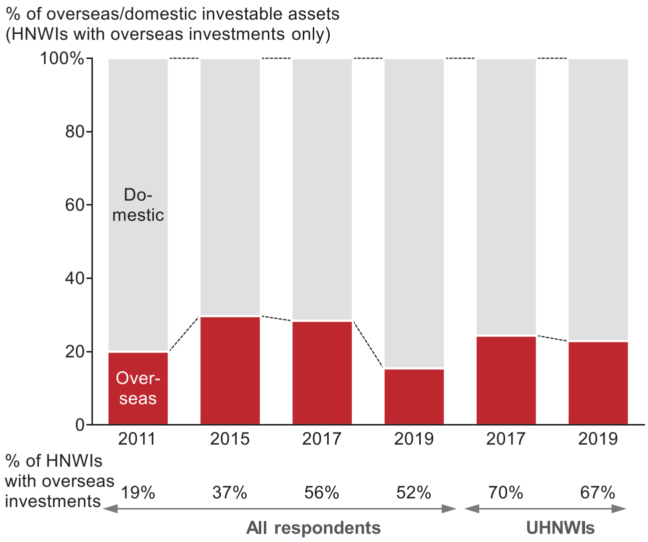
The year 2018 witnessed both a decline in the volume of overseas assets held by HNWIs and a reduction in HNWIs' expectations for returns from these foreign investments (see Figure 27). The proportion of overseas assets held by HNWIs in their overall portfolios also decreased (see Figure 28). Many surveyed HNWIs reported that they intended to take a more conservative and prudent approach to overseas investment given their lack of in-depth understanding of the overseas financial markets and increased economic and political uncertainties around the world.

Figure 27: Changes in HNWIs’ expectations for overseas investment returns, 2019



Source: CMB-Bain HNWI survey

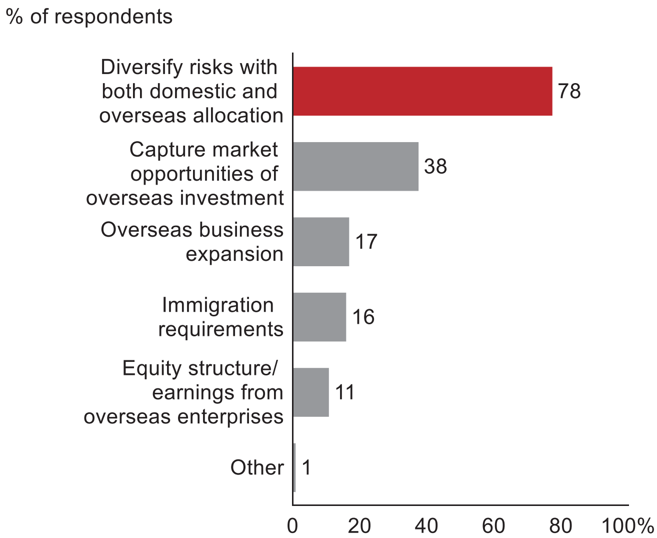
Figure 28: Percentage of HNWIs' domestic/overseas investable assets, 2011–2019



Source: CMB-Bain HNWI survey

The survey shows that HNWIs are investing in overseas markets mainly for risk diversification and hedging. More than half of HNWIs reported that portfolio diversification was the main reason for their overseas investment(see Figure 29).

