招商银行
CHINA MERCHANTS BANK

2021 China Private Wealth Report

China's Private Banking Industry: Embracing rivers to form the sea

招商银行
CHINA MERCHANTS BANK

Content

Preface：Embracing rivers to form the sea, the higher we climb the further we can see

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

Since 2020, the Covid-19 pandemic has made the political and economic landscape more complex and unpredictable. The domestic economy has been under pressure and is gradually progressing. Due to domestic and international factors, presenting both opportunities and challenges, China has been the first country to contain the pandemic and bring the economy back to normal. China's HNWIs are becoming increasingly experienced after facing complex market environments. At the same time, assets and number of HNWIs are growing and are entering a stage of quality growth.

In this context, CMB and Bain once again joined efforts and released the 2021 China Private Wealth Report, the 7th in its series, subtitled “embracing rivers to form the sea” empowered by CMB's customer centricity and Bain's scientific approach. In this report, we closely observed the changes in the investment preferences and behaviors of high-net-worth individuals with increasingly more investment experience. We went to Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Nanjing, Wuhan, Chongqing, Xi'an, Hong Kong and other cities to conduct in-depth research and interviewed over 4,000 HNWI to further understand the current needs and state of mind of Chinese HNWIs. We found that HNWIs are getting more sophisticated in wealth management and asset allocation over the years. They have become more rational in diversifying assets allocation, while leveraging professional insights and services, expecting wealth management institutions to integrate domestic and foreign resources to provide integrated financial and non-financial services. One of the 2021 highlights is the expansion of younger HNWIs from the new economy. The new economy segment is more focused on asset allocation, forward-looking insights, and non-financial value-added services. They value professional services, insights, convenience and one-stop-shop solutions.

Over the past two years, China's wealth management institutions have experienced both opportunities and challenges due to market volatility. As the total wealth of the society continues to grow, HNWI’s needs for wealth management have become increasingly diversified and concentrated towards top institutions with mature service systems. The top institutions are competing to build differentiation and moats. Development of China's wealth management institutions has entered the stage of quality growth. In this new era, it will be a priority for wealth management institutions to build an innovation-driven wealth management ecosystem, strengthen customer centricity, better understand the increasingly diversified needs of customers, enhance customer value, integrate the value chain of financial institutions, boost digital and build an integrated ecosystem to set in motion the flywheel effect that drives growth of HNWIs and wealth.

After turbulences in 2020, China’s wealth management market has been creating value through innovation and intelligence, customer centricity to address customer needs. Going forward, China's wealth management market still needs to follow the philosophy of "embracing rivers to form the sea", focusing on the needs of different segments, integrating internal and external resources, connecting internal and external service providers, and building an extensive wealth management platform. Through human-digital enablement, banks can develop forward-looking insights, comprehensive offering, and outstanding interactions to create long-term value for customers.

招商银行
CHINA MERCHANTS BANK

Acknowledgement

This report is the result of close long-term collaboration between China Merchants Bank and Bain & Company teams.

In 2009, the China Merchants Bank team pioneered the idea of an in-depth study of China's private wealth market. Over the past decade, China Merchants Bank and Bain & Company have continued to focus on this topic by following the changes and trends in the market. In 2021, China Merchants Bank and Bain & Company joined hands for the seventh time to conduct an in-depth study on China's private wealth market, the behaviors of high net worth individuals and China's private banking industry.

Since 2009, China Merchants Bank has made great efforts in collecting first-hand information of HNWIs by coordinating and arranging high-end client resources inside and outside the bank. They conducted about 4,000 interviews and a large number of in-depth discussions with clients and relationship managers across the country together with Bain & Company. China Merchants Bank also provided extensive business expertise and industry data, which laid a solid foundation for this in-depth research and analysis. Leaders from China Merchants Bank made valuable comments and suggestions on the overall methodology and framework of the report, which has been instrumental to the construction of this report. We would like to thank President Tian Huiyu, Vice President Liu Jianjun, Vice President Wang Jianzhong, General Manager Wang Yanrong of Private Banking Department, Vice President Wu Chunjiang, Vice President Wang Lei, Vice President Liu Yuheng, Chief Investment Advisor Chen Lin, and everyone in the China Merchants Bank team.

During the research and analysis, Bain & Company team continued to improve the methodology and modeling framework, such as refining the market sizing model, and identifying fast-growing asset classes in recent years. They also conducted in-depth analysis, research and interviews to identify and substantiate new findings. On top of completing research and interviews with CMB clients and relationship managers, Bain & Company team also conducted external client interviews to further complete supporting data. We would like to thank Phillip Leung (Senior Partner), Scully Cui (Associate Partner), Kelly Tian (Senior Manager) and everyone in the Bain & Company team.

We would also like to thank each of the HNWIs and relationship managers who were interviewed and participated in the research, as well as our colleagues at the head office and branches of China Merchants Bank who helped with the interviews and the completion of this report. They actively assisted with data screening, client research and interviews, and shared their years of experience in the industry. They have been very helpful in supporting market research and providing feedback and communication. During the research process, Bain & Company's internal experts and colleagues also referred interviewees and helped in data collection, modeling, methodologies and analytic tools, etc. We would like to thank our friends in the Greater China Office and Global Wealth Management Practice of Bain & Company.

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

Chapter 1 Overview and trends of China's Private Wealth Market in 2021

- In 2020, the total size of China's personal investable assets reached RMB 241 trillion, with a compound annual growth rate (CAGR) of 13% from 2018 to 2020; the total size of investable assets is expected to reach RMB 268 trillion by the end of 2021.

- In 2020, the number of HNWIs in China with investable assets of RMB10 million or more reached 2.62 million, with a CAGR of 15% from 2018 to 2020; the number of Chinese HNWIs is expected to reach approximately 2.96 million by the end of 2021.

- In 2020, investable assets per capita among HNWIs in China was about RMB 32.09 million, with a total of RMB 84 trillion in investable assets. By the end of 2021, the size of investable assets held by HNWIs is expected to reach about RMB 96 trillion.

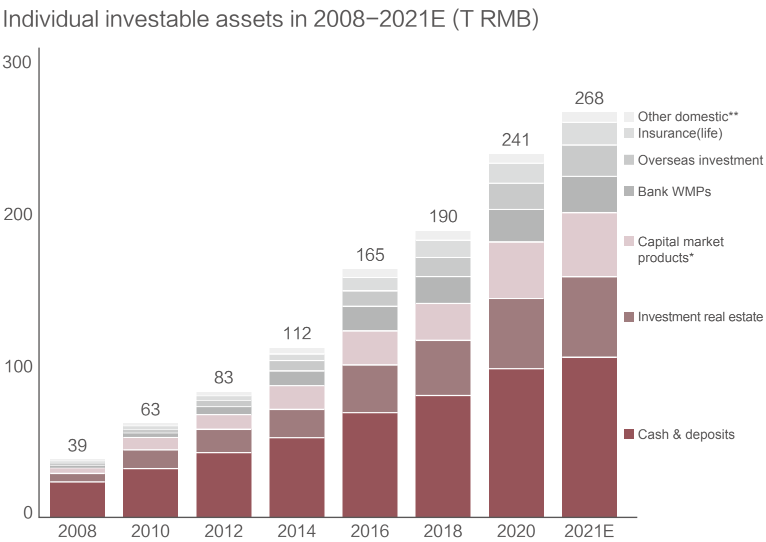
- In 2020, there were 17 provinces and cities with over 50,000 HNWIs, namely Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong, Sichuan, Hubei, Fujian, Tianjin, Liaoning, Hebei, Hunan, Henan, Anhui, Jiangxi and Yunnan; nine of these provinces and cities (Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong, Sichuan, Hubei and Fujian) are the first to have more than 100,000 HNWIs; 24 provinces and cities have more than 20,000 HNWIs; HNWIs are expanding from first-tier cities to the surrounding regions: the number and concentration of HNWIs in the three major economic zones is increasing.

Total assets are expected to rise steadily in 2021 with economy back to normal supported by strong fundamentals

In 2020, despite the impact of the pandemic and unfavorable domestic and international economic environment, China was the first major global economies to have positive economic growth, with GDP exceeding RMB 100 trillion for the first time and growing by 2.3%. The World Bank forecasted that with improved consumer, business confidence and labor market conditions, China's GDP growth in 2021 (the opening year of the 14th Five-Year Plan) will return to the pre-pandemic level with a projected GDP growth rate of 7.9%.

Due to these resilient macro economy tailwinds, China’s private wealth market is also witnessing steady development. The overall size of China's personal investable assets[2] reached RMB 241 trillion in 2020, with 13% CAGR from 2018 to 2020, back to the double-digit territory. Among them, the capital market grew significantly, with CAGR increasing to 27% from 2018 to 2020. Investment in real estate is stabilizing thanks to policy curbing real estate speculation with market momentum recovering and CAGR up to 14%. (Figure 1)

Figure 1: Total size of personal investable assets in 2008−2021E



CAGR (08−20)	CAGR (12−14)	CAGR (14−16)	CAGR (16−18)	CAGR (18−20)	CAGR (20−21E)
16%	16%	21%	7%	13%	11%
42%	48%	35%	0%	−5%	1%
18%	18%	23%	15%	11%	14%
32%	20%	26%	10%	21%	20%
25%	40%	29%	6%	9%	11%
19%	27%	22%	1%	27%	14%
20%	8%	30%	8%	14%	12%
13%	11%	15%	8%	9%	9%

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

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

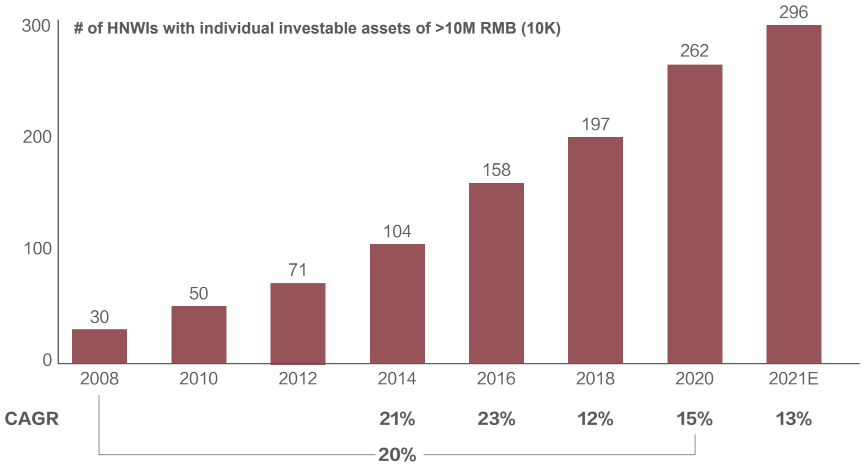
** Other domestic investments include personally held trust, fund SMA, WM affiliated to securities brokers, PE investment products, gold and private equity etc.

1 This report is focused on mainland China, not including Macau and Taiwan.

2 Investable assets: Measurement of total investable wealth (assets tradable in the secondary market with minimum level of liquidity). Investable assets include individual financial asset and real estate investment. Financial assets include cash, deposit, stock (to-be-listed and non-tradable stocks, same below), debt, fund, insurance, bank WM products, overseas investment and other domestic investments (including trust, fund SMA, AM products, PE funds); not including owner-occupied housing, non-public company equity and durable consumables excluding PE investment.

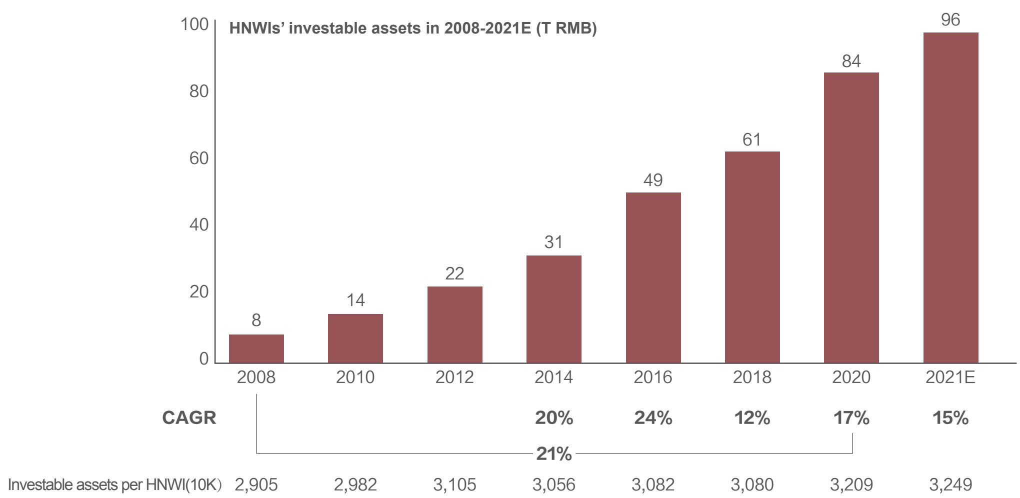
Both the number of China's HNWIs[1] and the amount of their investable assets grew at a faster rate than previous years. In 2020, the number of China's HNWIs reached 2.62 million, an increase of about 650,000 compared to 2018, with a CAGR of 15% in 2018-2020, up from 12% in 2016-2018. This was mainly due to good performances of capital markets in the past two years, the rebound of the real estate markets in high-tier cities, and the continued emergence of new HNWI segments with increasing number of IPOs in China and abroad. In terms of wealth size, Chinese HNWIs held a total of RMB 84 trillion in investable assets in 2020, with a CAGR of 17%. The average holding of investable assets was about RMB 32.09 million. (Figure 2 and Figure 3)

Figure 2: Number of HNWIs with individual investable assets over RMB 10 million



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

Figure 3: Size of investable assets of HNWIs



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

Overview of China’s Private Wealth Market in 2019-2020 and outlooks for 2021

Macro economy

- **2019-2020 review:** With a focus on deepening reform and expanding opening up, the overall economy was stable with increasing quality development. China's economy overcame the COVID-19 obstacles and showed both resilience and vitality. China led the global recovery with a GDP growth rate of 2.3%.

- **Outlook for 2021:** China's economic development should benefit from multiple tailwinds: the large domestic market, deepening urbanization and the increasing purchase power should continue boosting consumption. 2021 will see China's economy steadily develop, benefiting from macro policies maintaining continuity, stability and sustainability. Deepened structural reforms will contribute to expanding domestic demand, strengthening strategic support for science and technology, and expanding opening up. The 2021 government work report has set the GDP growth rate at 6% or more.

Cash and Deposits

- **2019-2020 Review:** In 2019, PBOC implemented three interest rate cuts and formed a 3-tiered required reserve scheme with two preferential policies. The year-on-year growth rate of RMB loans remained above 12%, and the growth rates of M2 and social financing remained above 8% and 10% respectively. There was an increase in RMB loans by 19.6 trillion, or a YoY increase of RMB 2.8 trillion; M2 grew by 10.1% year-on-year and social financing grew by 13.3% year-on-year. Both hit new highs in recent years; The new loans of 19.6 trillion yuan were added in the year, which was a record high. Cash and deposit balances grew at a steady rate, with a CAGR of 9% from 2018-2020.

- **Outlook for 2021:** Even though the domestic economy gradually returns to normal, domestic and foreign pandemic prevention and control are still ongoing. The PBOC is expected to maintain a cautious monetary policy that is flexible, moderate and specific to ensure stability. As the economy picks up, the savings rate of residents is expected to fall back to normal levels, facilitating the recovery of consumption. The overall cash and deposit growth rate is expected to remain at 8-10%.

Real Estate Market

- **2019-2020 Review:** In 2019, China's real estate market policies focused on controlling risks in the market. Real estate developers have been under financial pressure. The price increase of new residential units in 100 cities has been further controlled, and the land trading market has cooled down. Investments into real estate development grew at 9.9%, down from higher level at the start of the year. In 2020, real estate investment bounced back. With anti-speculation policies, the rental market remains the key driver for development. Commercial real estate square meters sales increased by 2.6% compared to the previous year. The number of 100-billion-worth real estate developers increased to 41 despite cautiousness in both cash flow management and land acquisition. The average annual growth rate of investment real estate rose from 8% in 2016-2018 to 14% in 2018-2020.

- **Outlook for 2021:** Given both nation-wide anti-speculation policies, and city-level real estate policies including restrictions on loans, purchases and prices that are all unlikely to ease in the short term, the market is expected to grow at the same rate in 2021. The regional differences across real estate markets have been growing. Cities with continued inflow of population and strong economic potential has seen housing price rise, whereas those with outflow and insufficient economic potential will face downward pressure. Growth rate will stabilize at 12-14% in 2021.

Stock Market

- **2019-2020 Review:** In 2019, new policies, such as the establishment of the Science-Technology Innovation Board and facilitated stock market listing approval, were implemented to stimulate the stock market. The SSE Composite Index, the SZSE Component Index and the Growth Enterprise Index rose by 22.3%, 44.1% and 43.8% respectively. The annual net inflow of northbound capital reached a record high of 351.7 billion yuan. In 2020, the SSE Composite Index and the SZSE Component Index rose by 13.9% and 38.7% respectively. The Growth Enterprise Index rose by 64.9%, ranked No.2 among major global stock indices. The stock markets in 2021 have been increasingly polarized between rising blue-chip stocks and decreasing small-cap stocks. Equity funds and hybrid funds delivered high returns two years in a row, which encouraged investments into funds. Increasing amount of household savings have been invested into the stock market.

- **Outlook for 2021:** Due to facilitated market listing approval, the rise of institutional investors, better quality of listed companies, and regulation improving market operations, the stock market has experienced faster growth in the past two years and demonstrated signs of converging towards the historical mean. Equity and hybrid funds are expected to maintain their traction as the A-share market improves, and money market funds and bond funds should maintain steady growth. The growth rate is expected to slow down in 2021 and remain at 13-15%.

Public Funds

- **2019-2020 review:** In 2019, China's public funds were growing both in volume and value. Except for money market funds that were adversely impacted by the new asset management regulations, most other funds grew in size. There were 6,084 active funds in the public fund market in 2019, an increase of 931 funds compared to 2018. The net asset value of the market was 14.7 trillion yuan, an increase of 13.5%. Public funds have been successful in 2020 capitalizing on growing capital markets. The total value of public funds totaled 18 trillion yuan, setting a new record high. The total profit was 2 trillion yuan, among which hybrid funds represented 1.2 trillion yuan. In terms of fund focus, the allocation of pro-cyclical sectors such as finance, mining and manufacturing industries increased, while that of real estate decreased. At the end of 2020, the percent of public funds held by individuals rose from 3.6% by the end of 2019 to 53.4%. The bond funds remained the favorite of institutional investors holding 91.6% of total. Overall, the net asset value of public funds has continued its growth.

- **Outlook for 2021:** Considering the excessive growth and high market valuations in 2020, as well as the expectation of a liquidity inflection point in 2021, public funds will find it hard to keep the return above market average. The growth in 2021 is likely to slow down.

Bank wealth management products (WMPs)

- **2019-2020 review:** Following the release of new regulations on asset management and wealth management, bank WMPs was transitioning towards net-asset-value (NAV) products in 2019, with the balance and proportion of NAV products growing rapidly to 10.1 trillion in balance. In 2020, with the implementation of these policies, the transition towards NAV products and the rationalization of wealth management business, the share of interbank wealth management products and nested multi-layer investment products is expected to shrink. The market size of bank wealth management reached 25.9 trillion yuan, an increase of 6.9% year-on-year; the cumulative income for investors was 993.25 billion yuan, an increase of 7.1% year-on-year. 2018-2020 growth rate was rising steadily, with a CAGR of 9%.

- **Outlook for 2021:** As the new regulation on asset management entered its final year of implementation, share of standard products continued to be reduced in wealth management companies product portfolio. The penetration of NAV product will continue to rise, and the share of non-principal-protected wealth management products is expected to keep rising. The structured deposits have reached the initial milestone for reduction and entered into a maturity phase, with slower growth expected in the future. Investor acceptance of NAV products will continue to rise, and the lower capital thresholds under the new regulations should attract more individual investors into the wealth management market. The overall growth rate of bank WMPs is expected to remain at 10-12% in 2021.

Insurance

- **2019-2020 Review:** In 2019, the GWP (Gross Written Premium) of the insurance industry reached 4 trillion yuan for the first time, returning to double digits growth rate. The market reform continued to accelerate, with premium income from foreign insurers increasing by 29.9% year-on-year. In 2020, under the combined effect of Covid-19 pandemic, reform in auto and accident insurance, and new regulations on credit guarantee insurance, market premium income declined in 1H 2020 but reached 4.5 trillion yuan by the end of the year with strong growth in 2H 2020. The pandemic has helped the development of health insurance and other new insurance types. Digital insurers have seen development opportunities. The overall growth in insurance slowed down, with the CAGR decreasing from 15% in 2016-2018 to 11% in 2018-2020.

- **Outlook for 2021:** With the gradual recovery from the pandemic, the stabilization of insurance agencies distribution channel and the increasing penetration of online channels, as well as the rising awareness of investors on risk protection driven by the pandemic and the increasing importance of life insurance in asset allocation, life insurance industry may show a progressive recovery throughout the year. The growth rate of the insurance market is expected to rise to 14-16% in 2021.