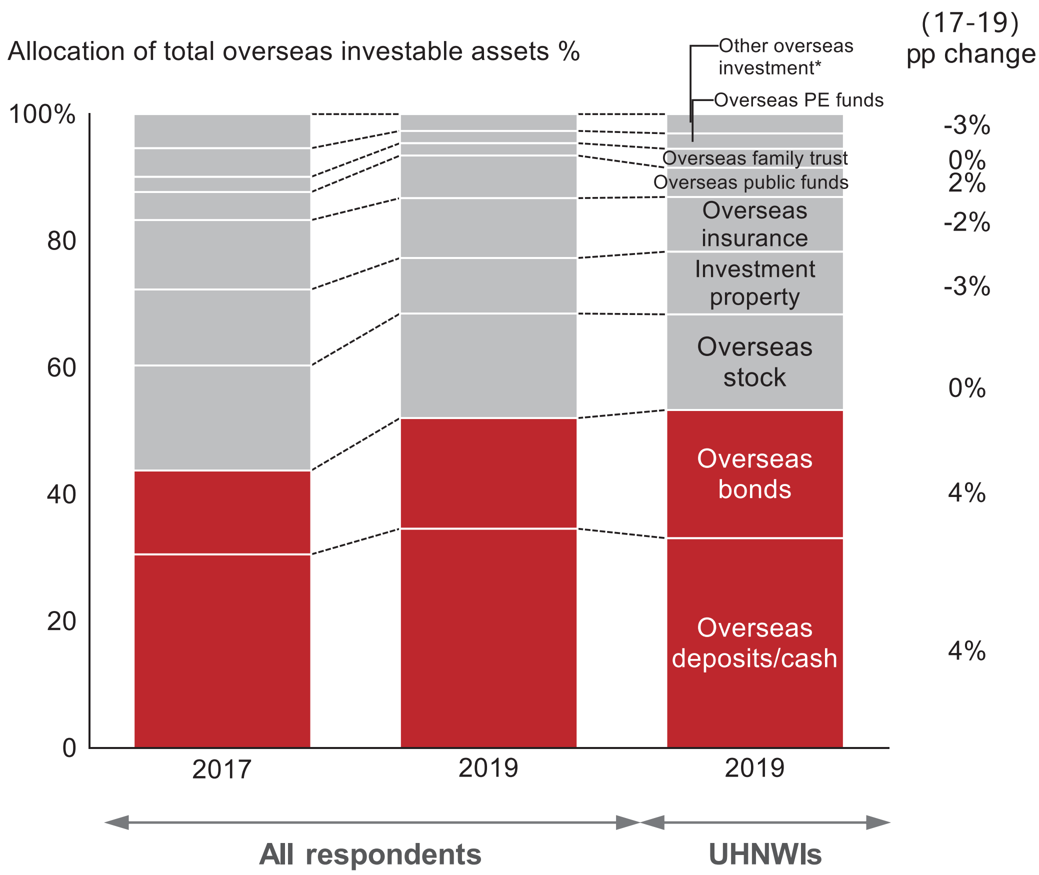
Figure 29: Key drivers of Chinese HNWI investment in overseas markets in 2019



Source: CMB-Bain HNWI survey

The survey indicated a strong preference from HNWIs for highly liquid and low-risk assets to diversify risk, reflecting the global economic downturn and market volatility. As a result, deposits/cash and bonds as a percentage of HNWIs' portfolios increased significantly from the 2017 to the 2019 report; HNWIs also showed less interest in overseas property because of more stringent regulation of real estate investment in a number of countries (see Figure 30).

Figure 30: Major asset classes of Chinese HNWIs' overseas investment, 2019



Note*: Other overseas investments include gold, collections and structured products.
Source: CMB-Bain HNWI survey

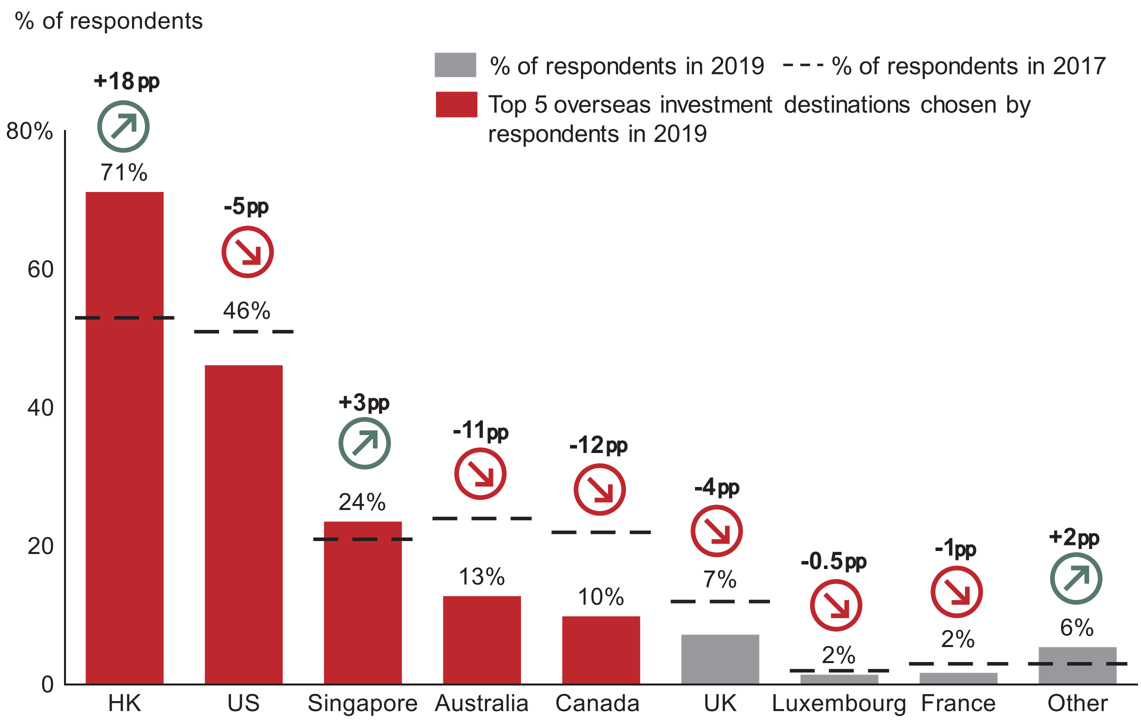
- In recent years Hong Kong has become more competitive compared with other overseas markets, aided by favorable capital market policies and broad opportunities for wealth creation