Other domestic investments

- **Trust:** From 2019-2020, due to the new regulations on asset management, strong regulation and de-layering requirements, the competitive advantage derived from trust licenses gradually weakened. The industry operating income and trust business income increased, while total industry profits and net profits decreased. In 2021 the new AM regulation will enter its final year of implementation but the CBRC will continue to issue new regulatory rules. These rules will include tightening the control over consumer credit and trust, strengthening restrictions on disguised lending into real estate. These new regulations should help to keep containing the overall size of the industry and accelerate the reduction of credit risk.

- **Private equity investment:** In 2019-2020, the regulatory oversight of the private equity industry and the industry self-regulation system improved. The number and size of private equity funds kept growing though at a slightly lower rate. The majority of funds raising kept being captured by a few top private equity institutions. The three sub-sectors with the highest share of private equity investment were semiconductors and electronic devices, biotechnology and healthcare, and Internet. The number of IPO exit increased significantly year-on-year. It is expected that in 2021, an improving secondary market will create a positive environment for fundraising and exit. The polarization between top and other private equity players will continue with most money raised captured by the top players.

- **Gold investment:** In 2019, the weak global economy triggered monetary easing. Gold as an anti-inflationary asset increased its share within asset allocation. Gold prices continued to move up above $1500 / ounce. Due to the pandemic in 2020, countries continued monetary easing policy. Gold spot prices remained high at $2000 / ounce. In 2021, due to weak dollar and the economic recovery driving demand in industrial goods, commodity prices are expected to grow, while gold prices may be adversely impacted by an increase in global interest rates.

Overseas Investments

- **2019-2020 Review:** In 2019, global liquidity continued to be favorable, pushing up all major global stock indices. The total stock market capitalization increased by 24%; IPO activities slowed down, and stock turnover declined year-on-year. The Hong Kong Stock Exchange was once again home to the biggest number of IPOs. The global treasury yields were lower across the board; ETF turnover declined year-on-year, but the volume of exchange-traded derivatives increased year-on-year. At the beginning of the Covid-19 outbreak in 2020, the global financial markets significantly dropped, triggering government bailouts across the world. The three major U.S. stock indices plunged and rebounded making new records. The turbulences in the global financial markets triggered investors' concern about excessive price correction and financial bubble. From 2018-2020 CAGR of individual overseas investment was about 21%.

- Outlook for 2021: The Hong Kong stocks market is expected to bounce back, benefiting from inflow of mainland-originated capital, re-listing of China Concept stocks in Hongkong, and an optimized industry structure to drive up overall market capitalization. US stocks are expected to slow down due to the potential risks of rising interest rates and tightening liquidity. In 2021 overseas investment is expected to grow at 18-20%, lower than 2018-2020.

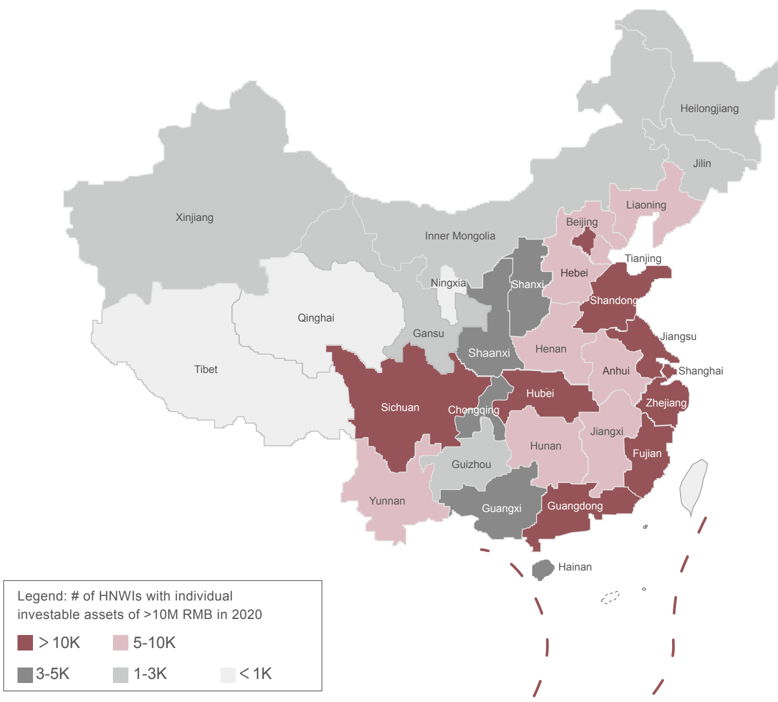
Extending from Tier-I cities to the surrounding cities, HNWIs are increasingly concentrated in the top three economic zones

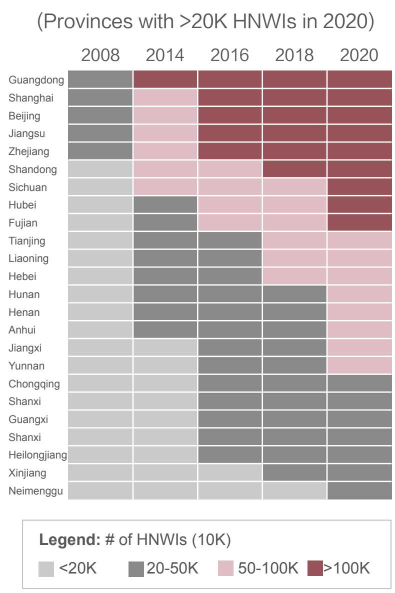
- By the end of 2020, there were 24 provinces and cities nationwide that had over 20,000 HNWIs, among which Sichuan, Hubei and Fujian had more than 100,000 HNWIs for the first time, joining the league of the top 6 coastal provinces (Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang and Shandong). The other eight provinces had more than 50,000 HNWIs, Liaoning, Tianjin, Hebei, Hunan, Henan, Anhui, Jiangxi, and Yunnan. (Figure 4)

HNWIs are increasingly concentrated in China’s top three economic zones expanding from Tier-I cities to surrounding cities

- By the end of 2020, there were 24 provinces and cities nationwide that had over 20,000 HNWIs, among which Sichuan, Hubei and Fujian had more than 100,000 HNWIs for the first time, joining the league of the top 6 coastal provinces (Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang and Shandong). The other eight provinces had more than 50,000 HNWIs, Liaoning, Tianjin, Hebei, Hunan, Henan, Anhui, Jiangxi, and Yunnan. (Figure 4)

Figure 4: Regional distribution of HNWIs in 2020

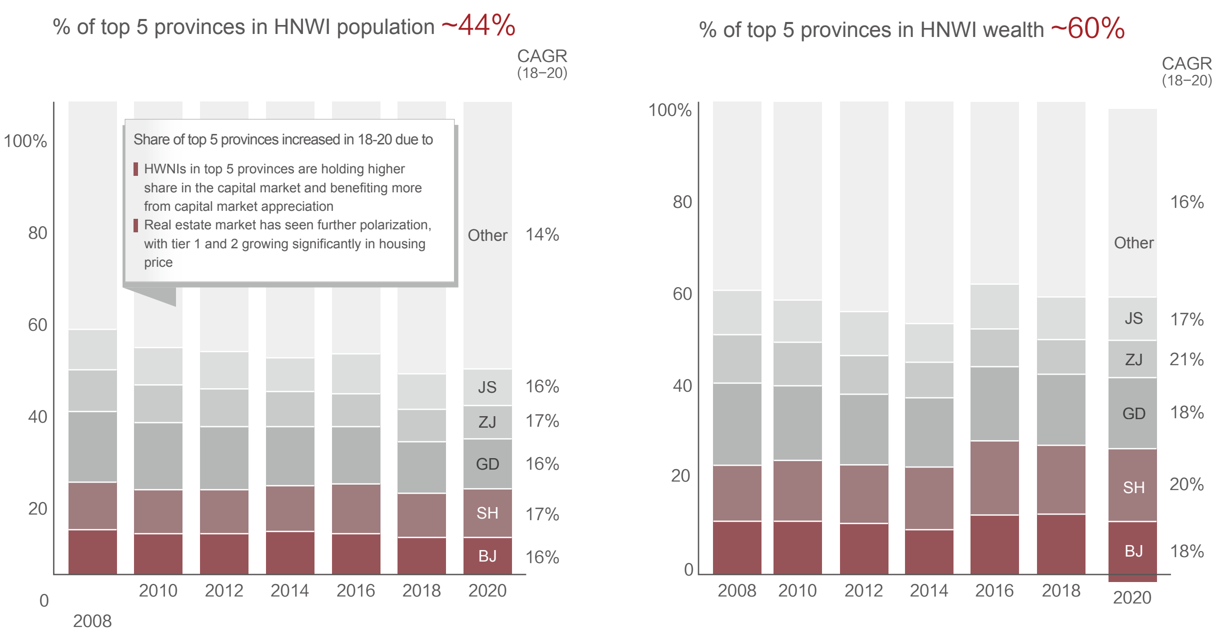




Source: HNWI income-wealth distribution model, Bain & Company

The geographic concentration of HNWIs increased slightly in 2018-2020 due to capital market appreciation as HNWIs in the top five provinces tend to hold more wealth in capital markets. The regional divergence between Tier I and II cities compared to other cities in real estate markets has further widened. In 2020, the five eastern coastal provinces and cities (including Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang) accounted for about 44% of the nation-wide HNWIs, up from 43% in 2018; their holdings of investable assets accounted for about 60% of the wealth of HNWIs nationwide, up from 59% in 2018. (Figure 5)

Figure 5: Concentration level of HNWIs has continued to rise



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

In the past few years, domestic and foreign IPOs have accelerated and Chinese Concepts stocks have returned to domestic financial markets, especially in the new economy sector, internet and consumer sectors. The STAR Market had a great opening with hi-tech start-up founders accumulating huge wealth. The rise of the new economy has led to strong equity appreciation and wealth creation, facilitating the emergence of a large new HNWI segment. The previously-mentioned wealth-creating industries and related industrial supply chains are highly concentrated in the southeast coastal provinces and cities such as Beijing, Shanghai, Guangdong, Jiangsu and Zhejiang. In recent years, following the strategy of the national 14th Five-Year Plan to build city clusters, the HNWI population has also expanded from the wealthiest cities to the surrounding areas.

HNWIs prefer financial assets when allocating their wealth. The higher the wealth, the higher the proportion of financial assets in HNWIs asset portfolio, especially stocks in the secondary market and equity funds. After the pandemic, HNWIs are getting more enthusiastic about diversified allocation of financial assets and the proportion of funds, insurance and wealth management products in their asset portfolios has increased. The average price index of stocks in the US, A-shares, HKSE and other major stock markets are overall rising despite volatility, pushing the prices of financial assets higher and offering opportunities for HNWIs to protect and increase the value of their assets.

Real estate markets in Tier I and II cities in China has continued to rise, entering in a new cycle of polarized growth. Cities with excessive increase in housing prices are increasingly subject to stricter anti-speculation policies. The top five provinces and cities were subject to tougher real estate regulation and control, and the property value of HNWIs was disproportionately affected by these policies.

Chapter 2 Demographics, Investment Preferences and Behaviors of China's HNWIs

- In 2021, the demographics of China's HNWIs will be more diversified. The internet economy and emerging industries should grow rapidly, and the increasing value of capital markets facilitate the emergence of new HNWIs. The proportion of 1st-generation entrepreneurs should shrink to 25%, while the percentage of directors, supervisors & senior executives (DSSE), professional managers (excluding DSSE) and professionals surpasses that of 1st-generation entrepreneurs for the first time, reaching 43% in total.

- In 2021, HNWIs are younger and create value quicker. HNWIs aged under 40 years old become the cornerstone of HNWIs, accounting for 42% of the total HNWI population.

- In 2021, the two engines for growth will be wealth creation by the increasingly high proportion of young HNWIs, and wealth preservation and inheritance by more experienced HNWIs. Overall speaking, the wealth-related objectives of HNWIs are more comprehensive.

- In 2021, wealth allocation needs of HNWIs will be more comprehensive and diverse, including corporate, social and personal needs, financial and non-financial services.

- In 2021, 30% of HNWIs interviewed said they will have higher requirements for private banking's advisory services and 26% said they expect to have one-stop-shop O2O service experience. Different segments have different requirements for engagement frequency and touch points with private banking services. For example, 1st-generation entrepreneurs in the traditional economy seek a low-touch service with quick responses to sophisticated demands, while non-working wealthy individuals would prefer more communication with relationship managers.

- In the next two years, the overall allocation of domestic/ overseas assets of China's HNWIs is expected to remain unchanged, with the proportion of overseas investable assets rising to 30% and asset classes gradually shifting from traditional real estate assets to broader asset types and comprehensive services needs.

- 48% of interviewed HNWIs mentioned Hong Kong as the top asset transit region while 46% mentioned it as the top asset destination. But with changes in government policies, Belt and Road countries and other countries have become potential destinations with an 11% increase in mentions, suggesting trends for more geographically diversified portfolio.

[Topic I: Demographics and diversified needs] Increasingly diversified needs and holistic wealth objectives of HNWIs

HNWIs are getting younger with more diverse background

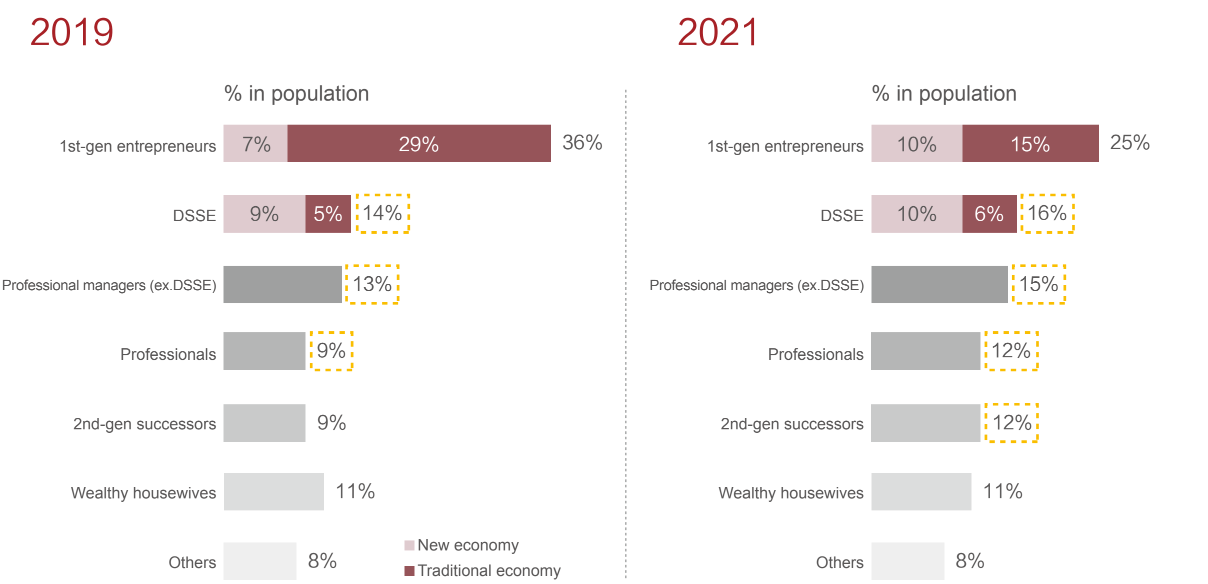
China's economy has entered into the "new normal" stage where old growth drivers are gradually replaced by new ones including the acceleration of digital transformation, the acceleration of industrial current dynamics and the expansion of industrial capabilities. The New economy has become the new growth driver for China's economy. The industrial Internet, AI, 5G, big data, cloud computing and other technologies, traditional industries are empowering, transforming and upgrading the economy at a fast pace. Big data, artificial intelligence, new energy, new materials, electric vehicles, biopharmaceuticals, online education, new media and other emerging industries have seen the emergence of unicorns in niche markets.

In 2019-2021, biopharmaceuticals and medical device companies have benefitted from the pandemic prevention and control and other COVID-19-related factors to return to high-growth after years of tepid growth. Emerging industries such as electric vehicles, online education and medical services are fast forwarding their business growth, while high-quality enterprises are gaining popularity in the capital market. The above-mentioned industries have ranked top in the volume and value of IPOs and equity financing deals. With the rapid development of new economy and new industries, an increasing number of people are growing wealth from the appreciation of equity and options. Senior executives and other professionals have grown their personal wealth along with the company and emerged as new HNWIs.

The survey shows that the proportion of directors, supervisors & senior executives (DSSE), professional managers (excluding DSSE) and other professionals among HNWIs has continued to rise, from 36% in 2019 to 43% in 2021, surpassing that of 1st-generation entrepreneurs for the first time. (Figure 6)

The survey shows that the proportion of directors, supervisors & senior executives (DSSE), professional managers (excluding DSSE) and other professionals among HNWIs has continued to rise, from 36% in 2019 to 43% in 2021, surpassing that of 1st-generation entrepreneurs for the first time. (Figure 6)

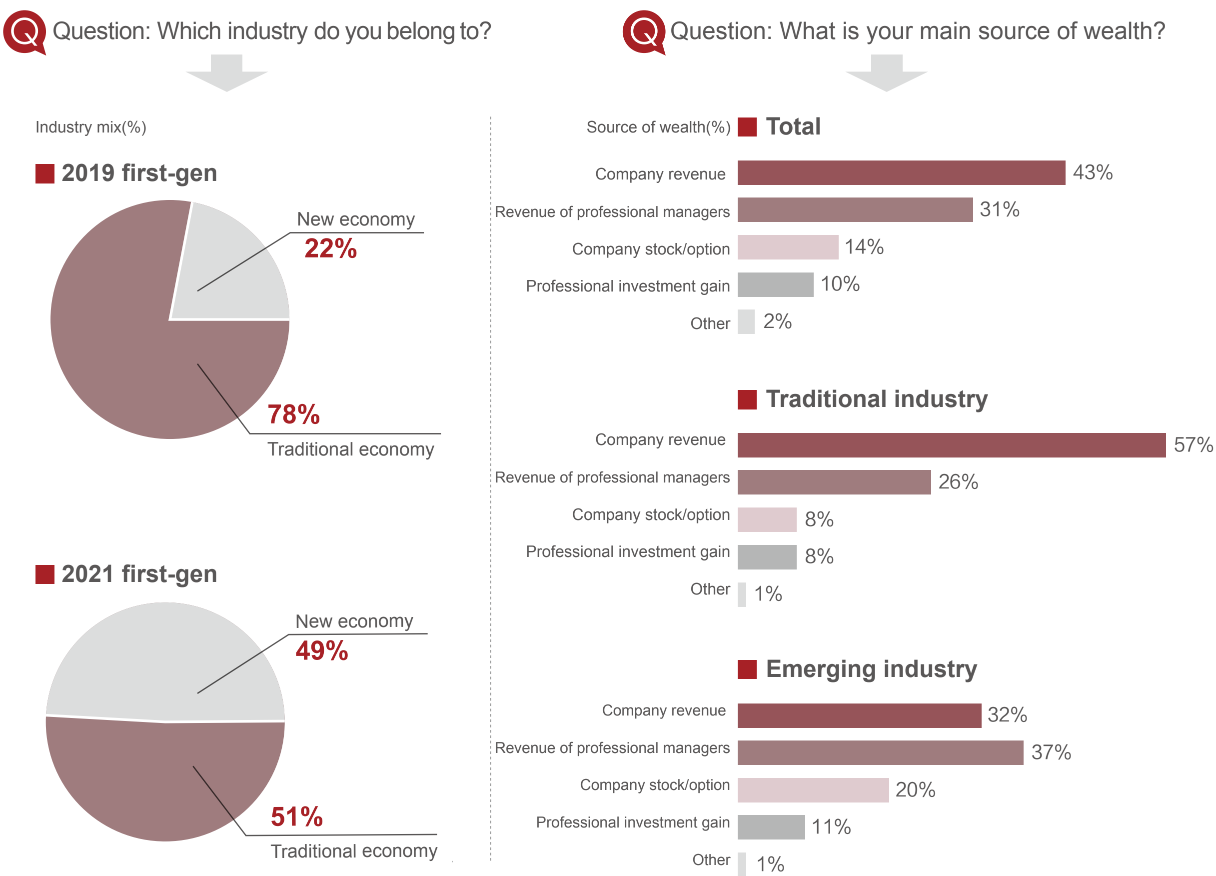
Figure 6: Occupation mix of China's HNWI population in 2019-2021



Source: CMB-Bain HNWI survey & analysis

Demand of a new generation of digital native consumers has catalyzed the rise of new industries, such as live-streaming, gaming and delivery etc. The survey shows that emerging industries are distributed unevenly across regions, e.g., Hangzhou, Shenzhen and Guangzhou have seen a cluster of live streaming, KOL and gaming business, etc. Emerging industries feature enterprises that are knowledge- and technology-intensive. Innovation is the engine of growth for these enterprises. To drive value co-creation and team entrepreneurship, companies use equity, options and other incentives to align the interests of the company and the management team, while attracting external talents to serve as middle-level managers and senior executives. The survey shows that 20% in the new economy sector have achieved rapid wealth growth through equity, much higher than the market average of 14%. (Figure 7)

Figure 7: Industry mix and sources of wealth of China’s HNWIs in 2019-2021



Region-specific industries: Booming livestreaming, internet KOL and gaming in Hangzhou, Shenzhen and Guangzhou

20% of HWNIs in the new economy quickly accumulate wealth via stocks; Much higher than the average 14%

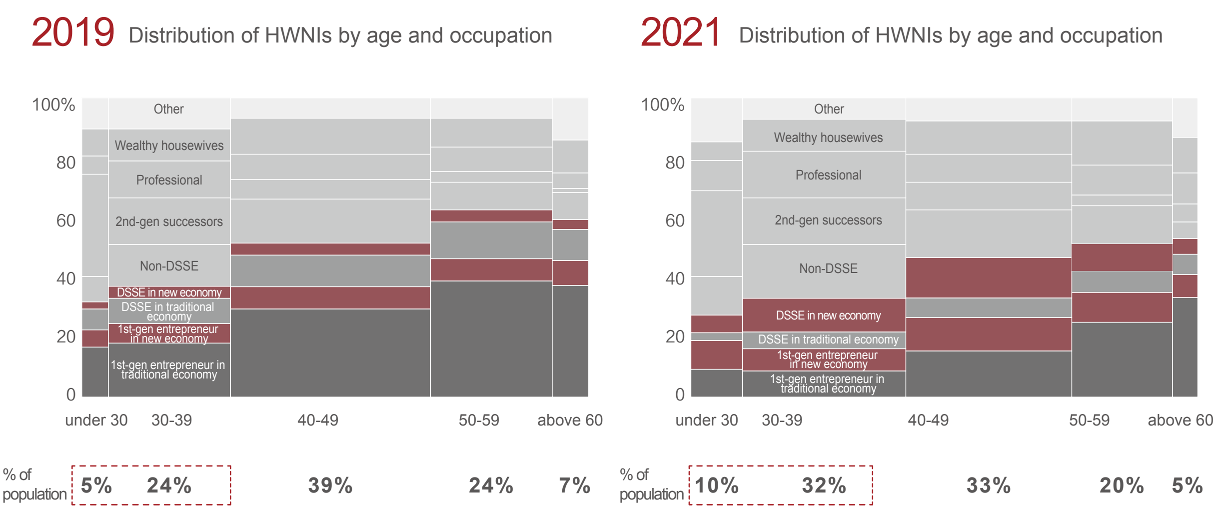
Source: CMB-Bain HNWI survey & analysis

As 2nd-generation successors grow more mature, some 1st-generation entrepreneurs have started to plan for inheritance and retirement. Ownership of Chinese enterprises is transferring to 2nd-generation successors. The proportion of 1st-generation entrepreneurs in the traditional economy among HNWIs under 40 years old continues to decline.

Driven by the rapid development of new economy and new industries, wealth creation among young people has accelerated. The proportion of new HNWI segment represented by directors, supervisors, senior executives and 1st-generation entrepreneurs in the new economy among HNWIs under 40 years old has increased significantly, who have become the cornerstone of the HNWI population.

This survey shows that the proportion of HNWIs under 40 years old has increased from 29% in 2019 to 42% in 2021, making overall demographics younger. (Figure 8)

Figure 8: Age and occupation mix of HNWIs in 2019-2021

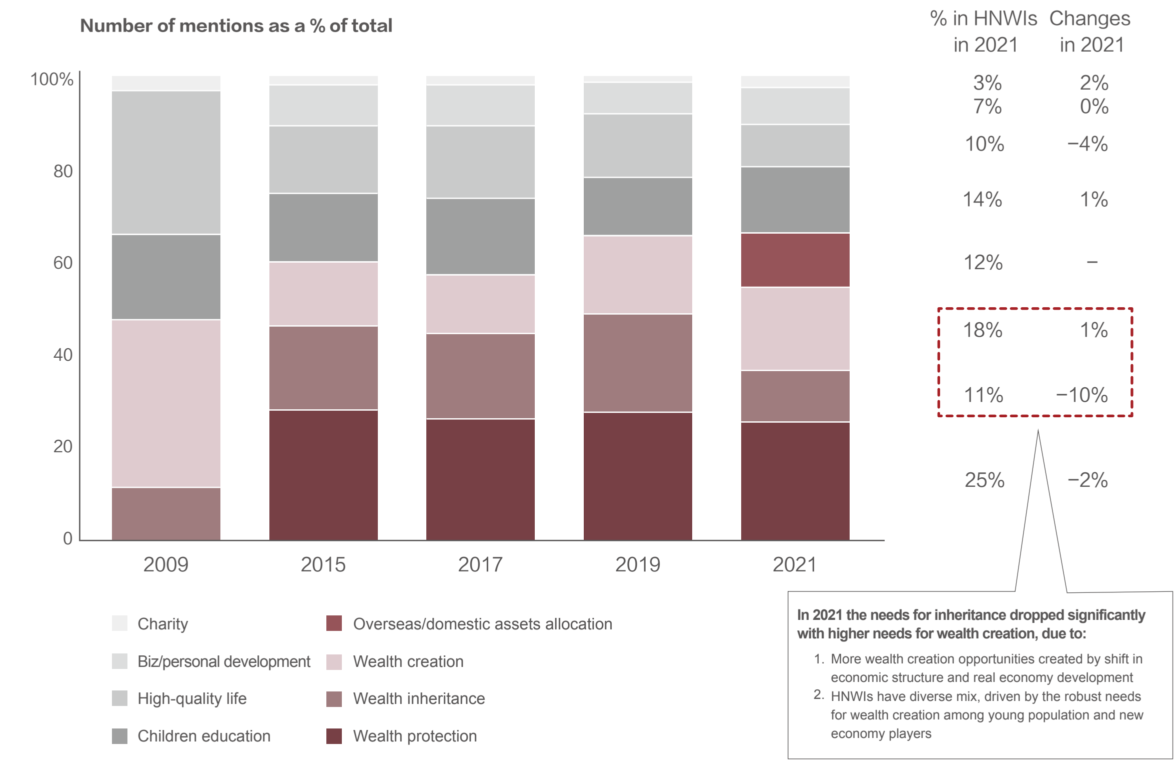


Source: CMB-Bain HNWI survey & analysis

Needs for wealth creation from young HNWIs is growing along needs for wealth protection and inheritance from more mature HNWIs

In the context of China's steady economic growth and capital market development, HNWIs' demand for sustainable wealth remains strong in 2021. Meanwhile, they have started to plan and arrange wealth considering domestic vs. overseas assets, family members' needs, movable vs. immovable assets, equity vs. other assets. The structural transformation and development of China's economy have brought numerous opportunities for wealth creation. The primary goal of young HNWIs includes wealth creation and accumulation, asset allocation for wealth preservation and inheritance, and other comprehensive needs such as quality of life and children's education. HNWIs deriving most of their wealth from overseas equity have a higher demand for overseas asset allocation and need to channel assets back to mainland after the lock-up period. According to the survey, in 2021, "wealth preservation" and "wealth creation" have become the two most important wealth objectives, with the third being "integrated asset allocation across domestic and overseas markets ", which is a new objective for 12% of the HNWI respondents. (Figure 9)

Figure 9: Wealth goals of China’s HNWIs in 2009-2021



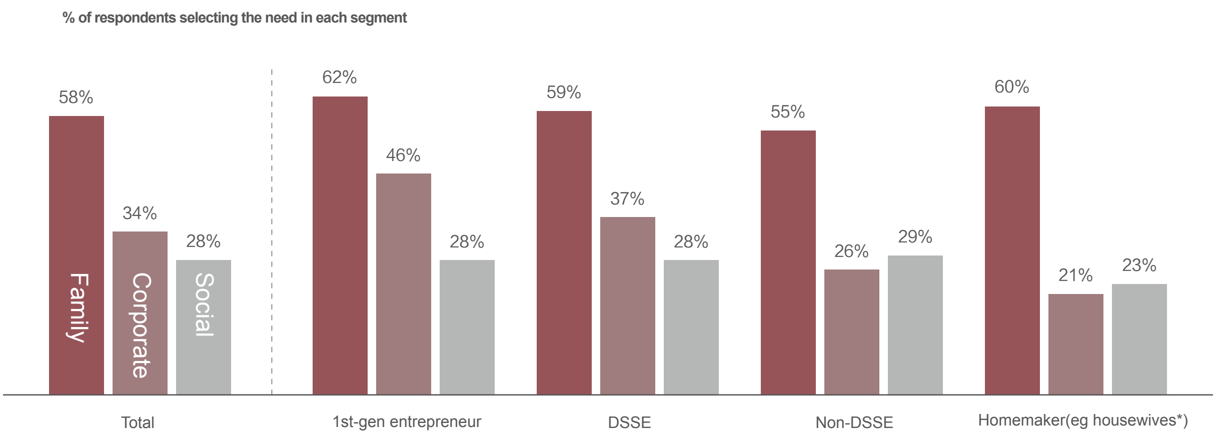
Source: CMB-Bain HNWI survey & analysis

HNWIs have holistic needs including personal, professional and social needs

In our research, we have found that the needs of HNWIs have extended from personal needs to family, corporate and social needs. Personal needs cover a full range of financial and non-financial needs, including asset allocation, luxury lifestyle, tax advices and legal services. Family needs include children's education, intergenerational inheritance, family tax and legal consulting and family tradition building. Corporate needs cover corporate investment and financing, M&A value addition and tax and legal affairs. Social needs include socially responsible investing, charity funds and services and other philanthropic needs.

Overall, the proportion of family needs (58%) is the highest among all HNWI needs in 2021, followed by corporate needs (34%) and social needs (28%). Different HNWI segments have differentiated needs. 1st-generation entrepreneurs and DSSE pay more attention to corporate needs, while non-DSSE and housewives pay more attention to family needs and expect private banks to provide one-stop integrated services. (Figure 10)

Figure 10: Different needs of different HNWI segments in China in 2021



Source: CMB-Bain HNWI survey & analysis

Personal needs: The investment philosophy of HNWIs is becoming more sophisticated. Besides personal investment, non-financial needs such as healthcare services, high-end personal lifestyle, tax/ legal consulting services are also emerging, with differentiated needs across segments.

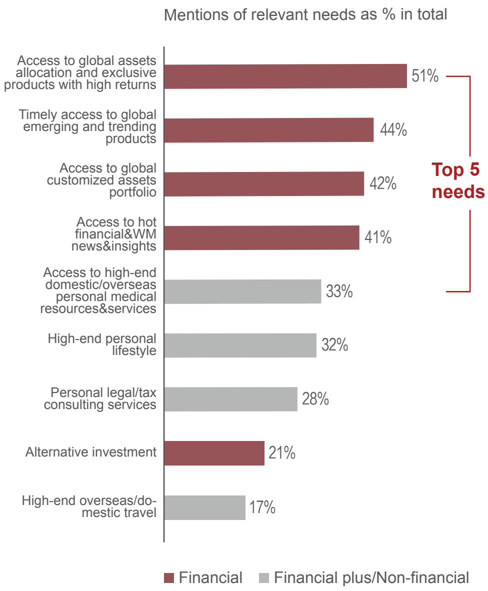
In 2021, the top five personal needs of HNWIs are: access to global assets and exclusive products with high returns, timely participation into emerging and popular global products, access to global customized asset portfolio, early access to most recent financial and wealth management news and insights, and access to personal domestic/ overseas high-end medical resources and services. In addition, non-financial needs start to increase, e.g., access to personal domestic/ overseas high-end medical resources and services, high-end personal lifestyle, personal tax/ legal consulting services and premium domestic/ overseas travel.

This survey shows that traditional and new economy players differ in their acceptance to new products and services and their specialization requirements. Even for the same pan-financial requirements, their service needs are not the same.

Compared with 1st-generation entrepreneurs of the traditional economy, the new economy players have shown higher demand and acceptance for innovative products and alternative investment opportunities. They are more open to new value proposition, as 47% of respondents mentioned "timely participation into global emerging and trending products". They are also more enthusiastic about market intelligence and professional wealth management as 43% mentioned "early access to most recent financial and wealth management intelligence and insights". The legal and tax service requests of the new economy segment are usually focused on specific arrangements such as ownership structure, while the traditional segment is more focused on tax planning for wealth inheritance, etc. The new economy segment pursues a balance between career development and personal life. They have higher standards for "individuality", customization and luxury lifestyle, such as fine dining and buying luxury goods, representing 32% of the premium lifestyle needs. (Figure 11)

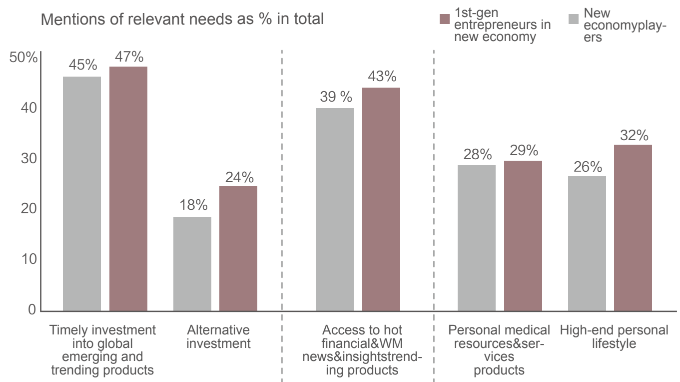
Figure 11: Personal needs of China's HNWIs in 2021

Q: What are your personal needs?



Source: CMB-Bain HNWI survey & analysis

Requirements for products and services vary between segments: HNWIs in the traditional economy differ in attitude towards emerging products & services, expertise requirements as well as requirements for "financial plus" products



Attitude towards emerging products

- More aggressive and sophisticated investment style: Compared with 1st-generation entrepreneurs in the traditional economy, new economy players have more demand for and are more receptive of emerging products and alternative investment, with high willingness to try

Expertise requirements

- Greater needs for professional insights: New economy players are more enthusiastic about market information, and professional coaching and learning on wealth management

Financial plus/Non-financial needs

- All requiring tax and legal consulting services: In-depth interviews find that new economy players need tax and legal consulting services related to equity structure, while 1st-generation entrepreneurs in the traditional economy want taxation advices for personal wealth inheritance
New economy players pay more attention to the balance between career and life, require more personalization and customization: High-end lifestyle, such as access to high-end restaurants, luxury products, etc.

Family needs: HNWIs are fully aware of the need for comprehensive and diversified asset allocation. They also understand the urgency and importance of their children's education and business succession, although requirements and arrangements vary among different segments.

In 2021, the top 5 family needs for HNWIs are: comprehensive asset allocation and balanced investment, asset preservation, domestic/ overseas children’s education, domestic/ overseas asset preservation and appreciation, inheritance planning, and global customized product services. The ratio of general financial/ non-financial needs is 2:5.

The survey shows that, in terms of family needs, HNWIs have different configuration and customization requirements for financial asset allocation, and they share similar but not the same intergenerational inheritance and education needs.

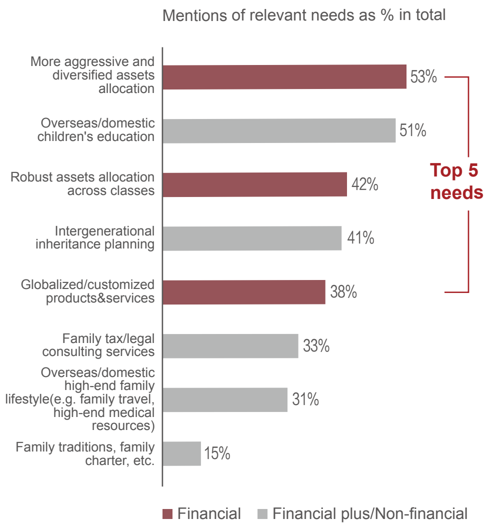
1st-generation entrepreneurs in the traditional economy focus on global comprehensive allocation and balanced investment to achieve value preservation and appreciation. Percent of respondents choosing “comprehensive allocation of global family assets, balanced investment, preservation and asset needs” is 61%, the highest among all segments. The players of the New Economy have high customization requirements, looking for customized services of domestic/ overseas financial products based on their individual situations. 41% of them have requirements for globalized and customized products and services, the highest among all segments.

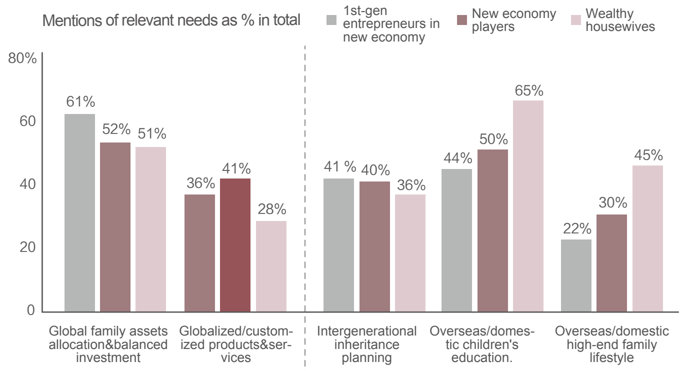
Needs for inheritance and education are also differentiated. 1st-generation entrepreneurs and new economy players generally attach importance to inheritance planning. Housewives are key members of family planning and put more emphasis on their children's early education, with 65% choosing children’s domestic/ overseas education needs, the highest among all segments. 1st-generation entrepreneurs pay more attention to succession planning, capability building and career development. The younger generation of new economy players consider their children's education and capability building earlier, and focus more on education planning and integrated information. (Figure 12)

Housewives rank first while 1st-generation entrepreneurs rank last in terms of focus for high-end domestic/ overseas family lifestyle.

Figure 12: Family needs of China's HNWIs in 2021

What are your family needs?





Family needs for financial products

- **1st-gen entrepreneurs prefer stability:** Value composite assets allocation and balanced investment across the globe for stable wealth preservation and increase
- **New economy players have higher requirements for individuality:** They have greater needs for solutions to overseas and domestic financial products customized to their own needs

Family needs for non-financial products

- **Differentiated specific requirements despite common needs for inheritance and education:** 1st-gen entrepreneurs and new economy players value inheritance and start setting plans. Wealthy housewives are important members for family planning and pay more attention to early-stage education of children
  – 1st-generation entrepreneurs in the traditional economy pay more attention to successor planning, capability building, business development, etc.
  – The younger generation of new economy players start education and capability building for children at an early age and have more needs for education planning and information integration

Source: CMB–Bain HNWI survey & analysis

Corporate needs: Corporate needs of HNWIs vary with the revenue model and sources of wealth. 1st-generation entrepreneurs in the traditional economy have a higher demand for financing needs such as corporate financing and other lending solutions. New economy players have greater needs for global diversified investment/ financing, investment planning after the lock-up period, and corporate M&A.

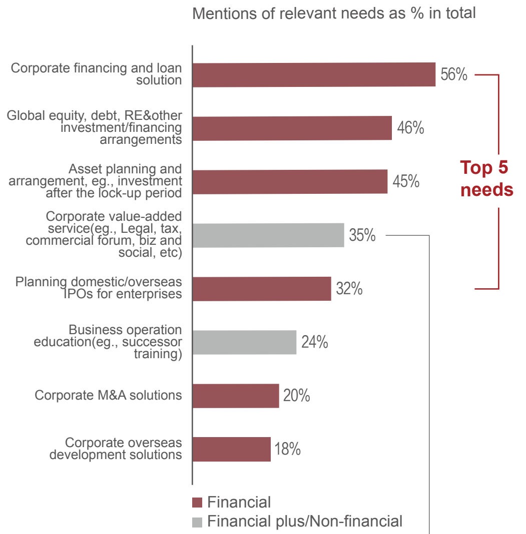
The top five corporate needs of HNWIs in 2021 are: corporate financing and lending plan, global equity, debt, real estate and other investment/ financing arrangements, asset planning and arrangements (e.g. investment arrangements post the lock-up period), corporate value-added services (e.g. tax and legal, business forums, networking, etc.), and planning domestic/overseas IPO for enterprises.

1st-generation entrepreneurs in the traditional economy generate most of the wealth from business operations, and have high needs for corporate financing such as corporate financing and lending plan, accounting for 66% of their reported needs. New economy players have more diversified wealth sources (equity, multi-asset investment, etc.). Their corporate needs are more diverse, especially in diversified global investment/ financing, investment planning after the lock-up period, and corporate M&A etc. (Figure 13)

It is worth mentioning that building business and social networks is a common goal among 1st-generation entrepreneurs in the traditional economy and new economy players, though with some nuances. For example, 1st-generation entrepreneurs in the traditional economy want to connect with HNWIs with same assets level and common interests, while new economy players are more interested in networking with the investment and financing communities, and joining the networks of latest technology knowledge sharing supporting business development.

Figure 13: Corporate needs of China's HNWIs in 2021

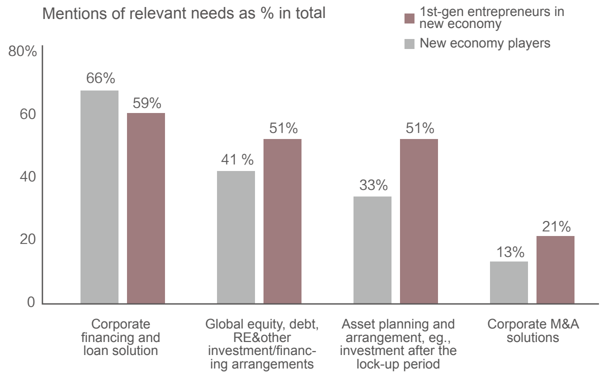
What are your corporate needs?