As the traditional gateway for Chinese investors to invest overseas, Hong Kong has also attracted more attention in recent years. Based on our survey conducted in early 2019, 71% of HNWIs selected Hong Kong as their preferred destination for overseas investment, compared with 53% in the 2017 report—an increase of 18 percentage points. On top of linguistic and cultural advantages, favorable policies and diversity of investment targets in Hong Kong contributed to its attractiveness as a hub for overseas investment (see Figure 31).

In April 2018, the Hong Kong Stock Exchange introduced a new set of listing rules, allowing pre-revenue/pre-profit biotech companies and innovative companies with weighted voting-rights structures to go public. The IPO green light was also given to so-called unicorns from the mainland, and the investment quotas of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were quadrupled. By 2018, more than 90 companies incorporated and rooted in mainland China were listed in Hong Kong. A growing number of Chinese companies issued dollar-denominated corporate bonds in Hong Kong through early 2019, tapping an appetite for such securities among Chinese investors.

In contrast to their enthusiasm for Hong Kong, HNWIs have cooled their interest in the US, Australia, Canada and the UK. One reason is the anxiety caused by greater economic and political uncertainty globally, including China-US trade frictions and Brexit. Second, the threshold for property market investments by foreign investors was raised in Canada, the UK and Australia in the form of additional real estate levies and restrictions. Third, the implementation of the OECD-developed Common Reporting Standard—aimed at reducing tax evasion—increased the transparency of HNWIs' overseas assets, further reducing their enthusiasm for investment in these countries (see Figure 31).

Figure 31: Overseas investment preferences for Chinese HNWIs, 2019



Source: CMB-Bain HNWI survey

Chapter 3: The Competitive Landscape of China's Private Banking Sector

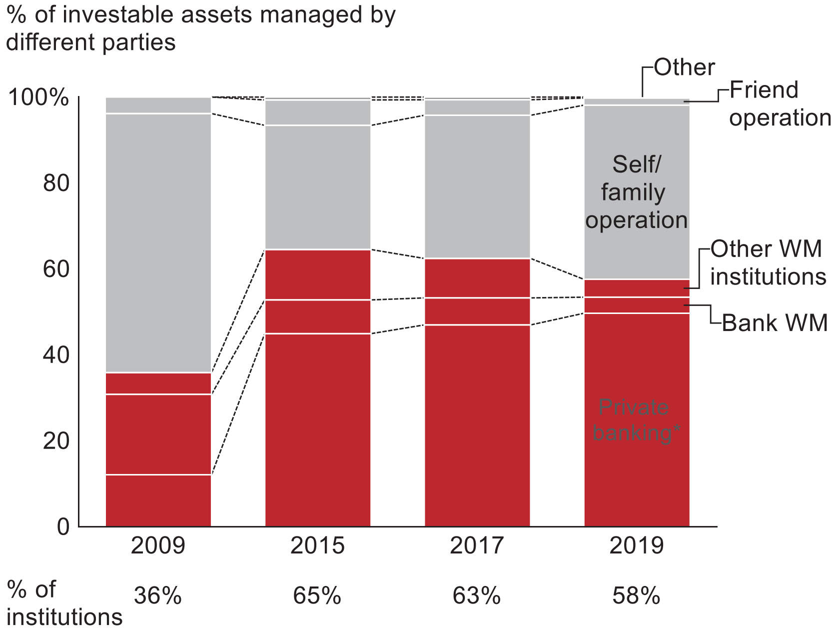
- In the domestic market, HNWIs have shifted back to banks to manage their wealth. This shift could generate more business opportunities for private banks, especially those with a more consistent track record and stronger expertise.
- In the overseas market, the popularity of private banking services offered by Chinese banks has been growing, with integrated onshore-offshore services as the key driver.