Common needs for biz and social community building, which are different in specific requirements, e.g.:

- 1st-gen entrepreneurs in the traditional economy want to connect to HNWIs of same assets level and shared interest
- New economy players are more concerned about building social networks in investment and financing, and joining communities of cutting-edge knowledge sharing to facilitate their biz development

Different customer groups have apparently different corporate needs; 1st-gen entrepreneurs in traditional and new economy have their own features

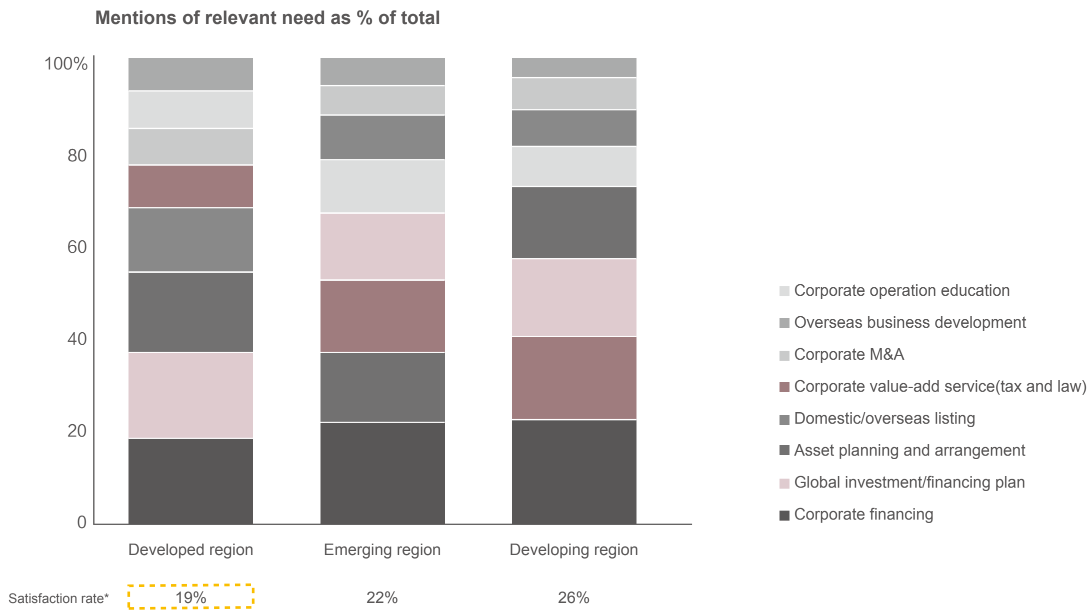


- 1st-generation entrepreneurs in the traditional economy have a **larger portion of wealth from business operation** and they have greater needs for basic financial products, like financing/loans for companies
- 1st-generation entrepreneurs in the new economy have more diversified sources of wealth (stocks, multi-class investment, etc.); They have more diversified corporate needs, and booming and remarkable needs for **diversified global investment/financing, investment planning after the lock-up period**, corporate M&A, etc.

Source: CMB-Bain HNWI survey & analysis

Corporate needs of HNWIs in developed regions are more complex and demanding, with only 19% satisfaction rate. In addition to basic needs such as corporate financing solutions, multiple global investment/ financing arrangements and asset planning/ arrangements, they want to fulfill other needs such as corporate M&A, overseas business and children's education. HNWIs all demand value-added services such as tax and legal services, building of social network, etc., and the demand for these services emerged first in developed region and a are now expanding to emerging and developing regions. (Figure 14)

Figure 14: Regional distribution of the corporate needs of China's HNWIs in 2021



Note: Developed region refers to where tier-1 cities are located, emerging region refers to locations of tier-2 and 3 cities, developing region refers to regions with cities below tier-3

Source: CMB-Bain HNWI survey & analysis

Social needs: HNWIs have a stronger sense of giving back to society but are still in the initial stage, featuring social needs including socially responsible investment, philanthropy and charitable services etc.

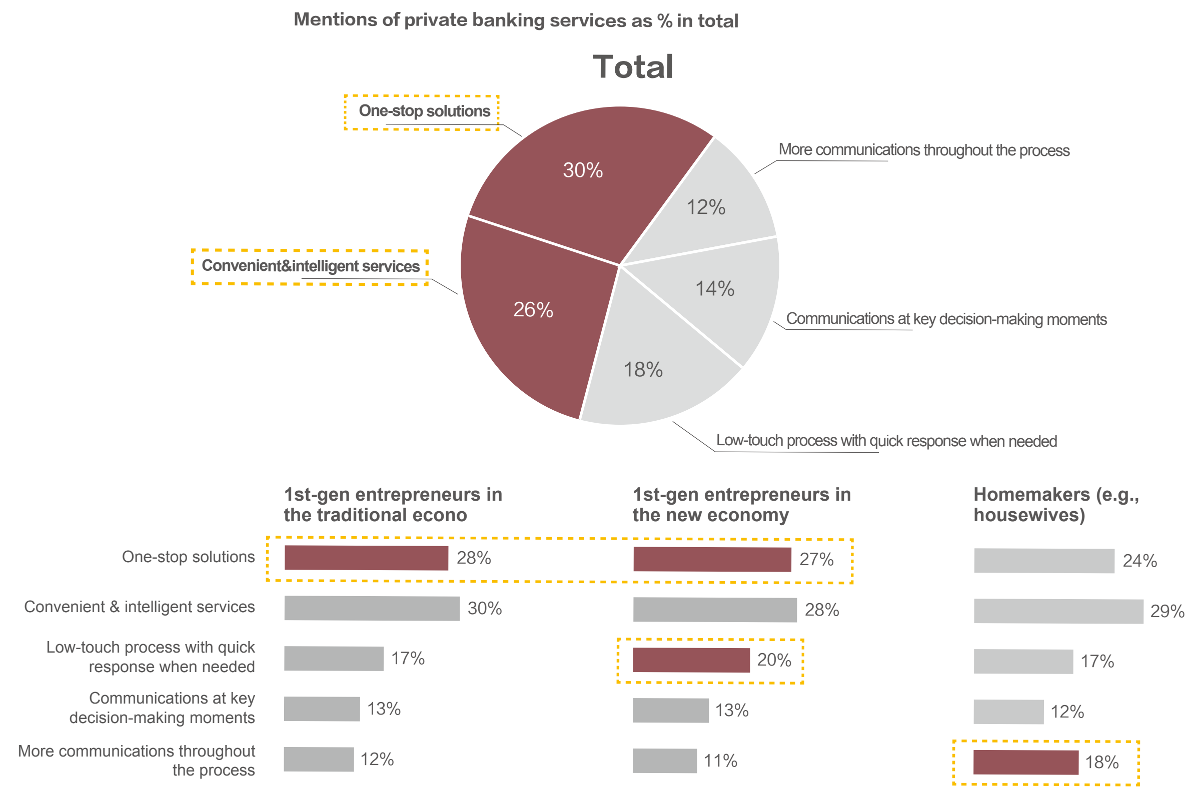
HNWIs will choose different models including social platforms and funds to participate in philanthropy, and are open to charity programs provided by financial institutions. When asked about services expected from private banking, most of the HNWIs mention socially responsible investment programs such as environmental protection investment and corporate tax contribution. Charity funds and philanthropic services such as volunteer activities and rural education are also regularly mentioned.

HNWIs are seeking better experience through one-stop-shop solutions and convenient services from private banking

In order to better serve HNWIs, private banking services have been iterating faster in recent years. On top of accelerated digitalization and intelligence, private banks are working hard to provide comprehensive services to address different needs and further enhance service efficiency. According to the survey, share of HNWIs demand for one-stop-shop solutions and convenient/ intelligent services are respectively 30% and 26%. They have higher requirements for the efficiency and quality of private banking services and look for efficient and convenient service experience, which is particularly important to 1st-generation entrepreneurs in both the traditional and the new economy.

At the same time, different groups have different expectations for level of engagement and touch points with private banking. 1st-generation entrepreneurs in the new economy prefer a low-touch process with quick response when needed. Other decision-makers such as housewives want more communications and closer contact with investment advisors in order to learn more about market conditions, investment rationale, investment advice, etc. (Figure 15)

Figure 15: Needs of China's HNWIs concerning private banking experience, 2021



Source: CMB–Bain HNWI survey & analysis

In summary, despite some common personal, family and corporate needs, HNWIs are having diverging needs based on their stage of life, capability, experience etc.

Take 1st-generation entrepreneurs as an example.

Mature and cautious 1st-generation entrepreneurs enjoy financial freedom, with stable operations of family businesses that allows them to start planning for retirement and inheritance. As their children are studying or working overseas, they prefer help on their children's overseas assets allocation and cautious plan for personal and family assets to have more choices after retirement. They pay more attention to the steady growth of wealth, professional services and family inheritance, and the experience and brand of financial institutions. Rather than spreading assets across several different institutions, they seek long-term relation with one institution catering to all their needs and rely mainly on banks for wealth management services. (Figure 16)

Figure 16: Mature and prudent 1st-generation entrepreneurs

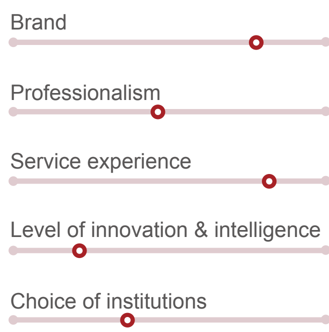
1st-gen entrepreneurs Sub-segment I Mature, prudent, trust-seeking

"I expect financial institutions to provide tailored plans that suit me best. I will not compare different plans carefully, but I'll need my personal relationship manager who is aware of value and risks and provides customized services with a positive attitude."

Key drivers

Life	Enjoy financial freedom, with their children studying or working overseas; prefer help on their children's overseas assets allocation and prudent plan for personal and family assets to leave more choices after retirement
Business	Family businesses get stable, allowing planning for retirement and inheritance; value professional services that can help sustain business growth
Capability	Trust-seeking, premium customers who rely on professional relationship managers with a trust relation and care more about WM service experience and long-term relation with institutions rather than details
Priority	Pay more attention to maximizing family interests in a prudent manner as they are at the stage of wealth inheritance
Product / risk preference	Allocate assets based on the principle of prudent instead of aggressive wealth growth; rely mainly on banks for wealth management

Level of importance across FS dimensions1



Seeking long-term relation with one institution that caters all their needs rather than spreading assets across several institutions

Note: 1) Level of importance and analysis of different FS dimensions only represent the requirements of the specific subsegment based on the average ratings of customers from the same segment

Source: CMB-Bain HNWI survey & analysis

1st-generation entrepreneurs are still busy and involved in their company decision-making process. They are familiar with corporate financial services, knowledgeable in wealth management and asset planning. Deriving a high part of their wealth from IPO and other capital sources, they tend to focus on coordinated growth of equity plan, corporate wealth and personal wealth with bolder investment stance. They pursue control over asset allocation, pay attention to the professionalism, innovation and expertise of financial services, and expect professional advice on asset portfolio, allocation and product exploration. They may choose different institutions for different purposes, using banks, securities brokers, PE firms as potential service providers, and they have a higher risk appetite for securities brokers and PE firms. (Figure 17)

Figure 17: Aggressive, hands-on management 1st-generation entrepreneurs

1st-gen entrepreneurs Sub-segment II Hands-on management & aggressive investment

> "I still expect to further expand my businesses and try some new financial tools; I've been trying and learning new things and look for a highly professional relationship manager to provide professional advice and explain the rationale behind."

Key drivers

Life	Enjoy a stable family and high-quality life while spending more time on business development, with their children studying overseas soon
Business	Still busy at the forefront to make decisions; pay extra attention to the connection between equity plan and personal wealth due to the upcoming IPO
Capability	Familiar with corporate financial services and knowledgeable in wealth management and asset planning; pursue control over asset allocation and expect banks to demonstrate professionalism
Priority	Still at the stage of wealth creation and willing to try aggressive financial tools bearing reasonable risks; have concerns over risk control and seek professional advice
Product / risk preference	Open accounts and allocate assets across financial institutions of multiple types, including securities brokers and PE firms; prefer more aggressive wealth management

Level of importance across FS dimensions1

Brand

Professionalism

Service experience

Level of innovation & intelligence

Choice of institutions

Expecting professional advice on asset portfolio, allocation and product exploration, with unique positioning for different institutions

Note: 1) Level of importance and analysis of different FS dimensions only represent the requirements of the specific subsegment based on the average ratings of

Source: CMB-Bain HNWI survey & analysis

New economy entrepreneurs hold shares of their companies and are mostly programmers and coders. Due to their age and work, their social network is relatively weak, and they expect professional institutions to help them with wealth planning and capability building for their children to maximize family interests. They have a higher acceptance to digital wealth management, and their wealth management needs are closely related to corporate needs. They want an integrated management of corporate and personal assets by IPO advisors, and also consider direct investment institutions for wealth management. (Figure 18)

Figure 18: Wealth-generating new economy entrepreneurs

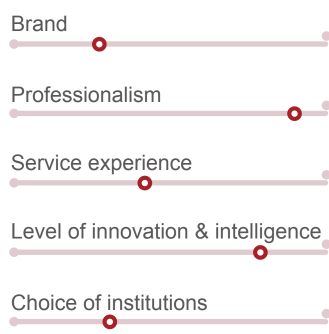
New economy entrepreneurs » Wealth creation & capability building »

> "I was lucky to enter the right industry and become part of a promising emerging company at an early stage, and I wish to give my family a better life and my children a better education; I expect to build my capacity to manage wealth to achieve success in both professional and personal life."

Key drivers

Life	Has 5-year-old child who is about to graduate from kindergarten; has a relatively weak social network due to their age and work, and therefore expect to access resources helpful to their children through professional institutions
Business	Hold original shares of companies as the major source of wealth differentiation; pay extra attention to long-term arrangement and planning, hold strategy, and legal and tax planning of equity after the lock-up period due to IPO completion
Capability	Mostly programmers and coders; have relatively limited knowledge in finance but are fast learners who can quickly understand the plans and rationale for finance / WM, with a higher acceptance to digital wealth management and Internet finance
Priority	Able to mobilize a large sum of funds after cash-out, and expect long-term planning of wealth to reduce asset risks through asset allocation and maximize family interests after improving the quality of life
Product / risk preference	Rely on professional recommendations and have higher requirements for professionalism, with more agile, innovative and intelligent demands

Level of importance across FS dimensions1



Closely related to corporate needs: prefer an integrated management of corporate and personal assets by IPO advisors, consider direct investment institutions

Note: 1) Level of importance and analysis of different FS dimensions only represent the requirements of the specific subsegment based on the average ratings of customers from the same segment

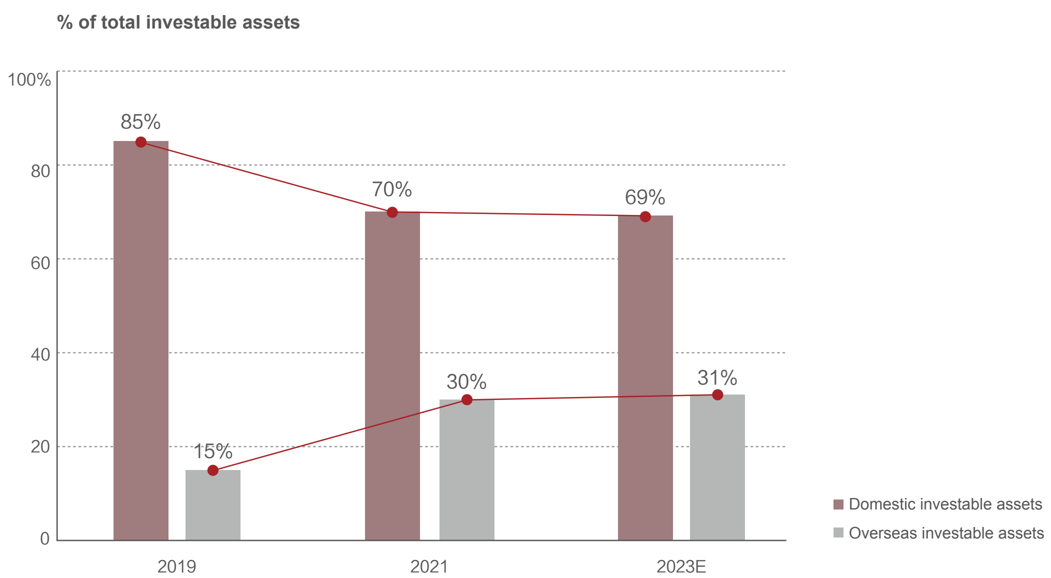
Source: CMB-Bain HNWI survey & analysis

Domestic and overseas asset allocation is increasingly rational with trends towards new investments destinations and higher appetence for value-added services

Overseas assets: The split between domestic and overseas assets of the Chinese HNWIs is expected to remain stable over the next two years, with asset classes gradually shifting from traditional real estate to multiple asset types and comprehensive service needs.

In the next two years, the allocation between domestic and overseas asset is expected to remain stable. Many high net worth individuals began to transfer assets back to China following the return of Chinese Concepts stocks and the end of lock-up period of overseas listed stocks; however, due to the tax and legal implications of transferring funds back to the domestic market, some of the funds continue to stay overseas. The investable assets that remain abroad will gradually shift to diversified asset types and integrated services. (Figure 19)

Figure 19: Domestic and overseas asset allocation of China's HNWIs, 2019-2021



Source: CMB-Bain HNWI survey & analysis

Asset transit regions and destinations for China's HNWIs further diversify due to national policies, wealth flow, political stability, career and life occasions (children's education, retirement).

Asset flows of the new economy segment are closely related to the location where newly created companies are listed. Their overseas assets stay where their companies are listed. The older HNWIs are more concerned about the political stability of investment destinations, as well as retirement and children’s education, living and immigration requirements.

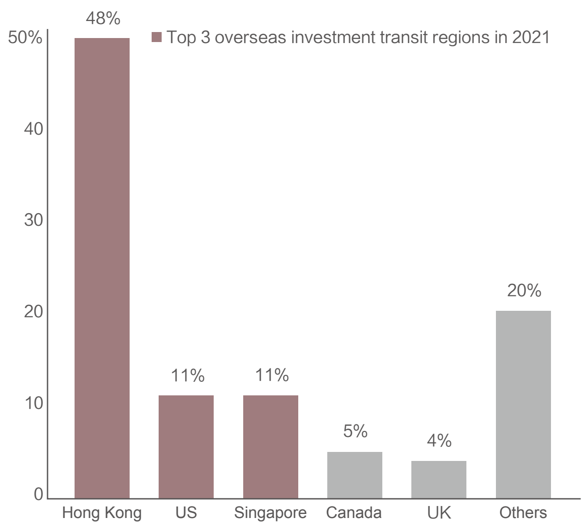
According to the survey, Hong Kong, the United States and Singapore are the three most mentioned transit regions for overseas assets in 2021. Hong Kong, with its unique advantages in geographic location, financial market, human resources and capital allocation, has become the link between the mainland capital market and the world. Its role as a stronghold for international cooperation in the capital market is remarkable. It remains the preferred transit region for HNWIs, mentioned by 48% of the respondents. However, compared to previous years, the popularity of certain destinations have dropped. For example, share of respondents mentioning Hong Kong and the US are down by ~25% to 46% and 22% respectively, while that of Singapore has declined by 4% to 20%. With the opening of national policies, the Belt and Road countries have made into promising destinations in future, with mention rate up by 11% to 33%, showing further diversification in asset allocation destinations. (Figure 20)

HNWIs have a more mature view of domestic and overseas planning, with less demand in immigration and co-location of the family. Many old parents are not insisting on staying together with their children and allow their children to make their own choices on overseas study and destination, which has driven down the demand for immigration.

Figure 20: Asset transit regions and destinations of China's HNWIs, 2021

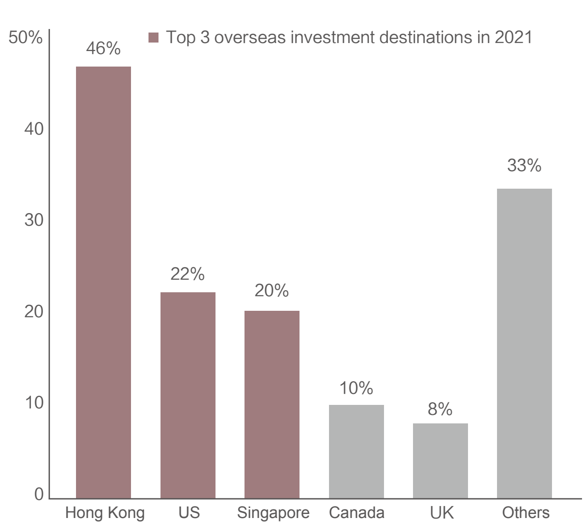
What is your preferred transit region?

Top 3 overseas investment transit regions in 2021



What is your preferred destination?