HNWIs have shifted back to banks to manage their wealth, creating opportunities for private banking players

In the domestic market, the proportion of HNWIs that use private banks for wealth management has increased significantly, with joint-stock holding banks being the most favored for this role. The percentage of HNWIs who preferred nonbank wealth managers has dropped significantly over the last decade. According to some respondents, the wealth management market in the past was quite mixed, with investors at times being hit by compliance and risk-control failures (in peer-to-peer lending vehicles, for instance). As a result, HNWIs are likely to be more cautious and attentive to risk control, product selection and overall service capabilities of wealth managers.

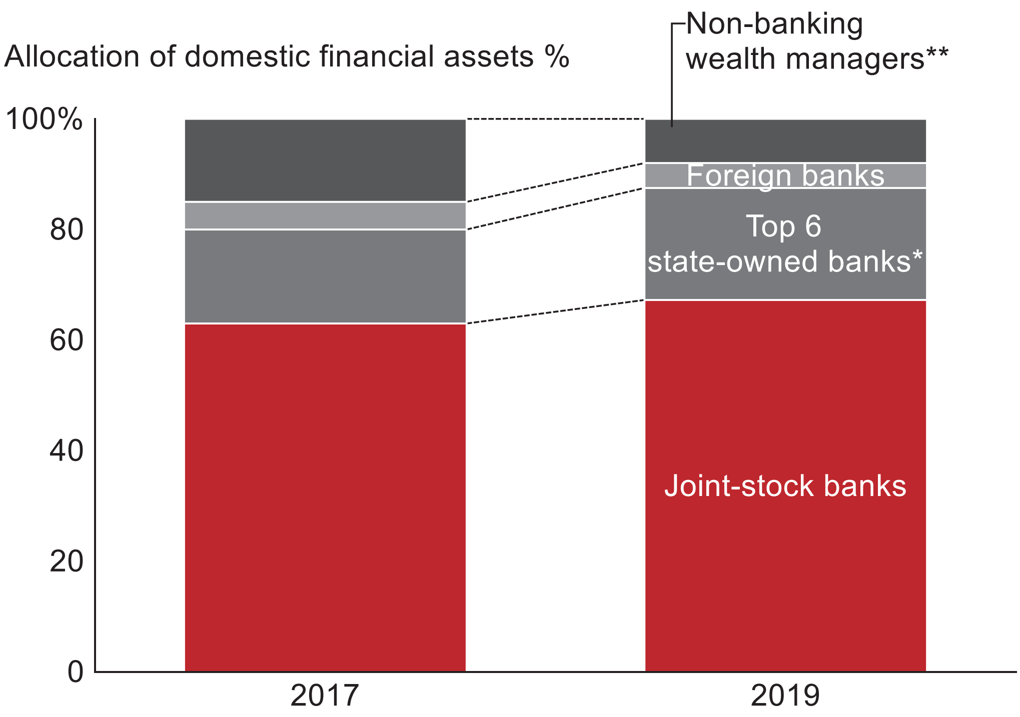
Survey respondents demonstrated a reduced willingness to use friends to invest on their behalf or to otherwise trust nonprofessional investment recommendations, which is an indication that they are generally becoming more cautious (see Figures 32 and 33). In general, wealth managers with proven track records in service capacities and expertise are likely to be in a better position to grow their businesses so long as they respond to market fluctuations in a timely and professional manner (see Figure 34).

Figure 32: Domestic wealth management channels for HNWIs, 2009–2019



Note*: Private banking includes private banking services through commercial banks (e.g., purchasing private banking wealth management and investment products) and discretionary services through private banking.
Source: CMB-Bain HNWI survey

Figure 33: Asset allocation in the domestic market by HNWIs, 2017–2019

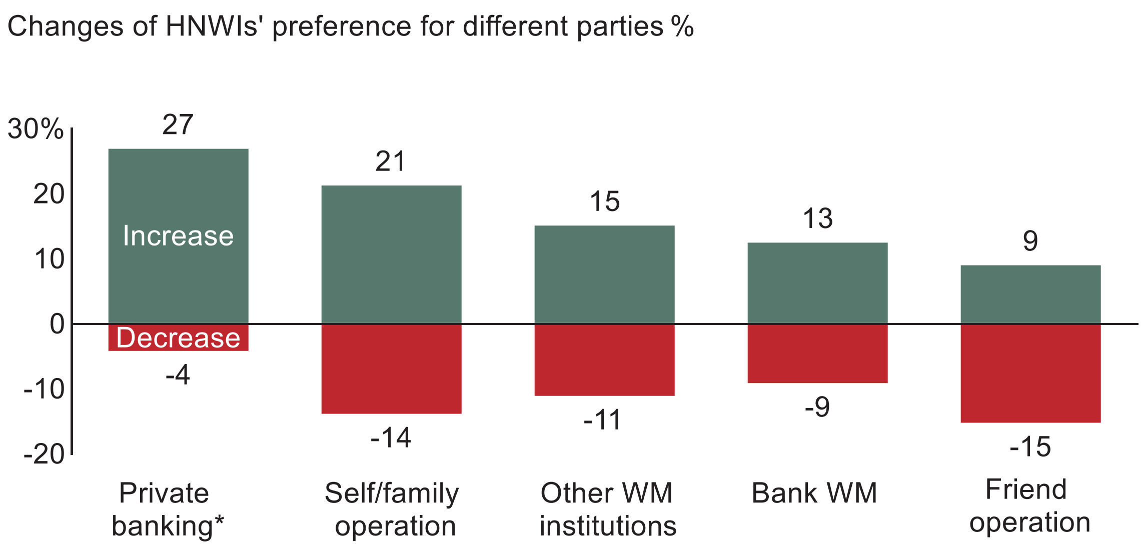


Note*: The top-six, state-owned banks are Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, Bank of Communications and Postal Savings Bank of China. The top-four, state-owned banks were used in the 2017 report.

Note**: Nonbank wealth managers include securities companies, fund managers, trust companies and other third-party independent wealth management providers.

Source: CMB-Bain HNWI survey

Figure 34: HNWIs' preference for domestic wealth managers in the next one to two years