Top 3 overseas investment destinations in 2021

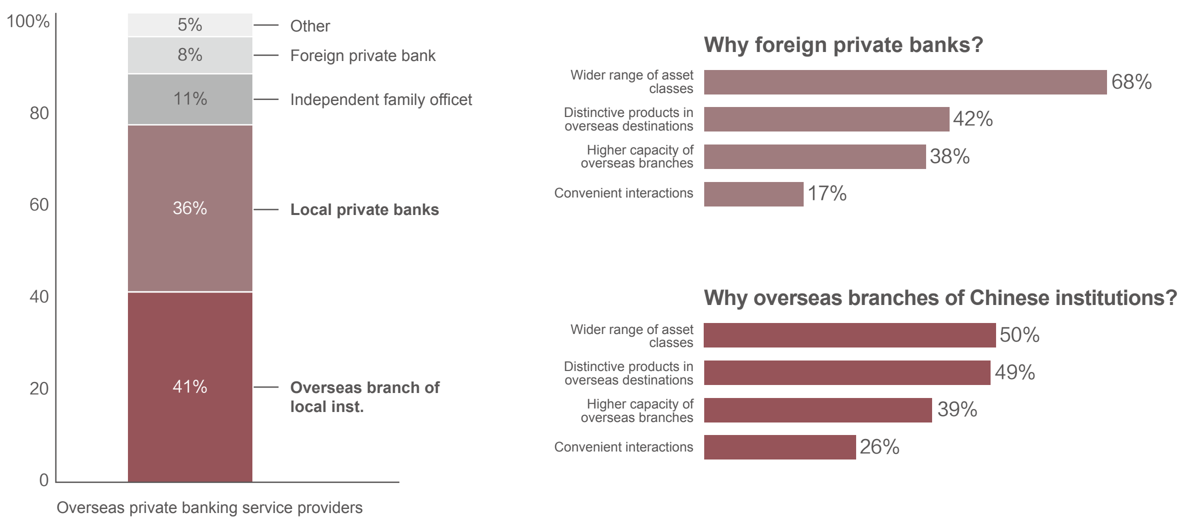


Note: Other countries include Australia, New Zealand, SEA (excl. Singapore), the EU (excl. the UK), Belt & Road countries, etc.

Source: CMB–Bain HNWI survey & analysis

When it comes to private banking service providers, overseas branches of Chinese institutions and foreign private banks are the main service providers given their wide range of asset classes, accounting for 41% and 36% respectively. However, foreign service providers were mentioned by more respondents in the survey. (Figure 21)

Figure 21: Domestic and overseas asset service providers for China's HNWIs, 2021



Source: CMB-Bain HNWI survey & analysis

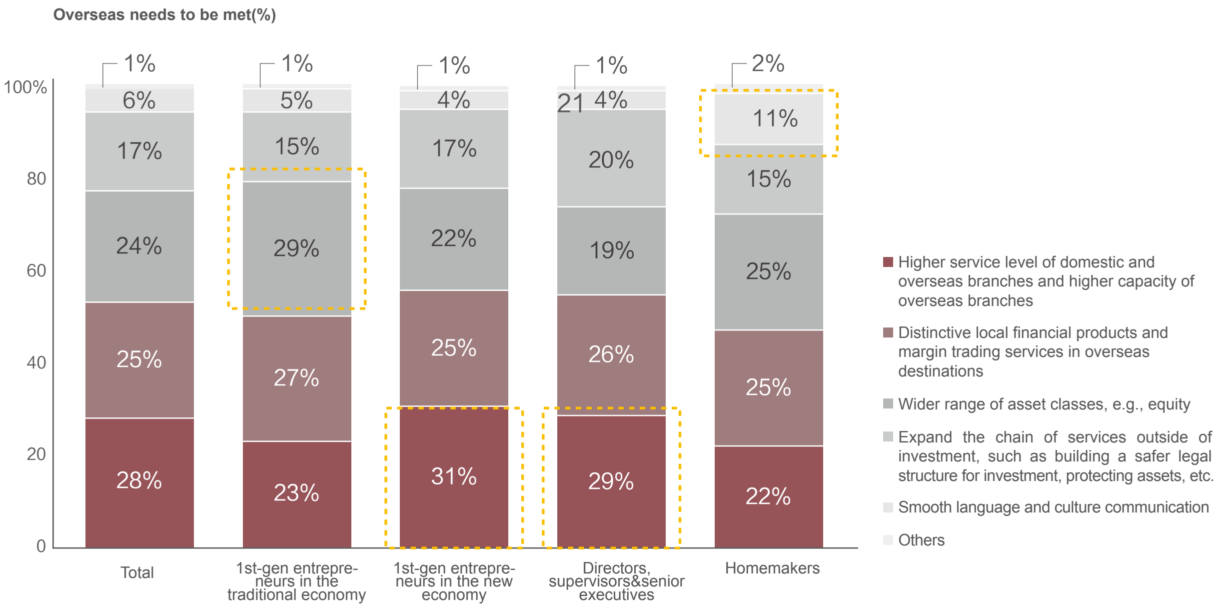
Overseas services require a more comprehensive and professional approach, with different types of clients emphasizing different service priorities. HNWIs expect E2E services for overseas assets such as legal and tax planning, and the ability to provide services based on differentiated needs.

In general, there are four types of space to remove needs from HNWIs concerning overseas private banking services: strong service level of domestic and overseas branches and strong capabilities of overseas branches; distinctive local financial products and margin trading offering in the overseas destinations; wide range of asset classes; extended range of services beyond investment, such as building a safer legal structure for investment, protecting assets, etc. Among them, 1st generation entrepreneurs in the traditional economy place more emphasis on the abundance of asset classes and distinctive overseas products; 1st generation entrepreneurs in the new economy as well as senior executives have demand for both support in transferring assets back to China and continuation of support for overseas assets allocation and management. Compared with other segments, other decision makers such as full-time housewives mention language and culture communication as point of differentiation.

On top of the unique needs of each segment, HNWIs want a wide range of overseas services, including single investment solutions, asset segregation and legal structure for overseas investment. For example, 1st generation entrepreneurs in the new economy and senior executives who need to transfer overseas assets back to China would expect corresponding asset planning and legal/ tax services.

On the supply side, providing a full range of services according to customers' needs should be on the agenda. Domestic private banks are already doing so to provide efficient and high-end services including overseas business trips, children's education services and healthcare recommendations. (Figure 22)

Figure 22: Overseas service needs of China's HNWIs, 2021



Source: CMB-Bain HNWI survey & analysis

[Topic II: Product and service ecosystem] Building of an integrated financial and non-financial service ecosystem to meet personal, professional and social needs

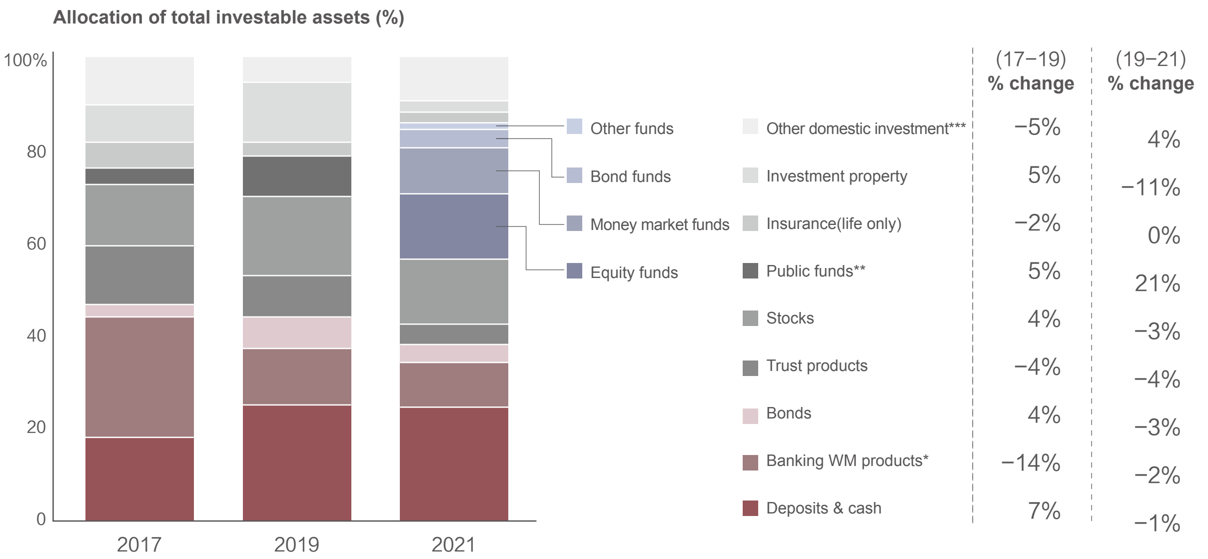
Experienced HNWIs are more open to equity products, NAV products and professional asset allocation

Generally, HNWIs took a more cautious investment approach in 2019-2021 due to the volatility of capital markets and the uncertainty in the market. 58% of respondents mention investment risk as their primary concern. Most of the HNWIs over 50 years old have entered the later stage of their career. They are more interested in value preservation of their assets, with 62% of them mentioning risk as their primary concern. Some HNWIs have bolder investment stance due to higher expectations for investment returns and stronger risk tolerance. Among them, people who are younger than 40 years old and still rapidly accumulating wealth, generally have a stronger risk tolerance and are more willing to try products with high risks and high returns.

Assets allocation has become more diverse both due to regulatory and market reasons. Fixed income and real estate investments further decreased in HNWI assets allocation. Due to new regulations on asset management, the supply of trust products and bank non-NAV products further declined, and their share in total asset continued to decrease. In the context of, policies to curb housing speculation, the government put forward new eligibility criteria for purchase and sales restriction period, which lowered the value and attractiveness of investment real estate.

At the same time, HNWIs invest a larger portion of their wealth into equity products. As standardized products, such as funds, are accepted by more investors, these products take a more significant part in assets allocation. Among them, equity funds account for a significant proportion due to the positive outlook of equity market. At the same time, HNWIs' demand for professional asset allocation service has increased, and they tend to participate in the capital market through funds instead of investing in individual stocks. As a result, HNWIs increasingly search for more assets allocation, with a significant increase in demand for alternative domestic investment products such as private equity, etc. (Figure 23)

Figure 23: Allocation of domestic investable assets of China’s HNWIs, 2017-2021



Source: CMB−Bain HNWI survey & analysis

Notes:
*Banking WM products include NAV products (non-fixed income) and non-NAV products (fixed income, including structured deposits);
**Public funds include money market funds, bond funds, and equity funds;
***Other domestic investments includes PE funds, private securities investment funds, gold, hedge funds, collectibles, etc.

- **Public funds to grow quickly:** The share is expected to grow by 21% in 2019-21 vs. 2017-19, mainly driven by the gradual improvement in product structure since 2020. The optimization of registration mechanism for public funds and the increased transparency in operations are drivers for the fast growth of public funds, especially equity funds. As of the end of December 2020, public equity funds had averaged 17.04% annualized return, 10.54 percentage points higher than the average increase of the Shanghai Composite Index over the same period, and the annualized return of public bond funds was 6.91% in average, 4.16 percentage points higher than the prevailing 3-year deposit rate.

- **Property investment to decline significantly:** Property investment is expected to decrease by 11% in 2019-21 vs. 2017-19. Under current anti-housing-speculation policies, there is no immediate plan to ease restrictions on housing loans, purchasing rights and prices. The combined return on property investments and rentals keep dropping, weakening the attractiveness of real estate investment.

- **Trust, bond, and banking wealth management products to take lower share:** Each asset class is expected to drop by 4%, 3% and 2% respectively in 2019-21 vs. 2017-19. Under the policy guidance of the new regulations on capital management including deleveraging, de-nesting and removing implicit guarantees for WMPs (wealth management product), the supply of banking WMPs and non-standard trust products shrank in 2018, with return repeatedly hitting new lows and taking a downward trend. The bond market attractiveness decreased due to the robust growth in stock market in 2019-2021. In 2020 the bond market witnessed a V-shaped rebound, as yields were hit by COVID-19 at the beginning of the year, and then rebounded rapidly when China's economy recovered thanks to successful pandemic control. In 2021 the bond market tends to have limited headroom for further growth.

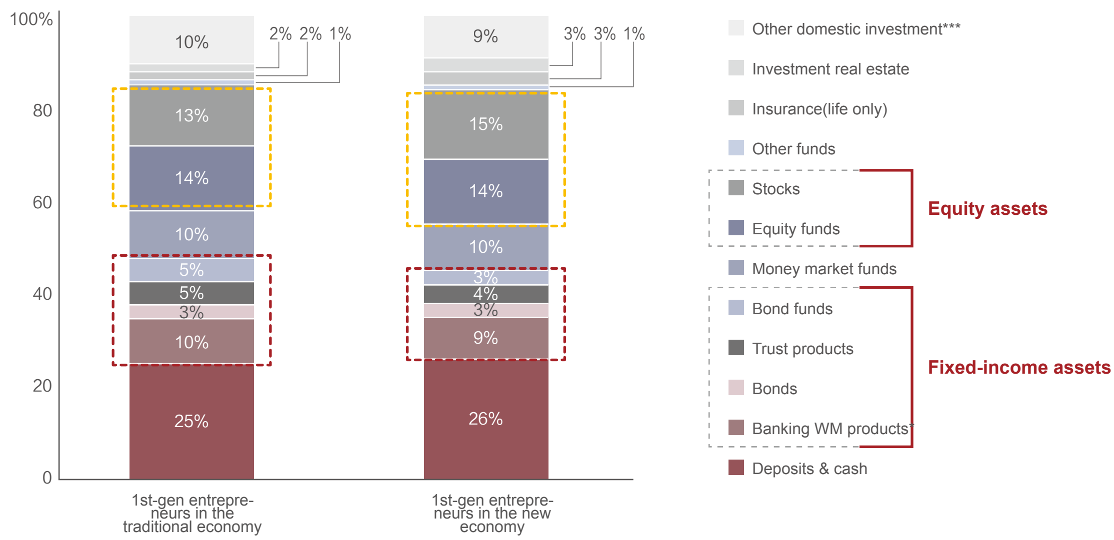
- **Insurance (life only) to remain stable:** Insurance is expected to take a stable share in HNWIs' domestic asset allocation in 2019-2021. Due to the COVID-19, HNWIs have enhanced awareness of risk protection, driving up the demand for protection-oriented insurance, and highlighting the importance of life insurance. Life insurance is gradually restoring its functions of value preservation and appreciation under regulation, fueling long-term investment in insurance by HNWIs.

Different segments have different needs for financial assets allocation: 1st-generation entrepreneurs in the traditional economy are more conservative and prefer fixed income products; 1st-generation entrepreneurs in the new economy are more aggressive and allocate more of their assets to equity products.

Our survey found that fixed income assets, such as bond funds, trust products, bonds, banking wealth management products, etc. account for 23% of the investment portfolio of 1st-generation entrepreneurs in the traditional economy, significantly higher than the 20% held by those in the new economy. In comparison, stocks, equity funds and other equity assets take 27% of traditional economy players' assets, lower than the 29% among new economy peers.

The main objective of the 1st-generation entrepreneurs of the traditional economy is value preservation, and therefore are more conservative and prefer investing in fixed income assets. 1st-generation entrepreneurs in the new economy see wealth creation and value appreciation as their primary investment objectives. They are more enthusiastic about capital markets and seek higher investment return through higher share in equity. (Figure 24)

Figure 24: Comparison of financial assets allocation of 1st-gen entrepreneurs in the traditional economy vs. in the new economy

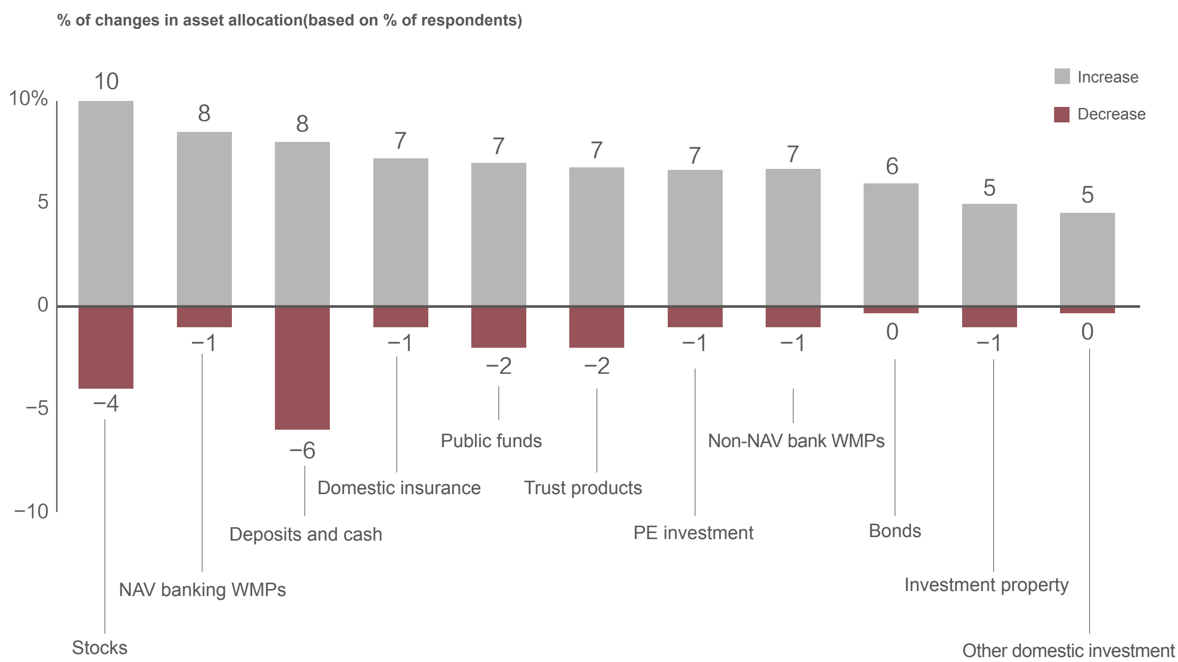


Source: CMB-Bain HNWI survey & analysis

As they go through market cycles, investors are getting more experienced. HNWIs are cautiously optimistic about the prospects of different assets classes in 2021 vs. 2019.

Firstly, the proportion of equity is mildly increasing. Taking stock as an example, the future share of stocks is expected to increase slightly by ~6%. Secondly, investors are increasingly used to the balance between risk and return. Funds increasingly flow to banks' wealth management divisions, whose share is expected to rise by 7% in the future. (Figure 25)

Figure 25: Changes in the allocation of domestic investable assets in the next 1-2 years

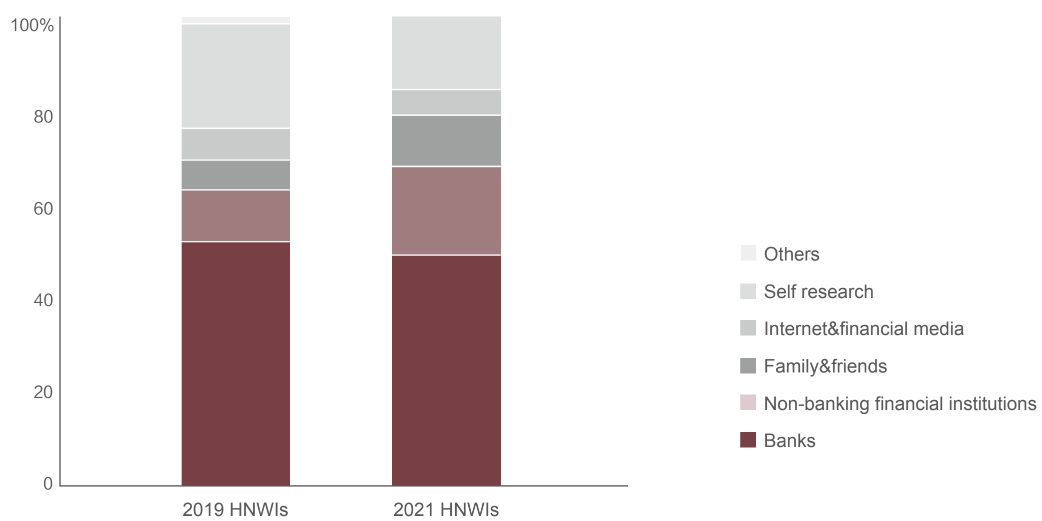


Source: CMB-Bain HNWI survey & analysis

HNWIs are more willing to let professional institutions handle their assets allocation. As assets allocation gets increasingly complex due to market volatility and increased product diversity, HNWIs are more willing to seek allocation advices from banks and non-banking institutions in the investment decision-making process. 60% of investments advices to HNWI are delivered by banks and non-banking institutions. HNWIs choosing professional institutions have increased by 7% in 2019-2021. (Figure 26)

1st-generation entrepreneurs generally prefer seeking professional advices from professional institutions, but entrepreneurs in different sectors have different preferences when choosing institutions. 1st-generation entrepreneurs in the new economy have more diverse investment channels and prefer investment advices from non-banking institutions such as securities brokers and PE funds, while their peers in the traditional economy trust banks more and prefer investment advices directly from private banks' relationship managers.