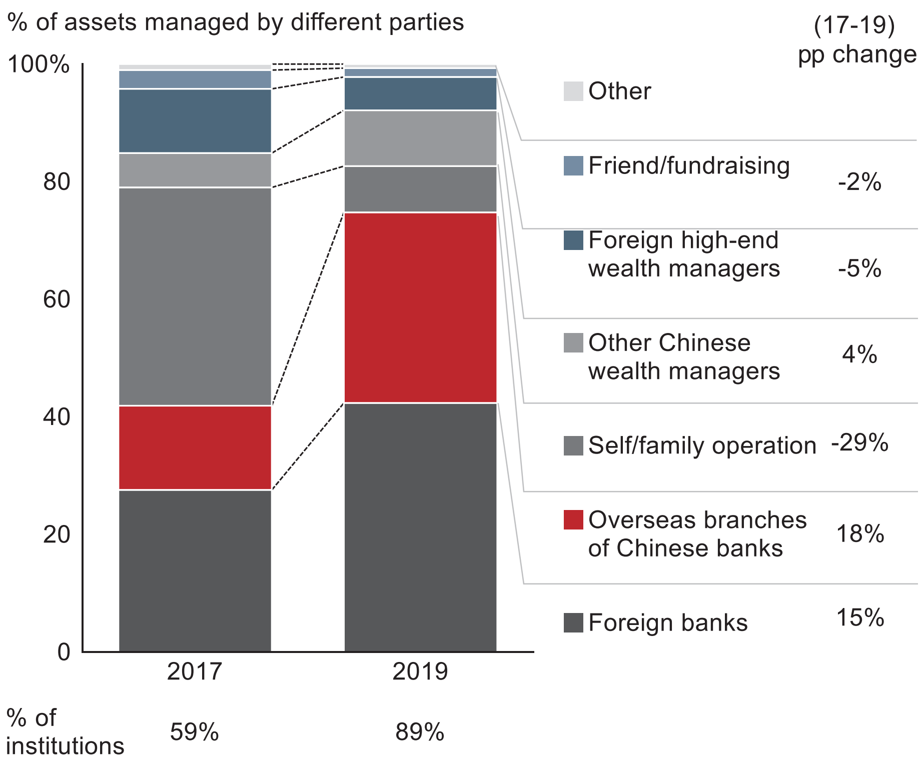


Source: CMB-Bain HNWI survey

The popularity of private banking services offered by Chinese banks has been growing, with integrated onshore-offshore services as the key driver

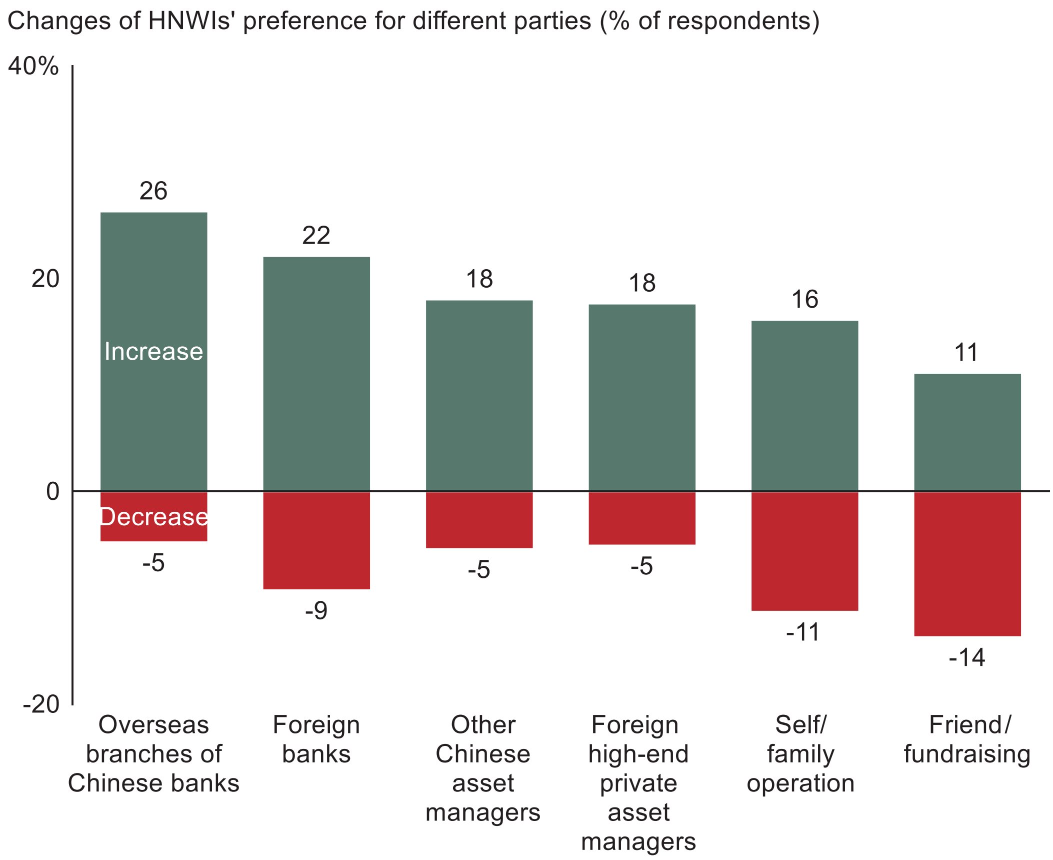
Given their insufficient knowledge of overseas market regulations, financial products and underlying risks, and given the fact that some investors suffered losses in 2018, HNWIs have increasingly relied on wealth management institutions to help them manage their overseas portfolios. The trend reflects the way that Chinese commercial banks have invested outside China, with the aim of integrating and improving services in a bid to build on cultural links with these customers (see Figures 35 and 36).