Figure 26: Basis of investment decisions of China's HNWIs, 2019-2021

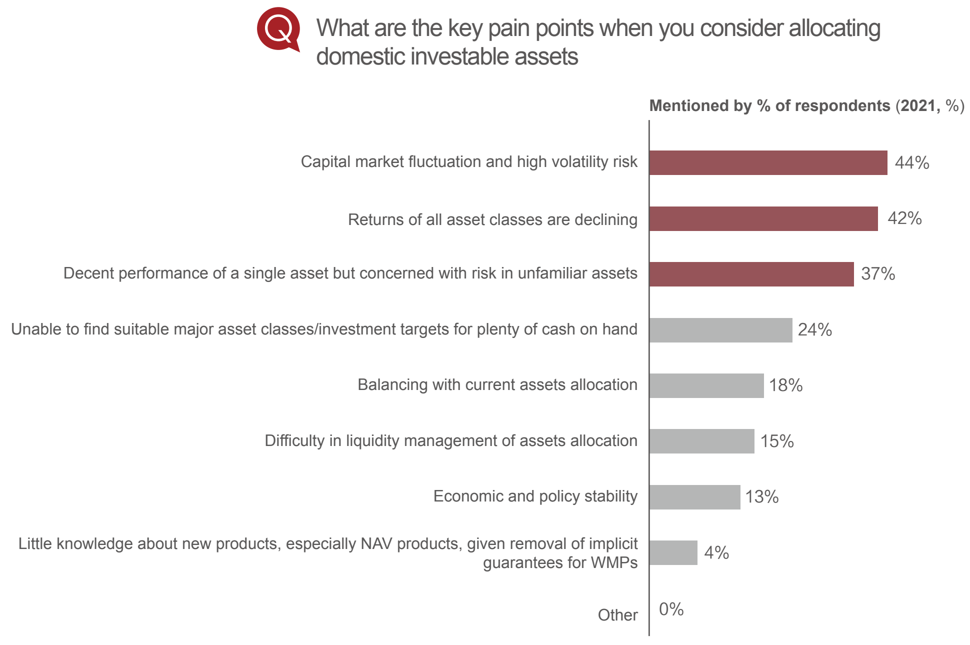


Source: CMB-Bain HNWI survey & analysis

Key pain points in assets allocation for HNWIs in China are the management of risks derived from market fluctuations and increase of returns through active allocation. Currently they are generally happy with the assets allocation service and value active portfolio management to capture market opportunities.

With increased market volatility and assets diversity, it is more difficult to maintain a stable allocation of assets. 44% of HNWIs said during the survey that the biggest pain points when considering domestic assets allocation in 2021 are the high capital market fluctuations and their low risk tolerance. 42% of survey respondents stated that the returns of all asset classes are generally declining. 37% of them are satisfied with the performance of a single asset but are concerned about new risks when adding assets with which they are not familiar. (Figure 27)

Figure 27: Pain points of China’s HNWIs in assets allocation in 2021



In terms of assets allocation, the 1st-generation entrepreneurs in the traditional economy and new economy players have different needs, with the former placing more emphasis on return of assets and responsiveness to market changes, while the latter value customization of assets allocation and wide range of product types.

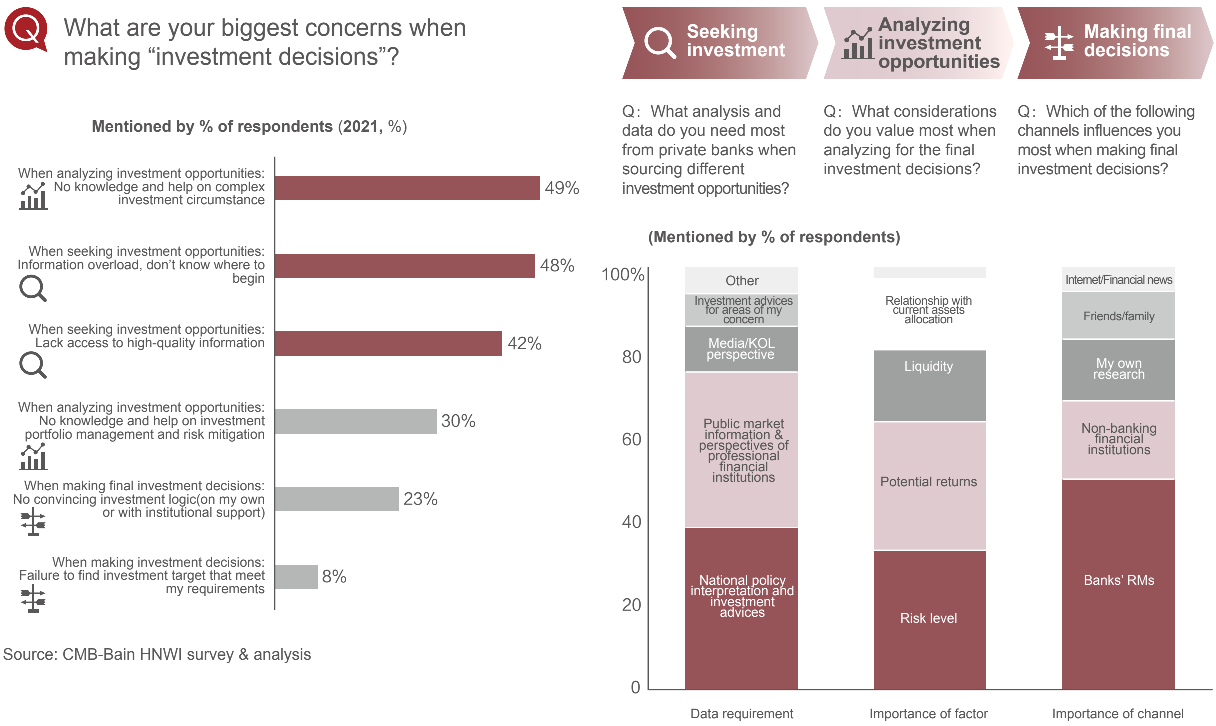
Specifically, 1st-generation entrepreneurs in the traditional economy are more satisfied with their asset allocation. Higher return from assets allocation services is the most important factor driving satisfaction, followed by the availability of customized products and wider choices. However, in terms of market responsiveness and speed, they expect private banks to enhance their abilities to seize opportunities in a rapidly changing market . 1st-generation entrepreneurs in the new economy are satisfied with availability of customized products, higher return from professional assets allocation and responsiveness to market changes. However, they are more demanding on diversity and range of product types.

Pre-investment: It is difficult to obtain comprehensive and high-quality information. Among them, the most valued information is about the interpretation and insights into markets and policies.

This survey shows that in the process of “making investment decisions”, the top 3 pain points are: lack of knowledge and help in an increasingly complex investment environment, information overload, and no access to high-quality investment information.

Facing an increasingly complex investment environment and information overload, HNWIs have become more aware of the value of professional financial institutions. The survey shows that professional financial institutions play an important advisory role in providing HNWIs with investment information helping them making their investment decision. For example, national policy interpretation and investment advices, public market information and perspectives of professional financial institutions are what HNWIs need most from private banks when seeking investment opportunities. When analyzing investment opportunities, potential returns and level of risk are most critical considerations for HNWIs. Finally, when making final decisions, HNWIs particularly value information and assistance offered by banks and non-banking financial institutions, with 50% of respondents influenced by banks’ relationship managers and 10% by non-banking financial institutions. (Figure 28)

Figure 28: Pre-investment pain points and importance of channels for China’s HNWIs in 2021



Source: CMB-Bain HNWI survey & analysis

Investment and post-investment: HNWIs require dynamic, timely, and adequate communication and alerts regarding market changes during investment. They want a transparent and real-time information close loop to get analysis and advices on post-investment performance and next investment opportunities.

Specifically, HNWIs value the responsiveness of investment institutions to market changes. They want to be able to capture opportunities when market rises, and be warned about potential market risks when volatility increases. HNWIs require investment institutions to have accurate and professional communication on investment rationale and allocation frameworks, and provide education on investment categories and related markets, including risk analysis, product design, specific investment targets, and analysis of underlying assets.

Once investments are made, HNWIs require dynamic and transparent performance tracking and analytical tools by investment institutions. They also want investment institutions to offer analysis and advices for future investment opportunities, build investments track record and diagnostic tools to analyze investment and provide end-to-end solutions (Figure 29)

Figure 29: Requirements of China’s HNWIs in investment and post-investment stages in 2021

Investment	Post-investment
• Accurate and professional communication on investment logic and allocation frameworks	• Dynamic and transparent post-investment performance tracking
• Education on investment categories and related markets, including risk analysis, product design, specific investment targets, and analysis of underlying assets	• Attribution analysis of post-investment performance, in addition to analysis and advices for future investment
• Responsiveness to market changes that can help adjust investment portfolio to seize market opportunities when market rises, and warn about potential market risks during fluctuation	• Tracking and accountability mechanism for post-investment issues, and end-to-end solutions

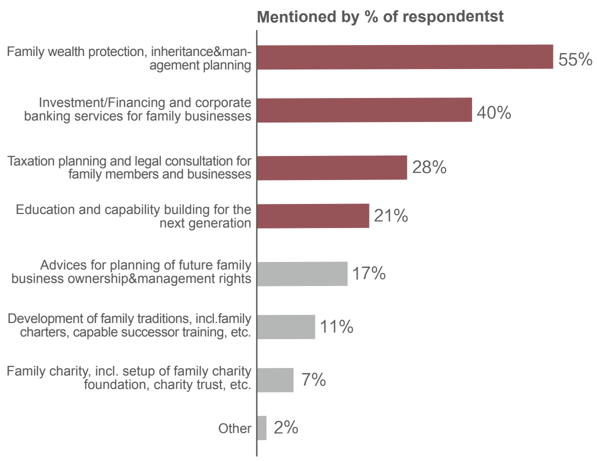
HNWIs are more aware of family inheritance with needs for tax and legal advices on top of wealth inheritance

HNWIs are faced with a new agenda: how to build a lasting family business and continue family culture and values on top of wealth inheritance using the right financial, legal and taxation tools? There are four types of most needed services from private banks regarding intergenerational inheritance: family wealth protection, wealth inheritance and management planning; financing and corporate financial services for family businesses; taxation planning and legal consultation for family members and businesses, education and capability building for the next generation.

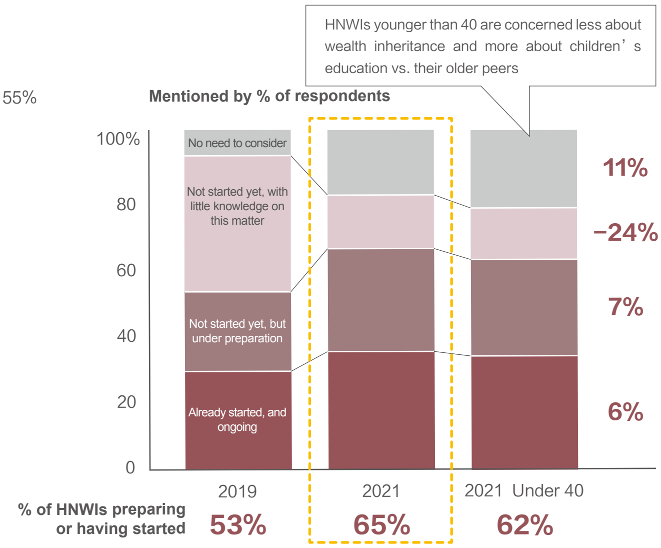
Due to external uncertainties, the importance of wealth inheritance has been further highlighted in the survey, and HNWIs are more aware of the importance of family inheritance. 53% of interviewed HNWIs had either prepared for or started to take actions on wealth inheritance in 2019. This figure rises to 65% in 2021. At the same time, as the new HNWI segment are embracing wealth inheritance concept, early planning and target-setting for wealth inheritance has been prevailing. Among the HNWIs who are already preparing for wealth inheritance, those under the age of 40 increased by 7% compared to 2019. However, more than 20% of HNWIs under 40 claimed no consideration for wealth inheritance. Compared to their older peers, they are currently less concerned about inheritance than for example their children’s education. (Figure 30)

Figure 30: Intergenerational inheritance needs and preparation for wealth inheritance of China's HNWIs in 2021

Q What services do you need most from private banks regarding intergenerational inheritance?



Q What are your plans for wealth inheritance?



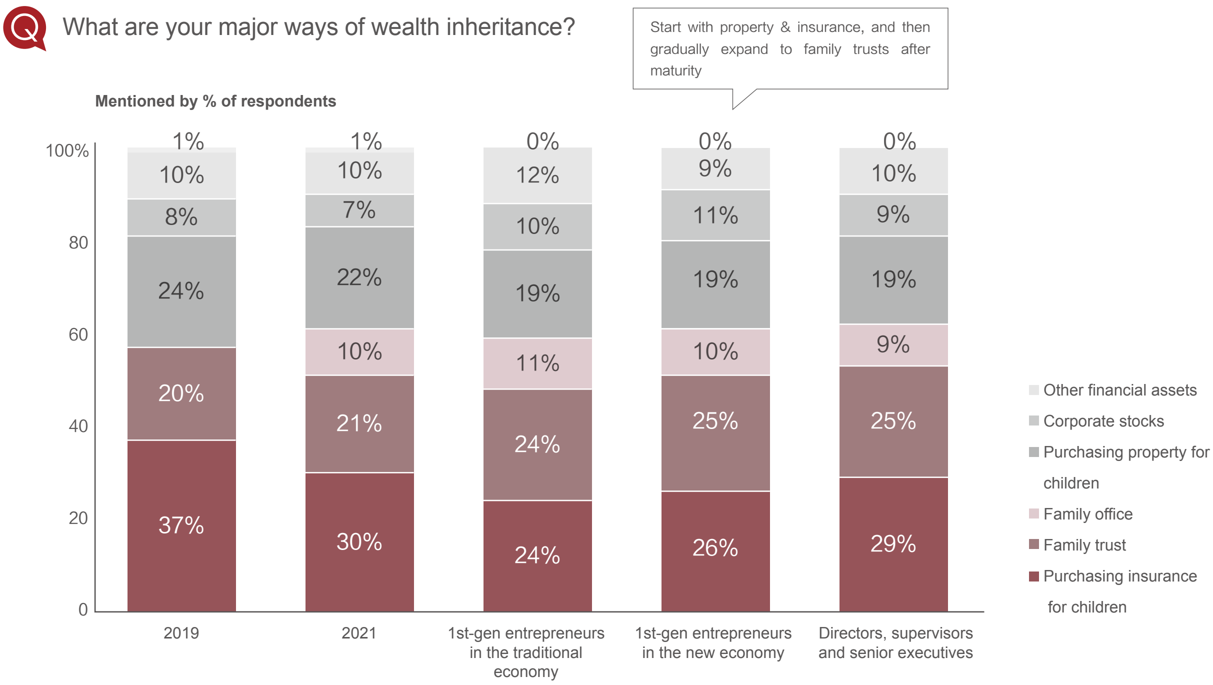
Source: CMB-Bain HNWI survey & analysis

For wealth inheritance, HNWIs start with property and insurance, and then gradually expand to family trusts. The survey shows that the proportion of insurance and property decreased respectively from 37% and 24% in 2019 to 30% and 22% in 2021, while the proportion of family trust steadily increased from 20% in 2019 to 21% in 2021.

COVID-19 has increased awareness of wealth protection and need for segregating personal and professional assets. Different institutions have rushed to provide family trust products, and market education has reinforced customers' interest in family trust. More investors accept family trust compared to 2019, as 24% of 1st-generation entrepreneurs in the traditional economy, 25% of 1st-generation entrepreneurs in the new economy and 25% of DSSEs have chosen this option. This has raised additional requirement for family trust services, including integration with existing assets allocation plan as well as long-term assets planning and liquidity considerations. At the same time, there is increased demand for information transparency and timely disclosure of family trust, like real-time tracking of the quarterly performance and reports on mobile apps.

HNWIs in different life stages prefer different ways of wealth inheritance: 29% of DSSEs still use insurance as means to wealth inheritance, while the older 1st-generation entrepreneurs in the traditional economy rely on more sophisticated services such as family trusts and family offices to transfer their wealth and capabilities. (Figure 31)

Figure 31: Means of wealth inheritance among China's HNWIs in 2021



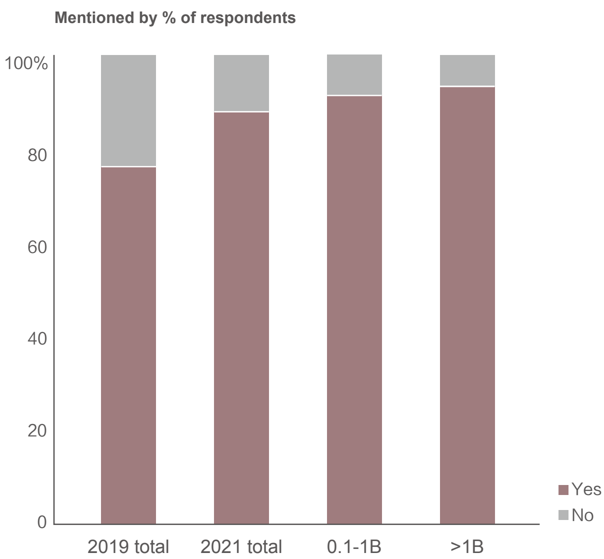
Source: CMB-Bain HNWI survey & analysis

HNWIs are more aware of family inheritance with needs for tax and legal advices on top of wealth inheritance

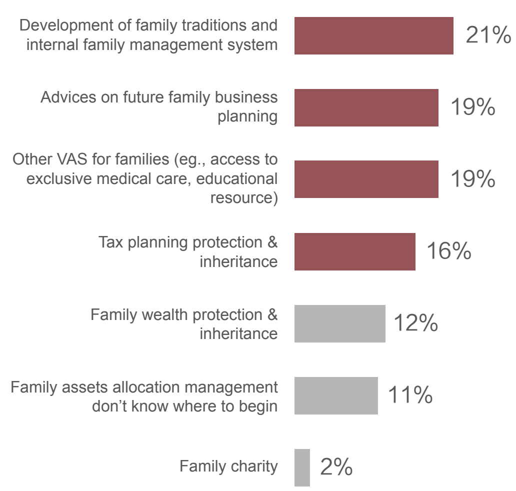
As wealth inheritance gets more complicated, HNWIs have increasingly stronger demand for family office services. Proportion of investors that accept family office services, most prestigious services within wealth management, rose from less than 80% in 2019 to nearly 90% in 2021. Surveyed HNWIs declared to be willing to further expand family office services to professional "financial plus" advices related to tax/ legal affairs, business operations and capability building. Specifically, there are obvious needs for the development of family traditions and internal family management system, advices on future family business planning, other value-added services for families (e.g., access to exclusive medical care, educational resource), tax planning, legal and charity consultation, etc. (Figure 32)

Figure 32: Acceptance and service requirements of China's HNWIs for family office services in 2021

If a domestic commercial bank offers family office services, are you willing to try



Which family office services do you want to further expand into?



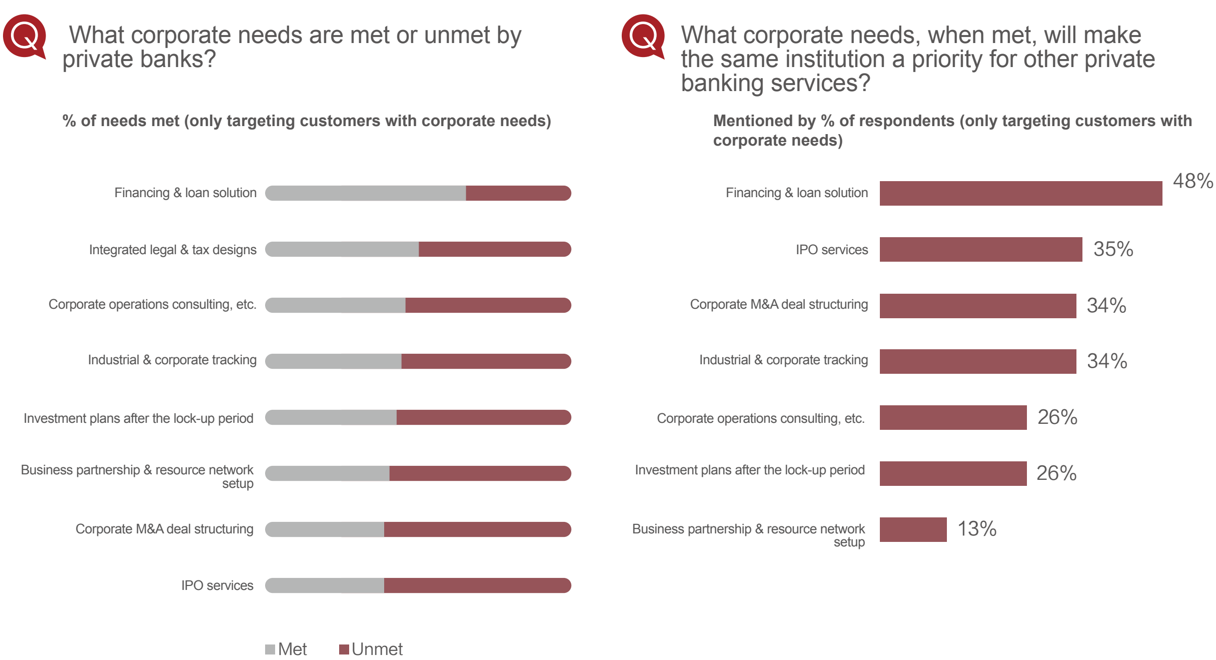
Source: CMB-Bain HNWI survey & analysis

Private banks are expected to offer access to corporate solutions, with still limited offering beyond traditional financing

Despite the overall macroeconomic slowdown, China's private banking industry still shows strong traction. Several A-share listed banks have reported double-digit growth in their private banking customer base and asset under management (AUM). Private banking customers have greater requirements for integrated services. When selecting private banks, customers expect financial institutions to provide integrated corporate and private services, such as one-stop-shop services integrating corporate financing. However, due to capability gap and business silos, the overall value proposition has still room to improve.

Private banking can work with corporate finance to provide corporate services to their customers. Currently over 60% of needs are met for financing and loan solutions, but less than 50% of the needs are met for IPO services, corporate M&A deal structuring, business partnership, resource network setup, investment plans after the lock-up period. According to the survey, private banks will be able to attract more HNWIs by leveraging resources from CIB (corporate & investment banking) to provide more value on the corporate financing, IPO and M&A fronts. (Figure 33)

Figure 33: % of corporate needs met/unmet of China's HNWIs, 2021



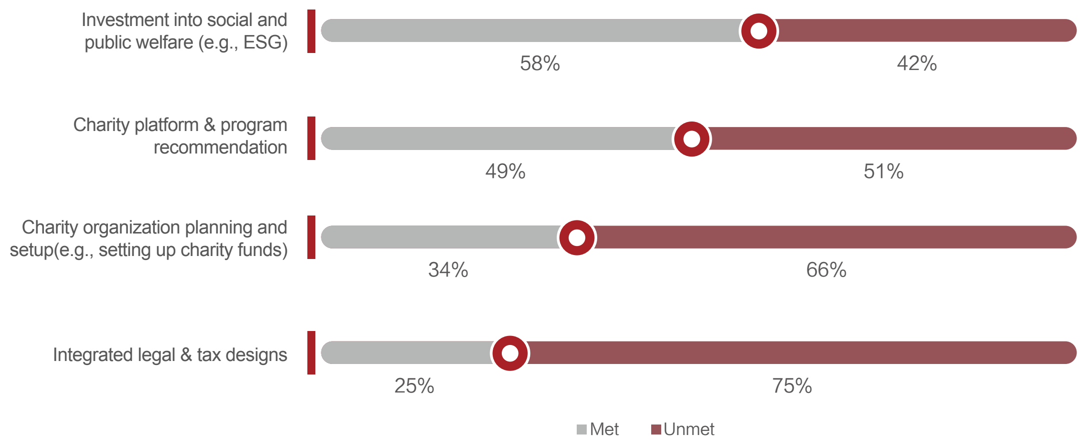
Source: CMB-Bain HNWI survey & analysis

HNWIs are open to charity services provided by financial institutions

The survey shows that 58% of the needs for investment into social and public welfare (e.g., ESG) are met, and 49% of needs for charity platform and program recommendation are met. However, financial institutions are not sufficiently addressing needs for charity organization planning and integrated legal & tax structuring support.

Most of the respondents with social welfare investment needs would choose alternative social welfare platforms, corporate organizations, funds to engage in social welfare activities. They know less about social welfare service solutions from financial institutions, but most of them are open and willing to learn more details. Specifically, when it comes to charity and public welfare, customers will take into account personal, family and corporate needs, such as family taxation, corporate image, etc. Institutions need to address needs from all perspectives, including structure planning, and legal/ taxation design. (Figure 34)

Figure 34: % of charity investment needs met/unmet of China’s HNWIs, 2021



Source: CMB-Bain HNWI survey & analysis

As HNWIs get more mature in wealth management and more familiar with the concept of assets allocation, they tend to recognize the importance of diversified assets allocation. On the demand side, HNWIs not only need traditional financial offerings like bank WMPs, stocks, funds, bonds, trust, gold and real estate, but also emerging financial or non-financial services like family tradition cultivation, family charity, tax planning, legal consultation etc. This requires cross-BU collaboration and comprehensive ecosystem integrating internal and external resources to provide E2E interactions and services across occasions.

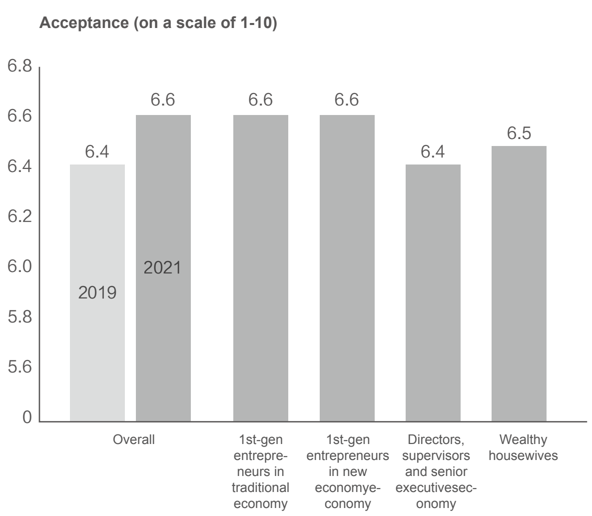
[Topic III: Hybrid service model] Customer-centric and digitally-enabled service model to provide forward-looking insights and E2E support

The Covid-19 pandemic has improved HNWI's overall acceptance of digital services. At the same time, China's increasingly mature digital ecosystem has accelerated the digitalization of the banking industry, leading to remarkable progress in bank's online service and data capabilities. HNWI's acceptance of digital private banking services (on a scale of 1-10), has increased from 6.4 in 2019 to 6.6 in 2021. First-generation entrepreneurs in the traditional economy and the new economy, DSSEs, and wealthy housewives all reported an acceptance of 6.4 and above, exceeding the overall level of 2019.

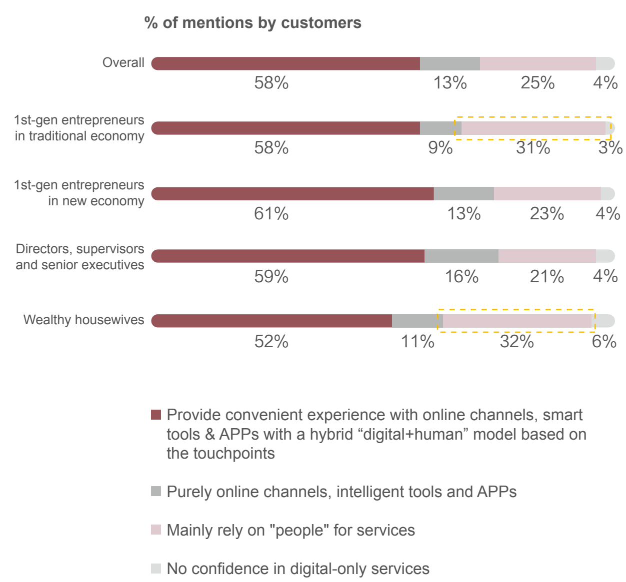
However, the survey shows that 58% of HNWIs prefer a hybrid model centered around people and enabled by digital, 13% of HNWIs rely on online channels, smart tools, APPs, etc., while first-generation entrepreneurs in the traditional economy and wealthy housewives demand high-touch services with trust-based relationships. (Figure 35)

Figure 35: Acceptance of digital private banking services among Chinese HNWIs in 2021

Overall, how open are you to digital private banking services?



What are your expectations for evolution of private banks' people-led and digital-enabled service model?

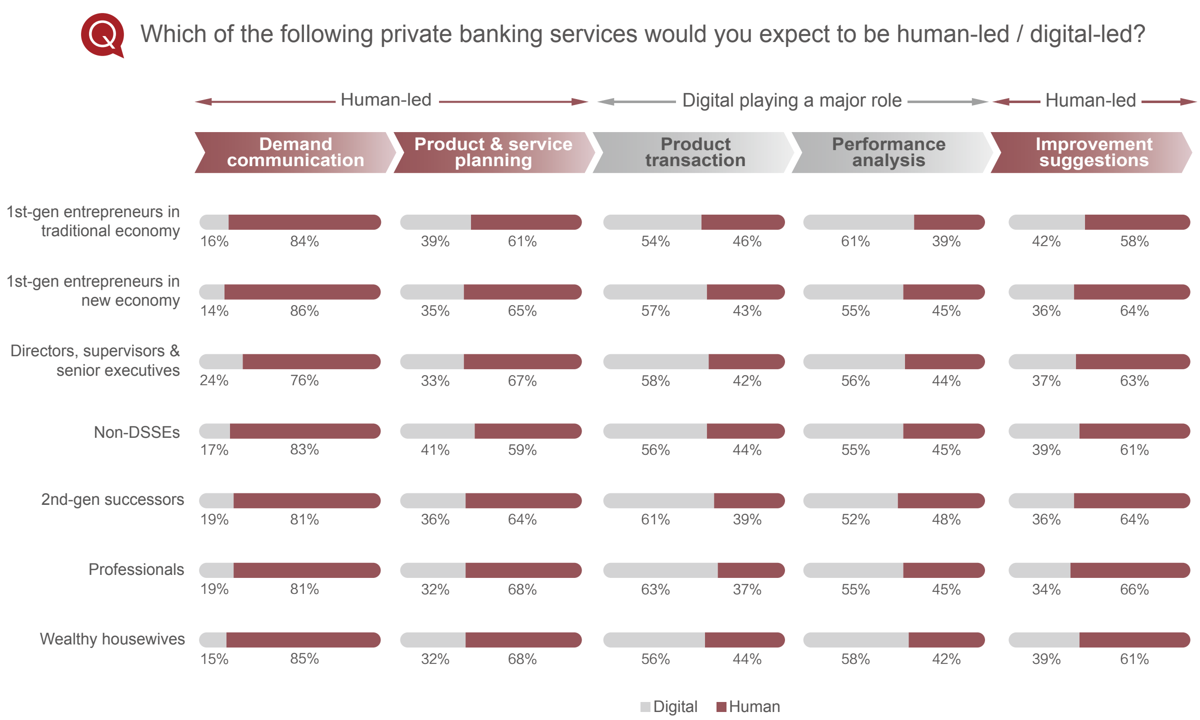


Source: Source: CMB-Bain HNWI survey & analysis

Human-led value proposition will play a central role in customer service and experience in private banking. The survey shows that when understanding customer needs, investment decision making and planning, and post-investment advisory needs, HNWIs still want human interactions for better understanding of investment plans. The pivotal role of relationship managers has been emphasized across all service episodes, with over 70% of HNWIs mainly choosing relationship managers because of expectation for a human-led value proposition. According to some respondents, rather than offering services by relationship managers alone, they expect relationship managers to engage and collaborate with experts from different fields, such as investment advisors and external experts in product and service planning.

HNWIs have long been accustomed to communicating through digital channels such as wechat, mobile apps, and portals. Balancing between digital and human, and providing HNWIs with smart and considerate personalized services has become a major challenge for market players. Meanwhile, the survey has also found that expectations for relationship managers have been shifting from long-term trust to professionalism over the years. (Figure 36)

Figure 36: Feedback on private banking service model from Chinese HNWIs in 2021

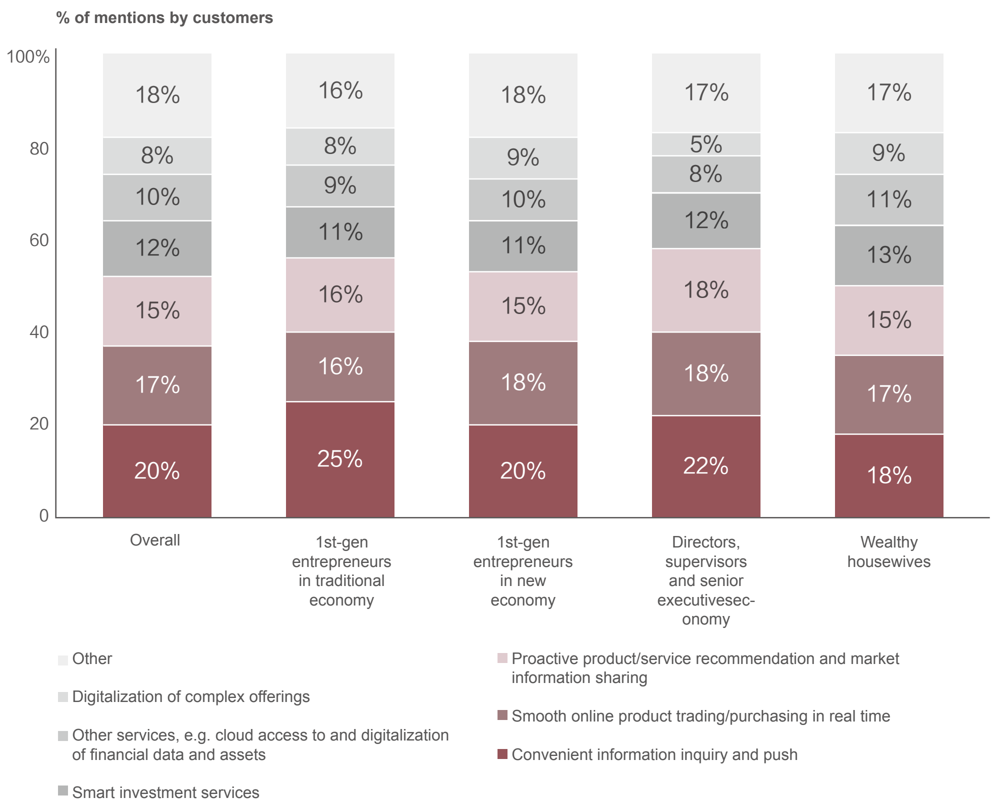


Source: CMB-Bain HNWI survey & analysis

With the rapid development of emerging technologies such as big data, cloud computing and artificial intelligence, the deep integration of financial services and technology is profoundly changing the banking ecosystem. The historical focus on information provision has shifted to the pursuit of a seamless O2O experience. Private banks are also accelerating digital transformation and reshaping business processes in areas such as smart information push, intelligent authentication and robotic process automation. According to the survey, due to the pandemic, convenient information inquiry and push remain the most desired online function of HNWIs, accounting for 20% of all respondents. At the same time, the demand for smarter investment services (e.g. robo-advisor), digitalization of complex offerings (e.g. family office, family trust), and other services such as cloud access to and digitalization of financial data and assets are also emerging. (Figure 37)

Figure 37: Feedback on online private banking functions from Chinese HNWIs in 2021

What specific business functions do you expect to go online?

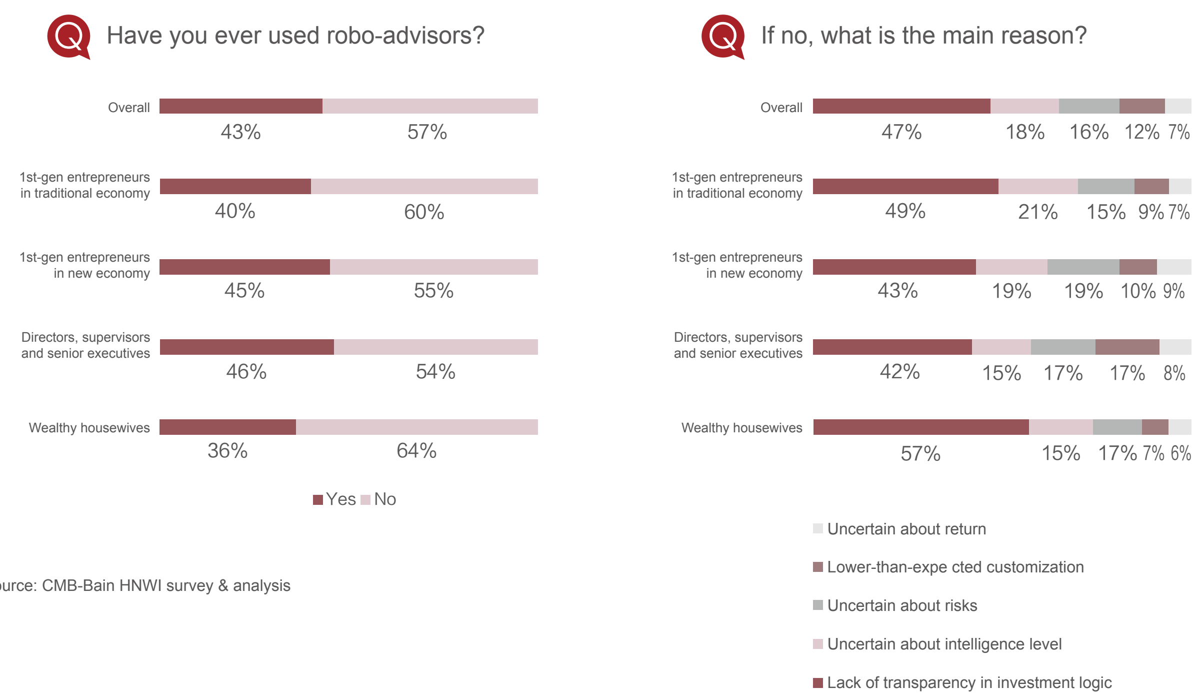


Source: CMB-Bain HNWI survey & analysis

HNWIs are more receptive to go online for more complex offerings such as family trusts, but are concerned about the legality of online contracts and related offerings, as well as asset security. There is no significant change in the acceptance of robo-advisors. HNWIs are willing to use robo-advisors for some standard assets, and mainly concerned about the lack of intelligent investment capabilities and inefficient automation of supporting processes.

According to the survey, 43% of HNWIs have used robo-advisors. The figure is even higher for first-generation entrepreneurs in the new economy and DSSEs, reaching more than 45%. Most HNWIs are willing to use robo-advisors for simple standard assets, such as deposits, cash, foreign exchanges, bonds and stocks. For more complex asset classes, HNWIs are concerned about the uncertain return and risks of robo-advisory portfolio and failure to meet their expectations due to lack of transparency in investment logic and limited customization. (Figure 38)

Figure 38: Feedback on robo-advisory from Chinese HNWIs in 2021



Source: CMB-Bain HNWI survey & analysis

Looking ahead, HNWIs have high expectations for digital services, but also believe there is headroom for financial institutions to improve. For example, for investment decision advisory and update notifications, clients have strong demand for dynamic information tracking and notifications, intelligent insights, interpretations of market information, as well as guidance on investment decisions tailored to their own needs and latest assets allocation.

In addition, HNWIs also expect intelligent financial tools to connect different products and services. For example, they expect to include non-financial services like children's education, online resource links to deliver platform-driven services. HNWIs with needs in children's education expect these resources to be delivered digitally in a convenient way. They also expect these tools to be an information and service platforms for hobbies and industry-specific activities. (Figure 39)

Figure 39: Digital service needs of Chinese HNWIs in 2021

What do you think can be improved for digital services?

Mentioned by % of respondents

Increase online offering, incl. financial products 51%	Enhance post-investment management 30%
Improve decision recommendation 40%	Enhance online-office integration 13%
Enhance information sharing and push 37%	Other 7%

In which online scenarios would you like private banks to optimize services in the future?

Mentioned by % of respondents

Access to leading education resources 50%	Exclusive channels for luxury products purchase 28%
Online clubs, e.g., forums for entrepreneurs startups 44%	Artwork apprehension & investment 10%
Access to domestic/overseas high-end travel 37%	Other 6%

Source: CMB-Bain HNWI survey & analysis

HNWI engagement frequency varies across segments, but the requirement for the quality of all touchpoints and one-stop-shop solutions is common across segments. All touchpoints should be easy to access and create value. In terms of differentiation, new economy players who have recently increased their wealth have higher acceptance for digital services, but their own wealth management capabilities are not mature yet. They are still building relationship with their relationship managers and relying on digital channels to access low-touch, efficient and affordable services. As they accumulate investment experience, they are looking for more touchpoints and professional inputs at key decision-making moments to improve their own capabilities. Professional and self-confident investors will determine themselves the frequency of interaction with their relationship managers based on the complexity of offerings, institutional arrangements, etc.

Expansion into life occasions beyond financial needs with easy-to-access touchpoints to improve efficiency

Amid the increasingly diversified and differentiated wealth management needs, convenient access to occasions and efficient high-quality services are common requirements of Chinese HNWIs. Relying on their own advantages and resource integration capabilities, private banks are building service ecosystem with external partners, reshaping wealth management journey of HNWIs with the human-led and digital-enabled model, and trying to meet wealth management needs of different HNWI segments through efficient one-stop-shop services, significantly improving service efficiency and optimizing customer experience.