Figure 35: Allocation of HNWIs' overseas financial assets among different kinds of wealth managers, 2017–2019



Source: CMB-Bain HNWI survey

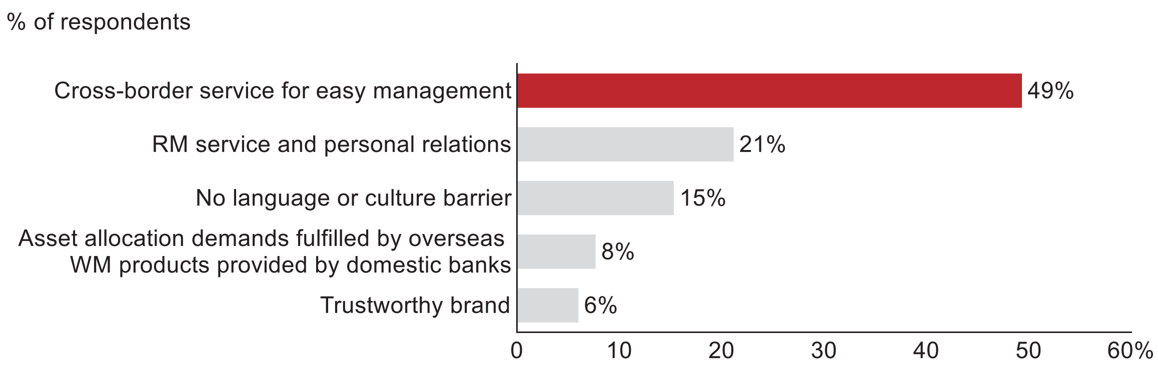
Figure 36: HNWIs' preference for overseas wealth managers in the next one to two years



Source: CMB-Bain HNWI survey

Chinese banks have been actively establishing overseas branches over the last several years to improve HNWI services, and many of their offshore operations have achieved significant results. Chinese HNWIs who chose the same institution for their domestic and overseas investments principally attributed that choice to customer satisfaction and the efficiency made possible by a full range of integrated onshore-offshore services (see Figure 37). The cross-border client relationships also allow Chinese private banks to reduce their client communication costs.

Figure 37: Reasons for Chinese HNWIs to choose the same institution for domestic and overseas investments



Source: CMB-Bain HNWI survey

Conclusions and implications for the Chinese private wealth management industry

Following rapid growth over the past several years, the private wealth management market in China experienced slower growth between 2016 and 2018. In the face of market turmoil and economic slowdown, Chinese HNWIs have developed a more sophisticated set of expectations for wealth management. Furthermore, the economic transformation and development that aimed to stabilize and stimulate growth have brought about a structural change in the HNWI population. A new HNWI segment, composed of company executives, senior executives and professionals, has emerged, and segment members have matured rapidly as a result of the volatile market conditions over the last two years. Specifically, Chinese HNWIs are demanding higher levels of expertise and professionalism from private wealth managers, particularly in investment vehicles and product selection, allocation of asset classes and risk control and mitigation; they are also expecting more in the way of customer experience. At the same time, they have reduced their overseas investments and shifted their focus back to the domestic market, reacting to global economic and political uncertainties and hoping to seize new opportunities in China.

Competition among financial institutions, including banks, securities companies, trust companies and third-party wealth management firms, continues to increase. Along with the promulgation of the new asset management regulations, the last two years saw a more disciplined market and the elimination of some of the weaker players. Wealth managers are striving to differentiate themselves from their peers through new and customized services, and they are refocusing their businesses to gain a competitive edge.

In the domestic market, wealth managers should pay attention to HNWIs' demands for more expertise and their renewed China-centric investment focus. They should develop competitive differentiation in capabilities, services and products.

In terms of service capabilities, market players should focus on HNWIs' demands in the areas of product selection, portfolio allocation, risk control and customer experience.

- Wealth managers should understand products thoroughly and be able to explain the nature of various assets clearly, disclose the underlying risks of those assets, regularly monitor and evaluate the performance of portfolios and make real-time adjustments that fit the customer's needs whenever necessary.