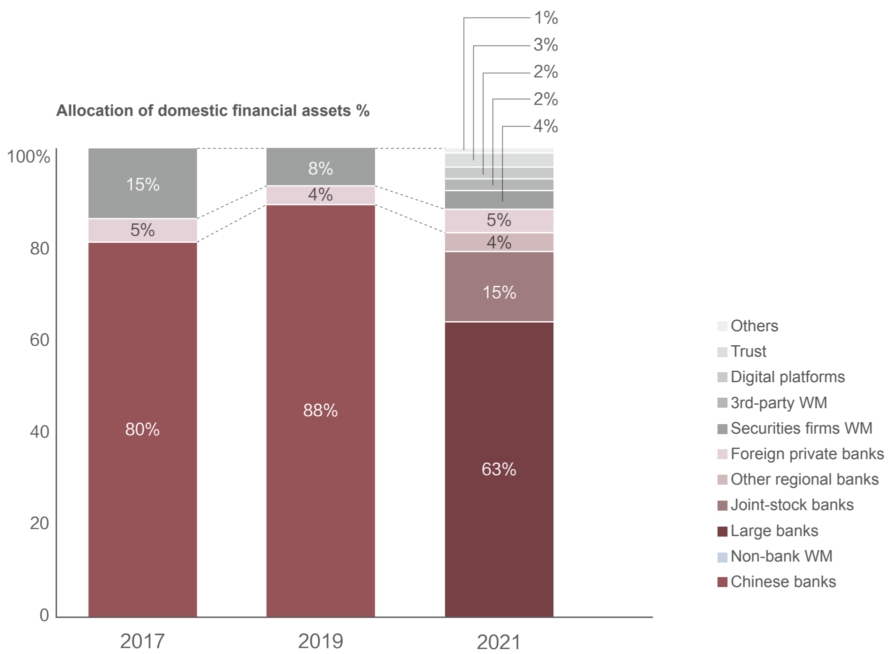
In addition, with the accelerated digitalization and increasingly smarter offering, value creation of private banks has evolved from single value chain to value network and ecosystem. Private banks need to create an integrated value chain of financial institutions and facilitate value creation from synergies in the ecosystem to meet the increasingly diversified assets allocation needs of HNWIs. Private banks need to strengthen collaboration between financial and non-financial businesses and across functions to build an ecosystem encompassing product, IT systems, service networks, etc. Different business units and product lines should join efforts to focus on the needs of HNWIs and value creation to build a system around one “single brand” that shares products, customers, technology and innovation, and ultimately emerge as an integrated value creator for HNWIs.

Chapter 3 Competitive landscape of private banking in China

Among diversified players providing differentiated offering, bank-affiliated private banking remains the top choice

China's economy and wealth management market is stabilizing and HNWIs are maturing. Avoiding investment risks and preserving assets remains one of the core HNWIs objectives. Foreign banks build their position in the allocation and optimization of HNWIs' overseas assets by deeply understanding their cross-border needs, helping to build foreign networks and providing professional overseas investment products and services. The industry regulatory environment and industry self-regulatory system is becoming more sophisticated. In 2021, the allocation rate of HNWI clients in securities brokers and private equity institutions will reach 12% driven by the high yield of star private equity and investment products. These institutions are recognized as being more professional in the area of equity assets allocation such as securities and funds.

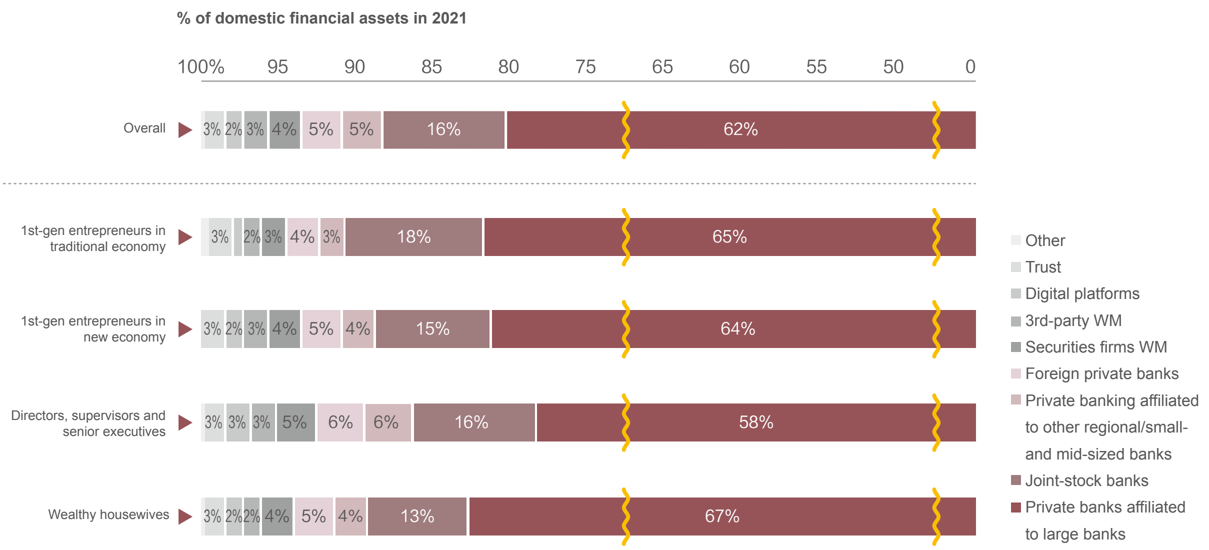
Figure 40: Asset allocation of Chinese HNWIs among wealth management institutions in 2021



Source: CMB-Bain HNWI survey

In 2021, with new policies such as the "New Regulation on Asset Management" and "New Regulation on Wealth Management", and the continued volatility of domestic and international financial markets, private banks are favored by HNWIs for their robust and comprehensive wealth management services. According to the survey, private banks affiliated to large banks are still the first choice of HNWIs, accounting for 62% of preferred partners. 1st generation entrepreneurs in the new economy trust private banking affiliated to major banks, and they value the professionalism and risk management capabilities of such institutions, while also choosing full-service banks for their digital capabilities and products. More 1st generation entrepreneurs in the new economy and DSSEs are choosing small and medium-sized banks in their own region. Respondents mentioning full-service joint-stock banks rose to 18% among the 1st generation entrepreneurs in the traditional economy. (Figure 41)

Figure 41: Chinese HNWIs' choice of private wealth management institutions in 2021



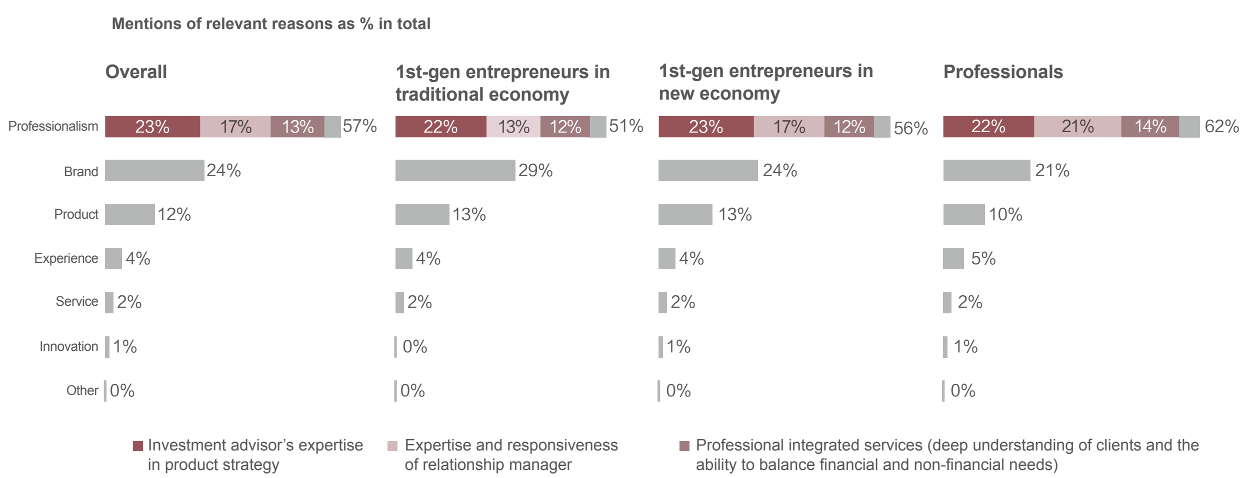
Source: CMB-Bain HNWI survey

From insight and experience to systematic services, the importance of professionalism continues to rise

In 2021, China's HNWIs will be more mature in their choice of private banks, shifting focus from product to professional services, which requires private banks to be able to understand clients' needs in a comprehensive and forward-looking manner and do better in capturing market investments opportunities. According to the survey, when choosing private banking services, the first consideration of HNWIs is professionalism, standing for 57% of reasons for choosing such institutions. Being professional means a professional investment team (insights for investments opportunities), a professional relationship manager (responsiveness and better experience), and professional integrated services (deep understanding of clients and the ability to balance financial and non-financial needs). (Figure 42)

However, different segments have different understanding of and requirements for professionalism. For example, 1st generation entrepreneurs in the new economy and professionals require professional integrated services along the entire process, but those in the traditional economy value the trust and intermediary role of relationship managers and expect professional integrated services through collaboration between relationship managers, financial advisors and others. (Figure 42)

Figure 42: Key criteria of China's HNWIs for choosing private wealth management institutions



Source: CMB-Bain HNWI survey

In summary, when selecting and adjusting private banking institutions, the main considerations of HNWIs include wealth management capabilities and value proposition of the financial institutions, the ability to meet comprehensive needs, and emotional requirements such as experience and trust. Large banks, small and medium-sized banks, securities brokers, private equity, trusts, third-party institutions, and digital platforms are all competing in the market, and competition in the private wealth management market is intensifying.

When it comes to various segments, thanks to the influence of private equity and high-yield investment products, the allocation of Chinese HNWIs in securities brokers, private equity institutions reached 12%. By focusing on customer groups and providing targeted offering, such as non-financial services, the second-tier joint-stock banks are trying to catch up. As HNWIs get more demanding for service experience, professionalism, attentiveness and diversity, large banks can continue to build an ecosystem and consolidate their leadership under the new normal by leveraging their advantages in integrated services and resources.

In the survey, we found that financial institutions in different sectors combine their own resource advantages to create value for HNWIs through differentiated positioning and professional services, which provides a rich sample for observing the competition in the private wealth management market.

Appendix: Research Methodology

The 2021 China Private Wealth Report mainly studies the characteristics of the private wealth market in China as a whole and its major regions. It includes characteristics such as the number of HNWIs, the size of their private wealth, and their demographics, investment mentality and behaviors. It also includes the competitive landscape of the private banking industry, as well as implications on the industry.

In the process of estimating the size of individual private wealth and their demographics in China as a whole and in its provinces and cities, we continue to utilize the “HNWI income-wealth distribution model” from Bain & Company as we did with the previous reports. On the basis of continuous improvement of the 2009-2019 wealth distribution model methodology, we adhered to the highest standard with given resources and conducted thorough and in-depth research on most relevant and recent market issues in the last few years. We managed to calculate the number of the above-mentioned HNWIs and the market value of their investable assets from a macro perspective, all of which enriched our exclusive database over the past 12 years. Due to the problem of under-sampling in the bottom-up method, we believe that the number of HNWIs measured through the top-down approach is more accurate, and the results are more reliable, comprehensive and predictive. *The 2021 China Private Wealth Report* uses rigorous statistical methods to derive the mathematical relationship between the Lorenz Curve of wealth and income distribution of the HNWIs. In order to derive the Lorenz Curve of the wealth of the HNWIs in China as a whole and its individual provinces, we applied this mathematical relationship to the income distribution data from the same areas, with reference to the latest data of the Lorenz Curve from the UK, US, Japan and Korea of their own wealth distribution on the HNWIs, and the client asset distribution data by region from China Merchants Bank.

Since the first issue of this report in 2009, in order to conduct a thorough and in-depth analysis of the investment mentality and behaviors of the HNWIs, we have collected a large amount of first-hand information from high-end clients. In 2009, we conducted our first research and completed nearly 700 interviews and more than 100 face-to-face interviews; in 2011, we completed about 2,600 interviews and more than 100 in-depth interviews. In 2013, we further expanded our sample size, completed about 3,300 interviews and more than 100 in-depth interviews. In 2015, we completed about 2,800 interviews and more than 100 in-depth interviews; In 2017, we completed about 3,300 interviews and more than 100 in-depth interviews. In 2019, the number of in-depth interviews reached 200. The accumulation over the years has laid a solid foundation for the research and analysis of high-end clients in China. This year, during the data collection process of the 2021 China Private Wealth Report, we once again conducted a series of large-scale in-depth research. The HNWIs interviewed for this report are from 46 major cities across China, covering all important economic regions including the Yangtze River Delta, Jing-Jin-Ji, the Greater Bay Area, the Chengdu-Chongqing Twin Cities Economic Circle, the middle reaches of the Yangtze River, the Beibu Gulf, and the Guanzhong Plain, thus ensuring the adequacy and representativeness of the data sample. The interviewees mainly included industry experts, relationship managers from private banking and other financial institutions, HNWIs from but not limited to private banking. All clients interviewed were HNWIs with investable assets of RMB10 million or more.

Appendix: Research Methodology

In the process of analyzing data from the client research and interviews, we have followed the footsteps and used the same method as the previous China Private Wealth Report, i.e. "China Merchants Bank -- Bain & Company HNWI Research Analysis Methodology". On top of that, we researched a series of new dimensions using statistical methods. By comparing data from 2009, 2011, 2013, 2015, 2017 and 2019, we focused on the studies of the trends regarding the investment mentality and behaviors of the HNWIs in the recent years.

Contact information of CMB private banking centers

Private Banking Center (Beijing Financial Street)
86-010-66426888

Private Banking Center (Beijing Wangjing)
86-010-64799334

Private Banking Center (Beijing Yansha)
86-010-64606086

Private Banking Center (Beijing Universiade Village)
86-010-86420813

Private Banking Center (Beijing Haidian)
86-010-82572900

Private Banking Center (Beijing Beichen)
86-010-84981966

Private Banking Center (Beijing Shijicheng)
86-010-88876711

Private Banking Center (Guangzhou East Binjiang)
86-020-84060166

Private Banking Center (Guangzhou R&F)
86-020-38928066

Private Banking Center (Guangzhou Goldlion)
86-020-38780925

Private Banking Center (Guangzhou Pazhou)
86-020-89118920

Private Banking Center (Guangzhou Star-river)
86-020-84780608

Private Banking Center (Hangzhou)
86-0571-82731769

Private Banking Center (Hangzhou Chengxi)
86-0571-87395995

Private Banking Center (Hangzhou Qiantang)
86-0571-87395672

Private Banking Center (Jiaxing)
86-0573-82779859

Private Banking Center (Jinhua)
86-0579-82399880

Private Banking Center (Quzhou)
86-0570-8079136

Private Banking Center (Huzhou)
86-0572-2583052

Private Banking Center (Shaoxing)
86-0575-85078899

Private Banking Center (Jinan Gongqingtuan Road)
86-0531-81776777

Private Banking Center (Jinan Hanyu Finance Valley)
86-0531-55663772

Private Banking Center (Binzhou)
86-0543-2190990

Private Banking Center (Liaocheng)
86-0635-8689555

Private Banking Center (Linyi)
86-0539-8968903

Private Banking Center (Zibo)
86-0533-2365182

Private Banking Center (Dongying)
86-0546-7155696

Private Banking Center (Weifang)
86-0536-8052317

Private Banking Center (Qingdao COSCO Building)
86-0532-85711238

Private Banking Center (Qingdao Fortune Building)
86-0532-80776527

Private Banking Center (Rizhao)
86-0633-8867722

Private Banking Center (Chengdu)
86-028-61816037

Private Banking Center (Leshan)
86-0833-2408851

Private Banking Center (Mianyang)
86-0816-2773236

Private Banking Center (Dalian)
86-0411-39853092

Private Banking Center (Dongguan)
86-0769-22203888

Private Banking Center (Shanghai Lujiazui)
86-021-20777800

Private Banking Center (Shanghai Gubei)
86-021-52321078

Private Banking Center (Shanghai Xintiandi)
86-021-53829922

Private Banking Center (Shanghai Lianyang)
86-021-50330769

Private Banking Center (The Bund)
86-021-63235888

Private Banking Center (Shanghai Changning)
86-021-52733399

Private Banking Center (Head office)
86-0755-83195396

Private Banking Center (Shenzhen Shekou)
86-0755-26800999

Private Banking Center (Shenzhen Futian)
86-0755-88025999

Private Banking Center (Shenzhen Bao'an)
86-0755-25864546

Private Banking Center (Shenzhen Nanshan)
86-0755-86617959

Private Banking Center (Shenzhen Zhuoyue)
86-0755-82719588

Private Banking Center (Zhuhai)
86-0756-3291936

Private Banking Center (Shenyang)
86-024-22523730

Private Banking Center (Shenyang New World)
86-024-31554098

Private Banking Center (Anshan)
86-0412-5680055

Private Banking Center (Panjin)
86-0427-2834955

Private Banking Center (Dandong)
86-0415-2166867

Private Banking Center (Fushun)
86-024-83256470

Private Banking Center (Wuhan)
86-027-68850975

Private Banking Center (Wuhan Guanggu)
86-027-67885235

Private Banking Center (Wuhan Tiandi)
86-027-82803380

Private Banking Center (Yichang)
86-0717-6218006

Private Banking Center (Huangshi)
86-0714-3809066

Private Banking Center (Xi'an Hi-Tech)
86-029-86555888

Private Banking Center (Xi'an Qujiang)
86-029-81209555

Private Banking Center (Xianyang)
86-029-33252191

Private Banking Center (Baoji)
86-0917-3453029

Private Banking Center (Tianjin)
86-022-58637728

Private Banking Center (Tianjin Binhai)
86-022-65830637

Private Banking Center (Suzhou)
86-0512-96869588

Private Banking Center (Kunshan)
86-0512-36802069

Private Banking Center (Changsha)
86-0731-82681262

CMB Private Banking Centers Mainland China

Private Banking Center (Zhuzhou)
86-0731-22753956

Private Banking Center (Xiangtan)
86-0731-55568970

Private Banking Center (Hengyang)
86-0734-8889830

Private Banking Center (Hefei)
86-0551-65809527

Private Banking Center (Dongguan Dongcheng)
86-0769-22080369

Private Banking Center (Foshan)
86-0757-81999623

Private Banking Center (Foshan Shunde)
86-0757-22369979

Private Banking Center (Jiangmen)
86-0750-6555618

Private Banking Center (Zhongshan)
86-0760-89981295

Private Banking Center (Fuzhou)
86-0591-83620675

Private Banking Center (Fuqing)
86-0591-85699555

Private Banking Center (Fuzhou Free Trade Zone)
86-0591-83973795

Private Banking Center (Fuzhou Sanming)
86-0591-8569067

Private Banking Center (Putian)
86-0594-6735121

Private Banking Center (Harbin Development Zone)
86-0451-87008020

Private Banking Center (Daqing)
86-0459-5931688

Private Banking Center (Harbin Qunli)
86-0451-58681920

Private Banking Center (Harbin)
86-0451-84665511

Private Banking Center (Kunming)
86-0871-63609924

Private Banking Center (Kunming Beijing Road)
86-0871-63533630

Private Banking Center (Lijiang)
86-0888-5550027

Private Banking Center (Honghe)
86-0871-2115655

Private Banking Center (Qujing)
86-0874-3287889

Private Banking Center (Lanzhou)
86-0931-8731135

Private Banking Center (Nanchang)
86-0791-86655433

Private Banking Center (Ganzhou)
86-0797-8088351

Private Banking Center (Hohhot)
86-0471-6256253

Private Banking Center (Ordos)
86-0477-5105777

Private Banking Center (Hulunbuir)
86-0470-8317835

Private Banking Center (Baotou)
86-047-25595528

Private Banking Center (Yantai)
86-0535-6028300

Private Banking Center (Taiyuan)
86-0351-23298888

Private Banking Center (Quanzhou)
86-0595-28985955

Private Banking Center (Wenzhou)
86-0577-88075010

Private Banking Center (Urumqi)
86-0991-5575256

Private Banking Center (Wuhu)
86-0553-3888958

Private Banking Center (Wuxi)
86-0510-82709273

Private Banking Center (Jiangyin)
86-0510-86841891

Private Banking Center (Changchun)
86-0431-81335005

Private Banking Center (Jilin)
86-0432-65015960

Private Banking Center (Tonghua)
86-0435-3366666

Private Banking Center (Zhengzhou)
86-0371-89989151

Private Banking Center (Zhengzhou South Nongye Road)
86-0371-89981111

Private Banking Center (Xuchang)
86-0374-5376006

Private Banking Center (Luoyang)
86-0379-65119908

Private Banking Center (Nanjing)
86-025-86797557

Private Banking Center (Nanjing Xinjiekou)
86-010-84797177

Private Banking Center (Changzhou)
86-0519-88179028

Private Banking Center (Chongqing)
86-023-63051997

Private Banking Center (Chongqing Liangjiang)
86-023-65959947

Private Banking Center (Fuling)
86-023-72885033

Private Banking Center (Nanning)
86-0771-5827610

Private Banking Center (Liuzhou)
86-0772-8812680

Private Banking Center (Nantong)
86-0513-81551851

Private Banking Center (Ningbo)
86-0574-83880211

Private Banking Center (Xiamen)
86-0592-5157588

Private Banking Center (Shijiazhuang)
86-0311-67103861

Private Banking Center（Guiyang）
86-0851-88932775

Private Banking Center（Zunyi）
86-0851-27567780

Private Banking Center（Liupanshui）
86-0858-6137565

Private Banking Center (New York)
1-6468436740

Private Banking Center (London)
44-0-2039084609

Private Banking Center (Sydney)
61-2-79095562

Private Banking Center (Singapore)
65-65006688

Private Banking Center (Hong Kong)
852-31188988

CMB Wing Lung Bank Private Banking Center (Hong Kong)
852-35080800

CMB International Private Wealth Management Center
852-37618868

For more information on private banking, please refer to the below contact:

Service line: 40066-95555
Email: 4006695555@cmbchina.com

Copyright Statement

PRIVATE
BANKING
助您家业常青
是我们的份内事

招商银行
CHINA MERCHANTS BANK