- Wealth managers should build data-analysis capabilities that allow them to use real-time performance data, such as return on investment and strategy deviations from current portfolios, to advise HNWIs on asset allocation. Investment advisers should be able to provide HNWIs with fintech-enabled, in-depth performance attribution analysis and advice regarding the adjustment of their portfolios. To the extent that fintech may also allow the build-out of customized user interfaces and dashboards, these efforts can also increase customer satisfaction.

- Wealth managers should combine fintech-enabled data-processing capabilities with available marketing data and best practices to provide tailored investment solutions and to convert potential clients to active clients.

- Wealth managers should offer clients comprehensive, one-stop private banking services whenever possible. In the meantime, they should explore fintech enhancements to current services.

- When it comes to product architecture, it is vital for private wealth managers to launch products compliant with regulatory requirements and to help clients structure their portfolios to better counteract economic cycles and market volatility. In addition, private wealth managers should strengthen their product selection capabilities, offering clients a superior and more flexible range of offshore investment vehicles.

In the overseas market, Chinese private wealth managers should continuously improve their integrated cross-border services, while also leveraging their resources, capabilities and in-depth understanding of HNWIs' wealth objectives and risk appetite in the domestic market, to make their overseas branches more competitive. It is important to expand overseas product categories and strengthen overseas product selection to give clients more flexibility and a superior choice of offshore investment vehicles. A strong product offering, combined with flawless client relationship management, will deliver a valuable and integrated service experience to clients wherever they are.

Appendix: Research Methodology

The 2019 China Private Wealth Report primarily analyzed the wealth market development trends of China and some of its key regions. The study analyzed the growing number of HNWIs, their respective private wealth, and their investment behaviors and mentality. It also examined the competitive landscape of private banking as well as the implications for the industry.

To estimate the overall HNWI market in China, as well as the distribution of HNWIs and their investable assets by province, we continued using Bain & Company's HNWI Income-Wealth Distribution Model as the basis, as in the 2009, 2011, 2013, 2015 and 2017 reports. In the spirit of making continuous improvements to the 2009–2017 model and methodology, we also deepened our research into the major market trends over the past two years, and we estimated the number of Chinese HNWIs in each province, as well as their investable assets at the macrolevel, building a proprietary database with 12-year accumulations. We applied a top-down macroresearch methodology to estimate the number of HNWIs, which helps to avoid potential undersampling errors that often occur when employing a bottom-up methodology. This ensures that the findings are more reliable, comprehensive and predictive. Using this statistical methodology, the 2019 China Private Wealth Report calculated the HNWI Wealth and Income Lorenz Curve. By applying this mathematical correlation to China and individual provinces, and by comparing recent HNWI Lorenz Curves from the UK, US, Japan and South Korea with CMB clients' asset distribution data, we derived the overall domestic HNWI Lorenz Curve and respective curves by province.

Since the publication of the first report in 2009, we have collected a mass of firsthand information about Chinese HNWIs, increasing our sample sizes each year. In 2009, we initiated our research, which surveyed 700 HNWIs and included more than 100 face-to-face, in-depth interviews. The 2011 report was based on 2,600 surveys and more than 100 face-to-face interviews. In 2013, we conducted approximately 3,300 surveys and more than 100 interviews. In 2015, we conducted 2,800 surveys and 100 interviews, and in 2017, we conducted 3,300 surveys and 100 interviews. Years of collecting this data laid a solid foundation for the research and analysis of Chinese HNWIs. This year, to collect data for the 2019 China Private Wealth Report, we once again conducted a thorough survey (about 3,000 research samples) and more than 100 face-to-face, in-depth interviews. To achieve the best representation, we interviewed HNWIs from 46 major cities, covering all the major Chinese economic regions: the Yangtze River Delta, Pearl River Delta, North China, Northeast China, Central China and West China. Our interviewees included industry experts as well as relationship managers from private banks and other financial institutions, private banks' HNWI clients and other HNWIs. All interviewed clients met our criteria for HNWIs, with at least RMB 10 million in investable assets.

Following the same CMB-Bain HNWI survey analysis methodology employed in the 2009, 2011, 2013, 2015 and 2017 China Private Wealth Reports, we used a statistical approach to further test new data segmentations. By comparing the data with the 2009, 2011, 2013, 2015 and 2017 results, we were able to see changes in HNWIs' investment attitudes and behaviors. Those changes form the backbone of the 2019 report and support our recommendations for wealth managers in China.

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